

DENISE VOIGT CRAWFORD
SECURITIES COMMISSIONER



BETH ANN BLACKWOOD
CHAIR

JOHN R. MORGAN
DEPUTY SECURITIES COMMISSIONER

BRYAN K. BROWN
MEMBER

EDWARD ESCUDERO
MEMBER

DERRICK MITCHELL
MEMBER

E. WALLY KINNEY
MEMBER

Mail: P.O. BOX 13167
AUSTIN, TEXAS 78711-3167

Texas State Securities Board

208 E. 10th Street, 5th Floor
Austin, Texas 78701-2407
www.ssb.state.tx.us

Phone: (512) 305-8300
Facsimile: (512) 305-8310

SOAH DOCKET NO. 312-11-1986 SSB DOCKET NO. IC11-01

IN THE MATTER OF THE
INVESTMENT ADVISER
REGISTRATION OF
STS-ADVISORS LTD.
AND THE INVESTMENT ADVISER
REPRESENTATIVE REGISTRATION OF
RICHARD LEWIS BRUCE

§
§
§
§
§
§
§

BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS

NOTICE OF HEARING

This is your OFFICIAL NOTICE that a hearing will be held at the State Office of Administrative Hearings, in the William P. Clements Building, 300 W. 15th Street, 4th Floor, Austin, Texas 78701, before an Administrative Law Judge beginning on **February 2, 2011 at 9:00 AM Central Time** for the purpose of determining whether the investment adviser registration of STS-Advisors LTD. ("Respondent STS") and the investment adviser representative registration of Richard Lewis Bruce ("Respondent Bruce")(collectively with Respondent STS, "Respondents") with the Securities Commissioner of Texas ("Securities Commissioner") should be REVOKED and that Respondents should be ordered to CEASE AND DESIST from engaging in fraudulent conduct.

This hearing will be held pursuant to The Securities Act, Tex. Rev. Civ. Stat. Ann. art. 581-1 et seq. (Vernon 1964 & Supp. 2010) ("Texas Securities Act"); the Rules and Regulations of the Texas State Securities Board, 7 Tex. Admin. Code Chapter 101 et seq. (Supp. 2010)("Board Rules"); the Administrative Procedure Act, Tex. Gov't Code Ann. § 2001.001 et seq. (Vernon 2008 & Supp. 2010); and the Rules of Practice and Procedure of the State Office of Administrative Hearings, 1 Tex. Admin. Code Chapter 155 (Supp. 2010) ("SOAH Rules").

IF YOU DO NOT FILE A WRITTEN ANSWER OR OTHER WRITTEN RESPONSIVE PLEADING TO THIS NOTICE OF HEARING ON OR BEFORE THE 20TH DAY AFTER THE DATE ON WHICH THIS NOTICE WAS MAILED TO YOU OR PERSONALLY SERVED ON YOU, THE FACTUAL ALLEGATIONS IN THIS NOTICE WILL BE DEEMED ADMITTED, AND THE

SECURITIES COMMISSIONER MAY DISPOSE OF THIS CASE WITHOUT A HEARING AND GRANT THE RELIEF SOUGHT IN THIS NOTICE.

THE RESPONSE MUST BE FILED IN AUSTIN, TEXAS, WITH THE STAFF OF THE STATE SECURITIES BOARD AND THE STATE OFFICE OF ADMINISTRATIVE HEARINGS.

IF YOU FAIL TO ATTEND THE HEARING, EVEN IF A WRITTEN ANSWER OR OTHER RESPONSIVE PLEADING HAS BEEN FILED, THE FACTUAL ALLEGATIONS IN THIS NOTICE WILL BE DEEMED ADMITTED, AND THE SECURITIES COMMISSIONER MAY DISPOSE OF THIS CASE WITHOUT A HEARING AND GRANT THE RELIEF SOUGHT IN THIS NOTICE.

CONTACT INFORMATION

Ronak V. Patel, Assistant Director
Inspections & Compliance Division
Texas State Securities Board
208 E. 10th Street, 5th Floor
Austin, Texas 78701
Telephone: (512) 305-8300
Facsimile: (512) 305-8340

Docketing Office
State Office of Administrative Hearings
300 W. 15th Street, Suite 504
Austin, Texas 78701
Telephone: (512) 475-3445
Facsimile: (512) 475-4994

Pursuant to § 105.9 of the Board Rules, all documents filed by any party, other than business records and transcripts, and all documents issued by the Administrative Law Judge must be contemporaneously served upon the Securities Commissioner's representative as identified below:

Sonia Ferguson
Securities Commissioner's Representative
Texas State Securities Board
208 E. 10th Street, 5th Floor
Austin, Texas 78701
Telephone: (512) 305-8300
Facsimile: (512) 305-8336

Legal authority and jurisdiction for this matter exist under Sections 14 and 23 of the Texas Securities Act, Section 2003.021(b) of the Texas Government Code, and Section 155.51 of the SOAH Rules.

The staff of the Texas State Securities Board ("Staff") will present evidence in support of its request that the registrations of the Respondents with the Securities Commissioner be REVOKED and that Respondents should be ordered to CEASE AND DESIST engaging in fraudulent conduct. The Staff alleges:

I. Parties

1. Respondent STS is a Texas limited partnership whose last known business address as shown by records of the Texas State Securities Board is 12222 Cardston Court, Tomball, Texas 77377. On or about March 28, 2003, Respondent STS registered with the Securities Commissioner as an investment adviser. This registration is currently effective.
2. Respondent Bruce is a natural person whose last known business address as shown by records of the Texas State Securities Board is 12222 Cardston Court, Tomball, Texas 77377. On or about March 28, 2003, Respondent Bruce registered with the Securities Commissioner as an investment adviser representative of Respondent STS. This registration is currently effective.

II. General Background

3. During the period from April 2003 to September 2010, Respondents provided investment advice to an investment partnership, STS-STATS, L.P. ("STS Fund"). From April 2003 through December 2005, 24 investors placed over \$2,130,000 into the STS Fund. Ultimately, many investors in the STS Fund realized a complete loss of their investments.
4. In September 2010, during an inspection of Respondent STS, the Staff discovered that Respondents had withdrawn funds from the STS Fund in excess of the allowable fees and expenses.

III. Allegations

A. The STS Fund

5. Respondents offered for sale limited partnership interests in the STS Fund. In connection with the offer for sale of STS Fund limited partnership interests, Respondents provided certain investors with an offering memorandum dated June 2003 ("PPM").
6. The PPM described the STS Fund as a fund that would hold between 20 to 40 short positions on equities, which would be selected based on a mathematical probability model. The PPM stated that Respondent STS, through Respondent Bruce and an individual named Robert Vukelich, would be responsible for the STS Fund's investment activities. Like Respondent Bruce, Mr. Vukelich is listed as a limited partner of Respondent STS.

7. The PPM also listed the fees and expenses payable by the limited partners in the STS Fund. Specifically, the limited partners were required to pay Respondent STS:
 - a. A 3% annual management fee. This fee was to be paid in advance on a quarterly basis; and
 - b. An incentive allocation, which was 30% of each limited partner's net profit in the prior quarter.
8. Ultimately, during the period from in or about April 2003 to in or about December 2005, 24 investors placed over \$2,130,000 in the STS Fund. Notably, neither Respondent Bruce nor Mr. Vukelich invested any personal funds in the STS Fund.

B. Excessive withdrawal of funds from the STS Fund

9. At least during the period from June 2007 through September 2010, Respondents withdrew funds from the STS Fund on a monthly basis. These withdrawals were achieved through checks drawn against the STS Fund brokerage account. Respondent Bruce signed each of these checks. The checks were made payable to Respondent STS, Respondent Bruce, or Mr. Vukelich.
10. From at least June 2007 through September 2010, Respondents withdrew funds from the STS Fund's brokerage in excess of the amounts described in the PPM. These excessive withdrawals were not authorized by the investors in the STS Fund.
11. For example, on or about June 30, 2007, the account balance of the STS Fund was \$701,214.92 and on or about September 30, 2007, the account balance was \$566,472.15. Yet, Respondents withdrew \$37,000 from the STS Fund during the period from June 30, 2007 through September 30, 2007. These withdrawals amount to 5.27% of the June 30, 2007 balance and 6.53% of the September 30, 2007 balance. Regardless of the quarterly balance considered, the withdrawals clearly exceed .75%, which would have been the appropriate quarterly management fee percentage.
12. As the STS Fund lost value due to portfolio losses and Respondents' withdrawals, Respondents withdrew increasingly excessive sums of money from the STS Fund's account.
13. Respondents' withdrawals from the STS Fund between June 30, 2009 and September 30, 2009 illustrate how the Respondents' excessive withdrawals were quickly draining the STS Fund. On or about June 30, 2009, the STS Fund's value was \$314,701.44 and on or about September 30, 2009, the value was \$265,707.27 Respondents withdrew \$33,000 from the STS Fund during the period from June 30, 2009 through September 30, 2009. These withdrawals amounted to 10.49% of the June 30, 2009 balance and 12.42% of the September 30, 2009 balance.

14. All of the equity positions in the STS Fund were closed in April 2010. However, Respondents continued to withdraw tens of thousands of dollars from the STS Fund.
15. Finally, for the quarter ending September 2010, the STS Fund's value was barely over \$10,000. Yet, Respondents withdrew \$9,000 from the STS Fund, which was approximately 88% of the STS Fund's value.
16. In sum, while the STS Fund's monthly ending balance never exceeded \$721,000 during the period from June 2007 through September 2010, Respondents withdrew almost \$400,000 from the STS Fund during the same time period.
17. Respondents' withdrawals of excessive and unauthorized amounts from the STS Fund constitute fraudulent business practices and fraudulent practices with respect to rendering services as an investment adviser or investment adviser representative.

IV. Legal Authority

18. Section 4.F of the Texas Securities Act states:

The terms "fraud" or "fraudulent practice" shall include any misrepresentations, in any manner, of a relevant fact; any promise or representation or prediction as to the future not made honestly and in good faith, or an intentional failure to disclose a material fact; the gaining, directly or indirectly, through the sale of any security, of an underwriting or promotion fee or profit, selling or managing commission or profit, so gross or exorbitant as to be unconscionable; any scheme, device or other artifice to obtain such profit, fee or commission; provided, that nothing herein shall limit or diminish the full meaning of the terms "fraud," "fraudulent," and "fraudulent practice" as applied or accepted in courts of law or equity.

19. Section 14 of the Texas Securities Act states in part:

(A) The Commissioner may ... revoke a registration issued under this Act, ... if the person: ...

(3) has engaged in any inequitable practice in the sale of securities ... or in any fraudulent business practice;

20. Section 23 of the Texas Securities Act states in part that the Securities Commissioner may issue a Cease and Desist Order:

If it appears to the Commissioner at any time that an investment adviser or investment adviser representative is engaging or is likely to engage in fraud or a fraudulent practice with respect to rendering

services as an investment adviser or investment adviser representative.

21. Pursuant to Section 14.A(3) of the Texas Securities Act, the fraudulent business practices described above are bases for revoking the Respondents' registrations with the Securities Commissioner.
22. Finally, pursuant to Section 23.B of the Texas Securities Act, the fraudulent practices with respect to rendering services as an investment adviser and investment adviser representative are bases for the issuance of an Order requiring Respondents to cease and desist from engaging in fraudulent conduct.

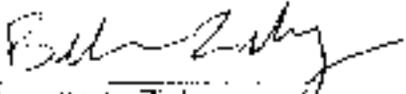
V. Relief Requested

Based on the foregoing allegations, the Staff requests that the Securities Commissioner issue an Order REVOKING the Respondents' registrations with the Securities Commissioner and ordering that Respondents CEASE AND DESIST from engaging in the fraudulent conduct described in this Notice of Hearing.

Pursuant to § 105.14 of the Board Rules, the Staff respectfully requests that the State Office of Administrative Hearings order that all costs charged to the Texas State Securities Board by any court reporting service involved in this matter be assessed against Respondents.

You are invited to appear personally, with, without, or through counsel, and to present any and all evidence relating to the matters set forth in this Notice.

Signed this 30th day of December, 2010.

 by BH

Benette L. Zivley
Director
Inspections & Compliance Division

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been sent via certified mail to the parties listed below, and to the Securities Commissioner's Representative by hand-delivery, done on this, the 30th day of December, 2010.

STS-Advisors, LTD.
12222 Cardston Court
Tomball, TX 77377

VIA CERTIFIED MAIL # 9171082133393776089465

Richard Lewis Bruce
12222 Cardston Court
Tomball, TX 77377

VIA CERTIFIED MAIL # 9171082133393776089441

Richard L. Bruce
P O Box 911
Tomball, TX 77377-0911

VIA CERTIFIED MAIL # 9171082133393776089458

Sonia Ferguson
Securities Commissioner's Representative
Texas State Securities Board
208 E. 10th Street, 5th Floor
Austin, Texas 78701
Telephone: (512) 305-8300
Facsimile: (512) 305-8336

VIA HAND DELIVERY

Ronak Patel

Ronak V. Patel, Esq.
Assistant Director
Inspections & Compliance Division