

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 56464 / September 19, 2007**

**INVESTMENT ADVISERS ACT OF 1940**  
**Release No. 2649 / September 19, 2007**

**INVESTMENT COMPANY ACT OF 1940**  
**Release No. 27974 / September 19, 2007**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-12806**

**In the Matter of**

**WILLIAM M. ENNIS,**

**Respondent.**

**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER PURSUANT TO SECTIONS 15(b)(6) and 17A(c)(4)(C) OF THE SECURITIES EXCHANGE ACT OF 1934, SECTIONS 203(f) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940 AND SECTIONS 9(b) AND 9(f) OF THE INVESTMENT COMPANY ACT OF 1940**

**I.**

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b)(6) and 17A(c)(4)(C) of the Securities Exchange Act of 1934 ("Exchange Act"), Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act") and Sections 9(b) and 9(f) of the Investment Company Act of 1940 ("Investment Company Act") against William M. Ennis ("Respondent" or "Ennis").

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer"), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order

Pursuant to Sections 15(b)(6) and 17A(c)(4)(C) of the Securities Exchange Act of 1934, Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 and Sections 9(b) and 9(f) of the Investment Company Act of 1940 (“Order”), as set forth below.

### III.

On the basis of this Order and Respondent’s Offer, the Commission finds<sup>1</sup> that:

#### Summary

1. This is a proceeding against Ennis, the former president of the Evergreen Investment Company, Inc. (“EIC”), the corporate parent of Evergreen Investment Management Company, LLC (“EIMCO”), the Boston-based registered investment adviser for the Evergreen fund family, Evergreen Investment Services, Inc. (“EIS”), EIMCO’s affiliated registered broker-dealer, and Evergreen Service Company, LLC (“ESC”), EIMCO’s affiliated transfer agent (collectively, “Evergreen”), based on his involvement in a market timing agreement that permitted a registered representative to make, on behalf of certain of his customers, frequent trades in the Evergreen Small Company Growth Fund (now known as the Mid Cap Growth Fund) in excess of the exchange limits set forth in the fund’s prospectus.

2. Market timing includes (a) frequent buying and selling of shares of the same mutual fund or (b) buying or selling mutual fund shares in order to exploit inefficiencies in mutual fund pricing. Market timing, while not illegal per se, can harm other mutual fund shareholders because it can dilute the value of their shares, if the market timer is exploiting pricing inefficiencies, or disrupt the management of the mutual fund’s investment portfolio and can cause the targeted mutual fund to incur costs borne by other shareholders to accommodate frequent buying and selling of shares by the market timer.

3. In January 2000, Ennis, then the senior vice president of EIC, agreed to permit a registered representative to market time one or more Evergreen funds on behalf of certain of his customers even though he knew that Evergreen had an anti-market timing policy, consistent with which each Evergreen fund prospectus limited exchanges to three per calendar quarter and five per calendar year, and even though he knew that market timing could disrupt fund management and harm fund performance. The registered representative subsequently made approximately 386 exchanges into and out of the Evergreen Small Company Growth Fund from approximately January 2001 through March 2003. This timing activity harmed the fund. From January 2001 through March 2003, Ennis signed several Small Company Growth Fund registration statements, each of which incorporated the fund’s prospectus and the exchange limits contained therein. At no point during the period in which the registered representative was making these exchanges did Ennis disclose the market timing arrangement to the fund’s board of trustees.

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<sup>1</sup> The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

## **Respondent**

4. William M. Ennis was employed at Evergreen from 1994 to June 2003, when he resigned. In December 1996, Ennis was named a senior vice president of EIC and, in April 2000, Ennis became EIC's president. During the relevant period, Ennis served as a director of and control person for EIMCO, he supervised the president of EIS, he was the president of the Evergreen Equity Trust, a registered investment company of which the Small Company Growth Fund was a series, and he functioned as the chief executive officer of the Evergreen mutual fund complex. Ennis, age 46, is a resident of Charleston, South Carolina.

## **Related Entities**

5. EIC is a wholly owned holding company subsidiary of Wachovia Corporation, a Charlotte, North Carolina based company whose common stock is registered with the Commission and principally trades on the New York Stock Exchange. EIC owns EIMCO, EIS, and ESC (collectively, "Evergreen"). The Evergreen fund family is one of the 20 largest fund groups in the nation. As of March 31, 2007, EIMCO had more than \$312 billion in assets under management.

6. Wachovia Securities, LLC is a Richmond-based registered broker-dealer that is a majority-owned subsidiary of Wachovia Corporation.

## **Facts**

### **The Market Timing Agreement**

7. In January 2000, Evergreen had in place an "anti-market timing" policy through which it sought to eliminate market timing in the Evergreen funds. Consistent with this policy, each Evergreen fund prospectus contained a provision stating that: "Exchanges are limited to three per calendar quarter, but in no event more than five per calendar year." In January 2000, Ennis was familiar with the exchange limit provision set forth in each Evergreen fund prospectus, he understood that a market timer might make more than three exchanges per quarter and five per year, and he was aware that market timing could impose trading costs on a fund, disrupt fund management and harm fund performance.

8. In January 2000, the retail division of Wachovia Securities, then operating under the name First Union Securities, Inc. (which was under common control with Evergreen at the time), was the number one distributor of Evergreen funds, accounting for about \$2 billion of the funds' approximately \$3 billion in total annual sales. In early January 2000, Wachovia Securities' Private Client Group ("PCG"), the firm's non-bank branch based division, notified an EIS vice president that it was attempting to recruit a top-producing registered representative, who was seeking permission to market time one or more Evergreen funds on behalf of certain of his customers. Convinced that it would otherwise be unable to hire the recruit, the PCG asked the EIS vice president if Evergreen would be willing to accommodate the recruit's market timing activity. After EIS' president and

EIMCO's chief investment officer for equities denied it, the EIS vice president, at the request of the PCG's president, presented the timing request to Ennis, who was trying at that time to improve Evergreen's sales and distribution through the PCG channel. Despite being told by the EIS vice president that both the EIS president and EIMCO's chief investment officer for Equities had rejected it, Ennis granted the PCG's timing request. Noting that the PCG might not land the recruit, Ennis ordered that this arrangement be kept confidential, specifically instructing that the EIS president not be informed of it.

9. In approximately January 2001, the registered representative joined Wachovia Securities and began trading in the Small Company Growth Fund on behalf of certain of his customers. From that time through March 2003, the registered representative made approximately 386 exchanges into and out of the fund, thus greatly exceeding the three per quarter and five per year exchange limits set forth in the fund's prospectus. The dollar amounts of the registered representative's trades, which ranged from approximately \$50,000 to more than \$2.2 million, averaged about \$500,000. During the period in which the arrangement was in place, the registered representative made a cumulative total of approximately \$282.4 million worth of exchanges into and out of the fund. In approximately March 2003, after the EIS vice president had left Evergreen, the ESC vice president responsible for Evergreen's market timing monitoring operation told the registered representative that Evergreen would no longer permit him to exceed its exchange limits. The registered representative then ceased his market timing in the Small Company Growth Fund and closed out the account through which the activity had occurred. During the period in which the registered representative timed the Small Company Growth Fund, Ennis signed several registration statements on the fund's behalf, each of which incorporated the fund's prospectus and the exchange limits contained therein and each of which was filed with the Commission by EIMCO or, at EIMCO's direction, EIS. At no point during the period in which the registered representative was making these exchanges did Ennis disclose the market timing arrangement to the fund's board of trustees.

### **Violations**

10. As a result of the above-described conduct, Ennis:
  - a. willfully aided and abetted and caused EIMCO's violations of Sections 206(1) and 206(2) of the Advisers Act. Specifically, by entering into a market timing agreement that he knew or was reckless in not knowing would create an undisclosed conflict of interest between EIMCO, which benefited from the advisory fees generated by the timing activity as well as from the prospects the timing arrangement created for improving its relationship with the PCG, and the Small Company Growth Fund, which suffered the dilutive effect of the timing trades and the transaction costs related thereto, Ennis provided knowing and substantial assistance to EIMCO's violations of this statute.
  - b. willfully violated Section 34(b) of the Investment Company Act. Specifically, by signing the Small Company Growth Fund's registration statements, which

incorporated the exchange limits, Ennis made a materially misleading statement in a document filed with the Commission.

- c. willfully aided and abetted and caused Wachovia Securities' violation of Section 17(d) of the Investment Company Act and Rule 17d-1 thereunder. Specifically, by granting Wachovia Securities' market timing request, Ennis enabled Wachovia Securities, which, by virtue of its common control with EIMCO, was affiliated with the Small Company Growth Fund, to enter into a joint arrangement with that fund without first obtaining an exemptive order from the Commission with respect thereto. Ennis thus provided knowing and substantial assistance to Wachovia Securities' violation of this statute and rule.

### **Undertakings**

11. Respondent undertakes to cooperate fully with the Commission in any and all investigations, litigations or other proceedings brought by the Commission relating to or arising from the matters described in the Order, and agrees:

- a. To comply with any and all reasonable requests by the Commission's staff for documents or other information;
- b. To be interviewed at such times as the Commission's staff reasonably may direct;
- c. To appear and testify in such investigations, depositions, hearings or trials as the Commission's staff reasonably may direct; and
- d. That in connection with any (i) testimony of Respondent to be conducted by testimony session, deposition, hearing or trial or (ii) requests for documents or other information, that any notice or subpoena for such may be addressed to Respondent's counsel, and be served by mail or facsimile.

### **IV.**

On the basis of the foregoing, Respondent hereby consents to the entry of an Order by the Commission imposing the following:

A. Pursuant to Section 203(k) of the Advisers Act and Section 9(f) of the Investment Company Act, that Respondent Ennis cease and desist from committing or causing any violations and any future violations of Sections 206(1) and 206(2) of the Advisers Act and from committing or causing any violations and any future violations of Sections 17(d) and 34(b) of the Investment Company Act and Rule 17d-1 thereunder.

B. Pursuant to Sections 15(b)(6) and 17A(c)(4)(C) of the Exchange Act, Section 203(f) of the Advisers Act and Section 9(b) of the Investment Company Act, that Respondent Ennis be, and hereby is barred from association with any broker, dealer, transfer agent, or investment adviser, and is prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter, with a right to reapply for association after one (1) year from the date of the Order to the appropriate self-regulatory organization, or if there is none, to the Commission.

C. Any reapplication for association by Ennis will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against Ennis, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

D. Within ten days of the entry of this Order, Ennis shall pay a civil penalty in the amount of \$150,000 and disgorgement in the amount of \$1. Such payments shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies William M. Ennis as a Respondent in these proceedings and that sets forth the file number of these proceedings. A copy of this cover letter and money order or check shall be sent to David P. Bergers, Regional Director, Securities and Exchange Commission, 33 Arch Street, 23<sup>rd</sup> Floor, Boston, Massachusetts, 02110. The disgorgement and civil penalty payments referred to above shall be added to the Fair Fund established pursuant to Paragraph IV.G.2. of the Order Instituting Administrative and Cease-and-Desist Proceedings pursuant to Sections 15(b)(4), 17A(c)(3) and 21C of the Securities Exchange Act of 1934, Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, and Sections 9(b) and 9(f) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order against Evergreen Investment Management Company, LLC, Evergreen Investment Services, Inc., Evergreen Service Company, LLC, and Wachovia Securities, LLC. Regardless of whether any distribution is made from such Fair Fund, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that he shall not, after offset or reduction in any Related Investor Action based on Respondent's payment of disgorgement in this action, further benefit by offset or reduction of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such Penalty Offset, Respondent agrees that he shall, within 30 days after entry of a final order granting the Penalty

Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Nancy M. Morris  
Secretary