

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

WILLIAM GREGORY SLONECKER,
(CRD No. 3048481),

Respondent.

Disciplinary Proceeding
No. 2007009442501

Hearing Officer – MC

DEFAULT DECISION

June 22, 2010

Respondent (i) recommended and executed unsuitable transactions for customers, in violation of Conduct Rules 2110 and 2310; (ii) caused his member firm employer to maintain inaccurate books and records, in violation of Conduct Rules 2110 and 3110; (iii) made misstatements to his FINRA member firm employer, in violation of Conduct Rule 2110; (iv) made material misrepresentations and omissions to customers, in violation of Conduct Rule 2110; and (v) failed to respond to requests for information made to him pursuant to Rule 8210, in violation of Conduct Rule 2110 and Procedural Rule 8210. For these violations, Respondent is barred from associating with any FINRA member firm in any capacity.

Appearances

Kevin E. Pogue, Senior Counsel, and Penny Rosenberg, Director, New York, NY, for the Department of Enforcement.

No appearance by or on behalf of Respondent William Gregory Slonecker.

DECISION

I. Introduction

The Department of Enforcement filed the attached Complaint against Respondent William Gregory Slonecker on January 29, 2010. The Complaint contains five Causes of

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Action. They allege that Slonecker: (i) violated Conduct Rules 2110¹ and 2310 by recommending and executing unsuitable variable annuity transactions on behalf of customers; (ii) violated Conduct Rules 2110 and 3110 by making false entries on his FINRA member firm employer's records, causing the firm to maintain inaccurate books and records; (iii) violated Conduct Rule 2110 by making false statements to his member firm employer; (iv) violated Conduct Rule 2110 by making material misrepresentations and omissions to customers about the fees associated with transactions he recommended; and (v) violated Conduct Rule 2110 and Procedural Rule 8210 by failing to respond to requests made pursuant to Rule 8210 to produce documents related to Enforcement's investigation into his conduct. Because Slonecker did not file an Answer to the Complaint, on April 26, 2010, Enforcement filed a Motion for Entry of Default Decision and Request for Sanctions ("Default Motion") supported by the Declaration of Kevin E. Pogue ("Declaration") and five exhibits. On June 18, 2010, at the request of the Hearing Officer, Enforcement filed the Supplementary Declaration of Kevin E. Pogue.²

II. Findings of Fact and Conclusions of Law

A. Jurisdiction

Slonecker commenced his career in the securities industry as a Registered Representative

¹ As of July 30, 2007, NASD consolidated with the member regulation and enforcement functions of NYSE Regulation and began operating under a new corporate name, the Financial Industry Regulatory Authority (FINRA). References in this decision to FINRA include, where appropriate, NASD. Following consolidation, FINRA began developing a new FINRA Consolidated Rulebook. The first phase of the new consolidated rules became effective on December 15, 2008, including certain conduct rules and procedural rules. See Regulatory Notice 08-57 (Oct. 2008). This decision refers to and relies on the NASD Conduct Rules that were in effect at the time of Slonecker's alleged misconduct. The applicable rules are available at www.finra.org/rules.

² Enforcement's exhibits will be referred to as "CX-_" with the appropriate exhibit number. References in this Default Decision to the Declaration will be referred to as "Decl." or "Pogue Decl.", and references to the Supplementary Declaration will be to "Supp. Decl." with citation to specific paragraphs.

with a limited license at a FINRA member firm in April 1998.³ In April 2001, Slonecker began employment as a Financial Advisor at another FINRA member firm, referred to as “Firm A” in the Complaint.⁴ Slonecker remained at Firm A until October 2004, when he joined FINRA member firm H&R Block Financial Advisors, Inc. (“H&R Block”). There, holding a general securities license, he worked at the firm’s Nashville, TN branch office until July 2007. He then joined another FINRA member firm where he worked until he voluntarily terminated his employment on February 15, 2008. Since then, Slonecker has not been associated with any FINRA member firm.⁵

The Complaint alleges Slonecker’s misconduct occurred while he was registered through a FINRA member firm. Enforcement filed the Complaint within two years of the termination of his last registration. Pursuant to Article V Section 4 of the FINRA By-Laws, therefore, FINRA retains jurisdiction over Slonecker for the purposes of this disciplinary proceeding.

B. Default

Enforcement served the Complaint and Notice of Complaint upon Slonecker on January 29, 2010, by certified and first-class mail at his most recent residential address recorded in the Central Registration Depository (“CRD address”).⁶ Neither the first-class mailing nor the receipt for the certified mailing was returned to Enforcement.⁷ On March 5, 2010, Enforcement served the Complaint and Second Notice of Complaint upon Slonecker, again at his CRD address. This time, Enforcement received the return receipt for the certified mailing, with an illegible

³ Decl. ¶ 4; CX-1.

⁴ Decl. ¶ 5; CX-2, p. 6.

⁵ Decl. ¶¶ 5-7; CX-1.

⁶ Decl. ¶ 28.

⁷ Decl. ¶ 29.

signature.⁸ Slonecker did not file an Answer or otherwise respond to the Complaint.⁹

By serving the Complaint, First Notice of Complaint, and Second Notice of Complaint upon Slonecker at his CRD address by certified mail, Enforcement complied with the service requirements of Procedural Rule 9134.¹⁰ By failing to file an Answer, Slonecker defaulted. Accordingly, pursuant to Rules 9215(f) and 9269(a) (2), and for the reasons set forth below, the Default Motion is granted.¹¹

C. Violations

1. Slonecker Recommended and Effected Unsuitable Variable Annuity Transactions to Customers in Violation of Conduct Rules 2110 and 2310

Conduct Rule 2310 requires that a member, in recommending the “purchase, sale or exchange of any security” must have “reasonable grounds for believing that the recommendation is suitable” for the customer based on the customer’s financial situation and needs.

Between March 2005 and July 2006, while he was employed by and registered through H&R Block, Slonecker recommended and executed approximately 38 purchases and sales of variable annuity transactions to 17 customers without reasonable grounds to believe the transactions were suitable.¹²

The transactions were variable annuity contract replacements or “switches,” in which Slonecker would liquidate a variable annuity contract held by a customer to purchase a different

⁸ Decl. ¶ 31, CX-5.

⁹ Decl. ¶¶ 30, 32.

¹⁰ *Dep’t of Enforcement v. Verdiner*, No. CAF020004, 2003 NASD Discip. LEXIS 42, at *5 (N.A.C. Dec. 9, 2003) (NASD Procedural Rule 9134(b) (1) allows for constructive notice by mailing a complaint to the respondent’s most recent CRD address) (*citing Lubeck v. SEC*, 1998 U.S. App. LEXIS 18849, at *20 (9th Cir. Aug. 12, 1998)).

¹¹ The factual determinations in this Default Decision are based on the allegations of the attached Complaint, which are deemed admitted, as well as the Pogue Declaration and the exhibits filed by Enforcement.

¹² Decl. ¶¶ 9, 11, 12.

variable annuity contract issued by another company. Switches such as those recommended and executed by Slonecker can result in the imposition of contingent deferred sales charges (“CDSC’s” or “surrender charges”) and subject the customers to new, extended holding periods.¹³ As a result, Slonecker’s customers incurred substantial surrender charges, new extended surrender periods and, in some cases, additional fees, with no corresponding investment benefit to justify the expenses. The pattern of the transactions reveals that Slonecker switched customers out of variable annuity contracts they had held previously when he was their broker of record at Firm A, placed them into variable annuities he was authorized to sell and service at H&R Block, and did so without regard to the customers’ individual financial situations, objectives or ages.¹⁴

Slonecker began recommending the switches immediately after joining H&R Block in October 2004. He made the recommendations to customers who had held variable annuity contracts at Firm A for only two to three and a half years.¹⁵ Most of the variable annuity contracts were proprietary to Firm A and could not be transferred to H&R Block.¹⁶ The new variable annuity contracts he recommended and purchased for these customers were offered by companies whose products Slonecker was able to sell and service at H&R Block.¹⁷

The facts alleged in the Complaint support the conclusion that Slonecker recommended the switches to serve his own interests, not the interests of his customers. There is no evidence that Slonecker gave any consideration to his customers’ needs, financial situations or investment

¹³ Decl. ¶ 10; Complaint ¶¶ 1, 2.

¹⁴ Decl. ¶¶ 9, 12; Complaint ¶¶ 176-178.

¹⁵ Decl. ¶ 11.

¹⁶ Complaint ¶ 22.

¹⁷ Decl. ¶ 11.

objectives. Indeed, as shown below, Slonecker made false representations to some of his customers, and to H&R Block, about the cost of the switches and how they were paid for.

The switches generated commissions totaling approximately \$85,000 for Slonecker.¹⁸ Slonecker gained other benefits from the switches as well. H&R Block offered a bonus to Slonecker based upon assets he transferred to H&R Block for a specified period after he joined the firm, and also offered to forgive scheduled repayments of a transition loan the firm made to Slonecker if he met certain production goals.¹⁹

The following examples illustrate the unsuitability of the switches, with their substantial surrender charges, new extended surrender periods, higher fees and lack of any significant benefit.²⁰

DP was approximately 46 years old and Slonecker's customer at Firm A when she invested a total of \$661,561 in four separate variable annuities.²¹ DP's account application at H&R Block described her as single, with a net worth, excluding her residence, of \$750,000; income of \$50,000; moderate risk tolerance; and an investment objective of growth.²²

From April 2005 through March 2006, Slonecker recommended and effected switches involving sales of two variable annuities DP had acquired at Firm A, which Slonecker sold to purchase new contracts. Then Slonecker sold one of these contracts to purchase another. In these transactions, DP incurred surrender charges totaling \$70,672. She received bonuses but

¹⁸ Decl. ¶ 12.

¹⁹ Complaint ¶¶ 23, 24. Between March and October 2005, prior to the deadline for his production goal, Slonecker recommended and executed approximately 21 switches from variable annuities customers held at Firm A to variable annuities he could sell and service at H&R Block, resulting in his being excused from making an annual loan payment. Complaint ¶ 25.

²⁰ Complaint ¶¶ 28-30.

²¹ Complaint ¶ 51.

²² Complaint ¶ 52.

they totaled only \$34,548, and as a result she was charged additional annual fees for the switches.²³

When recommending these transactions, Slonecker made material false representations to DP. Slonecker told her (i) that she would have to switch her variable annuity contracts if she wished to retain him as her broker when he moved to H&R Block, and (ii) that the switches would result in a “wash” because of the bonuses.²⁴ The variable annuity contracts Slonecker purchased for DP were essentially identical to those he sold, and did not provide benefits to justify the surrender charges and extended surrender periods incurred by DP. The switches did generate commissions to Slonecker, however, totaling approximately \$24,000.²⁵

In September 2003, while Slonecker was associated with Firm A, customer MM, a 21-year old quadriplegic, purchased three variable annuity contracts, investing a total of \$737,340.²⁶ In October 2004, MM opened an individual account with Slonecker at H&R Block. MM was living on an annual income of \$50,000; had a total net worth, excluding her residence, of \$1.2 million; a conservative risk tolerance; and a stated investment objective of “income.”²⁷

From March 2005 through February 2006, Slonecker recommended and effected switches by which he sold variable annuity contracts MM had purchased at Firm A and with the proceeds purchased new contracts.

The variable annuity contracts in which MM invested as a result of these switches did not differ substantially from the contracts she had previously purchased at Firm A. The switches

²³ Complaint ¶¶ 53, 56, 59.

²⁴ Complaint ¶ 62.

²⁵ Complaint ¶¶ 63-64.

²⁶ Complaint ¶¶ 65-66.

²⁷ Complaint ¶ 67.

were unsuitable because they required substantial surrender costs, new, extended surrender periods, and additional annual fees, without providing any countervailing benefits to MM.²⁸ The switches cost MM \$64,680 in surrender charges. She received bonuses totaling only \$19,348, but as a result was required to pay additional annual fees.²⁹ From these switches, Slonecker earned approximately \$19,800 in commissions.³⁰

These allegations in the Complaint, supported by the Pogue Declaration and the exhibits filed by Enforcement, are sufficient to establish, for the purposes of this default decision, that Slonecker made and effected unsuitable recommendations to customers to switch variable annuity contracts, in violation of Conduct Rules 2110 and 2310.

2. Slonecker Caused His Firm to Maintain Inaccurate Books and Records in Violation of Conduct Rules 2110 and 3110

Conduct Rule 3110 requires FINRA member firms to maintain accounts, books and records in conformity with Section 17(a) of the Securities Exchange Act of 1934, SEC Rule 17a-3, and all applicable laws and FINRA rules, regulations and policies.

To obtain approval for a customer's purchase of a variable annuity contract, H&R Block required Slonecker to complete a Suitability Questionnaire and to provide other documentation in the firm's electronic order entry system ("Annuity Net").³¹ The Suitability Questionnaire called for a description of the customer's risk tolerance, investment objective, and the source of funds for the purchases, together with a statement of whether the purchase was to replace a contract in a switch. Slonecker was required to identify a switch transaction as an "Annuity

²⁸ Complaint ¶ 77.

²⁹ Complaint ¶¶ 68, 69, 74.

³⁰ Complaint ¶ 78.

³¹ Complaint ¶¶ 11, 16; Decl. ¶ 17.

on the Questionnaire.³² Annuity Net required similar information. Slonecker was required to enter information into Annuity Net to reveal whether a customer was replacing or surrendering an existing contract, the payment method (i.e., “brokerage account,” “insurance exchange,” or “qualified brokerage account”), and the “money source” for the purchase, specifically indicating if the funds to purchase a new contract came from the sale of an existing contract, (i.e., “New Money/ Contribution” or “1035 Exchange”).³³

Slonecker made numerous false entries in Annuity Net and on other H&R Block records in order to obtain approval for the switches he recommended to his customers.³⁴ For example, Slonecker made entries into Annuity Net falsely describing the source of funds for purchasing new variable annuity contracts for customers PC, MS, MM and JIB as “new money” when, because these were switches, the accurate entry would have been “Annuity 1035.”³⁵ Slonecker falsely described the “payment method” for switches for ten customers as “brokerage account” or “qualified brokerage account” when he should have identified the payment method as “insurance exchange” or “Annuity 1035.”³⁶ Slonecker made false entries in Annuity Net that ten of the customers for whom he effected switches did not consider surrendering an existing contract to pay premiums on a new policy, when that is what they did.³⁷ In addition, Slonecker represented in Annuity Net that 11 customers funded their purchases of variable annuities from a

³² Complaint ¶¶ 16-18.

³³ Complaint ¶¶ 12, 14, 15.

³⁴ Decl. ¶ 17; Complaint ¶ 183.

³⁵ Complaint ¶ 184.

³⁶ Complaint ¶ 185.

³⁷ Complaint ¶ 186.

brokerage account when the truthful entry would have been “Annuity 1035” exchange.³⁸ In connection with several purchases, Slonecker materially overstated his customers’ net worth.³⁹ Regarding one of customer MM’s switches described above, Slonecker represented in a Firm Replacement Notification Form that MM incurred a surrender charge of \$7,000 when the correct figure was in excess of \$36,000.⁴⁰

These facts, as alleged in the Complaint and supported in the Pogue Declaration, establish, for the purposes of this default decision, that Slonecker caused H&R Block to create and maintain inaccurate books and records, in contravention of Section 17(a) of the Securities Exchange Act of 1934, and SEC Rule 17a-3, thereby violating Conduct Rules 2110 and 3110.

3. Slonecker Made Misstatements to His FINRA Member Firm Employer in Violation of Conduct Rule 2110

Conduct Rule 2110 requires registered persons to “observe high standards of commercial honor and just and equitable principals of trade.” This broad requirement applies generally to a representative’s business-related conduct, whether or not the conduct directly involves a securities transaction.⁴¹ The false entries described above that Slonecker made in Annuity Net and the Suitability Questionnaires were also material false representations made by him to his member firm employer. As established in the allegations of the Complaint and supported by the Pogue Declaration, they constitute independent violations of Conduct Rule 2110.

³⁸ Complaint ¶ 187.

³⁹ Complaint ¶¶ 189-190.

⁴⁰ Complaint ¶ 191; Decl. ¶ 18, fn. 2.

⁴¹ *Daniel D. Manoff*, Exch. Act Rel. No. 46708, 2002 SEC LEXIS 2684, at *12 (Oct. 23, 2002).

4. Slonecker Made Material Misrepresentations of Fact to Customers in Connection with Offers and Sales of Variable Annuities, in Violation of Conduct Rule 2110

Conduct Rule 2110's broad ethical strictures prohibit a registered person from making material misrepresentations to customers and from omitting to inform them of material facts in connection with their investments.⁴²

Slonecker falsely represented to three customers, DP, MS, and JIB, that the surrender fees they would incur by the switches he recommended would be fully recovered by the bonuses that the customers would receive from their purchases of new variable annuity contracts.⁴³ The differences between the surrender charges the customers incurred and the bonuses they received were substantial, however; thus, Slonecker's misrepresentations were material. For DP, the surrender charges exceeded the bonus by \$17,214;⁴⁴ for MS, the surrender charges exceeded the bonuses by \$6,171;⁴⁵ and for JIB, the difference was \$4,664.50.⁴⁶ In addition, Slonecker failed to disclose or to explain the surrender charges associated with variable annuity switch transactions he recommended and effected for customers PC, CW, and JIB.⁴⁷

As alleged in the Complaint and supported in the Pogue Declaration, these material misstatements and omissions violated Conduct Rule 2110.

⁴² *Dep't of Enforcement v. Timberlake*, No. C07010099, 2004 NASD Discip. LEXIS 11, at *15-16 (N.A.C. Aug. 6, 2004).

⁴³ Complaint ¶ 204; Decl. ¶ 24.

⁴⁴ Complaint ¶ 53.

⁴⁵ Complaint ¶ 94.

⁴⁶ Complaint ¶¶ 163, 166.

⁴⁷ Decl. ¶¶ 24, 25; Complaint ¶¶ 200, 205.

5. Slonecker Failed to Provide Information as Required by Procedural Rule 8210

Procedural Rule 8210 requires persons subject to FINRA's jurisdiction to provide information when requested to do so in the course of an investigation.

On September 23, 2008, Slonecker testified in an on-the-record interview that his attorney had obtained a customer affidavit related to purchases of variable annuity contracts through Slonecker at H&R Block. Enforcement staff requested that Slonecker produce the affidavit through his lawyer.⁴⁸ Subsequently, in March 2009, Slonecker's attorney informed FINRA staff that Slonecker would no longer be represented by counsel.⁴⁹ Consequently, pursuant to Rule 8210, FINRA staff renewed its request for production of the affidavit on March 17, 2009, by certified and first-class mail to Slonecker's CRD address.⁵⁰ The return receipt from the certified mailing was returned to Enforcement signed by someone other than Slonecker; the first-class mailing was not returned.⁵¹

On April 3, 2009, FINRA staff repeated its request for production of the affidavit by sending it once again to Slonecker's CRD address by certified and first-class mail.⁵² This time, the certified mailing was returned to Enforcement stamped "refused." The first-class mailing was not returned.⁵³

This conduct, as alleged in the Complaint and supported by the Pogue Declaration, establishes, for the purposes of this default decision, that Slonecker violated Conduct Rule 2110

⁴⁸ Complaint ¶ 209.

⁴⁹ Complaint ¶ 210.

⁵⁰ Complaint ¶ 211.

⁵¹ Complaint ¶ 212.

⁵² Complaint ¶ 213.

⁵³ Complaint ¶ 214; Decl. ¶ 27.

and Rule 8210 by failing to respond to FINRA's repeated requests, made to him initially in person and subsequently by certified and first-class mail at his CRD address, for information related to the investigation of this matter.

D. Sanctions

For the violations alleged in each Cause of Action of the Complaint, Enforcement recommends imposition of a bar from associating with any FINRA member firm in any capacity.⁵⁴

1. Making and Effecting Unsuitable Recommendations

For violating Conduct Rules 2110 and 2310 by making unsuitable recommendations, FINRA's *Sanction Guidelines* recommend imposition of a fine in the range of \$2,500 to \$75,000. In egregious cases, the Guidelines propose imposition of a suspension of up to two years or a bar.⁵⁵ Enforcement argues that Slonecker's unsuitable recommendations were egregious.

Relevant Principal Considerations in Determining Sanctions support Enforcement's recommendation. Slonecker's unsuitable switch recommendations to a large number of customers over an extended period of time constitute a pattern of misconduct.⁵⁶ It is an aggravating factor that Slonecker concealed the unsuitability of his recommendations from H&R Block by the misrepresentations he made to the firm about the switches.⁵⁷ Additional aggravating factors include the facts that his recommendations caused financial harm to

⁵⁴ No order of restitution or disgorgement will be imposed. Because H&R Block paid in excess of \$240,000 in restitution to customers for the surrender charges they were assessed for the variable annuity switches recommended by Slonecker, and because Enforcement seeks a bar, Enforcement did not request imposition of any financial penalty upon Slonecker. Supp. Decl. ¶¶ 4-6.

⁵⁵ *FINRA Sanction Guidelines*, p. 99 (2007).

⁵⁶ Principal Consideration Nos. 8, 9, *Sanction Guidelines*, p. 6.

⁵⁷ Principal Consideration No. 10, *Sanction Guidelines*, p. 6.

customers,⁵⁸ they generated commissions for him,⁵⁹ and they were knowing, intentional acts.⁶⁰ Slonecker has not accepted responsibility for his misconduct.⁶¹ Furthermore, by his failure to provide information as requested by FINRA staff pursuant to Rule 8210, Slonecker's non-cooperation with FINRA staff effectively delayed FINRA's investigation and appears to have concealed information or misled the investigative staff.⁶²

For these reasons, Slonecker's unsuitable recommendations to customers were egregious, justifying the imposition of a bar as the appropriate sanction.

2. Causing Member Firm to Maintain Inaccurate Books and Records and Making Misstatements to Member Firm

Because Slonecker's false representations in the records of H&R Block also constituted misstatements to the firm, it is appropriate to consider both of these separately charged violations of Conduct Rule 2110 together for the purpose of determining sanctions.

The Sanction Guidelines recommend, in egregious cases, a fine in the range of \$10,000 to \$100,000 and suspension of up to two years, or a bar, for causing a member firm to maintain inaccurate books and records.⁶³ No Sanction Guideline specifically focuses on a representative's misstatements to his member firm but the similarity of the conduct, consisting of making misrepresentations of fact to the member firm employer, makes the Guideline for causing a firm to maintain inaccurate books and records applicable.

⁵⁸ Principal Consideration No. 11, *Sanction Guidelines*, p. 6.

⁵⁹ Principal Consideration No. 17, *Sanction Guidelines*, p. 7.

⁶⁰ Principal Consideration No. 13, *Sanction Guidelines*, p. 7.

⁶¹ Principal Consideration No. 2, *Sanction Guidelines*, p. 6.

⁶² Principal Consideration No. 12, *Sanction Guidelines*, p. 7.

⁶³ *Sanction Guidelines*, p. 30.

Slonecker misrepresented his customers' income, net worth and risk tolerance, and concealed the fact they were purchasing new variable annuities with the proceeds of the sales of older contracts, to ensure that H&R Block approved of the switch transactions instead of questioning them. By his intentionally dishonest conduct, Slonecker prevented H&R Block from reviewing the suitability of his recommendations for the switches he effected, to the detriment of his customers, and allowed him to earn commissions he otherwise might not have collected. For these reasons, Slonecker's misrepresentations were egregious and a bar is the appropriate sanction, to deter him as well as others who might contemplate a similar course of misconduct.

3. Making Material Misrepresentations and Omissions to Customers

For making intentional misrepresentations or omissions of material fact to customers, the Sanction Guidelines recommend a fine of \$10,000 to \$100,000, suspension for a period of ten business days to two years and, in egregious cases, a bar.⁶⁴ In this case, there are no apparent mitigating circumstances. Slonecker's false statements and omissions to customers, concerning the costs of the switches and related facts, were intentional and designed to induce the customers, contrary to their needs and interests, to accept his recommendations. For these reasons, Enforcement's characterization of this aspect of Slonecker's misconduct as egregious is accurate, and Enforcement's recommendation of the imposition of a bar is appropriate.

4. Failing to Respond to Request for Information

The Guidelines recommend a bar when a respondent fails to comply with a request for information issued pursuant to Procedural Rule 8210.⁶⁵ If there are mitigating factors, the Sanction Guidelines recommend consideration of a suspension in all capacities for up to two years.

⁶⁴ *Sanction Guidelines*, p. 93.

⁶⁵ *Id.* at p. 35.

As has often been observed, “Conduct Rule 2110 and Procedural Rule 8210 are crucial components of [FINRA’s] examinations and investigations... Procedural Rule 8210 gives [FINRA] the right to require a member or person associated with a member to provide information, orally or in writing, in connection with an examination or investigation. The Rule further states that no member or person shall fail to provide such information.”⁶⁶ Concerning sanctions for violating Rule 8210, “[t]he Guidelines treat a failure to respond ... as egregious.”⁶⁷

Here, there are no mitigating circumstances. When testifying, Slonecker claimed he had a customer affidavit relevant to the investigation. When FINRA staff asked him repeatedly to produce it, Slonecker simply refused to do so. His refusal violated a fundamental obligation of persons associated with FINRA member firms. Accordingly, a bar is the appropriate sanction.

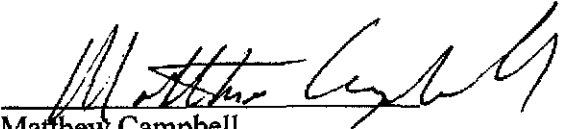
III. Order

Respondent William Gregory Slonecker is barred from associating with any FINRA member firm in any capacity for: (i) making unsuitable recommendations and effecting unsuitable customer transactions, in violation of Conduct Rules 2110 and 2310; (ii) making false entries on his member firm employer’s books and records, causing the firm to maintain inaccurate books and records, in violation of Conduct Rule 2110; (iii) making false statements to his member firm employer, in violation of Conduct Rule 2110; (iv) making material misrepresentations and omissions to customers, in violation of Conduct Rule 2110; and (v) failing to respond to requests for information made pursuant to Rule 8210, in violation of Conduct Rule 2110 and Procedural Rule 8210.

⁶⁶ *Dep’t of Enforcement v. Gregory R. Masceri*, No. C8A040079, 2006 NASD Discip. LEXIS 29, at *35-36 (N.A.C. Dec. 18, 2006).

⁶⁷ *Id.* at *41.

If this Default Decision becomes FINRA's final disciplinary action in this proceeding,
the bars shall become effective immediately.


Matthew Campbell
Hearing Officer

Copies to:

William G. Slonecker (via FedEx and first-class mail)
Kevin E. Pogue, Esq. (via electronic and first-class mail)
Penny Rosenberg, Esq. (via electronic and first-class mail)
David R. Sonnenberg, Esq. (via electronic and first-class mail)

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

William Gregory Slonecker
(CRD No. 3048481),

Respondent.

DISCIPLINARY PROCEEDING
No. 2007009442501

COMPLAINT

The Department of Enforcement ("Enforcement") alleges:

SUMMARY

1. Between March 2005 and June 2006 (the "relevant period"), William Gregory Slonecker ("Slonecker"), formerly employed at H&R Block Financial Services Inc. ("H&R Block" or the "Firm") holding a general securities license, executed approximately 38 variable annuity ("VA") contract replacements or "switches" involving 17 customers, who ranged in age from 23 to 85 years old, including five retired, one quadriplegic and nine employed individuals, and whose net worth, exclusive of residences, ranged from \$85,000 to \$1.2 million.

2. VA "switching" involves using the proceeds from the liquidation of one VA to purchase a new VA issued by a different annuity company. VA switching can result in the imposition of contingent deferred sales charges ("CDSCs" or "surrender charges") and can subject the purchaser to new, extended surrender periods.

3. In the Fall of 2004, Slonecker left the employment of Firm A, a FINRA member firm, and joined H&R Block. At that time, many of Slonecker's customers owned one or more VAs proprietary to Firm A or other firms. Upon joining H&R Block, Slonecker engaged in a pattern of transactions, switching customers out of the VAs they held for periods ranging from approximately two to three and a half years at Firm A and other firms, to similar VAs that he was able to sell, service and receive commissions for at H&R Block, without regard to the customers' ages or financial backgrounds. Slonecker later effected approximately five additional switch transactions, in which he recommended his customers purchased new, similar VAs to replace those they purchased when he first moved to H&R Block and had held for approximately one year.

4. Slonecker's customers received no significant benefit from these transactions, since the VAs they purchased at H&R Block did not substantially differ from those they replaced, while they paid surrender charges totaling approximately \$240,733.08, sustained new, extended surrender periods, and in some cases paid additional fees. In contrast, Slonecker received approximately \$85,000 in commissions from these exchanges. Slonecker's wholesale replacement of VA products was unsuitable and violated NASD Rules 2310 and 2110.

5. For many of these transactions, Slonecker made false entries in the Firm's electronic order-entry system and on various documents relating to the VA purchases, misrepresenting, among other things, that the funds used to purchase the new VAs came from a brokerage account rather than an existing VA, mischaracterizing the true nature of the payment method for the VA replacement transactions, and misrepresenting that no existing VA contracts would be replaced in connection with the purchase of a new VA contract. As a result, Slonecker

violated NASD Rules 3110 and 2110 by causing H&R Block to maintain inaccurate books and records.

6. By making false entries in the Firm's electronic order-entry system and on various documents relating to the VA purchases, Slonecker also made false statements to his member organization employer in violation of NASD Rule 2110.

7. In connection with these VA switches, Slonecker falsely represented to three customers that surrender fees associated with the replacement of VA contracts would be covered by the bonuses the customers would receive in connection with the transactions, when he knew or should have known that the bonuses did not offset the surrender fees and the customers would pay additional fees to receive the bonus. Slonecker also failed to disclose and explain to three customers all of the fees associated with replacing the VA contract. By virtue of this conduct, Slonecker violated NASD Rule 2110 in that he made material misrepresentations and omissions of material facts to his customers.

8. Slonecker failed to provide to FINRA, as requested pursuant to FINRA Rule 8210, copies of an affidavit that he claimed he procured from one of his customers concerning his purchases of VA products, thereby violating FINRA Rules 8210 and 2010.

RESPONDENT AND JURISDICTION

9. Slonecker began his employment in the securities industry in or about April 1998, when he joined Firm B, a FINRA member, as a Registered Representative ("RR") holding a limited securities license. In or about April 2001, Slonecker became employed at Firm A, where he worked as a Financial Advisor ("FA") holding a general securities license until on or about October 1, 2004, when he joined H&R Block, a FINRA member firm. During his employment with H&R Block, Slonecker worked at the Firm's Nashville, Tennessee branch office. On or

about July 23, 2007, Slonecker joined Firm C, a FINRA member firm, as a RR holding a general securities license until his voluntary termination on February 15, 2008.

10. Pursuant to Article V, Section 4 of FINRA's By-Laws, FINRA retains jurisdiction over Slonecker for the purposes of this complaint.

GENERAL ALLEGATIONS

Processing of Variable Annuity Purchases

11. FAs at the Firm who sell VA products to customers must enter their transactions into a Firm order-entry system called Annuity Net. Slonecker made false entries in Annuity Net concerning several of his VA switches.

12. Among the information that an FA must input into Annuity Net is whether the customer is replacing or surrendering an existing contract and whether the funds from existing contracts are being used to pay premiums due on the new policy or contract.

13. In connection with approximately 15 VA exchanges, as described fully below, Slonecker falsely represented in Annuity Net that they did not involve the replacement or surrender of pre-existing VA contracts, and that funds from an existing VA were not used to purchase the new VA contract.

14. Annuity Net also requires the FA to describe the "payment method" for the underlying VA purchase as "brokerage account," "insurance exchange," or "qualified brokerage account." In connection with approximately 15 VA exchanges, as described fully below, Slonecker falsely described the payment method as a brokerage account or qualified brokerage account as opposed to an insurance exchange.

15. Annuity Net also requires the FA to describe the "money source" for the premium payment for the underlying VA purchase as "New Money/Contribution" or "1035 Exchange." In

connection with approximately four VA exchanges, as described fully below Slonecker falsely described the money source as "New Money" as opposed to "1035 Exchange."

16. Firm procedures also require FAs to complete Suitability Questionnaires, which require the broker to provide, among other things, customer risk tolerance and investment objective.

17. In addition, the Suitability Questionnaires require the FA to identify the funding method for the underlying VA as "Annuity 1035" exchange, "Brokerage Account," or "Other Securities." If the funding method chosen was something other than a brokerage account, the Suitability Questionnaire requires the FA to explain the suitability of the VA purchase.

18. Moreover, if the underlying transaction involved the replacement of a VA contract, the FA was to identify the funding method for a switch transaction as an "Annuity 1035" exchange on the Suitability Questionnaire.

19. In connection with approximately 15 VA exchanges, Slonecker falsely described the funding method of several replacement transactions in Suitability Questionnaires as involving "brokerage accounts" as opposed to "Annuity 1035" exchanges, thereby failing to explain suitability as he was required to do by the Firm for VA switch transactions.

Slonecker Transitions His VA Business from Firm A to H&R Block

20. During the relevant period, Slonecker executed approximately 38 VA replacement transactions on behalf of 17 customers who ranged in age from 23 to 85 years old. Five of those customers were retired, one was a quadriplegic and nine were still employed. The net worth of the customers, exclusive of their residences, ranged from \$85,000 to \$1.2 million.

21. As described in greater detail below, Slonecker engaged in the wholesale replacement of dozens of customer VA contracts, without regard to the ages and financial

backgrounds of his customers and without regard to how long his customers had held their VAs, the substantial surrender charges his customers would pay as a result of selling their existing VAs prior to the end of the surrender period, or the imposition of new, extended surrender periods.

22. Most of these customers owned VAs offered by Travelers Life Insurance Company ("Travelers") that was proprietary to Firm A, Slonecker's former member firm employer. When Slonecker moved to H&R Block, he could not transfer the Travelers VAs his customers already owned because H&R Block was not authorized to sell them.

23. After joining H&R Block, the Firm provided Slonecker with a transition loan of \$102,800, which had to be repaid over a four-year period. However, the Firm agreed to forgive scheduled repayments if Slonecker met specified production goals.

24. Additionally, Slonecker received an asset bonus equal to 50 basis points of assets that he transferred to the Firm within the first 120 days of his employment, which was extended by the Firm until in or about April 2005.

25. Between March 2005 and October 2005, Slonecker recommended and his customers exchanged approximately 21 of the VAs they held at Firm A for the Leaders Plus ("Leaders") VA offered by Hartford Life and Annuity Insurance Company ("Hartford"), or the Perspective II VA offered by Jackson National Life Insurance Company ("JNL"), variable products he could sell, service, and receive commissions for through H&R Block. These transactions occurred before the October 2005 deadline for Slonecker's production goal and he was, therefore, excused from making one annual loan payment.

26. Neither the Hartford nor JNL VAs offered Slonecker's customers standard benefits that outweighed the costs of replacing the Travelers VAs they already owned and, with

one exception, none of Slonecker's customers elected any optional contract riders in connection with their purchases of Hartford and JNL VAs.

There Were No Significant Differences in the VAs that Warranted Switching

27. As more fully described below, Slonecker's VA transactions that occurred during his employment at H&R Block typically involved the replacement of Travelers VA contracts with Hartford Leaders Plus annuities. But, Slonecker also replaced Hartford and ING VA contracts with JNL Perspective II annuities.

28. There were no significant differences in the annual administrative fees, free withdrawal percentages, surrender periods and standard death benefits applicable to the VA contracts issued to customers by Travelers, ING, Hartford and JNL that outweighed the surrender charges paid and the imposition of new, extended surrender periods that resulted from replacing the VA contracts that the customers already owned.

29. Additionally, because of the bonus product included in the Hartford and JNL VAs the customers were subject to additional annual fees.

30. Thus, these exchanges resulted in substantial surrender charges, new extended surrender periods and, in some cases, higher fees, to the detriment of the customers.

31. Slonecker facilitated these replacement transactions by making false entries into Annuity Net and on Suitability Questionnaires in order to receive supervisory approval for them and, in certain instances, made misrepresentations or failed to disclose material information to customers in order to induce them to replace their VA contracts.

Individual Customer Transactions

Customer PC

32. In or about September 2001, customer PC, then 64 years old, purchased two Travelers Vintage VAs, investing a combined \$64,837.38, and held them in her accounts at Firm A. Slonecker was the broker of record for PC's accounts at Firm A.

33. In or about March 2005, PC opened an Individual Retirement Account ("IRA") and an individual account with Slonecker at the Firm. The new account application did not provide any information as to PC's net worth, income, investment experience, risk tolerance or investment objective.

34. In or about March and April of 2005, Slonecker recommended and effected the sale of both Travelers Vintage annuities on behalf of PC, and used the proceeds to purchase two Hartford Leaders VAs ("Hartford 1" and "Hartford 2"), investing a combined \$68,400. By selling the Travelers Vintage VAs about three years after purchasing them, PC incurred combined surrender charges of \$5,489.42. She received bonuses totaling \$2,052 from purchasing the Hartford Leaders VA, but was charged higher annual fees because of the bonus product.

35. In or about May 2006, Slonecker recommended and effected the partial surrender of Hartford 1 on PC's behalf, incurring a surrender charge of \$1,615.22 and used the proceeds to purchase a JNL Perspective II VA for her individual non-qualified account, investing \$23,000. PC received a \$920 bonus for purchasing the JNL Perspective II VA, but was charged additional annual fees for the bonus.

36. The Travelers, Hartford and JNL VAs did not differ substantially from each other and Slonecker's replacement of PC's Travelers and Hartford VA contracts was unsuitable

because the new VAs did not provide any benefit to PC that outweighed the surrender charges and the new, extended surrender periods she incurred as a result.

37. In addition, Slonecker did not inform PC about the surrender charges that would be imposed as a result of the sale of her Hartford annuity.

38. On Annuity Net, Slonecker falsely described the money source for the JNL Perspective II transaction as "New Money/Contribution" when it was a "1035 Exchange."

39. Moreover, Slonecker falsely described the JNL Perspective II VA transaction on the Suitability Questionnaire as being funded from a "Brokerage Account" as opposed to an "Annuity 1035" exchange.

40. Slonecker earned approximately \$690 in commissions from the exchanges effected in PC's account at H&R Block.

Customer LK

41. In or about April 2003, LK, then 82 years old, purchased a Travelers Portfolio Architect ("Architect") VA, investing \$87,538.01, and held it in her account at Firm A. In or about August 2003, LK added \$1,227.24 to her Travelers Architect VA. Slonecker was the broker of record for LK's Firm A account.

42. By application dated October 2004, LK opened an individual account at H&R Block with Slonecker. According to the account application, LK was a widow and was a retired college professor. LK's total net worth, exclusive of her residence, was \$200,000, her liquid net worth was \$45,000, her annual income was between \$30,000 and \$32,000, her risk tolerance was conservative, her investment objective was income and growth and she had 20 years of investment experience.

43. In or about April 2005, Slonecker recommended and effected the sale of the Travelers Architect VA annuity on behalf of LK and used the proceeds to purchase a Hartford Leaders VA, investing \$87,859.17. By selling the Travelers Architect VA approximately two years after purchasing it, LK incurred a surrender charge of \$3,960.40. She received a \$3,514.36 bonus from purchasing the Hartford Leaders VA, but was charged additional annual fees because of the bonus.

44. The Hartford VA did not differ substantially from the Travelers VA contract and Slonecker's replacement of LK's Travelers contract was unsuitable because the new VA did not provide any benefit to LK that outweighed the surrender charges and the new, extended surrender periods she incurred as a result.

45. Slonecker earned approximately \$1,400 in commissions from the exchange effected in LK's account at H&R Block.

Customer LB

46. In or about October 2001, LB, who was then in her 80's, purchased two Travelers Architect VA contracts and, in March 2002, one Target Maturity ("Target") fixed annuity, investing a combined total of \$197,316.83, and held them in her account at Firm A. In June 2003, LB added \$3,703.83 to one of her Travelers Architect VA contracts. Slonecker was the broker of record for LB's Firm A account.

47. By application dated October 2004, LB opened an individual account at H&R Block with Slonecker. According to her account application, LB was retired and a widow, her net worth, exclusive of her residence, was \$500,000, her liquid net worth was \$300,000, her annual income was \$25,000, her risk tolerance was conservative, her investment objective was income and growth and she had 20 years of investment experience.

48. In or about April 2005, Slonecker recommended and effected the sale of the three Travelers annuities on behalf of LB and used the proceeds to purchase three JNL Perspective II VAs, investing a combined total of \$219,260.56. By selling the Travelers VAs between two and three years after purchasing them, LB incurred \$9,595.77 in surrender charges. She received a combined bonus of \$15,742.38 from purchasing the JNL Perspective II VAs, but was charged additional annual fees for the bonus.

49. The JNL Perspective II VA did not differ substantially from the Travelers VAs and Slonecker's replacement of LB's Travelers contracts was unsuitable because the new VAs did not provide any benefit to LB that outweighed the surrender charges and the new, extended surrender periods she incurred as a result.

50. Slonecker earned approximately \$2,850 in commissions from the exchanges effected in LB's account at H&R Block.

Customer DP

51. In or about December 2001, January 2002 and October 2002, DP, who was then about 46 years old, purchased a Travelers Vintage VA, investing \$455,273.17, an ING Golden Select Premium Plus ("Premium") VA, investing \$43,849.31, and a Hartford Director Plus VA ("Hartford 1"), investing \$39,000. In or about February 2002, October 2003, and November 2003, DP added \$37,803.68, \$39,255.33 and \$3,780.00, respectively, to her Travelers Vintage VA. In or about September 2003, DP also added \$42,600 to her ING Premium VA. Slonecker was the broker of record for DP's Firm A account.

52. In or about December 2004, DP opened an IRA and an individual account at H&R Block with Slonecker. According to an account application, DP was single and employed for 10 years as a sales person for a lighting company. DP's total net worth, excluding her

residence, was \$750,000, her liquid net worth was \$200,000, her annual income was \$50,000, her risk tolerance was moderate, her investment objective was growth and she had 10 years of investment experience.

53. In or about April 2005, Slonecker recommended and effected the sale of the Travelers Vintage annuity on behalf of DP and used the proceeds to purchase a Hartford Leaders VA ("Hartford 2"), investing \$366,400. By selling the Travelers Vintage VA approximately three years after purchasing it, DP incurred a surrender charge of \$31,870. She received a bonus of \$14,656 from purchasing the Hartford Leaders VA, but was charged additional annual fees because of the bonus product.

54. On Annuity Net, Slonecker falsely described the payment method for the Hartford Leaders transaction as a "qualified brokerage account" when it was an "insurance exchange" and falsely indicated that DP did not consider replacing, surrendering or terminating an existing policy, or using funds from existing policies or contracts to pay premiums due on the new policy or contract.

55. Moreover, Slonecker falsely described the Hartford 2 transaction on the Suitability Questionnaire as being funded from a "Brokerage Account" as opposed to an "Annuity 1035" exchange.

56. In or about January 2006, Slonecker recommended and effected the sale of the ING Premium VA on DP's behalf and used the proceeds to purchase a JNL Perspective II VA contract ("JNL1"), investing \$89,300. By selling the ING Premium VA approximately three years after purchasing it, DP incurred a surrender charge of \$6,915.94. She received a bonus of \$3,572 from purchasing JNL1, but was charged additional annual fees for the bonus.

57. On Annuity Net, Slonecker falsely described the payment method of the JNL1 transaction as a "qualified brokerage account" when it was an "insurance exchange" and falsely indicated that did she not consider replacing, surrendering or terminating an existing policy, or using funds from existing policies or contracts to pay premiums due on the new policy or contract.

58. Moreover, Slonecker falsely described the JNL1 transaction on the Suitability Questionnaire as being funded from a "Brokerage Account" as opposed to an "Annuity 1035" exchange.

59. In or about March 2006, Slonecker recommended and effected the sale of the Hartford 2 VA, as well as the partial surrender of the Hartford 1 VA on behalf of DP and used the proceeds to purchase another JNL VA contract ("JNL 2"), investing \$408,000. By selling the Hartford VAs approximately 11 months and two years, respectively, after purchasing them, DP incurred \$31,886.10 in combined surrender charges. She received a combined bonus of \$16,320 from purchasing JNL 2, but was charged additional annual fees for the bonus.

60. On Annuity Net, Slonecker falsely described the payment method for the JNL2 transaction as a "qualified brokerage account" when it was an "insurance exchange" and falsely indicated that DP did not consider replacing or surrendering an existing contract, or using funds from an existing contract to pay premiums due on the new policy or contract.

61. Moreover, Slonecker falsely described the JNL2 transaction on the Suitability Questionnaire as being funded from a "Brokerage Account" as opposed to an "Annuity 1035" exchange.

62. In connection with her VA purchases at the Firm, Slonecker told DP that if she wanted him to remain her broker when he went to H&R Block, she would have to invest in a VA

product offered by the Firm. Slonecker also told DP that the switch from Travelers to Hartford and then again to JNL would be a “wash” because of the bonus payment offered by the Hartford. Moreover, Slonecker did not review with DP the differences between the Hartford and JNL contracts.

63. The Hartford and JNL VA contracts did not differ substantially from ING and Travelers and Slonecker’s replacement of DP’s Travelers, ING and Hartford VA contracts was unsuitable because the new VAs did not provide any benefit to DP that outweighed the surrender charges and the new, extended surrender periods she incurred as a result.

64. Slonecker earned approximately \$24,000 in commissions from the exchanges effected in DP’s account at H&R Block.

Customer MM

65. In or about September 2003, MM, a quadriplegic who was then 21 years old, purchased an ING Golden Select DVA Plus VA contract (“ING1”), investing \$32,340, and held it in her account at Firm A. In or about November 2003, MM added \$35,000 to her ING1 contract. Slonecker was the broker of record for MM’s account at Firm A.

66. In or about January 2004, MM purchased a Travelers Pioneer Annuistar Plus VA (“Pioneer”), investing \$200,000, which she held in her Firm A account. Additionally, in or about February 2004, MM purchased an ING Premium VA (“ING2”), investing \$470,000, which she also held at her Firm A account.

67. By application dated October 2004, MM opened an individual account with Slonecker at H&R Block. MM’s account application indicates that she was disabled, her total net worth, excluding residence, was \$1.2 million, her liquid net worth was \$1,000,000, her annual

income was \$50,000, her risk tolerance was conservative and her investment objective was income.

68. In or about March 2, 2005, Slonecker recommended and effected the sale of the Travelers Pioneer VA on MM's behalf and used the proceeds to purchase a Hartford Leaders VA, investing \$140,000. By selling the Travelers Pioneer VA approximately one year after purchasing it, MM incurred a surrender charge of \$12,065.10. She received a bonus of \$5,600 from purchasing the Hartford Leaders VA, but was charged additional annual fees for the bonus product.

69. In or about August 2005, Slonecker recommended and effected the sale of both ING1 and ING2 on MM's behalf and used the proceeds to purchase a JNL Perspective II ("JNL1") for \$389,726.33. By selling ING1 and ING2 approximately two years and 11 months, respectively, after purchasing them, MM incurred combined surrender charges of \$41,415.11. She received a bonus of \$7,794.53 from purchasing JNL1, but was charged additional annual fees for the bonus.

70. In connection with the JNL1 purchase, MM chose the optional benefit of being able to withdraw 20 percent of premiums subject to a withdrawal charge. JNL charged an annual fee of 0.30% for this rider.

71. Between October 2005 and August 2006, MM made monthly withdrawals from JNL1, ranging from \$20 to \$20,000, which totaled \$130,770. MM used the proceeds of these withdrawals as a source of income. In connection with withdrawals made between April and August 2006, MM incurred \$4,785.53 in CDSCs imposed by JNL.

72. MM also opted for the following five-year CDSC period offered by JNL: 8-7-6-4-2. JNL imposed a 0.30% annual fee for this option rider. However, in comparison with the

CDSC schedule remaining on the ING1 contract, the differences in the CDSC period offered by JNL were negligible.

73. On a Firm Replacement Notification Form completed in connection with the JNL1 purchase, Slonecker falsely stated that MM was subject to a surrender charge of only \$7,000.

74. In or about February 2006, Slonecker recommended and effected the sale of the Hartford VA on MM's behalf and used the proceeds to purchase a second JNL VA ("JNL2") for \$148,840. By selling the Hartford VA approximately 11 months after purchasing it, MM incurred a surrender charge of \$11,200. She received a bonus of \$5,953.60 from purchasing JNL2, but was charged additional annual fees for the bonus.

75. On Annuity Net, Slonecker falsely described the money source for the JNL2 transaction as "new money/contribution" rather than a 1035 exchange and the payment method as a "brokerage account" as opposed to an "insurance exchange." Slonecker also falsely indicated that MM did not consider replacing or surrendering an existing policy or contract or using funds from an existing contract to pay premiums on the new policy or contract.

76. Moreover, Slonecker falsely described the JNL2 transaction on the Suitability Questionnaire as being funded from a "Brokerage Account" as opposed to an "Annuity 1035" exchange.

77. The Travelers, ING, Hartford and JNL VAs did not differ substantially from each other and Slonecker's replacement of MM's Travelers, ING and Hartford VAs were unsuitable because the new VAs did not provide any benefit to MM that outweighed the surrender charges and the new, extended surrender periods she incurred as a result.

78. Slonecker earned approximately \$19,800 in commissions from the exchanges effected in MM's account at H&R Block.

Customer JB

79. In or about January 2002, customer JB, then 43 years old, purchased a Travelers Vintage VA, investing \$19,700, and held it in his account at Firm A. Slonecker was the broker of record for JB's Firm A account.

80. By application dated October 2004, JB opened an IRA at the Firm with Slonecker as his broker of record. According to his new account application, JB was single and employed for three years as a sales representative for a homecare medical supply company. JB's total net worth, exclusive of residence, was \$300,000, his liquid net worth was \$175,000, his annual income was \$92,000, his risk tolerance was moderate, his investment objective was growth and he had ten years experience investing in stocks, bonds and mutual funds.

81. In or about March 2005, Slonecker recommended and effected the sale of the Travelers Vintage annuity on JB's behalf and used the proceeds to purchase a Hartford Leaders ("Leaders") VA, investing \$21,600. By selling the Travelers Vintage VA three years after purchasing it, JB incurred a surrender charge of \$1,654.80. He received a bonus of \$648 from purchasing the Hartford Leaders VA, but was charged additional annual fees for the bonus product.

82. In or about May 2006, Slonecker recommended and effected the partial surrender of the Hartford Leaders VA on JB's behalf, incurring \$1,725.22 in surrender charges, and used the proceeds to purchase a JNL Perspective II contract, investing \$21,900. JB received an \$876 bonus from purchasing the JNL Perspective II VA, but was charged additional annual fees for the bonus.

83. The Travelers, Hartford and the JNL Perspective II VAs did not differ substantially from each other and Slonecker's replacement of JB's Travelers and Hartford contracts was unsuitable because the new VAs did not provide any benefit to JB that outweighed the surrender charges and the new, extended surrender periods he incurred as a result.

84. On Annuity Net, Slonecker falsely described the payment method for the JNL Perspective II transaction as a "brokerage account" when it was an "insurance exchange" and falsely indicated that JB did not consider replacing, surrendering or terminating an existing policy, or using funds from existing policies or contracts to pay premiums due on the new policy or contract.

85. Moreover, Slonecker falsely described the JNL Perspective II VA transaction on the Suitability Questionnaire as being funded from a "Brokerage Account" as opposed to an "Annuity 1035" exchange.

86. Slonecker earned approximately \$1,200 in commissions from the exchanges effected in JB's account at H&R Block.

Customer MB

87. In or about November 2001, Customer MB, then 58 years old, purchased two Travelers Vintage VAs, investing \$140,579.27, and held them in her accounts at Firm A. Slonecker was the broker for MB's Firm A accounts.

88. By applications dated October 2004, MB opened an IRA and an individual account at the Firm with Slonecker as her broker of record. According to her new account applications, MB was married and the president of a trade organization where she was employed for ten years. MB's total net worth, exclusive of residence, ranged between \$250,000 and \$350,000, her liquid net worth ranged between \$100,000 and \$150,000, her annual income was

\$100,000, her risk tolerance was moderate, her investment objective was income and growth and she had 10 to 15 years experience investing in stocks and bonds.

89. In or about March 2005, Slonecker recommended and effected the sale of MB's two Travelers VAs on MB's behalf and used the proceeds to purchase two Hartford Leaders VAs, investing \$148,200. By selling the Travelers VAs approximately three years after purchasing them, MB incurred combined surrender charges of \$11,310.75. She received combined bonuses of \$5,928 from purchasing the Hartford VAs, but was charged additional annual fees for the bonus product.

90. The Hartford VAs did not differ substantially from the Travelers VAs and Slonecker's replacement of MB's Travelers contracts was unsuitable because the new VAs did not provide any benefit to MB that outweighed the surrender charges and the new, extended surrender periods she incurred as a result.

91. Slonecker earned approximately \$3,850 in commissions from the exchanges effected in MB's account at H&R Block.

Customer MS

92. In or about July 2002, MS, then 30 years old, purchased a Travelers Vintage VA, investing \$298,000, and held it in his account at Firm A. Slonecker was the broker of record for his Firm A account.

93. In or about October 2004, MS opened an individual account at H&R Block with Slonecker as the broker of record. According to the new account application, MS was married and employed for two years as a graphic designer. MS's total net worth, exclusive of his residence, was \$350,000, his liquid net worth was \$50,000, his annual income was \$50,000, his

risk tolerance was moderate, his investment objective was growth and he had 10 years of investment experience with stocks, bonds and mutual funds.

94. In or about March 2005, Slonecker recommended and effected the partial surrender of the Traveler's Vintage annuity on MS's behalf and, in or about April 2005, used the proceeds to purchase a Hartford Leaders VA, investing \$131,433.85. By selling the Travelers Vintage VA three years after purchasing it, MS incurred a surrender charge of \$11,429.03. He received a bonus of \$5,257.36 from purchasing the Hartford Leaders, but was charged additional annual fees for the bonus product.

95. The Hartford VA did not differ substantially from the Travelers VA and Slonecker's replacement of MS' Travelers contract was unsuitable because the new Hartford VA did not provide any benefit to MS that outweighed the surrender charges and the new, extended surrender periods he incurred as a result.

96. On the Suitability Questionnaire, Slonecker indicated that MS' total net worth was \$500,000, which included the value of his residence, and that he owned \$350,000 worth of annuities. However, Slonecker falsely described that the combined annuities constituted only 25% of MS's liquid net worth, when based upon the net worth figure provided on the Suitability Questionnaire, MS's combined annuities constituted 70% of his liquid net worth.

97. Slonecker earned approximately \$6,500 in commissions from the VA exchange effected in MS's account at H&R Block.

98. In or about June 2006, Slonecker recommended and effected the surrender of the Hartford Leaders annuity on MS's behalf, and used the proceeds to purchase a JNL Perspective II VA contract. Slonecker told MS that the penalties associated with the replacement would be made up by the bonus provided by JNL.

99. On Annuity Net, Slonecker falsely described the money source for the JNL Perspective II transaction as “new money/contribution,” when it was a “1035 exchange” and the payment method as “brokerage account,” when it was an “insurance exchange.” Slonecker also falsely indicated in Annuity Net that MS did not consider replacing, surrendering or terminating an existing policy, or using funds from existing policies or contracts to pay premiums due on the new policy or contract.

100. Moreover, Slonecker falsely described the JNL Perspective II VA transaction on the Suitability Questionnaire as being funded from a “brokerage account,” when it was funded from an “Annuity 1035” exchange.

101. Slonecker also falsely described on the Suitability Questionnaire that MS’s combined total net worth with his wife was \$2.5 million, his total income from all sources was \$250,000, and his annuity positions constituted 15% of his liquid net worth. However, MS’s household income was never as high as those stated in connection with the JNL purchase and his annuity positions constituted more than 15% of his liquid net worth.

102. On or about July 14, 2006, MS invoked the free-look provision of the JNL VA product and rejected the contract. As a result, no surrender charges were imposed by Hartford.

Customer JM

103. In or about October 2001, customer JM, then 38 years old, purchased two Travelers Vintage annuities and, in or about July 2004, purchased a Travelers Marquis Portfolio (“Marquis”) deferred VA investing a combined amount of \$261,368.12 and held them in his Firm A accounts. Between June 2003 and February 2004, JM added \$2,959.71 to the Travelers Vintage annuity. Slonecker was the broker of record for JM’s Firm A accounts.

104. In or about October 2004, JM opened an IRA and an individual account at H&R Block with Slonecker. In or about March 2005, JM also opened a Simplified Employee Pension Plan ("SEP") IRA at the Firm. According to a new account application, JM was single and employed for 10 years as a consultant for a bank. JM's total net worth, exclusive of family residence, was \$350,000, his liquid net worth was \$200,000, his annual income was \$150,000, his risk tolerance was moderate, his investment objective was growth and he had 10 years of investment experience.

105. In or about May 2005, Slonecker recommended and effected the sale of the three Travelers contracts on behalf of JM and used the proceeds to purchase three Hartford Leaders VA contracts, investing \$146,500. By selling the Travelers VAs between one and four years after their purchase, JM incurred a combined surrender charge of \$8,663.18. He received a combined bonus of \$5,760 from purchasing the Hartford VAs, but was charged additional annual fees for the bonus product.

106. The Hartford VAs did not differ substantially from the Travelers VAs and Slonecker's replacement of JM's Travelers VAs was unsuitable because the new Hartford VAs did not provide any benefit to JM that outweighed the surrender charges and the new, extended surrender periods he incurred as a result.

107. Slonecker earned approximately \$3,800 in commissions from the exchanges effected in JM's account at H&R Block.

Customer LH

108. In or about April 2002, LH, then 38 years old, purchased a Travelers Vintage VA, investing \$48,300, and held it in her account at Firm A. In or about May 2002, LH added \$3,150 to her Travelers Vintage annuity. Slonecker was the broker of record for LH's Firm A account.

109. By application dated October 2004, LH opened an IRA at H&R Block with Slonecker as her broker of record. According to her new account application, LH was single and employed for over nine years as a corporate trainer for a healthcare systems company. LH's total net worth, exclusive of her residence, was \$100,000, her liquid net worth was \$50,000, her annual income was \$71,000, her risk tolerance was moderate, her investment objective was growth and she had 10 years of investment experience in stocks, bonds and mutual funds.

110. In or about May 2005, Slonecker recommended and effected the sale of the Travelers Vintage annuity on LH's behalf and used the proceeds to purchase a Hartford Leaders VA for \$46,000. By selling the Travelers Vintage VA approximately three years after purchasing it, LH incurred a surrender charge of \$4,015.03. She received a bonus of \$1,380 from purchasing the Hartford Leaders VA, but was charged additional annual fees for the bonus product.

111. The Hartford VA did not differ substantially from the Traveler's VA and Slonecker's replacement of LH's Travelers contract was unsuitable because the new VA did not provide any benefit to LH that outweighed the surrender charges and the new, extended surrender periods she incurred as a result.

112. Slonecker earned approximately \$1,200 in commissions from the exchange effected in LH's account at H&R Block.

Customer CW

113. In or about October 2001, CW, then 34 years old, purchased a Travelers Vintage VA, investing \$42,946.59, and held it in her account at Firm A. Between April and November 2003, CW added \$5,104.18 to her Travelers Vintage annuity. Slonecker was the broker of record for CW's Firm A account.

114. In or about October 2004, CW opened two IRAs at H&R Block with Slonecker as her broker of record. According to a new account application, CW was married and employed for five years as a certified public accountant for an accounting firm. CW's total net worth, exclusive of her residence, was \$250,000, her liquid net worth was \$50,000, her annual salary was \$75,000, her risk tolerance was moderate, her investment objective was growth and she had 10 years investment experience.

115. In or about May 2005, Slonecker recommended and effected the sale of the Travelers Vintage VA on CW's behalf and in or about July 2005, used the proceeds to purchase a Hartford Leaders VA for \$40,700. By selling the Travelers Vintage VA approximately three and a half years after purchasing it, CW incurred a surrender charge of \$3,538.55. She received a bonus of \$1,221 from purchasing the Hartford Leaders VA, but was charged additional annual fees for the bonus product.

116. Slonecker did not review surrender charges with CW prior to the sale of her Travelers annuity.

117. The Hartford VA did not differ substantially from the Travelers VA and Slonecker's replacement of CW's Travelers contract with a Hartford VA was unsuitable because the new VA did not provide any benefit to CW that outweighed the surrender charges and the new, extended surrender periods she incurred as a result.

118. Slonecker earned approximately \$1,000 in commissions from the exchange effected in CW's account at H&R Block.

Customer EC

119. In or about February 2002, customer EC, then 33 years old, purchased a Travelers Vintage VA, investing \$17,400 and held it in her account at Firm A. In or about August 2003,

EC added \$3,893.62 to her Travelers Vintage annuity. Slonecker was the broker of record for EC's account at Firm A.

120. By application dated October 2004, EC opened an IRA at the Firm with Slonecker as her broker of record. According to the IRA application, EC was single and employed for approximately one year as a tax accountant. EC's total net worth, exclusive of family residence, was \$250,000, her liquid net worth was \$50,000, her risk tolerance was moderate, her investment objective was growth and she had six years of investment experience.

121. In or about September 2005, Slonecker recommended and effected the sale of the Travelers VA on EC's behalf and, in or about October 2005, used the proceeds to purchase a JNL Perspective II VA for \$22,900. By selling the Travelers Vintage VA approximately three years after purchasing it, EC incurred a surrender charge of \$1,773.08. She received a bonus of \$916 from purchasing the JNL Perspective II VA, but was charged additional annual fees for the bonus.

122. The JNL Perspective II VA did not differ substantially from the Travelers VA and Slonecker's replacement of EC's Travelers contract with a JNL VA was unsuitable because the new VA did not provide any benefit to EC that outweighed the surrender charges and the new, extended surrender periods she incurred as a result.

123. On Annuity Net, Slonecker falsely described the payment method for the JNL Perspective II transaction as a "qualified brokerage account" when it was an "insurance exchange" and falsely indicated that EC did not consider replacing, surrendering or terminating an existing policy, or using funds from existing policies or contracts to pay premiums due on the new policy or contract.

124. Moreover, Slonecker falsely described the JNL Perspective II VA transaction on the Suitability Questionnaire as being funded from a "Brokerage Account" as opposed to an "Annuity 1035" exchange.

125. Slonecker earned approximately \$690 in commissions from the exchange effected in EC's account at H&R Block.

Customer PR

126. In or about October 2002, PR, then 63, purchased a Travelers Vintage 3 VA, investing \$136,000, and held it in his account at Firm A. In or about July 2003, PR added \$697 to his Travelers Vintage 3 VA. Between October 2002 and December 2004, PR made periodic withdrawals from his Travelers Vintage 3 VA totaling approximately \$75,000. Slonecker was the broker of record for PR's Firm A account.

127. By application dated October 2004, PR opened an IRA at H&R Block with Slonecker as the broker of record. According to his IRA application, PR was married and retired. PR's total net worth, exclusive of his residence, was \$85,000, his liquid net worth was \$10,000, his annual income was \$12,356.40, his risk tolerance was conservative, his investment objective was income and growth and he had 10 years of investment experience in stocks, bonds and mutual funds.

128. In or about September 2005, Slonecker recommended the sale of the Travelers 3 VA on PR's behalf and in or about October 2005, used the proceeds to purchase a JNL Perspective II VA, investing \$32,800. By selling the Travelers Vintage 3 VA approximately three years after purchasing it, PR incurred a surrender charge of \$1,367.91. He received a bonus of \$1,312, but was charged additional annual fees for the bonus.

129. The JNL VA did not differ substantially from the Travelers VA contract and Slonecker's replacement of PR's Travelers contract with a JNL VA was unsuitable because the new VA did not provide any benefit to PR that outweighed the surrender charges and the new, extended surrender periods he incurred as a result.

130. On Annuity Net, Slonecker falsely described the payment method for the JNL Perspective II transaction as a "qualified brokerage account" as opposed to an insurance exchange" and falsely indicated that PR did not consider replacing, surrendering or terminating an existing policy, or using funds from existing policies or contracts to pay premiums due on the new policy or contract.

131. Moreover, Slonecker falsely described the JNL Perspective II VA transaction on the Suitability Questionnaire as being funded from a "Brokerage Account" as opposed to an "Annuity 1035" exchange.

132. Moreover, in contrast to the IRA Application, Slonecker falsely described on the Suitability Questionnaire that PR's net worth was between \$250,000 and \$500,000, and his risk tolerance was moderate. PR did not make any changes to his investor profile as contained in his IRA application.

133. Slonecker earned approximately \$980 in commissions from the exchange effected in PR's account at H&R Block.

Customer KB

134. In or about May 2003, KB, then 34 years old, purchased a Hartford Leaders annuity, for \$4,000 ("Hartford 1"). KB subsequently added \$23,673.88 to Hartford 1.

135. In or about October 2004, KB opened an IRA and SEP IRA with Slonecker at H&R Block. According to KB's IRA application, he was single and employed for five years as a

behavioral therapist. KB's total net worth, exclusive of family residence, was \$100,000, his liquid net worth was \$50,000, his annual income was \$85,000, his risk tolerance was moderate, his investment objective was growth and he had three years experience investing in stocks and bonds.

136. In or about May 2005, KB purchased another Hartford Leaders VA ("Hartford 2"), investing \$7,500.

137. In or about October 2005, Slonecker recommended and effected the sale of Hartford 1 and used the proceeds to purchase a JNL Perspective II VA contract ("JNL1") for \$29,700. By selling the Hartford 1 VA approximately two years and five months after purchasing it, KB incurred a surrender charge of \$2,213.91. He received a bonus of \$1,530.57 from purchasing the JNL Perspective II VA, but was charged additional annual fees for the bonus.

138. On Annuity Net, Slonecker falsely described the payment method for the JNL1 transaction as a "qualified brokerage account" when it was an "insurance exchange" and falsely indicated that KB did not consider replacing, surrendering or terminating an existing policy or using funds from an existing contract to pay premiums due on the new policy or contract.

139. Moreover, Slonecker falsely described the JNL1 transaction on the Suitability Questionnaire as being funded from a "Brokerage Account" as opposed to an "Annuity 1035" exchange.

140. In or about October 2005, Slonecker recommended a VA switch transaction, in which KB purchased a second JNL contract ("JNL2") for \$6,800 and then, in or about November 2005, surrendered Hartford 2 for \$ 8,099.11. By selling the Hartford 2 VA approximately five

months after purchasing it, KB incurred surrender charges of \$585.53. He received a bonus of \$272 from purchasing JNL2, but was charged additional annual fees for the bonus.

141. The JNL VAs did not differ substantially from the Hartford VA contracts and Slonecker's replacement of KB's Hartford contracts with JNL VAs was unsuitable because the new VAs did not provide any benefit to KB that outweighed the surrender charges and the new, extended surrender periods he incurred as a result.

142. Slonecker earned approximately \$1,300 in commissions from the exchanges effected in KB's account at H&R Block.

Customer SS

143. In or about July 2003, SS, who was then 64 years old, purchased a Hartford Leaders VA, investing \$36,747.60.

144. By application dated October 2004, SS opened an IRA with Slonecker at H&R Block. SS's IRA application states that she was divorced and retired, her total net worth, exclusive of her residence, as well as her liquid net worth was between \$150,000 and \$200,000, her annual income was \$20,000, her risk tolerance was conservative, her investment objective was growth and she had 10 years of investment experience in stocks, bonds and mutual funds.

145. In or about October 20, 2005, Slonecker recommended and effected the sale of the Hartford contract on SS's behalf and used the proceeds to purchase a JNL Perspective II VA, investing \$41,370. By selling the Hartford Leaders VA approximately two years after purchasing it, SS incurred a surrender charge of \$2,939.81. She received a bonus of \$1,654.80 from purchasing the JNL Perspective II VA, but was charged additional annual fees for the bonus.

146. The JNL VA did not differ substantially from the Hartford VA and Slonecker's replacement of SS's Hartford contract with a JNL VA was unsuitable because the new VA did not provide any benefit to SS that outweighed the surrender charges and the new, extended surrender periods she incurred as a result.

147. On Annuity Net, Slonecker falsely described the payment method for the JNL Perspective II transaction as a "qualified brokerage account" when it was an "insurance exchange" and falsely indicated that SS did not consider replacing, surrendering, or terminating an existing policy, or using funds from an existing policy to pay premiums due on the new policy or contract.

148. Moreover, Slonecker falsely described the JNL Perspective II VA transaction on the Suitability Questionnaire as being funded from a "Brokerage Account" as opposed to an "Annuity 1035" exchange.

149. Slonecker earned approximately \$1,200 in commissions from the exchange effected in SS's account at H&R Block.

Customer PWR

150. Between February and July 2003, PWR, who was then 42, purchased one Hartford Director Plus and three Hartford Leaders VAs ("Hartford 1-4"), investing a combined total of \$191,018.20.

151. In or about October 2004, PWR opened an IRA, a SEP IRA and a Roth IRA at H&R Block with Slonecker as the broker of record. According to new account applications, PWR was married and the chief executive officer and owner of a business for the past 15 years. PWR's total net worth, exclusive of his residence, was \$1 million, his liquid net worth was

\$500,000, his annual income was \$200,000, his risk tolerance was moderate, his investment objective was growth and he had 10 years investment experience.

152. In or about May 31, 2005, Slonecker purchased on PWR's behalf an additional Hartford Leaders VA contract ("Hartford 5") for \$16,500.

153. In or about November 2005, Slonecker recommended and effected the sale of Hartford 1, Hartford 2, Hartford 3 and Hartford 5 on PWR's behalf, and used the proceeds to purchase two JNL Perspective II VA contracts ("JNL1" and "JNL2"), investing a combined total of \$286,606. By selling the Hartford Leader VAs ranging from as little as five months to two years and nine months after purchasing them, PWR incurred combined surrender charges of \$21,967.44. He received a \$12,582.73 bonus, but was charged additional annual fees for the bonus.

154. On Annuity Net, for each of the JNL1 and JNL2 purchases, Slonecker falsely described the payment method as a "qualified brokerage account" when it was an "insurance exchange" and also falsely indicated that PWR did not consider replacing, surrendering or terminating an existing policy, or using funds from an existing policy to pay premiums due on the new policies or contracts.

155. Moreover, Slonecker falsely described the JNL1 and JNL2 transactions on the Suitability Questionnaire as being funded from a "Brokerage Account" as opposed to an "Annuity 1035" exchange.

156. In or about June 2006, Slonecker recommended and effected the partial sale of Hartford 4 on PWR's behalf, and used the proceeds to buy another JNL Perspective II VA ("JNL3"), investing \$12,000. By selling Hartford 4 nearly three years after purchasing it, PWR

incurred \$945.29 in surrender charges. He received a bonus of \$480, but paid additional annual fees for the bonus.

157. On Annuity Net, Slonecker falsely described the payment methods for the JNL3 purchase as a "qualified brokerage account" when it was an "insurance exchange" and also falsely indicated that PWR did not consider replacing, surrendering or terminating an existing policy, or using funds from an existing contract to pay premiums due on the new policy.

158. Moreover, Slonecker falsely described the JNL3 transaction on the Suitability Questionnaire as being funded from a "Brokerage Account" as opposed to an "Annuity 1035" exchange.

159. The JNL Perspective II VAs did not differ substantially from the Hartford VAs they replaced and Slonecker's replacement of PWR's Hartford contracts was unsuitable because the new JNL VAs did not provide any benefit to PWR that outweighed the surrender charges and the new, extended surrender periods he incurred as a result.

160. Slonecker earned approximately \$9,600 in commissions from the exchanges effected in PWR's account at H&R Block.

Customer JIB

161. In or about August 2003, JIB, then approximately 56 years old, purchased two ING Premium annuities ("ING1 and ING2"), investing a combined \$136,600. In or about October 2005, JIB added \$10,000 to ING2.

162. By applications dated October 2004, JIB opened an IRA and individual account with Slonecker at H&R Block. According to her IRA application, JIB was married and self-employed. JIB's total net worth, excluding her residence was \$250,000, her liquid net worth was \$100,000, her risk tolerance was moderate, her investment objectives were income and growth

and she had five years of investment experience. JIB's individual account application stated that her annual income was \$25,000.

163. In or about May 2006, Slonecker recommended and effected the sale of the ING1 contract on JIB's behalf, and used the proceeds to purchase a JNL Perspective II VA, investing \$135,000. By selling ING1 two and a half years after purchasing it, JIB incurred a surrender charge of \$8,928. She received a \$5,400 bonus, but was charged additional annual fees for the bonus.

164. On Annuity Net, Slonecker falsely described the payment method for the JNL1 transaction as a "qualified brokerage account" when it was an "insurance exchange" and falsely indicated that JIB did not consider replacing, surrendering or using funds from an existing policy to pay premiums on the new policy.

165. Moreover, Slonecker falsely described the JNL1 transaction on the Suitability Questionnaire as being funded from a "Brokerage Account" as opposed to an "Annuity 1035" exchange.

166. In or about June 2006, Slonecker recommended and effected the partial surrender of the ING2 VA contract on JIB's behalf, and used proceeds to purchase a second JNL Perspective II VA contract, investing \$37,282.00. By selling the ING2 VA two and a half years after purchasing it, JIB incurred a surrender charge of \$2,627.78. She received a bonus of \$1,491.28, but was charged additional annual fees for the bonus.

167. On Annuity Net, Slonecker falsely described the money source of the second JNL purchase as "New Money/Contribution" when it was a "1035 Exchange" and misrepresented the payment method as a "brokerage account" when it was an "insurance exchange." Additionally, Slonecker falsely indicated that JIB did not consider replacing, surrendering or terminating an

existing policy, or using funds from an existing contract to pay premiums on the new policy or contract.

168. Moreover, Slonecker falsely described the JNL2 transaction on the Suitability Questionnaire as being funded from a "Brokerage Account" when it was an "Annuity 1035" exchange.

169. Slonecker also falsely indicated on the Suitability Questionnaire that JIB's total net worth was \$1,000,000, rather than the \$250,000 listed in her account application. JIB's investor profile was never updated.

170. Slonecker did not inform JIB of the specific surrender fees and tax liabilities associated with the switch transactions and informed JIB that she would recoup most of the surrender costs.

171. The JNL VAs did not differ substantially from the ING annuity contracts and Slonecker's replacement of JIB's ING contracts was unsuitable because the new VAs did not provide any benefit to JIB that outweighed the surrender charges and the new, extended surrender periods she incurred as a result.

172. Slonecker earned approximately \$5,400 in commissions from the exchanges effected in JIB's account at H&R Block.

FIRST CAUSE OF ACTION
(Unsuitable Variable Annuity Transactions)
(Violation of NASD Rules 2310 and 2110)

173. The Department realleges and incorporates by reference paragraphs 1 through 172 above.

174. NASD Conduct Rule 2310(a) states: "In recommending to a customer the purchase, sale or exchange of any security, a member shall have reasonable grounds for

believing that the recommendation is suitable for such customer upon the basis of facts, if any, disclosed by such customer as to his other security holdings and as to his financial situations and needs.”

175. Slonecker recommended and caused the above-referenced customers to liquidate VAs in whole or in part and to purchase new VAs, as described in paragraphs 32 through 172 above.

176. VA “switching” involves using the proceeds from the liquidation of one VA to purchase a new VA issued by a different annuity company. VA switching can result in the imposition of CDSCs and can subject the purchaser to new, extended holding periods.

177. Slonecker recommended approximately 38 VA switches that were unsuitable because the benefit to the customers from these transactions did not outweigh the substantial costs of selling their old VAs and the disadvantages from purchasing the new VAs.

178. Slonecker made the recommendations to enter into switch transactions, as described in paragraphs 32 through 172 above, without having reasonable grounds for believing them to be suitable. Instead, Slonecker engaged in a pattern of transactions, switching customers out of the VAs they held at Firm A and other firms to substantially similar VAs that he was able to sell, service and for which he received commissions for at H&R Block, without regard to the customers’ ages or financial backgrounds. As a result, the customers incurred substantial surrender charges, new, extended surrender periods and in some cases, additional fees, with no corresponding investment benefit.

179. As a result of these transactions, Slonecker earned approximately \$85,000 in commissions.

180. The aforementioned acts, practices and conduct constitute violations of NASD Rules 2310 and 2110 by Slonecker.

SECOND CAUSE OF ACTION
(Causing the Firm to Maintain Inaccurate Books and Records)
(Violation of NASD Rules 3110 and 2110)

181. The Department realleges and incorporates by reference paragraphs 1 through 180 above.

182. NASD Conduct Rule 3110(a) requires member firms to “make and preserve books, accounts, records, memoranda, and correspondence in conformity with all applicable laws, rules, regulations, and statements of policy promulgated thereunder and with the Rules of this Association and as prescribed by the Securities Exchange Act of 1934 Rule 17a-3.” In turn, Exchange Act Rule 17a-3 requires member firms to make and keep, among other things, “[a] memorandum of each brokerage order...”.

183. In order to receive supervisory approval of several switch transactions, Slonecker made false entries in the Firm’s electronic order entry systems and documents completed in connection with the transactions.

184. In connection with the replacement VA purchases made by PC, MS, MM, and JIB, Slonecker made entries into the Firm’s records on Annuity Net falsely describing the “money source” as “new money” when the correct entry would have been “Annuity 1035.”

185. Slonecker made entries into the Firm’s records on Annuity Net falsely describing the “payment method” for replacement VA purchases made by DP, MM, JB, MS, EC, PR, KB, SS, PWR, and JIB as either a “brokerage account” or “qualified brokerage account” when the

correct entry would have identified the payment method as an "insurance exchange," or "Annuity 1035."

186. In connection with replacement VA purchases made by DP, MM, JB, MS, EC, PR, KB, SS, PWR and JIB, Slonecker made false entries into the Firm records on Annuity Net that these customers did not consider replacing or surrendering an existing policy or contract or using funds from an existing contract to pay premiums on the new policy.

187. Slonecker also made entries into Firm records, specifically on the Suitability Questionnaires, that VA purchases made by PC, DP, MM, JB, MS, EC, PR, KB, SS, PWR and JIB were funded from a "brokerage account" when the correct entries should have been "Annuity 1035" exchange.

188. In connection with a Hartford VA purchase made by MS, Slonecker falsely represented on a Suitability Questionnaire that MS' Hartford VA combined with other annuities constituted 20% of his liquid net worth, when the correct figure was 70%, based upon the stated net income provided on the Suitability Questionnaire.

189. In addition, in connection with the JNL VA purchase made by MS, Slonecker made false entries into the Firm's records indicating that MS' combined total net worth with his wife was \$2.5 million and that his total income from all sources was \$250,000, when in fact, MS' household income was never as high as stated in the Firm's records.

190. In connection with a JNL VA purchase made by PR, Slonecker made false entries into the Firm's records indicating that PR's net worth was between \$250,000 and \$500,000, and his risk tolerance was moderate. PR never changed his investor profile that he completed when he opened his account with the Firm, which indicated that PR's net worth, exclusive of

residence, was \$85,000, his liquid net worth was \$10,000 and his risk tolerance was conservative.

191. In connection with MM's JNL1 transaction, Slonecker made false entries in the Suitability Questionnaire, indicating that MM's switch transaction resulted in a surrender charge of \$7,000, when in fact, MM was subject to in excess of \$36,000 worth of withdrawal penalties.

192. In connection with JIB's JNL2 transaction, Slonecker made false entries in the Suitability Questionnaire, misrepresenting that JIB's net worth was \$1,000,000, when JIB never updated her investor profile which indicates that her true net worth was \$250,000.

193. The aforementioned acts, practices and conduct constitute violations of NASD Rules 3110 and 2110 in that Slonecker caused his firm to create and maintain inaccurate books and records in violation of Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-3 promulgated thereunder, and NASD Rules 3110 and 2110. Slonecker thereby failed to observe high standards of commercial honor and just and equitable principles of trade.

THIRD CAUSE OF ACTION
(Misstatements to Member Employer)
(Violation of NASD Rule 2110)

194. The Department realleges and incorporates by reference paragraphs 1 through 193 above.

195. As previously described, Slonecker made false entries into the Firm's records in connection with VA replacement transactions by PC, DP, MM, JB, MS, EC, PR, KB, SS, PWR and JIB (the "replacement transactions").

196. Slonecker made these false entries in the Firm's records in order to receive supervisory approval of the replacement transactions.

197. Firm supervisors relied upon Slonecker's false entries in making their decision to approve the replacement transactions.

198. By making these false entries in H&R Block's records, Slonecker made misstatements to his Firm employer in connection with the replacement transactions and therefore failed to observe high standards of commercial honor and just and equitable principles of trade in violation of NASD Rule 2110.

FOURTH CAUSE OF ACTION
(Misrepresentation)
(Violation of NASD Rule 2110)

199. The Department realleges and incorporates by reference paragraphs 1 through 198 above.

200. Slonecker made numerous misrepresentations and omissions of material facts in connection with offers and sales of VAs. In convincing customers to switch one VA for another, Slonecker misrepresented that surrender fees associated with the replacement of VA contracts would be covered by the bonus they received and/or failed to explain all the fees, costs and/or differences associated with replacing a VA.

201. In recommending a replacement of a VA, Slonecker had a responsibility as an RR to be familiar with the applicable CDSCs, fees and bonus products of the VA contracts involved.

202. All of the VA contracts involved in the replacements by Slonecker had prospectus materials specifying the amount of CDSCs applicable to contract surrender periods, the fees and the bonus products.

203. Accordingly, when affecting the switch transactions, Slonecker knew or should have known about the corresponding CDSCs, fees and bonus amounts applicable to the VA contracts involved.

204. Specifically, Slonecker misrepresented to DP, MS, and JIB that the replacement costs would be covered by bonus products offered by the new VA contracts. In fact, the surrender charges imposed for the switch transactions entered into by DP, MS and JIB substantially exceeded the bonus product offered by the replacement VA contract and the customers paid substantial fees in connection with receiving the bonus.

205. In connection with the VA switch transactions entered into by PC, CW, and JIB, Slonecker failed to explain the surrender charges associated with these transactions.

206. The aforementioned acts, practices and conduct constitute a violation of NASD Rule 2110.

FIFTH CAUSE OF ACTION
(Failure to Cooperate)
(Violation of FINRA Rules 8210 and 2010)

207. The Department realleges and incorporates by reference paragraphs 1 through 206 above.

208. FINRA Rule 8210(a)(1) states that “for the purpose of an investigation . . . [FINRA] staff shall have the right to . . . require a . . . person subject to [FINRA’s] . . . jurisdiction to provide information . . . with respect to any matter involved in this investigation . . .” Rule 8210(c) states that “[n]o . . . person shall fail to provide information . . . pursuant to this Rule.”

209. On September 23, 2008, FINRA staff took on the record testimony (“OTR”) of Slonecker. During his OTR, Slonecker testified under oath that his attorney had obtained an affidavit from KB concerning his VA purchases at H&R Block. Enforcement staff requested that Slonecker produce those materials through counsel.

210. In March 2009, Slonecker's counsel told FINRA staff that Slonecker was no longer represented and would be proceeding pro se.

211. In a letter dated March 17, 2009 (the "March 17th letter"), sent to Slonecker at his last known address as reflected in the records of FINRA's Central Registration Depository (the "CRD address") via first class and certified mail, Enforcement requested pursuant to FINRA Rule 8210, copies of the affidavit from customer KB, as well as any other affidavits that he may have obtained from other H&R Block clients concerning his sales of variable products. Slonecker was required to respond by March 31, 2009.

212. Enforcement received the return receipt from the United States Postal Service, which was signed by a person who received the March 17th letter for Slonecker. The U.S. Postal Service had not returned the March 17th letter sent via first class mail.

213. In a letter dated April 3, 2009 (the "April 3rd letter"), sent to Slonecker's CRD address via first class and certified mail, Enforcement once again requested pursuant to FINRA Rule 8210, copies of the affidavit from customer KB, as well as any other affidavits that he may have obtained from other H&R Block clients during his sales of variable products. Slonecker was required to respond by April 13, 2009.

214. The April 3rd letter was returned to Enforcement by the United States Postal Service, stamped "refused" by the addressee. The U.S. Postal Service has not returned the April 3rd letter sent via first class mail.

215. To date, Slonecker has not provided the documents requested nor has he otherwise responded to Enforcement's requests.

216. The aforementioned acts, practices and conduct constitute violations of NASD Rules 8210 and Conduct Rule 2010.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that the Respondent be required to disgorge fully any and all ill-gotten gains;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed.
- C. order that the Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date:

1/25/10

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