

FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
OFFICE OF HEARING OFFICERS

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REGISTRATION & DISCLOSURE

DEPARTMENT OF ENFORCEMENT,

COMPLAINANT,

v.

CONRAD M. LAWRENCE,
(CRD 4467366)

RESPONDENT.

DISCIPLINARY PROCEEDING
No. 20090190422

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. In December 2006, Respondent sold an installment plan contract issued by National Foundation of America ("NFOA") to a customer without first providing written notice to and receiving written approval from his member firm employer. The installment plan contract is a security and Respondent received commissions in connection with the sale.

2. NFOA represented itself to the public as a charitable organization. In or about January 2006, NFOA submitted its application for Recognition of Exemption under Section 501(c)(3) of the Internal Revenue Code to the Internal Revenue Service (the "Application"). The Application remained pending until in or about December 2007, when it was denied by the Internal Revenue Service.

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3. In connection with the above-referenced sale of the NFOA installment plan contract, Respondent negligently misrepresented to a customer that he would receive a tax deduction in connection with his investment.

4. Respondent also recommended and sold the NFOA product to a customer without having a reasonable basis for understanding the terms of the NFOA product, given Respondent's inadequate performance of due diligence.

5. Based on the foregoing, Respondent violated NASD Rules 3040, 2310 and 2110.

RESPONDENT AND JURISDICTION

6. Conrad M. Lawrence ("Lawrence") entered the securities industry in 2001 as a limited registered representative with a FINRA member. He has since been associated with two different FINRA member firms. Lawrence holds Series 7 and 6 licenses. From July 2006 to October 2007, Lawrence was an independent contractor with KCD Financial Inc. ("KCD"). Lawrence voluntarily terminated his association with KCD Allstate on October 12, 2007. Lawrence is not currently registered with a FINRA member but remains subject to FINRA's jurisdiction pursuant to Article V, Section 4 of the NASD By-laws.

FIRST CAUSE OF ACTION
Engaged in a Private Securities Transaction without First Providing Written Notice
to His Member Firm Employer
Violation of NASD Rules 3040 and 2110

7. The allegations in paragraphs one through six above are realleged and incorporated by reference.

8. In or about November 2006, Lawrence and two associates, EB and LJ, conducted an investment seminar that was open to the public. Customer WN, who was 67 years old at the time, attended the seminar.

9. During the seminar, Lawrence spoke about the advantages of investing with NFOA – specifically the tax savings, receipt of steady income and growth. At the conclusion of the seminar, WN spoke with Lawrence, EB and LJ and indicated his interest in purchasing a NFOA installment plan contract.

10. On or about December 8, 2006, Lawrence sold an installment plan contract issued by NFOA to customer WN.

11. Pursuant to the terms of the NFOA Installment Plan Contract signed by WN, in exchange for securities with a market value of \$133,344.08, WN would receive, after a seven-year deferral period, 15 annual payments of \$15,079.84 and a tax deduction of \$23,901. The total payout over the term of the contract was represented to be approximately \$226,197.60.

12. On or about June 21, 2007, the State of Tennessee placed NFOA in receivership. In September 2007, NFOA was placed into liquidation.

13. In June 2007, customer WN was notified by the State of Tennessee that NFOA had been placed in receivership, that the appointed receiver had custody of its assets and would wind-down NFOA's operations. Thereafter, WN submitted a claim

form to the Tennessee receiver, seeking the return of the principal of his NFOA investment. WN's claim was approved for the \$133,344.10 and he received disbursements from the Tennessee receiver totaling \$105,341.84 or 79 percent of his principal investment.

14. Lawrence, EB and LJ each received directly from NFOA approximately \$4,000 in commissions in connection with the above-referenced sale of the NFOA installment plan contract. The combined commission amounts were consistent with the 9% commissions promised by NFOA to its sales agents.

15. The NFOA installment plan contract solicited and sold by Lawrence was a security.

16. Lawrence participated in the solicitation and sale of the NFOA installment plan contract listed above without providing prior written notice to and obtaining the written approval from his member firm employer.

17. The acts, practices and conduct described above constitute a violation of NASD Rule 3040 and 2110.

**SECOND CAUSE OF ACTION
Made Negligent Misrepresentations of Material Fact
Violation of NASD Rule 2110**

18. The allegations in paragraphs one through 17 above are realleged and incorporated herein by reference.

19. In connection with the solicitation and sale of a NFOA installment plan contract to customer WN, Lawrence represented that WN would receive a tax deduction in connection with his investment.

20. Lawrence lacked an adequate basis to make the above-referenced representations, which were not true.

21. The acts, practices and conduct described above constitute a violation of NASD Rule 2110.

THIRD CAUSE OF ACTION
Recommending the Purchase of a Security Without Having
a Reasonable Basis for Such Recommendation
Violation of NASD Rules 2310 and 2110

22. The allegations in paragraphs one through 21 are realleged and incorporated herein by reference.

23. Prior to his sale to WN, Lawrence spoke to representatives of NFOA, who informed him that their application for tax-exempt status pursuant to Internal Revenue Code § 501(c)(3), was pending before the IRS.

24. Lawrence was also told by NFOA representatives that assets received by NFOA were placed into custodial accounts held by a trust company and that the rate of return on its installment plan contracts were guaranteed by fixed insurance products.

25. However, Lawrence did not perform a reasonable investigation concerning the propriety of NFOA or its product.

26. While Lawrence contacted the Internal Revenue Service ("IRS") and learned that NFOA's application for tax exempt status was still pending, Lawrence never asked questions of the IRS concerning a customer's ability to claim tax deductions during the pendency of NFOA's application.

27. Had Lawrence conducted a reasonable search of the information available on the IRS' website concerning charitable deductions, he would have learned that investors could not claim a tax deduction during the pendency of a company's § 501(c)(3) application.

28. Lawrence also never attempted to learn the identity of the insurance company that allegedly issued fixed products that would reportedly guarantee the return rate of the installment plan contract.

29. Lawrence failed to investigate the Trust company that held the custodial accounts, nor did he ascertain how these assets were invested by NFOA.

30. Lawrence failed to make any inquiries into the integrity of the charities that were allegedly supported by NFOA.

31. The acts, practices and conduct described above constitute a violation of NASD Rules 2310 and 2110.

RELIEF REQUESTED

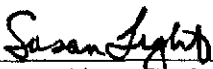
WHEREFORE, the Department respectfully requests that the Panel:

- A. order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions consisting of among other things, restitution and disgorgement of commissions be imposed.

- B. order that the Respondent bear such costs of proceedings as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: September 21, 2009


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