

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

Department of Enforcement,

Complainant,

v.

CONRAD M. LAWRENCE,
CRD No. 4467366,

Respondent.

Disciplinary Proceeding
No. 20090190422

Hearing Officer M.A. Delaney

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: _____

INTRODUCTION

Disciplinary Proceeding No. 20090190422 was filed on September 22, 2009, by the Department of Enforcement of the Financial Industry Regulatory Authority ("FINRA") ("Complainant"). Respondent Conrad M. Lawrence ("Respondent") submitted an Offer of Settlement ("Offer") to Complainant on September 21, 2009. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Complaint, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, to the entry of

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findings and violations consistent with the allegations of the Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Respondent 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. Respondent holds Series 7 and 6 securities licenses. From July 2006 to October 2007, Respondent was an independent contractor with KCD Financial Inc. ("KCD"). Respondent voluntarily terminated his association with KCD on October 12, 2007. Lawrence is not currently registered with a FINRA regulated broker-dealer but remains subject to FINRA's jurisdiction pursuant to Article V, Section 4 of the NASD by-laws. Respondent has no prior disciplinary history.

On or about April 15, 2010, an Offer was executed by Respondent, pursuant to which, Respondent consented, without admitting or denying the allegations, to findings that he violated NASD Conduct Rules 3040, 2310 and 2110 by engaging in a private securities transaction without providing written notice to and receiving approval from his member firm employer and recommending that a customer purchase a security without having a reasonable basis for such recommendation. Additionally, Respondent consented to findings that he violated NASD Conduct Rule 2110 by making negligent misrepresentations of material fact in connection with the above-referenced sale of a security.

Respondent consented to a sanction consisting of (a) a four-month suspension in all capacities; (b) a \$25,000 fine, including \$4,000.32 disgorgement of commissions; and (c)

restitution in the amount of \$21,280. The fine, disgorgement and restitution are payable upon Respondent's reassociation with a member firm following the four-month suspension noted above.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

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 commission in connection with its sale.

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 ("IRS").

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

Respondent Engaged in a Private Securities Transaction Without Prior Written Notice

In or about November 2006, Respondent 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. During the seminar, Respondent 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 Respondent, EB and LJ and indicated his interest in purchasing a NFOA installment plan contract.

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

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

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.¹

Respondent, EB and LJ each received directly from NFOA approximately \$4,000.32 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.

The NFOA installment plan contract solicited and sold by Respondent was a security. Respondent participated in the solicitation and sale of the NFOA installment plan contract listed

¹ It is anticipated that the NFOA Receiver will make additional disbursements prior to the close of the Receivership.

above without providing prior written notice to and obtaining the written approval from his member firm employer.

By the foregoing conduct, Respondent violated NASD Rules 3040 and 2110.

Respondent Made Negligent Misrepresentations of Material Fact

In connection with the solicitation and sale of a NFOA installment plan contract to customer WN, Respondent represented that WN would receive a tax deduction in connection with his investment. Respondent lacked an adequate basis to make the above-referenced representations, which were not true in violation of NASD Rule 2110.

Recommending the Purchase of a Security Without a Reasonable Basis

Prior to his sale to WN, Respondent 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.

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

While Respondent contacted the IRS and learned that NFOA's application for tax exempt status was still pending, Respondent never asked questions of the IRS concerning a customer's ability to claim tax deductions during the pendency of NFOA's application. Had Respondent 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.

Respondent 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.

Respondent failed to investigate the Trust company that held the custodial accounts, nor did he ascertain how these assets were invested by NFOA. Additionally, Respondent failed to make any inquiries into the integrity of the charities that were allegedly supported by NFOA. Based on the foregoing, Respondent violated NASD Rules 2310 and 2110.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that Respondent be (a) suspended in all capacities for a period of four months; (b) pay a \$25,000 fine of which \$4,000.32 constitutes disgorgement of commissions; and (c) pay restitution in the amount of \$21,280, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from December 8, 2006 until date of payment. The fine, disgorgement and restitution amounts ordered, pursuant to this disciplinary action, shall be due and payable immediately either upon reassociation with a member firm following the four-month suspension noted above, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.²

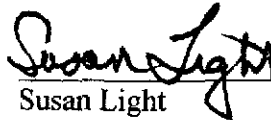
² Payments due in connection with disgorgement of commissions and restitution shall be reduced based on proof that Respondent paid all or part of the \$21,280 in restitution and \$4,000.32 of commissions to the Kansas Securities Commissioner in connection with their pending investigation of Respondent.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

SO ORDERED.

FINRA

Signed on behalf of the
Director of ODA, by delegated authority

A handwritten signature in cursive script, appearing to read "Susan Light", is written over a horizontal line.

Susan Light
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