

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

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

BRIAN R. EASTRIDGE
(CRD No. 3178922),

Respondent.

Disciplinary Proceeding
No. 2009020675401

Hearing Officer – RSH

DEFAULT DECISION

January 25, 2012

Respondent was sanctioned as follows: (1) For engaging in private securities transactions in violation of Rules 3040 and 2010, he is fined \$50,000 and suspended from associating with any FINRA-registered firm in any capacity for six months; (2) For selling unregistered securities in violation of Rule 2010, he is fined \$2,500; (3) For negligently making misrepresentations and omissions to customers, in violation of Rule 2010, he is fined \$25,000 and suspended from associating with any FINRA-registered firm in any capacity for one month; (4) For disseminating unapproved and misleading advertising, in violation of Rules 2210 and 2010, he is fined \$25,000 and suspended from associating with any FINRA-registered firm in any capacity for six months; and (5) For making unsuitable recommendations, in violation of Rules 2310 and 2010, he is fined \$25,000 and suspended from associating with any FINRA-registered firm in any capacity for five months. The suspensions were consecutive.

Appearances

Jill G. Fieldstein, Senior Counsel, and Julie H. Broderick, Director, New York, NY, for the Department of Enforcement.

No appearance by or on behalf of Brian R. Eastridge.

DECISION

I. Introduction

The FINRA Department of Enforcement (“Enforcement”) filed the attached Complaint with the Office of Hearing Officers on August 11, 2011. The Complaint charges Brian R. Eastridge (“Eastridge” or “Respondent”) with violating: (1) Rules 3040 and 2010 by participating in private securities transactions without first providing written notice to his firm; (2) Rule 2010 by selling securities in violation of Section 5 of the Securities Act of 1933; (3) Rule 2010 by making negligent misrepresentations of material facts to his customers; (4) Rules 2210(d)(1), 2210(b)(1), and 2010 by disseminating advertising materials that were unapproved and contained false, exaggerated, unwarranted and misleading statements; and (5) Rules 2310 and 2010 by making recommendations of securities to customers without having a reasonable basis to believe that the recommendations were suitable for the customers.

Eastridge did not answer or otherwise respond to the Complaint. Accordingly, on October 31, 2011, Enforcement filed a Motion for Entry of Default Decision and Request for Sanctions (“Default Motion”) with the Office of Hearing Officers, together with the Declaration of Jill G. Fieldstein (“Decl.”) and 17 exhibits.¹ For the reasons set forth below, the Hearing Officer found Eastridge in default and granted Enforcement’s Default Motion.

II. Respondent’s Default

On August 11, 2011, Enforcement served the Complaint and the First Notice of Complaint on Eastridge by mailing them to his most recent address recorded in the Central Registration Depository (“CRD”) by certified mail, return receipt requested, and first-class mail.

¹ Enforcement’s exhibits are labeled CX-1 through CX-17.

The first-class and certified mailings were both returned to Enforcement and marked “return to sender, unable to forward.”² Eastridge did not answer or otherwise respond to the Complaint.³

On September 12, 2011, Enforcement served a Second Notice of Complaint and a copy of the Complaint on Eastridge by mailing them to his CRD address by certified mail, return receipt requested, and first-class mail. The first-class mailing was returned to Enforcement and marked “return to sender, unable to forward.”⁴ Enforcement also received the certified mailing, which was marked, “unable to forward.”⁵

To date, Eastridge has not answered or otherwise responded to the Complaint. Accordingly, the Hearing Officer held Eastridge in default and deemed the allegations in the attached Complaint admitted pursuant to Rules 9215(f) and 9269(a).

III. Findings of Fact and Conclusions of Law

A. Jurisdiction and Origin of Complaint

Eastridge first became associated with a FINRA-registered broker-dealer in January 1999. From January 23, 2003, until his termination on November 18, 2009, Eastridge was registered with FINRA as an Investment Company/Variable Contracts Products Representative (“IR”) through his association with PlanMember Securities Corporation (“PlanMember” or the “Firm”).⁶

On or about November 20, 2009, PlanMember filed a Uniform Termination Notice for Securities Industry Registration (“Form U5”), indicating that Eastridge’s employment had been

² Decl. at ¶¶ 29-32; CX-7, CX-10, CX-11.

³ Decl. at ¶ 33.

⁴ Decl. at ¶¶ 34-37; CX-12, CX-16.

⁵ CX-17.

⁶ CX-1.

terminated on November 18, 2009, for “violation of industry rules and company policies relating to selling away and communications with the public.”⁷

Eastridge is not currently associated with a FINRA-registered broker-dealer; however, FINRA has jurisdiction over this disciplinary proceeding, pursuant to Article V, Section 4 of FINRA’s By-Laws, because (1) the Complaint was filed within two years after FINRA terminated Respondent’s registration, and (2) the Complaint charges him with misconduct that occurred while he was associated with a FINRA-registered firm⁸

The investigation that led to the filing of the Complaint began on or around December 10, 2009, when PlanMember’s chief compliance officer contacted FINRA’s Los Angeles District office to report Eastridge’s termination for participating in private securities transactions. FINRA staff investigated Eastridge’s conduct to determine if he had violated any federal securities laws or FINRA rules. As a result of the investigation, Enforcement filed the Complaint.

B. Background

The Complaint alleges that between March and November 2009 (the “Relevant Period”), Eastridge sold interests in so-called convertible bonds issued by United American Ventures, LLC (“UAV”) to at least three of his PlanMember customers and one other investor, who was his fiancée. At the time, Eastridge was associated with PlanMember and registered with FINRA as an IR.

Eastridge sold the UAV products in his capacity as an agent of Integra Investment Group (“Integra”), a company whose purported goal was to educate the public on how to “‘self-direct’ their Individual Retirement Account into *Non-Traditional* Investments,” like UAV. Pursuant to

⁷ CX-2.

⁸ See Article V, Sec. 4(a), FINRA By-Laws, available at www.finra.org/Rules (then follow “FINRA Manual” hyperlink to “Corporate Organization: By-Laws”).

his contract with Integra, Eastridge would earn a commission of two % of every investment he obtained for UAV through Integra. Eastridge neither sought nor obtained approval from PlanMember to become an Integra agent or sell the UAV products.

Eastridge solicited his customers to invest in UAV by presenting offering materials that represented that the investment would pay a guaranteed annualized interest rate of 25 % and provide a 10 % up-front “interest bonus” that UAV indicated would be added to the principal and included in the interest calculation. Eastridge distributed to customers and potential customers advertisements for retirement workshops indicating that participants could “Learn How you can earn 25% interest a year “*Guaranteed*” by Investing in Private Equity Bonds,” referring to the UAV products. Eastridge neither sought nor obtained approval for the workshop advertisements before distributing them to his PlanMember customers and other potential investors.

On December 20, 2010, the Securities Commissioner of the State of Kansas entered an order requiring Eastridge to pay as restitution to his three PlanMember customers the sum of \$128,817.22.⁹ Eastridge also sold a \$25,000 UAV bond to MR, his former fiancée; however, she was not paid.¹⁰

C. Private Securities Transactions

Rules 3040(a) and (b) provide that no person associated with a member firm shall participate in any manner in a private securities transaction without first providing written notice to his member firm. Private securities transactions are defined as any securities transactions outside the regular course and scope of an associated person’s employment with a member.

The First Cause of Action alleges that during the Relevant Period, Eastridge sold UAV convertible bonds to at least three PlanMember customers. Eastridge solicited the customers to

⁹ CX-5; Decl. at ¶ 27.

¹⁰ CX-6; Decl. at ¶ 28.

invest in UAV bonds, communicated with Integra and UAV on the customers' behalf, distributed offering documents to the customers, and assisted them in transferring their money to UAV. Eastridge neither sought nor obtained permission from PlanMember to sell UAV products. UAV convertible bonds were not on PlanMember's list of approved securities, the transactions were not supervised by the Firm, and the transactions were not recorded on the Firm's books and records.

The Hearing Officer finds that the allegations in the Complaint are sufficient to establish that Eastridge violated Rule 3040 by participating in private securities transactions without first providing written notice to PlanMember. It is well-established that any conduct that violates a FINRA Conduct Rule also violates Rule 2010.¹¹

D. Sales of Unregistered Securities

FINRA Rule 2010 requires firms and associated persons to "observe high standards of commercial honor and just and equitable principles of trade." The Second Cause of Action alleges that according to UAV's offering documents, the UAV bond offerings were exempt from registration pursuant to Rule 506 of Regulation D. Under Rule 506 of Regulation D, the securities were exempt from Section 5's registration requirements only if the bonds were sold to "accredited" investors and not through general solicitations. During the Relevant Period, Eastridge sold UAV convertible bonds to at least two PlanMember customers and his former fiancée, who were not accredited investors.

The Hearing Officer finds that the facts alleged in the Second Cause of Action are sufficient to establish that Respondent violated FINRA Rule 2010.

¹¹ *Stephen J. Gluckman*, Exchange Act Rel. No. 41628, 1999 SEC LEXIS 1395, at *22 (July 20, 1999) (citations omitted).

E. Negligent Misrepresentations and Omissions in Connection with the Sale of Securities

The Third Cause of Action alleges that during the Relevant Period, Eastridge negligently misled certain PlanMember customers by providing them with UAV material that he failed to recognize included the false representation that an investment in UAV convertible bonds was guaranteed to yield 25% interest on an annual basis, as well as confer a 10% upfront bonus.

Eastridge was also negligent in telling certain customers that they did not have to be an accredited or sophisticated investor to invest in UAV, even though UAV's investment application indicated that the investment was suitable only for accredited and/or sophisticated investors.

The Hearing Officer finds that the facts alleged in the Third Cause of Action are sufficient to establish that Respondent's conduct was inconsistent with just and equitable principles of trade, and that he therefore violated Rule 2010.

F. Disseminating Unapproved and Misleading Sales Literature

Rule 2210(b)(1) provides that a "registered principal of the member must approve by signature or initial, and date each advertisement [and] item of sales literature" before its use.

The Fourth Cause of Action alleges that during the Relevant Period, Eastridge sent to the more than 7,000 members of the Wichita-area teacher's union at least two emails advertising his upcoming free dinner retirement workshops. In an April 2, 2009 email, Eastridge included the following topic to be discussed at the workshop: "Learn How to Earn 10% Guaranteed through Private Capitol [sic] Companies." In an October 7, 2009 email, Eastridge included the following topic to be discussed at the workshop: "Learn How you can earn 25% interest a year "Guaranteed" by investing in Private Equity Bonds." (Emphasis in original).

Eastridge neither sought nor obtained approval from a registered PlanMember principal for the emails he sent in April and October 2009 advertising his upcoming workshops.

Rule 2210(d)(1) states that the substance of an advertisement must not include any false, exaggerated, unwarranted or misleading statements or claims. Eastridge's representations in his April and October 2009 emails that the securities guaranteed either 10% or 25% returns on investment were false, exaggerated, unwarranted and misleading.

The Hearing Officer finds that the foregoing facts alleged in the Complaint establish that Eastridge violated Rules 2210(b), 2210(d)(1), and 2010.

G. Unsuitable Recommendations

Rule 2310 requires members and their associates to have reasonable grounds to believe that a recommendation to purchase, sell or exchange a security is suitable for the customer, and that the investment recommendation is consistent with a customer's best interests. A broker must have a reasonable basis to believe, based on a reasonable investigation, that the recommendation is suitable for at least some investors, and that the security is suitable for the specific customer to whom it would be recommended.

The Complaint's Fifth Cause of Action alleges that Eastridge did not have a reasonable basis to believe that UAV convertible bonds were suitable for any investor, let alone that they were suitable for any of his customers. Eastridge failed to conduct a suitability analysis; he conducted no independent research of the UAV investments, and relied only on information he received from either UAV or Integra. Moreover, Eastridge did not have a good understanding of how UAV intended to make good on its "guarantee" that it would pay investors 25% interest on an annual basis.

The Hearing Officer finds that the allegations in the Fifth Cause of Action establish that Eastridge violated Rules 2310 and 2010.

IV. Sanctions

A. Private Securities Transactions

For private securities transactions, FINRA's Sanction Guidelines ("Sanction Guidelines") recommend a fine of between \$5,000 and \$50,000, and for a dollar volume of sales of between \$100,000 and \$500,000, a suspension of three to six months.¹²

In this case, Eastridge participated in the sale of \$154,000 of UAV convertible bonds to three PlanMember customers and M.R., his then-fiancée, putting him in the range of a three to six-month suspension.

The relevant principal considerations applicable to sanctions in selling away cases include the following: (1) number of customers; (2) whether respondent had a proprietary or beneficial interest in or was otherwise affiliated with, the selling enterprise or issuer; (3) whether respondent's selling away activity resulted, either directly or indirectly, in injury to the investing public and, if so, the nature and extent of the injury; (4) whether respondent sold away to customers of the member firm; (5) whether respondent participated in the sale by referring customers or selling the product directly to customers; and (6) whether respondent misled his employer about the existence of the selling away activity or otherwise concealed the selling away activity from the firm.¹³

According to the Complaint, three of Eastridge's customers and his then-fiancée invested over \$154,000 in UAV and lost all of their investments. Eastridge hid his activities from PlanMember by altering a previously-approved advertisement. The advertisement that

¹² FINRA Sanction Guidelines at 14 (2011 ed.).

¹³ *Id.* at 14-15.

PlanMember had approved did not mention that the securities being recommended, such as the UAV product, guaranteed a return of 25% interest. Eastridge also had an interest in the investments because, as an Integra agent, he stood to gain commissions on sales of the UAV securities.

Considering these aggravating factors, the Hearing Officer finds that Eastridge should receive a sanction at the high end of the recommended range. He is therefore fined \$50,000 and suspended from associating with any FINRA-registered firm for six months.

B. Selling Unregistered Securities

The Sanction Guidelines for the sale of unregistered securities recommend that adjudicators consider a fine of \$2,500 to \$50,000.¹⁴

The Hearing Officer finds that without additional allegations in the Complaint or facts in the record, a fine of \$2,500 is the appropriate sanction for this violation.

C. Negligent Misrepresentations and Omissions

For negligent misrepresentations or omissions, the Sanction Guidelines recommend a fine of \$2,500 to \$50,000 and a suspension of up to 30 business days.¹⁵ The Complaint alleges that Eastridge provided his customers with UAV offering documents that included the exaggerated or unwarranted claim that the convertible bonds were guaranteed to pay 25% interest. Eastridge did not take any steps to educate himself on the products he was offering, and could not explain how UAV was able to guarantee to pay 25% annual interest on the bonds. Eastridge's failure to conduct any due diligence on the UAV products was negligent.

The Hearing Officer finds that he should be fined \$25,000 and suspended from associating with any FINRA-registered firm in any capacity for one month.

¹⁴ Sanction Guidelines at 24.

¹⁵ *Id.* at 88.

D. Disseminating Unapproved and Misleading Advertising

The Sanction Guidelines governing violations of Rule 2210 suggest a fine ranging from \$10,000 to \$100,000 for intentional or reckless use of misleading communications.¹⁶ In egregious cases, consideration should be given to suspending the responsible person in any or all capacities for up to two years.¹⁷ In addition to the Principal Considerations listed above, the Guidelines list as specific considerations: (i) whether communications with the public were circulated widely without having been filed with the Advertising Regulation Department; and (ii) whether an individual respondent failed to notify a supervisor of a communication with the public.¹⁸

According to the Complaint, Eastridge circulated his misleading and unapproved advertisements for his dinner seminars to thousands of prospective customers. Moreover, Eastridge deceived PlanMember with respect to the advertisements. He submitted a version of the advertisement for the seminars to his member firm for approval. After receiving approval from the Firm, he then altered the approved advertisement to include an indication that he would discuss at the dinner seminars private securities that were guaranteed to pay either 10% or 25% annual interest.

The Hearing Officer finds that for this violation, Eastridge should be fined \$25,000 and suspended from associating with any FINRA-registered firm in any capacity for six months.

E. Making Unsuitable Recommendations

For making unsuitable recommendations, the Sanction Guidelines recommend a fine of between \$2,500 and \$75,000 and a suspension of between 10 business days and one year.¹⁹ In

¹⁶ *Id.* at 80.

¹⁷ *Id.*

¹⁸ *Id.* at 78-79.

¹⁹ *Id.* at 94.

egregious cases, an adjudicator should consider a suspension of up to two years or a bar.

According to the Complaint, Eastridge took no steps to learn anything about the UAV bonds and, therefore, could not make any determination as to whether the securities were suitable for any person, let alone his customers and then-fiancée, who were neither sophisticated nor accredited investors.

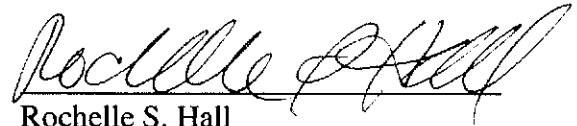
The Hearing Officer finds that Eastridge should be fined \$25,000 and suspended from associating with any FINRA-registered firm in any capacity for five months.

V. Order

Brian R. Eastridge is sanctioned as follows: (1) For engaging in private securities transactions in violation of Rules 3040 and 2010, he is fined \$50,000 and suspended from associating with any FINRA-registered firm for six months; (2) For selling unregistered securities in violation of Rule 2010, he is fined \$2,500; (3) For negligently making misrepresentations and omissions to customers, in violation of Rule 2010, he is fined \$25,000 and suspended from associating with any FINRA-registered firm in any capacity for one month; (4) For disseminating unapproved and misleading advertising, in violation of Rules 2210 and 2010, he is fined \$25,000 and suspended from associating with any FINRA-registered firm in any capacity for six months; and (5) For making unsuitable recommendations, in violation of Rules 2310 and 2010, he is fined \$25,000 and suspended from associating with any FINRA-registered firm in any capacity for five months. The suspensions shall be served consecutively. In total, he is fined \$127,500 and suspended in all capacities for 18 months. The fine shall be

payable if and when Eastridge reenters the industry. If this Decision becomes FINRA's final disciplinary action, the suspensions shall begin on the start of business on March 5, 2012, and end at the close of business on September 4, 2013.

SO ORDERED.

A handwritten signature in black ink, appearing to read "Rochelle S. Hall", written over a horizontal line.

Rochelle S. Hall
Hearing Officer

Copies to: Brian R. Eastridge (via overnight courier)
 Jill G. Fieldstein, Esq. (via electronic and first-class mail)
 David R. Sonnenberg, Esq. (via electronic mail)

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

Department of Enforcement,

Complainant,

v.

Brian R. Eastridge (CRD No. 3178922),

Respondent.

**DISCIPLINARY PROCEEDING
No. : 2009020675401**

HEARING OFFICER:

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Between March and November 2009 (the "Relevant Period"), Brian R. Eastridge ("Eastridge") sold interests in so-called convertible bonds issued by United American Ventures, LLC ("UAV") to at least three of his member firm customers and one other investor. At the time, Eastridge was registered with FINRA as an Investment Company/Variable Contracts Products Representative ("IR") and associated with PlanMember Securities Corporation ("PlanMember" or the "Firm").

2. Eastridge sold the UAV products in his capacity as an agent of Integra Investment Group ("Integra"), a company whose purported goal was to educate the public on how to "'self-direct' their Individual Retirement Account into *Non-Traditional* Investments," like UAV. Pursuant to his contract with Integra, Eastridge would earn a commission of two percent of every investment he referred to UAV through Integra.

3. Eastridge neither sought nor obtained approval from PlanMember to become an Integra agent or sell the UAV products.

4. Eastridge solicited his customers to invest in UAV by presenting offering materials that represented that the investment would pay a guaranteed annualized interest rate of 25 percent and provide a 10 percent up-front “interest bonus” that UAV indicated would be added to the principal and included in the interest calculation. Eastridge distributed to customers and potential customers advertisements for retirement workshops indicating that participants could “Learn How you can earn 25% interest a year *“Guaranteed”* by Investing in Private Equity Bonds,” referring to the UAV products. Eastridge neither sought nor obtained approval for the workshop advertisements before distributing them to his PlanMember customers and other potential investors.

5. By virtue of the above-described conduct, Eastridge violated:

- NASD Rule 3040 and FINRA Rule 2010 by participating in unapproved private securities transactions;
- FINRA Rule 2010 by virtue of a violation of Section 5 of the Securities Act by selling unregistered securities that were not subject to any exception to Section 5’s registration requirements;
- FINRA Rule 2010 by negligently misleading certain UAV investors by providing them with UAV material that he failed to recognize contained materially misleading claims relating to returns and that failed to describe any of the significant risks to the investments;
- NASD Rule 2210 and FINRA Rule 2010 by disseminating unapproved and misleading advertising; and
- NASD Rule 2310 and FINRA Rule 2010 by making unsuitable recommendations to his customers.

RESPONDENT AND JURISDICTION

6. Eastridge first became associated with a FINRA regulated broker-dealer in January 1999. From January 23, 2003 to his termination on November 18, 2009, Eastridge was registered with FINRA as an IR through his association with PlanMember. Eastridge has not been registered with any FINRA member firm since he was terminated from PlanMember in November 2009. FINRA retains jurisdiction over Eastridge pursuant to Article V, Section 4(a) of the By-Laws because the conduct that serves as the basis for this action commenced prior to his termination of registration from a FINRA member firm and this action was filed against Eastridge within two years of his last termination of registration from a FINRA member firm.

FACTS COMMON TO ALL COUNTS

Background on Eastridge's Business

7. During the Relevant Period, Eastridge was an independent insurance agent who contracted with PlanMember to sell securities-related insurance products. Eastridge conducted business through Eastridge Mundorf Inc., a financial services company he operated out of offices in Wichita, Kansas.

8. Eastridge's customer base was comprised primarily of members of the Wichita-area teachers' union. Eastridge offered his customers annuity and life insurance products from multiple insurance sources, and securities products through PlanMember. Eastridge prospected for new customers by setting up booths at conventions for Kansas school teachers and by giving free dinner workshops on retirement related issues at a Wichita-area restaurant.

Eastridge Becomes an Integra Agent

9. In or around March 2009, Eastridge spoke to J.H., a former PlanMember colleague, about Integra, a company J.H. learned about at an investment seminar. J.H. told

Eastridge that Integra acted as an intermediary that referred investors to certain alternative investments and that the company was seeking agents to find investors to roll their retirement funds into the alternative investments.

10. Integra was founded by T.O., who marketed Integra as being in the business of “educating” investors about the investment options available through “self-directed” IRAs. Integra had a network of agents who helped T.O. identify prospective investors.

11. Among the products offered through Integra were securities issued by UAV. UAV purported to invest in and take public “medical/healthcare” related companies. UAV did not register any of its securities offerings with the SEC. In its private placement memorandum, UAV asserted that its bond offerings were exempt from registration pursuant to Rule 506 of Regulation D, meaning that they were offered only to “accredited” investors and not through general solicitations.¹

12. On March 18, 2009, Eastridge contacted Integra employee, Y.L., to talk about opportunities with the company, indicating that he wanted to become an agent for Integra.

13. On March 31, 2009, Y.L. sent Eastridge an Agent Agreement (“Agreement”) and the New Agent Information Form. The Agreement indicated that it was “set this the 31st day of March 2009 between Integra Investment Group (Company) and Brian Eastridge (Representative).” Eastridge executed the Agreement and became an Integra agent.

14. Pursuant to the Agreement, Eastridge promised to “market Integra Investment Group products and services to individuals and Corporate entities, who are considered by the

¹ Rule 506 of Regulation D is considered a “safe harbor” for the private offering exemption of Section 4(2) of the Securities Act. A company is deemed to be within the Section 4(2) exemption by satisfying, among other things, that the company did not use general solicitation or advertising to market the securities and that its investors are all accredited or “sophisticated — that is, they must have sufficient knowledge and experience in financial and business matters to make them capable of evaluating the merits and risks of the prospective investment.” See <http://www.sec.gov/answers/rule506.htm>.

Company and Representatives to be ‘investors,’ and/or one who owns an Individual Retirement Account (IRA).” In turn, Integra agreed to pay Eastridge a 2% commission on every investment that he referred to Integra.

15. Eastridge did not inform PlanMember about his association with Integra or his intention to participate in private securities transactions through his association with Integra.

Eastridge Begins to Promote UAV Investments

16. To attract new customers, Eastridge invited members of the local Kansas teachers’ union to retirement workshops and complimentary dinners at a local restaurant.

17. On March 3, 2009, before becoming associated with Integra, Eastridge submitted to PlanMember a proposed advertisement for a workshop and dinner he planned to give on April 6th and 9th, 2009. The advertisement indicated that the following topics were to be discussed at the presentation:

- KPERS [Kansas Public Employees Retirement System] Benefits
- Proven Approach to Retirement Investing
- [The local union’s] “Bridge” Benefits
- Investment Options in a Volatile Market
- Debt Elimination Using Pre-Tax Dollars
- Reducing KPERS Joint Survivor Costs
- New 403b Regulations

18. On March 9, 2009, PlanMember approved Eastridge’s advertisement as submitted.

19. On April 2, 2009, Eastridge emailed more than 7,000 members of the local teacher’s union inviting them to attend his seminars on April 6 and 9, 2009. Eastridge’s emailed invitation was similar to, but not the same as, the advertisement that PlanMember had approved on March 9, 2009. In his solicitation, Eastridge added the following additional topic to be discussed at the workshop: “Learn How to Earn 10% Guaranteed through Private Capitol [sic]

Companies,” referring to UAV bonds. Eastridge emailed this altered and unapproved workshop advertisement just a few days after agreeing to become an Integra agent pursuant to which he agreed to market Integra’s products to potential investors.

20. Eastridge never sought or obtained PlanMember’s approval before emailing the altered advertisement to the members of the teachers’ union.

Eastridge Solicits PlanMember Customers to Invest in UAV

21. On April 14, 2009, Eastridge informed Y.L. that three of his PlanMember customers had committed to invest in UAV. Eastridge told Y.L. that the three customers would be receiving partial lump sum payments from the Kansas retirement system in September of \$140,000 each.

22. Once the customers committed to invest in UAV, Eastridge assisted them in filling out the UAV applications and transferring their funds into a self-directed IRA account at UAV’s custodian bank through which they purportedly invested in UAV convertible bonds.

23. The UAV application included representations like: “Your investment is 100% insured against any risk of loss on our insured convertible bonds,” “Minimum 20% annual gain” and “Earn a guaranteed major gain in your portfolio this quarter.” The application also indicates that investments in UAV convertible bonds are fully insured “by a U.S. insurance company with a AA rating from Standard & Poor’s. This insures 100% of your principal to be repaid by maturity date.”

24. In promoting the UAV convertible bonds to his customers and other potential investors, Eastridge conducted no independent inquiry about the UAV offerings, relying solely on the information he received from either UAV or Integra. Indeed, Eastridge had no

understanding as to how UAV intended to make good on its “guarantee” that it would pay investors 25% interest on an annual basis.

PlanMember Customers, M.J., S.P., D.K. and M.R. Invest in UAV

25. Three of Eastridge’s former customers and one non-customer invested in UAV based on Eastridge’s recommendation. M.J., a principal of a Wichita-area high school, invested \$40,000 in a UAV bond after telling Eastridge that he had money to invest from the sale of some real estate. S.P. invested \$64,000 in UAV after informing Eastridge that she was interested in investing some of her retirement funds. D.K. invested \$25,000 in a UAV bond after attending one of Eastridge’s retirement workshops. M.R., Eastridge’s then-fiancée, invested \$25,000 in UAV after receiving a settlement from an insurance company.

26. After soliciting their investments, Eastridge provided M.J., S.P., D.K. and M.R. the UAV application. The application promised the investors that they would receive a “guaranteed” interest rate of 25% without disclosing any risks and without explaining how UAV could guarantee such a return. The UAV application provided to the customers did not include adequate disclosure of the risks of investing in the UAV securities.

27. The UAV application also stated that the bonds will be sold only to accredited investors as defined in Rule 501 of Regulation D. M.J., S.P. and M.R. told Eastridge that they did not meet the accredited investor qualifications, but Eastridge indicated that it was his understanding that UAV investors did not have to be accredited because Integra made a deal with UAV so that non-accredited investors could invest in smaller amounts.

Eastridge Solicits PlanMember Customer D.E. to Invest in UAV

28. In the summer of 2009, Eastridge encouraged his former customer, D.E., to make an investment in UAV. Based on Eastridge’s recommendation, D.E. intended to invest \$75,000

in UAV convertible bonds. D.K. completed the UAV paperwork in early September 2009 and on September 10, 2009, Y.L. emailed documents to the custodian bank indicating that D.E. intended to transfer \$75,000 from his PlanMember account to a self-directed IRA account at the custodian bank, with instructions that all of the assets were to be used to purchase UAV convertible bonds. D.K.'s investment, however, was never finalized.²

29. On November 18, 2009, PlanMember terminated Eastridge's employment after determining that he had violated "industry rules and company policies relating to selling away and communications with the public." The Firm found that without seeking or obtaining PlanMember's approval, Eastridge solicited certain of his customers to invest in unregistered convertible bonds that purportedly guaranteed 25 percent annualized interest. PlanMember also determined that Eastridge solicited customers for this outside investment through unapproved advertisements.

FIRST CAUSE OF ACTION

(Unapproved Private Securities Transactions) Violation of NASD Rule 3040 and FINRA Rule 2010

30. The Department realleges and incorporates by reference paragraphs 1 through 29 above.

31. NASD Rule 3040(a) and (b) provides that no person associated with a member shall participate in any manner in a private securities transaction without first providing written notice to their member firm. Private securities transactions are defined as any securities

² On November 16, 2009, the Securities and Exchange Commission ("SEC") contacted PlanMember's Chief Compliance Officer regarding Eastridge's involvement with Integra and UAV, and then subsequently interviewed Eastridge about his activities. On June 14, 2010, the SEC filed a complaint against UAV, Integra and the various officers and owners of the two companies. *SEC v. United American Ventures, LLC, et al.*, CV 10-0568 (D.C.N.M. June 14, 2010). On September 22, 2010, the four individual defendants entered into offers of settlement with the SEC, in which they consented to be barred from the securities industry for violating Sections 5 and 17(a) of the Securities Act of 1933 and Sections 10(b) and 15(a) of the Exchange Act, and Rule 10b-5, thereunder. The SEC's complaint also seeks disgorgement, prejudgment interest, and civil penalties from all of the defendants, which will be determined by the court.

transactions outside the regular course and scope of an associated person's employment with a member.

32. During the Relevant Period, Eastridge sold UAV convertible bonds to at least three PlanMember customers. Eastridge solicited the customers to invest in UAV bonds, communicated with Integra and UAV on the customers' behalf, distributed offering documents to the customers, and assisted them in transferring their money to UAV.

33. Eastridge neither sought nor obtained permission from PlanMember to sell UAV products. UAV convertible bonds were not on PlanMember's list of approved securities, the transactions were not supervised by the Firm, nor were the transactions on the Firm's books and records.

34. Eastridge, therefore, violated NASD Rule 3040 by participating in a private securities transaction without first providing written notice to PlanMember. By violating Rule 3040, Eastridge also violated FINRA Rule 2010, which requires registered persons to adhere to the just and equitable principles of trade.

SECOND CAUSE OF ACTION

(Sale of Unregistered Securities)

Violation of FINRA Rule 2010 by virtue of a violation of Section 5 of the Securities Act of 1933

35. The Department realleges and incorporates by reference paragraphs 1 through 34 above.

36. Pursuant to UAV's offering documents, the UAV bond offerings were exempt from registration pursuant to Rule 506 of Regulation D. Thus, the unregistered securities were exempt from Section 5's registration requirements only if the bonds were sold to "accredited" investors and not through general solicitations.

37. During the Relevant Period, Eastridge sold UAV convertible bonds to at least two PlanMember customers and his former fiancée who were not accredited investors.

38. By virtue of the foregoing, Eastridge violated FINRA Rule 2010 by acting in contravention of Section 5 of the Securities Act of 1933.

THIRD CAUSE OF ACTION

(Negligent Misrepresentations and Omissions in Connection with the Sale of Securities) Violation of FINRA Rule 2010

39. The Department realleges and incorporates by reference paragraphs 1 through 38 42 above.

40. FINRA Rule 2010 requires firms and associated persons to “observe high standards of commercial honor and just and equitable principles of trade.” A registered representative’s negligent misrepresentations of material facts are inconsistent with just and equitable principles of trade.

41. During the Relevant Period, Eastridge negligently misled certain PlanMember customers by providing them with UAV material that he failed to recognize included the false representation that an investment in UAV convertible bonds was guaranteed to yield 25% interest on an annual basis, as well as confer a 10% upfront bonus.

42. Eastridge was also negligent in telling certain customers that they did not have to be an accredited or sophisticated investor to invest in UAV even though UAV’s investment application indicated that the investment was suitable only for accredited and/or sophisticated investors.

43. By virtue of the foregoing conduct, Eastridge violated FINRA Rule 2010.

FOURTH CAUSE OF ACTION

(Disseminating Unapproved and Misleading Sales Literature) Violation of NASD Rule 2210 and FINRA Rule 2010

44. The Department realleges and incorporates by reference paragraphs 1 through 43 above.

45. NASD Rule 2210(b)(1) provides that a “registered principal of the member must approve by signature or initial and date each advertisement [and] item of sales literature” before its use.

46. During the Relevant Period, Eastridge sent to the more than 7,000 members of the Wichita-area teacher’s union at least two emails advertising his upcoming free dinner retirement workshops. In an April 2, 2009 email, Eastridge included the following topic to be discussed at the workshop: “Learn How to Earn 10% Guaranteed through Private Capitol [sic] Companies.” In an October 7, 2009 email, Eastridge included the following topic to be discussed at the workshop: “Learn How you can earn 25% interest a year *“Guaranteed”* by investing in Private Equity Bonds.” (Emphasis in original).

47. Eastridge neither sought nor obtained approval from a registered PlanMember principal for the emails he sent in April and October 2009 advertising his upcoming workshops. Accordingly, Eastridge violated NASD Rules 2210(b) and FINRA Rule 2010.

48. NASD Rule 2210(d)(1) dictates that the substance of an advertisement must not include any false, exaggerated, unwarranted or misleading statements or claims. Eastridge’s representations in his April and October 2009 emails that he would discuss securities that guaranteed either 10% or 25% returns on investment were false, exaggerated, unwarranted and misleading. By virtue of this conduct, Eastridge violated NASD Rule 2210(d)(1) and FINRA Rule 2010.

FIFTH SIXTH CAUSE OF ACTION

(Unsuitable Sales)

Violation of NASD Rule 2310 and FINRA Rule 2010

49. The Department realleges and incorporates by reference paragraphs 1 through 48 above.

50. NASD Rule 2310 requires members and their associates to have reasonable grounds to believe that a recommendation to purchase, sell or exchange a security is suitable for the customer, and that the investment recommendation is consistent with a customer's best interests. A broker must both have a reasonable basis to believe, based on a reasonable investigation, that the recommendation is suitable for at least some investors, and that the security is suitable for the specific customer to whom it would be recommended.

51. Eastridge did not have a reasonable basis to believe that UAV convertible bonds were suitable for any investor, let alone that they were suitable for any of his customers. Eastridge conducted no independent inquiry on the UAV investments, relying only on information he received from either UAV or Integra. Moreover, Eastridge did not have a good understanding of how UAV intended to make good on its "guarantee" that it would pay investors 25% interest on an annual basis.

52. By failing to conduct a suitability analysis, Eastridge violated NASD Rule 2310 and FINRA Rule 2010.

RELIEF REQUESTED

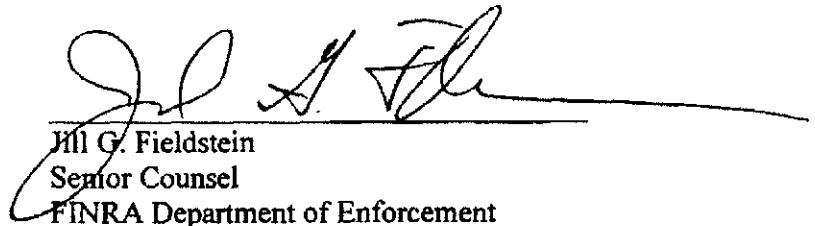
WHEREFORE, the Department respectfully requests that the Panel:

- A. Order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed; and

- B. Order that Eastridge bear such costs of this proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Dated: August 11, 2011



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