

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012034045401**

**TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")**

**RE: Joseph Pappalardo, Respondent
Registered Representative
CRD No. 2088747**

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Joseph Pappalardo submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Pappalardo alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent hereby accepts and consents, without admitting or denying the findings, 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, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Pappalardo first became registered in the industry in 1990 and has been registered with six different firms. Pappalardo was registered with Financial Network Investment Corp (now Cetera Advisor Networks LLC) from August 2008 until August 2012 as an investment company products/variable contracts representative, until he was discharged in August 2012. Prior to his registration there, Pappalardo had been registered with Pension Planners Securities, Inc. from 2003 until 2008; Financial Network Investment Corp. acquired Pension Planners Securities in 2008. Respondent's Form U5 was submitted on September 12, 2012 and an amendment was filed to his Form U5 on October 8, 2012 indicating a customer complaint. Although Respondent is no longer registered with a member firm, FINRA retains jurisdiction pursuant to Article V Section 4 of its By-Laws.

OVERVIEW

Between August 2008 and August 2012 (the "relevant time period"), while associated with Financial Network Investment Corporation (now known as Cetera Advisor Networks LLC), Pappalardo made fraudulent and misleading misrepresentations to a customer in the sale of private securities in violation of Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-

5 thereunder, and NASD Rules 2120 and 2110. He converted customer funds for his personal use in violation of NASD Rules 2330 and 2110. He engaged in private securities transactions without providing notice to his member firm in violation of NASD Rules 3040 and 2110. He failed to disclose several outside business activities to his member firm in violation of NASD Rules 3030 and 2110 and FINRA Rules 3270 and 2010.¹ He falsified his member firm's compliance questionnaires in violation of NASD Rule 2110 and FINRA Rule 2010.² Finally, he wilfully failed to amend his Form U4 in violation of Article V, Section 2(c) of the FINRA By-Laws, NASD Rule 2110, and FINRA Rules 1122 and 2010.³

FACTS AND VIOLATIVE CONDUCT

Upon joining Financial Network Investment Corporation in 2008 (which had acquired Pappalardo's previous member firm), Pappalardo was required to complete a "Pre-Registration Questionnaire." He was also required to complete an "Outside Business Activity Disclosure" form in 2010. In 2008, Pappalardo disclosed on the Pre-Registration Questionnaire that he had previously been involved with a real estate company he formed in 2003 called Coast-2-Coast Properties ("C2C") to buy, renovate, and sell houses but that the company was no longer in business. This was false. In fact, during the relevant time period, Pappalardo was involved in several outside business activities that he failed to disclose to his member firm, including his ongoing involvement in C2C and C2C's "marketing arm" called "Prosperity Financial Estate Planning and Insurance Services" ("Prosperity Financial").

Without seeking permission from his member firm, Pappalardo solicited firm customers to invest in these business ventures. Additionally, Pappalardo made false and misleading statements of material fact to firm customer PP in the solicitation and sale of a \$100,000 investment in Prosperity—funds which Pappalardo converted for his personal use.

Private Securities Transactions in C2C

Pappalardo solicited and sold investments in C2C to several investors, including six customers (JM, MB, KH, RS, SS, and RB). C2C, which pooled investor funds, purported to offer investors 12% interest returns on profits generated from the venture. The investors did not own any portion of the real estate properties held by C2C; instead, they were to receive interest returns on profits generated from the efforts of Pappalardo and his business partner. Thus, investments in C2C were securities. Pappalardo failed to give prior written notice to, or obtain prior written approval from, his member firm to engage in these transactions. By engaging in the C2C private securities transactions without providing notice to his member firm, Pappalardo violated NASD Rules 3040 and 2110.

¹ FINRA Rule 3270 superseded NASD Rule 3030 on December 15, 2010; Pappalardo failed to disclose outside business activities from 2003 through 2012.

² FINRA Rule 2010 superseded NASD Rule 2110 on December 15, 2008; Pappalardo falsified his member firm's annual compliance questionnaire from 2008 through 2011.

³ FINRA Rule 2010 superseded NASD Rule 2110 on December 15, 2008; Pappalardo failed to amend his Form U4 from 2008 through 2012.

Fraudulent Sales of Prosperity Financial

Pappalardo solicited investments in Prosperity Financial. Prosperity Financial was not a business, nor did it ever conduct any business. Prosperity Financial was nothing more than a name that Pappalardo used to solicit funds.

During the relevant time period, Pappalardo made material misrepresentations and omissions to firm customer PP in order to convince PP to invest in Prosperity Financial. In October 2008, Pappalardo solicited PP, a California resident, to invest \$100,000 in Prosperity Financial. In exchange for a "10% ownership stake" in Prosperity Financial, Pappalardo convinced PP to wire \$100,000 to Pappalardo, whose office was located in Oklahoma. Pappalardo misrepresented to PP that Prosperity Financial offered real estate and financial planning services and marketed a debt reduction program. Pappalardo presented a fraudulent "business plan" to PP which outlined the intended uses of PP's funds (marketing, training, recruitment) and made unwarranted profit projections for the fictitious company. He told customer PP that PP would receive "shares" of the company which amounted to a 10% ownership stake. PP signed an "investment agreement" and expected to receive a percentage of yearly profits which would be generated through the efforts of Pappalardo and unnamed "employees" of Prosperity Financial. These representations were false.

Pappalardo violated Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5 thereunder, and NASD Rules 2120 and 2110, because, through the use of any means or instrumentality of interstate commerce, Pappalardo intentionally made material misrepresentations and omissions in connection with the sale of Prosperity Financial.

Pappalardo converted PP's funds to his own uses. Pappalardo thereby violated NASD Rules 2330 and 2110.

Investments in Prosperity Financial were securities transactions. Pappalardo failed to give prior written notice to, or obtain prior written approval from, his member firm to engage in these transactions. Pappalardo therefore violated NASD Rules 3040 and 2110.

Additional Undisclosed Outside Business Activities

During the relevant time period, Pappalardo repeatedly failed to provide notice of five other outside business activities, including United First Financial, Evergeteo Ministries, Plethuna Investments, Triumphant Ministries, and CLA-USA.

Accordingly, Pappalardo violated NASD Rules 3030 and 2110, and FINRA Rules 3270 and 2010.⁴

⁴ FINRA Rule 3270 superseded NASD Rule 3030 on December 15, 2010; Pappalardo failed to disclose these outside business activities that related to the time period ranging from July 2003 through August 2012.

Misrepresentations on Compliance Questionnaires

Pappalardo compounded his misconduct by falsely answering relevant annual compliance questionnaires. In completing the questionnaire in 2008, 2009, 2010, and 2011, he falsely described his participation in outside business activities and private securities transactions. On those forms, Pappalardo responded "no" to the question if he had engaged in private securities transactions with customers, and failed to disclose the outside business activities listed above. He also falsely stated on the 2008 Pre-Registration Questionnaire that C2C was no longer in business.

Falsification of firm documents is considered conduct that is inconsistent with just and equitable principles of trade and violates the high standard of commercial honor to which FINRA holds registered individuals.

Accordingly, Pappalardo violated NASD Rule 2110 and FINRA Rule 2010.⁵

Willful Failure to Amend Form U4

During the relevant time period, Pappalardo failed to fulfill his obligation to maintain accurate and current Form U4 filings. Article V, Section 2(a)(2) of the By-Laws requires every application for registration to be kept current at all times and amendments to be filed not later than 30 days after the facts or circumstances giving rise to the amendment are known. The Form U4 also specifically states that applicants are under a continuing obligation to amend and update information required by the Form U4 as changes occur. Pappalardo failed to amend his Form U4 to disclose the above mentioned outside business activities.

Moreover, based on Pappalardo's pattern of failing to provide notice of his numerous outside business activities, his false statement that C2C was no longer in business, and his misrepresentations about the private securities transactions, his failure to keep current his Form U4 was willful. Pappalardo reasonably should have known that failing to disclose all of his outside business activities and private securities transactions was material.

Accordingly, Pappalardo violated FINRA Rule 1122, Article V, Section 2(c) of the FINRA By-Laws, and NASD Rule 2110 and FINRA Rule 2010.⁶

B. Pappalardo also consents to the imposition of the following sanctions:

A bar in all capacities from associating with any member firm.

Respondent Pappalardo understands that if he is barred or suspended from associating with any FINRA member, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities

⁵ FINRA Rule 2010 superseded NASD Rule 2110 on December 15, 2008; Pappalardo falsified his member firm's annual compliance questionnaire from 2008 through 2011.

⁶ FINRA Rule 2010 superseded NASD Rule 2110 on December 15, 2008; Pappalardo failed to amend his Form U4 from 2008 through 2012.

Exchange Act of 1934. Accordingly, he may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (see FINRA Rules 8310 and 8311).

Respondent also understands that this settlement includes a finding that he willfully violated Rule 10b-5 of the Securities Exchange Act of 1934, and that under Article III, Section 4 of FINRA's By-Laws, this makes him subject to a statutory disqualification with respect to association with a member.

The sanctions imposed herein shall be effective on a date set by FINRA staff. Pursuant to FINRA Rule 8313(e), a bar or expulsion shall become effective upon approval or acceptance of this AWC.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent Pappalardo specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against him;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Pappalardo specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondent Pappalardo further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondent Pappalardo understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;**
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and**
- C. If accepted:**
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;**
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent's disciplinary record;**
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and**
 - 4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.**

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce me to submit it.

9/22/14
Date (mm/dd/yyyy)

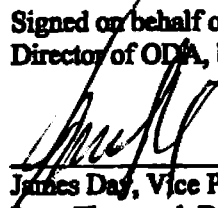


Joseph Pappalardo, Respondent

Accepted by FINRA:

9/24/14
Date

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


James Day, Vice President and Chief Counsel
Lane Thurgood, Director
Frank Mazzarelli, Senior Counsel

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