

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014040694501**

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

RE: Kenneth M. Statly, Respondent
Former Registered Representative
CRD No. 2114788

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Kenneth M. Statly ("Statly" or "Respondent") 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 Statly alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Statly 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

Statly entered the securities industry in 1997 when he became associated with State Farm VP Management Corp. ("SFVPMC" or the "Firm"). Statly became registered as an Investment Company Products/Variable Contracts Representative in 1998, and was employed by the Firm from 1997 through February 2014. Statly is not currently associated with any FINRA-registered firm. Pursuant to FINRA By-Laws Article V, Section 4, however, he remains subject to FINRA jurisdiction.

RELEVANT DISCIPLINARY HISTORY

Statly has no relevant disciplinary history.

OVERVIEW

On three occasions in 2013, Statly fabricated or falsified insurance claims (for the purpose of offsetting customers' premium increases or deductibles), which he

then settled and paid. In addition, on one occasion in 2013, Statly settled and paid an insurance claim that he knew to have been fraudulently inflated. As a result of the foregoing conduct, Statly violated FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Statly, while associated with the Firm as a registered representative, was also an insurance agent for State Farm Insurance Company ("State Farm"), the parent company of the Firm.

In the course of conducting his insurance business, Statly, on two occasions in 2013, fabricated insurance claims for two customers for the purpose of offsetting increases in those customers' homeowners insurance policy premiums. To offset the premium increase for customer TM, Statly fabricated (without TM's knowledge) a claim for damage from the bursting of a frozen pipe. Using his agents draft authority, Statly issued TM a State Farm check for the amount of \$188, which Statly told TM was a reimbursement of a premium overpayment, not payment of a claim. Similarly, to offset the premium increase for customer WA, Statly fabricated (without WA's knowledge) a claim for stolen automobile wheels and tires. Again using his agents draft authority, Statly issued WA a State Farm check for the amount of \$682, which Statly told WA was a reimbursement of a premium overpayment, not payment of a claim.

In addition, on one occasion in 2013, Statly falsified a claim to offset his customer's deductible. Statly's customer, TK, had made a claim under his homeowners policy and submitted a receipt in support of the claim. Statly altered the receipt submitted by TK by increasing the amount of the receipt in order to offset TK's deductible. Statly then settled and paid the falsified claim using his agents draft authority.

Finally, on one occasion in 2013, Statly settled and paid a claim based on documentation that he knew had been altered. With respect to a homeowner's claim received from his customer JM, Statly could tell that the repair estimate had been altered (*i.e.*, inflated to satisfy JM's deductible). Statly nevertheless settled and paid the claim using his agents draft authority.

As a result of the foregoing conduct, Statly violated FINRA Rule 2010.

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

A bar from associating with any FINRA-registered firm in all capacities.

Statly 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 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).

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

Statly 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, Statly 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.

Statly 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

Statly 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 him; and

C. If accepted:

1. this AWC will become part of Statly's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against him;
2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
4. Statly 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. Statly 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 Statly'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.

Statly certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he has 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 him to submit it.

3/17/2015
Date (mm/dd/yyyy)

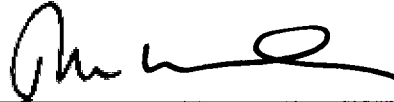
Kenneth M. Statly, Respondent

Kenneth M. Statly
Respondent

Accepted by FINRA:

4/20/15
Date

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



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