

STATE OF ILLINOIS  
SECRETARY OF STATE  
SECURITIES DEPARTMENT

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IN THE MATTER OF: H & R BLOCK FINANCIAL  
ADVISORS, INC.

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) File No. 0000397  
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NOTICE OF HEARING

TO THE RESPONDENTS: H & R Block Financial  
Advisors, Inc.  
719 Griswold Street  
Suite 1700  
Detroit Michigan, 48226

C/O Peter B. Shaeffer  
Attorney at Law  
Suite 620  
29 South LaSalle Street  
Chicago, Illinois 60603

You are hereby notified that pursuant to Section 11.F of the Illinois Securities Law of 1953, [815 ILCS 5/1 et seq.] (the "Act") and 14 Ill. Adm. Code 130, Subpart K, a public hearing will be held at 520 South Second Street, Suite 200, Springfield, Illinois 62701, on the 21<sup>st</sup> day of July, 2004 at the hour of 10:00 a.m., or as soon thereafter as counsel may be heard, before Jon K. Ellis, or such other duly designated Hearing Officer of the Secretary of State. A copy of the Rules under the Act pertaining to contested cases is attached to this Notice.

Said hearing will be held to determine whether an Order of Revocation and Prohibition should be entered against H & R Block Financial Advisors, Inc. in the State of Illinois and granting such other relief as may be authorized under the Act including, but not limited to, imposition of a monetary fine in the maximum amount pursuant to Section 11 of the Act, payable within ten (10) days of the entry of the Order.

The grounds for such proposed action are as follows:

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1. Respondent H & R Block Financial Advisors, Inc. ("HRBFA") is a Securities Broker-Dealer registered as a Securities Dealer in the State of Illinois from August 12, 1974 to the present.
2. Olde Discount Corporation was a Securities Broker-Dealer registered as a Securities Dealer in the State of Illinois from December 10, 1970 to August 21, 2000.
3. On or about August 31, 1999 H & R Block Financial Advisors, Inc. assumed all of the accounts, clients and registered representatives of Olde Discount Corporation.
4. From the period of 1998 to 2002 Olde Discount Corporation and later H & R Block Financial Advisors, Inc. offered to its clients and transacted the sale and purchase of securities in the form of certain Certificates of Deposit (CDs) with additional features or terms as follows: (a) a call feature which made the CD redeemable by the issuer of the CD by paying the certificate holder the initial purchase price of the CD plus any unpaid accumulated interest; the call feature also included a non-call period that might vary but usually was for a period of 1 year from the initial purchase of the CD; (b) a put feature which gave the right to the estate of the certificate holder to sell the CD to the issuer at its initial purchase price plus any unpaid accumulated interest; (c) Some CDs included a step feature which varied the interest paid by the issuer of the CD over a period of time; and (d) longer maturity dates which varied from 15-20 years.
5. The CDs sold by the Respondent differed from the common Certificates of Deposits that investors are normally familiar with, in that they had maturity dates of 15-20 years, allowed the issuer to redeem the certificate at its option but did not give the same right to the certificate holder; included a death put option allowing the estate of the certificate holder to redeem and in some cases included interest rates that varied over time.

Fraudulent Statements, misrepresentations and/or omissions by Olde Discount Corporation and H & R Block Financial Advisors, Inc.

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6. Due to the above-stated differences in these CDs over the usual type of CD, full, complete and accurate disclosure and explanation of the nature and financial risks of the securities product being sold to clients was crucially important.
7. For example, Olde Discount Corporation salesperson, Steven King, sold 2 callable CDs to related Illinois resident family members CL, BL, and CDL. Both Callable CDs were LaSalle Bank issuer CDs with a 20 year maturity date, a 1 year non-call period, a call feature and interest of 6.7%. The CDs reflect trade dates of July 22, 1998. One Callable CD was sold to CL and CDL and the second was sold to CDL and BL.
8. At the time of the transactions, CL, BL and CDL thought they were purchasing Certificates of Deposit that would be called after 1 year and were not informed or did not understand that the maturity date was 20 years and that there was no guarantee that the Callable CDs would be called before the maturity date. Additionally, CL, BL and CDL were told that the interest on the CD would be paid in two payments available for withdrawal and ending in July of 1999.
9. On or about September 9, 1999, CL contacted Steven King regarding the maturity date of his Callable CD and was informed by Steven King that the Callable CD would not mature in 1 year but rather had a maturity date of 20 years and would not mature until 2018.
10. In another example, Olde Discount Corporation Salesperson, Trenton Friederich, sold 2 Callable CDs to Illinois residents DP and MP. Both Callable CDs were LaSalle Bank issuer CDs with a 20 year maturity date, a 1 year non-call period, a call feature and an interest rate of 7%. The CDs reflect the trade date of May 17, 1999 and May 18, 1999.
11. At the time, DP and MP were told that the Callable CD was callable in one year and that: "you can cash the CD in anytime after a year." They were not told by Trenton Friederich that the Maturity date was 20 years and in fact would not mature until 2019.

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12. On or about May 11, 2000, DP contacted another Olde Discount Corporation Salesperson, Matt Linklater, regarding the fact that his Callable CDs should be soon maturing in the month of May. He was told by Matt Linklater that rather than maturing in May 2000 his 2 Callable CDs did not mature until 2019 and if he decided to sell/redeem the two callable CDs on the current date he would receive only \$55,119 despite the fact that the last monthly account statement valued the 2 Callable CDs as of April 28, 2000 at \$65,000. Additionally, the May 26, 2000 account statements valued the CDs at \$65,000.
13. In another example, Olde Discount Corporation Salesperson, Kip Sabinson, sold one Callable CD to Illinois residents AB and SB. The Callable CD was a LaSalle Bank issuer CD with a 20 year maturity date, a 1 year non-call period, a call feature and interest rate of 6.5%. The trade date for the CD was August 25, 1998.
14. At the time, AB and SB thought they were purchasing a 1 year contractor's loan. It was not until after the 1 year had expired that AB and SB learned that what they had purchased was not a 1 year contractor's loan but was in fact a Callable Certificate of Deposit with a maturity period of 20 years.
15. On January 11, 2000, AB complained of the Callable CD he had purchased and requested a refund of the invested money without penalty. In a letter to AB and SB dated August 11, 2000, a compliance attorney for HRBFA stated: "The transaction stands and will not be rescinded, You can place an order to sell the CD with your broker. However, as mentioned, the sale of your investment prior to maturity could result in your receiving less than the original amount you invested." AB and SB sold the Callable CD (trade date 25 August 2000 and settlement date August 30, 2000) and received only \$40,750 plus \$17.81 of unpaid accumulated interest despite the fact that the last most recent account statement showed the Callable CD valued at \$50,000 as of August 25, 2000.

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Fraudulent or misleading statements or omissions of material fact by Olde Discount Corporation and H & R Block Financial Advisors, Inc. contained in Monthly Account Statements

16. From 1998 through about August 2001, Olde Discount Corporation and HRBFA regularly and continuously sent to Illinois resident certificate holders of Callable CDs false and misleading monthly account statements that reflected inaccurate or incomplete information.
17. These accounts statements were sent each month to Illinois residents and were false and misleading in that the Statements: (a) Described Callable CDs in the portfolios as being "Corporate Bonds" and listed the interest paid on the CDs as "Corporate Bond Interest" when in fact they were Certificates of Deposit issued by Financial Institutions and (b) Showed the current value of individual Callable CDs at par/face value without disclosing that the value shown was par/face value and the actual value of the Callable CD, if sold, could be more or less than was reported on account statements.
18. For example, Olde Discount Corporation salesperson, Michael Kozin, sold to Illinois residents SK and HK two Callable CDs: a \$10,000 Callable CD to HK and a \$20,000 Callable CD to SK. The Callable CDs were issued by European American Bank with one a year non-call period, 20 year maturity and a step down interest rate beginning at 8.25%. The CDs had a trade date of March 2, 1999 and March 1, 1999 respectively.
19. HK and SK were told that they could sell their Callable CDs without penalty after 1 year. In addition, they were not advised that Callable CDs could lose value.
20. After one year, HK and SK attempted to redeem/sell their Callable CDs for the purchase price. It was at this time that they were told that the Callable CDs could not be sold for the amount they paid for them but rather would have to be sold at a loss despite the fact that the most recent account statement valued the Callable CDs at \$10,000 and \$20,000 respectively as of March 31, 2000.

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21. The two Callable CDs were sold (trade date Dec 22, 2000 and settlement date December 28, 2000) at a price of 84.5 for a total sales amount \$8,450 plus \$178 unpaid accumulated interest and \$16,900 and \$356.16 unpaid accumulated interest despite values of \$10,000 as of November 24, 2000 and \$20,000 as of September 29, 2000 reflected on the most recent account statements.
22. In the case of two other related Illinois residents, ND and PD, they were each solicited to purchase a \$100,000 Callable CD issued by Bankers Trust New York with a 15 year maturity date, a 1 year non-call period and an interest rate of 6.65% for their separate individual accounts. The settlement date for these purchases was May 10, 1999.
23. In June of 2000, each was solicited by their Olde Discount Corporation salesperson, Michael Tuley, to partially sell 36,000 units each of their 100,000 unit Callable CDs. ND and PD each received \$30,160.21 for their partial redemption (trade date June 5, 2000 and settlement date June 8, 2000) reflecting a unit price of 83.250 despite the fact that the last account statement for each account showed that the Callable CDs reflected a unit closing price of 100 for a total value of \$100,000 as of May 26, 2000. Additionally, the remaining units of the Callable CDs, 64,000, were shown on the May-June 2000 account statements as having a closing price of 100 for a total price of \$64,000 as of June 30, 2000.
24. MJP, an Illinois resident, purchased 2 Callable CDs at a discount: (a) 10,000 units of a Bankers Trust Co NY callable CD, a 15 year CD with a one year non-call period which had already passed and an interest rate of 6.2%. This callable CD was purchased at a price of 85.120 for a total purchase cost of \$8,512 plus \$1.70 unpaid accumulated interest (settlement date of August 4, 2000); and (b) 12,000 units of LaSalle Bank CD, a 15 year CD with a one year non-call period which had already passed and a step up interest rate. This Callable CD was purchased at a price of 97 for a total purchase price of \$11,714.17 (settlement date of August 9, 2000).

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25. On the same monthly account statement these two Callable CDs were valued at a closing price of 100 for total values of \$10,000 and \$12,000 as of August 25, 2000.
26. RF and JF, related Illinois residents, were sold by Olde Discount Corporation salesperson, Erik Greene, a LaSalle Bank Callable CD with a 15 year date of maturity, a non-call period of 1 year and an interest rate of 7.375%. The Callable CD was sold to them at a unit price of 99 for a total price of \$19,800 with a trade date of October 4, 1999 and a settlement date of October 15, 1999. The September-October 1999 account statement showed the Callable CD with a closing price of 100 for a total value of \$20,000 as of October 29, 1999.
27. In February of 2000, the Callable CD was sold in an unsolicited transaction at a price of 89.25 for a total price of \$17,850 plus \$133.36 payment of interest (Settlement date of February 17, 2000). The last most recent account statement for December 1999-January 2000 listed the closing price of the callable CD at 100 with a total value of \$20,000 as of January 28, 2000.
28. SW, DW and DWW, all related Illinois residents, were sold by Olde Discount Corporation salesperson, Brian Towne, a LaSalle Bank 20 Year callable CD with a one year non-call period and an interest rate of 6.6% for \$10,000 at a price of 100 (trade date Sept 16, 1998 and Settlement date September 22, 1998).
29. In April of 2000, this CD was sold in an unsolicited transaction (trade date April 17, 2000 and settlement date April 20, 2000) at a closing price of 82 for a total price \$8,200 plus 52.44 interest. The last most recent account statement showed the Callable CD at a closing price of 100 and a total value of \$10,000 as of a closing date of March 31, 2000.

Fraudulent and misleading statements and misrepresentations or omissions of material fact regarding the non-call time period

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30. In addition to false and misleading information on account statements as described above, Olde Discount Corporation and HRBFA also submitted false and misleading information regarding the call date to at least 9 Illinois resident certificate holders.
31. In each case the Illinois residents purchased a Callable CD issued by either Sovereign Bank or First Bank of Puerto Rico with a one year non-call period. However, the trade confirmation and account statements listed a significantly longer non-call period.
32. For example, in the case of PM, an Illinois resident, she was solicited to purchase a 15 year callable CD with a one year non-call period and an interest rate of 8.25% (settlement date of February 23, 2000). The trade confirmation that was sent to PM reflects a callable date of "2/23/15 @ par." Additionally all of the monthly account statements reflect the same call date.
33. However, PM's CD was called for a full redemption on February 23, 2001. In the account activity section for the Jan-Feb account statement, the full redemption is reflected but again lists the callable date as "2/23/15 @ par."

Pattern and practice of recommending unsuitable transactions

34. Olde Discount Corporation and HRBFA and their salespersons engaged in a practice and ongoing course of business of recommending to their clients investments in Callable CDs which were unsuitable in light of the customer's financial resources and investment objectives.
35. Due to the long maturity periods of 15-20 years of these Callable CDs and the fact that the principal amount invested is subject to market fluctuation in value, these Callable CDs are unsuitable for most older investors.
36. In Illinois during the relevant time period, Olde Discount Corporation and HRBFA had sold Callable CDs to 220 Illinois resident investors who were age 65 or older.

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37. For example in the transactions of CL, BL and CDL as previously described in paragraphs 7-9, the investors were all over the age of 70 at the time with one age 76. In this example the Callable CDs would not have matured until the investors were in their 90s.
38. Additionally, in the transactions of DP and MP, as previously described in paragraphs 10-12, the investors were 75 and 73 respectively. Also, \$50,000 of the \$65,000 investment in a 20 year Callable CD came from the proceeds of a 1 year CD that had recently matured.
39. Investors SK and HK whose transaction was described in paragraphs 18-21 were 78 years old and 75 years respectively at the time of the recommendation and transaction and were told that a 20 year Callable CD could be redeemed in 1 year.
40. In another case, LN a single female Illinois resident was described in her Olde Discount profile as retired with an income of \$20,000 per year, net worth of \$150,000 and liquid assets of \$150,000. At the end of May 2000, her account with Olde Discount listed her portfolio value as \$142,081.69 in the form of mutual funds and a money market fund. In June of 2000, Olde Discount registered representative, Craig Hoffman, solicited LN to partially sell her mutual funds and all of her money market fund in order to purchase a \$100,000 Callable CD issued by First Bank of Puerto Rico with a 15 year maturity date and a one year non-call date (Settlement date June 19, 2000). At the time of this recommendation and solicited transactions, LN was 90 years old. Additionally, after the transaction, this one Callable CD represented 70% of her Olde Discount portfolio and 67% of her reported net worth.
41. Despite the fact, that the Callable CD had a one year call date, a trade confirm was sent to LN which stated the CD was "Callable 6/19/15 @ par." Additionally, all account statements reflected the 6/19/15 call date up to and including the time of the CD's redemption on June 19, 2001.

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Authority

42. The Illinois Securities Act, 815 ILCS 5/1, (the "Act") states that the following are violations of the Act:
- a) Section 12.F; To engage in any transaction, practice or course of business in connection with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof; and
  - b) Section 12.H; To obtain money or property through the sale of securities by means of any untrue statement of material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.
43. Section 8.E.1 of the Act states that the following are reasons for revoking the registration of a securities dealer in the State of Illinois:
- a) Section 8.E.1 b; Has engaged in any unethical practice in the offer or sale of securities or in any fraudulent business practice.
  - b) Section 8.E.1 e; Has failed reasonably to supervise the securities activities of any of its salespersons and the failure has permitted or facilitated a violation of Section 12 of the Act; and
  - c) Section 8.E.1 g; Has violated any of the provisions of the Act.
44. Rule 130.850 of the Rules and Regulations of the Illinois Securities Department, 14 Admin Code 130. 100, states that no dealer or salesperson shall effect transactions for any customer's account which are unsuitable in view of the financial resources of the customer.

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45. Sections 11.E.2 and 4 of the Act set forth that any person or entity which has violated the Act may be prohibited from offering and selling securities in the State of Illinois, Censured and fined up to \$10,000 per violation.

You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130) (the "Rules"), to file an answer to the allegations outlined above or a Special Appearance pursuant to Section 130.1107 of the Rules, or other responsive pleading within thirty days of the receipt of this notice. Your failure to do so within the prescribed time shall be deemed an admission of the allegations contained in the Notice of Hearing and waives your right to a hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default.

A copy of the Rules, promulgated under the Act and pertaining to Hearings held by the Office of the Secretary of State, Securities Department, is included with this Notice.

Delivery of notice to the designated representative of any Respondent constitutes service upon such Respondents.

Dated this *12<sup>th</sup>* day of *April*, 2004

*Jesse White* *JW*

Jesse White  
Secretary of State  
State of Illinois

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