

BEFORE THE DIRECTOR OF THE DEPARTMENT OF FINANCE  
OF THE STATE OF IDAHO

In the Matter of:

STATE OF IDAHO, DEPARTMENT OF  
FINANCE, SECURITIES BUREAU,

Complainant,

vs.

GORDEN HUGHES &  
HUGHES INVESTMENT GROUP, INC.

Respondents.

Docket No. 2017-7-11

AGREEMENT AND ORDER

The Director of the Department of Finance, State of Idaho (“Director”) has investigated the activities of Respondent Gorden Hughes (“Hughes”) and Hughes Investment Group, Inc. (“Investment Group”). Pursuant to said investigation, it appears that violations of the *Idaho Uniform Securities Act (2004)* (“Act”), *Idaho Code §30-14-101 et seq.* and the *Idaho Financial Fraud Prevention Act* have occurred. The Director and Hughes have agreed to resolve this matter without a public hearing or other adjudication of this matter. Therefore, the Director deems it appropriate and in the public interest that this Agreement and Order be entered. Hughes consents to the entry of this Agreement and Order.

**RESPONDENTS**

1. Hughes is a 67 year-old resident of Idaho Falls. He has provided tax and bookkeeping services through Hughes Business Services (“Business Services”), located at 2539 Channing Way, Suite 220, Idaho Falls, ID, since at least 2003. In the early 1980’s, Hughes filed to become a broker-dealer agent with the Financial Industry Regulatory Authority (“FINRA”) but never became registered.
2. Investment Group registered as a corporation with the State of Idaho on March 4, 2004. The company was owned by Hughes and Hughes’ son, Joel Hughes (“Joel”). Investment Group filed to become an investment advisory firm with FINRA on May 16, 2004 but never became registered. Investment Group was dissolved on June 14, 2011.

## BACKGROUND

3. Hughes sent a solicitation letter, dated May 21, 2004, to his Business Services clients informing them of his new business, Investment Group, that would provide financial planning and investment services. Hughes claimed that the purpose of Investment Group was to allow small investors to join a large investment group to maximize their returns.
4. In the letter, Hughes stated that Joel was a registered investment advisor and that they had met all legal requirements to provide financial and investment services. However, Joel was not registered as an investment advisor with the Securities and Exchange Commission (SEC) or the Department.
5. Investment Group investors were primarily Hughes clients who had known him for many years. He was trusted by his clients and many saw Hughes as a friend. Investors included three individuals; MB, SB, and EB; and six married couples; TD and DD, TH and BH, TS and IS, AG and KG, JG and RG, and NB and KB.
6. Hughes sold securities, in the form of undocumented investment contracts, totaling \$381,874.03 to at least nine Idaho investors from July 31, 2004 to November 13, 2009.
7. Although investors were not provided with any documents when they invested with Investment Group, they were provided monthly statements listing their investment as “New Money”, interest, and the total amount due. From inception until December 2016, the statement letterhead showed “Investment Group”. After the Department began investigating Hughes, the statement letterhead was changed to “Hughes Accounts Payable”.
8. Hughes did not explain the liquidity of the investment to most investors. One investor claims they were told they had to wait two years before they could withdraw any of the investment. Two investors believed they could remove the funds at any time. Many investors have requested their investment funds and have been denied by Hughes or received a small portion of their investment. Three investors have been paid back in full.
9. Hughes had recommended clients move their funds from IRA plans, other retirement plans, CD’s, and savings accounts into Investment Group. Hughes offered his clients a higher interest rate than

what they had been receiving through other investments. Most investors received an annual interest rate of 10%.

10. In 2013, Hughes notified his clients that he was reducing the interest rate on their investments. Interest rates were decreased to 5% annually for all investors. In 2017, Hughes notified his clients that he would no longer be paying interest.
11. Hughes currently claims that his clients' funds were "private loans" to his company as working capital. However, his 2004 solicitation letter stated that Investment Group would be actively trading on the stock market with the investors' funds. Although most investors did not know what their funds would be used for, Hughes told some investors that their funds would be invested in local businesses, used as business loans, or used for the "operation and advancement of business".

### **FINDINGS OF VIOLATIONS**

#### **Unregistered Security**

12. *Idaho Code §30-14-102(28)* defines a "security" as a note, investment contracts, or evidence of indebtedness.
13. Pursuant to *Idaho Code §30-14-301*, it is unlawful for a person to offer or sell a security in this state unless: (a) The security is a federal covered security; (b) The security, transaction or offer is exempted from registration under sections 30-14-201 through 30-14-203, Idaho Code; or (c) The security is registered under this chapter.
14. Investment Group and Hughes, as its agent, sold securities in the form of undocumented investment contracts. The securities were not registered, nor did they qualify for a registration exemption at the time they were sold, in violation of *Idaho Code §30-14-301*.

#### **Unregistered Agent**

15. *Idaho Code §30-14-102(2)* defines an "agent" as an individual, other than a broker-dealer, who represents a broker-dealer in effecting or attempting to effect purchases or sales of securities or who represents an issuer in effecting or attempting to effect purchases or sales of the issuer's

securities. A partner, officer, or director of a broker-dealer or issuer, or an individual having a similar status or performing similar functions, is an agent only if the individual otherwise comes within the term.

16. Pursuant to *Idaho Code §30-14-402*, it is unlawful for an individual to transact business in this state as an agent unless the individual is registered under this chapter as an agent or is exempt from registration as an agent under subsection (b) of this section.
17. Hughes offered and sold investment contracts and a portion of the funds were used for Hughes business expenses. Hughes was not registered to sell securities, nor did he qualify for a registration exemption at the time the securities were sold, in violation of *Idaho Code §30-14-402*.

### **Misrepresentations & Omissions**

18. Pursuant to *Idaho Code §30-14-501*, it is unlawful for any person, in connection with the offer, sale, or purchase of a security, directly or indirectly: (2) To make an untrue statement of material fact or to omit 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.
19. Misrepresentations:
  - a. Hughes represented that Joel was a registered investment advisor.
  - b. Hughes represented that Investment Group, Joel, and himself had met all legal requirements to provide financial planning and investment services.
  - c. Hughes falsely led at least one investor to believe that their investment could be withdrawn after two years.
20. Omissions:
  - a. Hughes failed to disclose any risks associated with the investment.
  - b. Hughes failed to disclose that investment funds could not be withdrawn in full.
  - c. Hughes failed to disclose that funds could only be withdrawn, in small amounts, during the tax season.
  - d. Hughes failed to disclose that that the security being offered was not registered as required under the Idaho Uniform Securities Act.

- e. Hughes failed to disclose that that he was not registered as an agent to sell the securities being offered as required by the Idaho Uniform Securities Act.

21. Hughes violated *Idaho Code §30-14-501(2)* by misrepresenting and omitting material facts in connection with the sale of a security.

### **ACKNOWLEDGEMENTS & REMEDIES**

22. Hughes neither admits nor denies the allegations and findings of violations contained herein.

23. Hughes agrees to pay restitution of \$386,575.87. Payment shall be made payable to the order of "Idaho Department of Finance", for the following current investment balances:

- a. \$127,303.00 to MB
- b. \$13,815.92 to TH and BH
- c. \$66,303.30 to TS and IS
- d. \$88,585.08 to AG and KG
- e. \$90,568.57 to JG and RG

24. Hughes agrees to make restitution payments as follows:

- a. Payment of at least five thousand dollars (\$5,000.00), as a good faith initial payment, shall be remitted on or before October 15, 2017.
- b. Payment of at least one thousand dollars (\$1,000.00) shall be remitted during the non-tax season months (June – January). Payments are due on the fifth day of each non-tax season month from August 1, 2017 through June 1, 2021.
- c. Payment of at least fifteen thousand dollars (\$15,000) shall be remitted during the tax season months (February – May). Payments are due on the fifth day of each tax season month from February 1, 2018 through May 1, 2021.
- d. Balloon payment for the remaining balance due, from the original restitution amount of \$386,575.87, shall be paid on or before June 30, 2021.

25. Hughes agrees to pay a civil penalty of twenty thousand dollars (\$20,000) for the violations of *Idaho's Uniform Securities Act*, pursuant to *Idaho Code §30-14-604(d)*. Payment shall be made

payable to the order of "Idaho Department of Finance". The Department agrees to waive the penalty if restitution payments are made as agreed above.

- 26. Hughes will permanently refrain from engaging in any act or practice that violates any provision of *Idaho's Uniform Securities Act*, any rule promulgated thereunder.
- 27. Hughes acknowledges that if he fails to comply with this Agreement and Order, the Department may institute further proceedings against him.
- 28. In the event that Hughes commits future violations of the *Idaho Uniform Securities Act* or the rules promulgated thereunder or fails to adhere to the terms of the Agreement and Order, Hughes acknowledges that Complainant can incorporate the allegations giving rise to this Agreement and Order in any future proceeding.

AGREED TO and ACKNOWLEDGED this 27<sup>th</sup> day of July, 2017.

Gorden Hughes  
HUGHES INVESTMENT GROUP, INC.  
By: Gorden Hughes  
Gorden Hughes  
GORDEN HUGHES

IT IS SO ORDERED

DATED this 31<sup>st</sup> day of July, 2017.

STATE OF IDAHO  
DEPARTMENT OF FINANCE

Mary E. Hughes  
MARY E. HUGHES, Acting Director of Finance

