

LAWRENCE G. WASDEN
Attorney General

Alan Conilogue
Deputy Attorney General
State of Idaho
P.O. Box 83720
Boise, Idaho 83720-0031
Telephone: 208.332.8093
Fax: 208.332.8016
ISBN 3196

**IN THE DISTRICT COURT OF THE FOURTH JUDICIAL DISTRICT
OF THE STATE OF IDAHO, IN AND FOR ADA COUNTY**

STATE OF IDAHO, DEPARTMENT OF
FINANCE, SECURITIES BUREAU,

Plaintiff,

vs.

RODNEY DEAN ALLEN, individually
and dba KA INVESTMENTS; KA
Investments, Inc.,

Defendants.

Case No. CV01-18-02013

VERIFIED COMPLAINT

Fee category: Exempt

COMES NOW the State of Idaho, Department of Finance, Securities Bureau, Gavin Gee, Director, (Department), by and through its counsel, Alan Conilogue, Deputy Attorney General, and upon information and belief, complains and alleges as follows:

This action is brought pursuant to Idaho's Uniform Securities Act (2004), Idaho Code § 30-14-101 *et seq.* (the Act), and in particular Idaho Code § 30-14-603, wherein the Department is

authorized to bring actions seeking injunctive and other relief against persons who have either violated or are about to violate provisions of the Act or any rule promulgated thereunder.

CASE SUMMARY

The statements in this Case Summary are not part of the allegations supporting the Department's causes of action, but are intended simply to provide a framework for understanding this regulatory enforcement lawsuit.

Rodney Allen, doing business as KA Investments, fraudulently offered and sold securities to Idaho residents beginning as early as 2009. He eventually raised over seven million dollars from about 70 individual investors. Allen was never registered to offer or issue securities nor were his securities registered, both of which are required by Idaho law.

Allen promoted his ploy by offering a too-good-to-be-true return, by sending investors dummied-up account statements reflecting the ridiculous return, and by returning money to investors upon their request. Unbeknownst to investors, the money returned to them was money from other investors rather than earnings, giving his stratagem an overall Ponzi-scheme aspect.

Returning small amounts to investors upon request is a common element of securities fraud because it fools investors into thinking their money is safe and available. This, coupled with bogus monthly statements showing expected returns, lulls investors into complacency and makes them unlikely to ask for a full return of their investment because the investment appears to be paying off handsomely. This apparent success also tends to cause investors to recommend the investment to others, bringing in new money which the fraudster uses to make the small repayments and to enrich himself. Such was the case with Allen.

Allen so successfully duped his investors that, over his 9 years of running his scheme, no investor ever called the Idaho Department of Finance to inquire about him or his licensing or registration status.

Allen continued his fraudulent securities transactions through April 2017 when his fraud was uncovered by the Idaho Department of Finance. After being contacted by a Department of Finance investigator, Allen shut down his scheme, returned some money to investors or to KA Investment bank accounts, and vanished.

Allen bilked investors by misrepresenting the investments, by omitting material information from the investor solicitations, and by lying about investor returns. Allen spent investor money on his personal expenses despite telling his investors he would get paid only as a percent of investor earnings. Since Allen's investments only lost money, and because he was running a scam, Allen was not entitled to convert investor money to his benefit. Neither Allen nor his securities were registered as required by Idaho law.

DEFENDANTS

1. Rodney Dean Allen (Allen) was an Idaho resident at the time he made offers and sales of unregistered securities to Idaho investors. During the time relevant herein, he was associated with the address 5914 Cruzen, Boise, Idaho, which is his last known address.

2. KA Investments, Inc. is a Delaware corporation and Allen is the sole shareholder, director, and officer.

FACTS

3. Beginning on a date uncertain but most likely in 2009, Allen offered and sold securities to residents of Idaho and other states, as agent of and on behalf of KA Investments, Inc.

4. Allen told his securities investors that he could provide returns of around 2% to 3% per month, or annual returns of 24% to 36%.

5. Over time Allen's apparent trading success caused his investors to recommend him to others, and he was able to expand his activities.

6. Allen received investment money from around 70 individuals, although some of them were married couples.

7. Allen told his investors that he would pool their money and "trade the market in stock options, S&P 500 futures, DOW futures, NASDAQ futures, oil, gold and the FX [foreign] market currency pairs."

8. Allen's investors expected to profit from his trading activity. In fact, his better than average ostensible returns were the key inducement to most of his investors to place their money with him.

9. Allen told his investors that he made his money from commissions based on returns to his investors. This also induced investors to part with their money because they believed the commission structure was an incentive for Allen to succeed.

10. Allen told his investors that his trading strategy was low risk because he would pull all of their money out of the market at the end of every day, and because he would employ a stop-loss strategy to avoid large downturns in the market.

11. Allen did not tell his investors:

- a. That he would convert their money to his personal use.
- b. That he would take money from their account in amounts unrelated to and exceeding earnings on their returns.

c. That he would take their money and give it to other investors to further the illusion that investor money could be safely withdrawn.

d. That he consistently lost money investing.

e. That he was not registered to sell securities or commodities.

f. That his securities were not registered as required by law.

12. Allen's investors were passive and expected to have no role in earning the returns, other than giving Allen money and watching their returns rack up in fake monthly statements.

13. Allen maintained banking relationships with two banks and used two trading platforms to facilitate his unlawful trading activity.

14. By April 2017, Allen had gathered seven million six hundred seventeen thousand six hundred twenty-three dollars and nineteen cents (\$7,617,623.19) from his investors, according to investor statements. *According to the investor statements*, he withdrew and returned two million five hundred forty-four thousand six hundred fifty-five dollars and thirty-four cents (\$2,544,655.34) to investors, leaving five million seventy-two thousand nine hundred sixty-seven dollars and eighty-five cents (\$5,072,967.85).

15. **Banking records** show that from January 2013 through April 2017, Allen deposited investor money in the amount of six million eight hundred ninety-three thousand two hundred sixty-eight dollars (\$6,893,268) into the two banks and, over time, returned two million twenty-eight thousand four hundred seventy-nine dollars (\$2,028,479) back to his investors. Allen returned the two million twenty-eight thousand four hundred seventy-nine dollars (\$2,028,479) in one hundred forty-three (143) payments, from May 3, 2013 through April 24, 2017. The payments ranged from eight hundred eighty-five dollars (\$885) up to one hundred five thousand dollars (\$105,000), but were mostly in the one thousand (\$1,000) to two thousand dollar (\$2,000) range.

16. Because Allen was preparing and sending fabricated periodic statements, the numbers in them do not match available bank records. The bank records do not clearly align with his money raising and trading activity. The numbers in paragraphs 14 and 15 accurately reflect the source documents, but probably cannot be reconciled.

17. Allen prepared and sent his investors fake account statements showing the promised rates of return.

18. Allen was not a successful trader for his investors. Bank and trading records show that he incurred around eight hundred sixty-seven thousand nine hundred eighty-six dollars (\$867,986) in losses.

19. Bank records show that Allen converted nearly two million nine hundred thousand dollars (\$2,900,000) of investor money for his personal use.

20. Net receipts of investor money, less amounts returned to them or to be returned (see following paragraph), reveal that investors lost \$3,791,806.

21. Allen, doing business as KA Investments, was placed into involuntary bankruptcy protection in April, 2017, and monies in KA bank accounts were frozen. Any remaining money not accounted for by investor returns, trading losses, trading expenses, and Allen's personal use, is under control of the bankruptcy action and should be returned in due course.

VIOLATIONS

22. The allegations of paragraphs 1 through 21 are realleged and incorporated herein as if set forth verbatim.

23. The promissory notes offered and sold by the Allen were "securities" as defined in Idaho Code, Section 30-14-102(28).

24. Idaho Code, §30-14-102(28)(d) provides that a security includes as an “investment contract” an investment in a common enterprise with the expectation of profits based solely on the efforts of a person other than the investor.

25. Investors invested in a common enterprise with Allen, expecting profits, and did not participate in any of the efforts to obtain a return on their investments.

COUNT ONE
(Unregistered Securities)

26. The allegations of paragraphs 1 through 21 are realleged and incorporated herein as if set forth verbatim.

27. Allen issued, sold or offered for sale securities in Idaho as described above. These securities were not registered, nor exempt from registration, with the Idaho Department of Finance as required by Idaho Code, Section 30-14-301.

28. Allen’s failure to register such securities with the Department constitutes a violation of Idaho Code § 30-14-301.

COUNT TWO
(Failure to Register)

29. The allegations of paragraphs 1 through 21 are realleged and incorporated herein as if set forth verbatim.

30. Allen was not licensed to sell securities in, to, or from Idaho as required by Idaho Code, Section 30-14-402, which requires that all persons who offer or sell securities in this State be registered as an agent. It provides:

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.

31. Idaho Code § 30-14-102 provides the following definitions:

(2) "Agent" means an individual, other than a broker-dealer, who represents an issuer in effecting or attempting to effect purchases or sales of the issuer's securities.

32. When Allen talked to his investors and convinced them to invest, Allen acted as an agent of KA Investments regarding the securities identified above.

33. Allen's failure to register as an agent is a violation of Idaho Code, § 30-14-402.

COUNT THREE
(Misrepresentations and Omissions of Material Fact)

34. The allegations of paragraphs 1 through 21 are realleged and incorporated herein as if set forth verbatim.

35. Idaho Code § 30-14-501(2) provides that it is unlawful for any person, directly or indirectly, in connection with the offer, sale or purchase of a security, to make an untrue statement of material fact or 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.

36. In connection with the offer and sale of securities, Allen made the misrepresentations identified in the statement of facts above.

37. Allen's omissions of material facts and failure to disclose material information to his investors were made in connection with the offer, sale or purchase of securities. Allen's omission of material facts and failures to disclose the material information identified in the statement of facts about constitute violations of Idaho Code § 30-14-501(2) as to each misrepresentation and omission.

COUNT FOUR
(Unlawful Conversion)

38. The allegations of paragraphs 1 through 21 are realleged and incorporated herein as if set forth verbatim.

39. Idaho Code § 30-14-501(4) provides that it is unlawful for any person, directly or indirectly, in connection with the offer, sale or purchase of a security, to divert money to the personal use of the issuer, offer or seller, or to pay prior investors, without specifically disclosing that use before receiving the investor's money.

40. Allen's conversion of investor money to his personal use and his payment of investor money to prior investors without disclosing that to his investors constitutes violations of Idaho Code § 30-14-501(4).

PRAYER FOR RELIEF

1. WHEREFORE, the Department prays for judgment in favor of the Department and against Allen as follows:

2. That Defendants be adjudged to have violated Idaho's Uniform Securities Act (2004), Idaho Code § 30-14-101 *et seq.*, as to Counts One through Four alleged above, as well as any additional counts proven at trial.

3. That Defendants be permanently enjoined from engaging in any act or practice violating any provision of the Act or any rule promulgated thereunder, pursuant to Idaho Code § 30-14-603(b)(1), and that they be permanently enjoined from selling or offering for sale securities in any form in the state of Idaho.

4. That Allen be permanently enjoined from working in the financial services industry in Idaho, including selling insurance, pursuant to Idaho Code § 30-14-603(b)(1).

5. That Defendants be ordered to make restitution to investors, pursuant to Idaho Code §30-14-603(b)(2)(C), in the amount of at least three million nine hundred seventy-one thousand eight hundred six dollars (\$3,971,806), or such other amount as proven at trial.

6. That Defendants pay the restitution amount to Plaintiff to be delivered to the

investors, and that the Court award a money judgment in favor of Plaintiff in such amount.

7. That Defendants be ordered to pay a civil penalty of up to ten thousand dollars (\$10,000) for each violation of Idaho's Uniform Securities Act (2004) as the Court deems appropriate, pursuant to Idaho Code § 30-14-603(b)(2)(C), for total penalties of at least forty thousand dollars (\$40,000) and that the Court award a money judgment in favor of the Department in such amount.

8. That the Department be awarded attorney fees and costs incurred in the preparation and prosecution of this action, pursuant to Idaho Code § 12-121, and that the court award a money judgment in favor of the Department in such amount. Should judgment be taken by default herein, the Department asserts that \$5,000 is a reasonable sum for the same.

9. For such further relief as this Court may deem just and equitable under the circumstances.

DATED this 25th day of January, 2018.

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL



ALAN CONILOGUE
Deputy Attorney General

VERIFICATION

STATE OF IDAHO)
)ss.
County of Ada)

COLEEN F. HODSON, Lead Investigator for the Securities Bureau of the Department of Finance, State of Idaho, being first duly sworn, deposes and says:

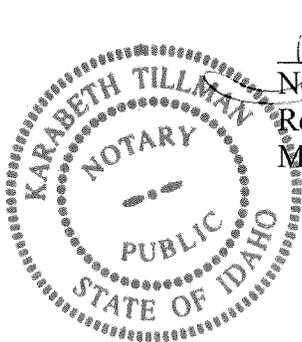
I have read the foregoing Verified Complaint, and know the contents thereof; and that the same are true to the best of my knowledge and belief.

DATED this 25 day of January, 2018.



COLEEN F. HODSON

SUBSCRIBED AND SWORN to before me this 25th day of January, 2018.





Notary Public for Idaho
Residing at: Lanyon
My Commission Expires: 05/15/2021