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DISTRICT COURT
MAGISTRATE DIVISION
BONNEVILLE COUNTY
IDAHO

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**IN THE DISTRICT COURT OF THE SEVENTH JUDICIAL DISTRICT
OF THE STATE OF IDAHO, IN AND FOR BONNEVILLE COUNTY**

STATE OF IDAHO, DEPARTMENT OF
FINANCE, SECURITIES BUREAU,

Plaintiff,

vs.

BROCK E. BRUEGEMAN, BRIAN J.
BIRCH, SONNY L. JENSEN, and
BRANDON JOHNSON,

Defendants.

Case No. CV-10-4032

VERIFIED COMPLAINT

Fee category: Exempt

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

1. 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.

2. The acts and practices herein comprising violations of law by the above-named defendants occurred in Bonneville County and elsewhere in the state of Idaho.

CASE SUMMARY

3. Plaintiff alleges that Defendants Brock E. Bruegeman, Brian J. Birch, Sonny L. Jensen, and Brandon Johnson, individually and dba as one or more LLCs, acting at times individually and at times in concert with each other, issued securities in the form of promissory notes and investment contracts in an aggregate amount greater than two million one hundred eighty thousand dollars (\$2,180,000). These Defendants took investor money and sent it to a Utah company, The Franklin Squires Companies, LLC (Franklin Squires).

4. Investor money was sent “upline” through a series of companies before it eventually arrived at Franklin Squires. Franklin Squires made “interest” payments “downline” back through the companies.

5. Franklin Squires paid 5% monthly (60% annually) to the layer of companies immediately “downline” from it. Each succeeding layer took part of the payment, often 1%, and passed the rest on to the next lower layer, thereby making a profit on the investors’ investment. Idaho investors were promised a 2% monthly (24% annually) return.

6. Defendants failed to register these securities as required by law. Defendants also defrauded investors by misrepresenting the investment, and by failing to provide required material information. Defendants’ acts comprise a scheme or artifice to defraud.

DEFENDANTS

7. Defendant Brian J. Birch (Birch) is a resident of Rigby, Jefferson County, Idaho and has conducted business as in Idaho Quadrant Holdings, LLC during all times relevant herein.

8. Defendant Brock E. Bruegeman (Bruegeman) is a resident of Idaho Falls, Bonneville County, Idaho and has conducted business in Idaho as Quadrant Holdings and Development, LLC and as Quadrant Holdings, LLC during all times relevant herein.

9. Defendant Brandon Johnson (Johnson) is a resident of Idaho Falls, Bonneville County, Idaho and has conducted business in Idaho as Premiere Holdings, Inc., during all times relevant herein.

10. Defendant Sonny L. Jensen (Jensen) is a resident of the state of Utah and has conducted business in Idaho as TSS Investments, LLC during all times relevant herein.

Agency

11. The four Defendants comprised three levels of an even larger investment pyramid and were working for their own personal interests as well as for the interests of the others in the pyramid. Individuals at each level of the pyramid were aware of and benefitted from the efforts of others at other levels. The four Defendants together conducted a pyramid scheme that constituted a scheme or artifice to defraud.

12. Birch and Bruegeman were agents of each other in their efforts to raise investment money and place it with Johnson and Jensen. Birch and Bruegeman were also agents of Johnson and Jensen as they raised money and gave it to Johnson to be invested through Jensen, who in turn forwarded it to Franklin Squires.

13. Johnson was an agent of Jensen in his efforts to raise investment money. Johnson was an agent of Birch and Bruegeman in his efforts to assist them in raising money, in his

placing the money with Jensen, and in his role in passing “downline” payments to Birch and Bruegeman. Johnson also helped the other Defendants promote the scheme by displaying an ostentatious lifestyle calculated to convince investors of the success of the investment.

14. Jensen was aware of and assisted the efforts of Birch, Bruegeman and Johnson as they raised money to place into the pyramid scheme. Jensen provided information to the other Defendants which was used in furtherance of the scheme. He accepted their investment money and placed it with Franklin Squires, and passed along the “interest” paid by Franklin Squires back down to Johnson, Birch and Bruegeman. Jensen also helped the other Defendants promote the scheme by displaying an ostentatious lifestyle calculated to convince investors of the success of the investment.

FACTS

15. Beginning at least as early as August 2006, Defendants began offering and issuing securities in the form of promissory notes and investment contracts. Investors who participated in this common enterprise expected profits from it based solely on the efforts of others.

16. Birch and Bruegeman accepted money from individual investors, and sent it “upline” to Johnson, who in turn sent it to Jensen, who then sent it to Rick Koerber (Keorber) doing business in Utah as The Franklin Squires Company, LLC (Franklin Squires).

17. Koerber and Franklin Squires paid money back “downline” as follows: Rick Koerber and Franklin Squires paid Jensen 5% monthly. Jensen paid Johnson 3-3.5% monthly. Johnson paid Birch and Bruegeman 2.5% to 3% monthly. Birch and Bruegeman paid their investors 2% monthly.

18. Defendants followed an investment philosophy taught by The Franklin Squires Company, LLC, a company formed by C. Rick Koerber. Koerber professes that he coined the

phrase “equity milling,” which appears to be how returns were generated. The concept contemplates that investors will refinance their homes, borrow against the accumulated equity, and then invest the money at a higher rate than they would pay on the home loan, thus “milling the equity.”

19. To spread the investment philosophies espoused by Franklin Squires, Defendants held meetings, sometimes weekly, sometimes monthly, at various locations, including hotel conference rooms located in the Idaho Falls, Idaho area and at cabins owned by Defendants Johnson and Jensen in the Island Park, Idaho area. The weekly meetings occurred in the first few months of 2007. At the meetings, Defendants would teach potential investors about the concept of investing in real estate and other philosophies behind equity milling. The meetings in Idaho were conducted primarily by Birch and Bruegeman, but Johnson and Jensen attended some of them as well. Jensen was a speaker at a meeting held in the Red Lion Hotel in Idaho Falls, Idaho. Johnson also presented in at least one meeting.

20. Investors T.W. and M.K. attended several such meetings, where they were first introduced to Defendants’ investment scheme. These meetings occurred in the first few months of 2007. At the meetings, Defendants talked about two things. One, they described the Franklin Squires investment philosophy, including equity milling. Two, they described their success in investing with the Franklin Squires company. The effect of pairing these two messages was that potential investors attending the meetings also wanted to invest with Franklin Squires.

21. Defendants Birch and Bruegeman stated that an investor could invest an amount with them, to be sent “upline” to Franklin Squires, and receive 2% per month. The investment was described as solid and guaranteed, since the investment money was secured by real property.

In addition to these group meetings, private meetings were held with prospective investors to discuss investment specifics on a one on one basis.

22. Investors, including M.K. and T.W., were advised by all four Defendants, at various times in early 2007, to refinance their homes and invest the equity. All four Defendants told investors that the interest earned on the investment would be higher than the new mortgage payment. Based on those representations, T.W. decided to invest the equity received from the refinance of her residential mortgage loan, \$43,000, with Defendants Birch and Bruegeman dba Quadrant Holding in March 2007. That amount was then passed “upline” through Johnson to Jensen. T.W received various periodic returns on that investment for a few months, but received the last return in October, 2007. T.W has been unable to obtain the return of the principal investment, despite a timely demand. T.W. has sustained a net loss of \$34,950.

23. Investor M.K. invested \$3,850 with Birch and Bruegeman dba Quadrant Holding on February 13, 2007. M.K understood that this money was to be sent “upline” to Franklin Squires. M.K received periodic payments for the next few months, so decided to invest more. On August 15, 2007 M.K. wrote a check to Quadrant Holding in the amount of \$21,000. M.K. never received any interest payments on the August 2007 investment. M.K. has been unable to obtain the return of the principal investment, despite a timely demand. M.K. has sustained a net loss of \$24,388.

24. Investor T.C. also attended meetings at the Red Lion Hotel in Idaho Falls, at which the investment was pitched. T.C. was informed that he would receive a 2% per month rate of return, that the investment scheme had consistently provided such returns for seven years, and that the investment was secured by real estate. T.C. also understood that the money would be funneled “upline” to Koerber and Franklin Squires.

25. On or around June 13, 2007, T.C. decided to invest \$87,000 with Birch and Bruegeman dba Quadrant Development. T.C. received periodic payments from Quadrant for a few months. T.C. has not received interest payments on the investments since October, 2007 and has been unable to obtain the return of the principal investment, despite a timely demand. T.C. sustained a net loss of \$80,040.

26. Investor B.L. invested \$38,000 on November 27, 2006, \$10,000 on February 27, 2007, \$44,000 on May 15, 2007, and \$60,000 on June 28, 2007, for a total of \$143,000. B.L. has been unable to obtain the return of the principal investment, despite a timely demand. B.L. received some returns on his investment but sustained a net loss of \$135,220.

27. In or around May 2007, Franklin Squires, or TSS, stopped making interest payments to the “downline” agents. Bruegeman and Birch asked Johnson and Jensen why the payments had stopped. They were informed by Johnson and Jensen that business was slow and that Bruegeman and Birch would have to “cover [their] own [promissory] notes.”

28. Even though payments had stopped coming from their “upline,” Bruegeman and Birch continued to solicit new investor money by telling investors that their money would be sent to Franklin Squires, that it would be secured by real property, and that investors would receive a guaranteed rate of return on investment money. They did not tell potential investors that the “upline” payment stream had dried up.

29. Defendants, at all times material herein, were not registered with the State of Idaho or the National Association of Securities Dealers (now known as the Financial Industry Regulatory Authority) as broker/dealers, or as broker/dealer agents.

30. The securities issued by Defendants were not registered with the State of Idaho or the US Securities and Exchange Commission.

31. Both Birch and Bruegeman sought and obtained discharge through bankruptcy of the debts owed to investors in the scheme described above.

Misrepresentations

32. In order to induce investors to invest, all four Defendants made the following representations, among others:

- a. The investment was virtually guaranteed.
- b. The investment was risk free or virtually risk free.
- c. The investment was secured by real estate.
- d. The investment had been running successfully for years.
- e. The returns were generated by purchasing undervalued real estate that was then somehow made to yield a high return.

33. Birch and Bruegeman made the foregoing misrepresentations in the public and private meetings described above. Johnson and Jensen made the same misrepresentations to Birch and Bruegeman in various private conversations, and they made the misrepresentations in at least one public meeting at the Red Lion in Idaho Falls. Johnson and Jensen also stood by while Birch and Bruegeman made the misrepresentations and did not correct them, thereby ratifying them.

34. The statements in the preceding paragraph are false and misleading for these reasons:

- a. The investments are not guaranteed. Rather, since approximately May 2007, payments from Franklin Squires to Defendants have stopped and Defendants do not have sufficient assets to repay investors. Thus, if payments to Defendants from Franklin Squires have

stopped and yet investors continued to receive payments, such payments can only be coming from ongoing unlawful fundraising by Defendants.

b. The investments were not risk free, which is obvious because the investors have lost their money.

c. The investment was not secured by real estate. Most, if not all, of the investment monies were placed with Koerber and Franklin Squires as part of a large pyramid Scheme.

d. The investment scheme had not been operating for several years, and it was not a successful investment. In fact, it was not an investment at all; it was an illegal securities pyramid scheme.

e. Returns were not generated by profitable real estate transactions, or by any other method. Returns were simply payments to investors with new investor money.

Material Omissions

35. Defendants did not tell potential investors certain information that would be necessary to make other statements not misleading, and that an investor would likely consider as material to a decision to invest with Defendants. All four Defendants failed to disclose the following material information:

a. That the author of the equity milling capital accumulation plan, C. Rick Koerber, was the subject of an administrative action by the State of Wyoming. The action resulted in a Stipulated Order that forbid future violations of Wyoming Securities law.

b. That Rick Koerber received a Chapter 7 bankruptcy discharge order entered by United States Bankruptcy Judge for the District of Wyoming, Peter J. McNiff on December 19, 2001.

c. That Birch received at least one Chapter 7 bankruptcy discharge.

- d. That Bruegeman has two outstanding money judgments in Idaho state courts.
- e. Information about Defendants' financial condition or operating history.
- f. That payments coming from Franklin Squires to Defendants had stopped in approximately May 2007.
- g. That some investment moneys from later investors were not sent to Franklin Squires, but were used to repay earlier investors.
- h. That some investment moneys from later investors were not sent to Franklin Squires, but were used for personal purposes of the Defendants.
- i. That Defendants were not registered as agents to sell the securities, as required by Idaho's Uniform Securities Act (2004).
- j. That the securities issued by Defendants were not registered as required by Idaho's Uniform Securities Act (2004).

INVESTORS

36. Beginning at least as early as August 2006 and continuing at least through October 2007, Defendants issued at least 30 unregistered securities to at least 19 investors. Only the four investors identified herein (T.W., M.K., T.C., and B.L.) cooperated with Plaintiff's investigation and provided information to Plaintiff to substantiate the amounts invested.

COUNT ONE **(Fraud - False and Misleading Statements)**

37. The allegations of paragraphs 1 through 36 above are realleged and incorporated herein as if set forth verbatim.

38. 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.

39. Defendants' misrepresentations to prospective investors as set forth in paragraph 34 above were made in connection with the offer, sale or purchase of securities. Defendants' misrepresentations, as specifically set forth in paragraphs 34 a. through e. above, were false and misleading, constituting violations of Idaho Code § 30-14-501(2) as to each misrepresentation to each investor.

40. Defendants' omissions of material facts and failures to disclose to prospective investors as set forth in paragraph 35 above were made in connection with the offer, sale or purchase of securities. Defendants' omissions of material facts and failures to disclose, as specifically set forth in paragraphs 34 a. through i. above, constitute violations of Idaho Code § 30-14-501(2) as to each omission and failure to disclose to each investor.

COUNT TWO
(Fraudulent Conduct)

41. The allegations of paragraphs 1 through 36 above are realleged and incorporated herein as if set forth verbatim.

42. Idaho Code § 30-14-501(3) provides that it is unlawful for any person, directly or indirectly, in connection with the offer, sale or purchase of a security, to engage in an act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

43. Defendants' acts as set forth in paragraphs 1 through 36 above were made in connection with the offer, sale or purchase of securities.

44. By working together to give the appearance of a successful investment plan, by assisting each other in selling the plan and in roping in investors, and by passing money back and

forth to perpetuate a larger pyramid scheme, Defendants conducted a scheme or artifice to defraud. Their actions were calculated to beguile investors into parting with their money. Defendants conducted the meetings in which they explained the Franklin Squires investment plan. In conjunction with those meetings, Defendants displayed an ostentatious lifestyle that was seductive to investors. They showed potential investors opulent cabins in Island Park, luxurious homes in the Idaho Falls area, expensive new cars that they were driving and new snowmobiles and other items they had recently purchased. This conspicuous consumption dovetailed with the equity milling plan they described, and the effect was to make investors want to invest with Defendants.

45. Their conduct as described in paragraphs 1 through 36, and paragraph 44, above constitutes engaging in transactions, acts, practices, or courses of business which operate or would operate as a fraud or deceit upon investors or prospective investors, in violation of Idaho Code § 30-14-501(3) as to each victim.

COUNT THREE
(Unregistered Securities)

46. The allegations of paragraphs 1 through 36 above are realleged and incorporated herein as if set forth verbatim.

47. Defendants issued, sold or offered for sale in Idaho securities in the form of promissory notes and investment contracts. Such securities were not registered with the Department as required by Idaho Code § 30-14-301.

48. The Defendants' failure to register such securities with the Department constitutes a violation of Idaho Code § 30-14-301.

COUNT FOUR
(Failure to Register)

49. The allegations of paragraphs 1 through 36 above are realleged and incorporated herein as if set forth verbatim.

50. Defendants transacted business in Idaho as broker-dealers. No Defendant was registered as a broker-dealer with the Department as required by Idaho Code § 30-14-401(a).

51. Defendants' failure to register as broker-dealers with the Department constitutes a violation of Idaho Code § 30-14-401(a).

52. Defendants transacted business in Idaho as agents of broker-dealers or of issuers. No Defendant was registered as an agent with the Department as required by Idaho Code § 30-14-402(a).

53. Defendants' failure to register as agents with the Department constitutes a violation of Idaho Code § 30-14-402(a).

PRAYER FOR RELIEF

WHEREFORE, the Plaintiff prays for judgment in favor of Plaintiff and against Defendants as follows:

1. That Defendants be adjudged to have violated Idaho's Uniform Securities Act (2004), Idaho Code § 30-14-101 *et seq.*, rules promulgated thereunder, and other applicable federal laws and regulations as proven at trial, as to Counts One through Four alleged above, as well as any additional counts proven at trial.

2. That Defendants be permanently enjoined from engaging in any act or practice violating any provision of Idaho's Uniform Securities Act (2004) or any rule promulgated thereunder, pursuant to Idaho Code § 30-14-603(b)(1), and in particular, that they be permanently enjoined from:

- a. Selling or offering for sale securities in any form in the state of Idaho;
- b. Engaging in any act, practice or course of business that operates or would operate as a fraud or deceit upon another person.

3. That Defendants each 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) each, and that the Court award a money judgment in favor of Plaintiff in such amount.

4. That Defendants be ordered to make restitution to investors, pursuant to Idaho Code § 30-14-603(b)(2)(C), in the aggregate amount of two million one hundred eighty-four thousand six hundred sixty-five dollars (\$2,184,665) or such other amount as proven at trial. 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 total amount, as follows:

- a. That Defendants Birch, Bruegemen, Johnson and Jensen be jointly and severally liable for the amount of two hundred seventy four thousand five hundred eight dollars (\$274,508).

- b. That Defendant Jensen be additionally liable for the amount of one million nine hundred ten thousand one hundred fifty seven dollars (\$1,910,157), bringing the total restitution to be paid by Defendant Jensen to two million one hundred eighty-four thousand six hundred sixty-five dollars (\$2,184,665).

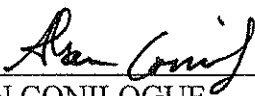
5. That Plaintiff be awarded attorney fees and costs incurred in the preparation and prosecution of this action, pursuant to Idaho Code § 12-121, and that the court award a money

judgment in favor of Plaintiff in such amount. Should judgment be taken by default herein, Plaintiff asserts that \$5,000 is a reasonable sum for the same.

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

DATED this 30th day of June, 2010.

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL



ALAN CONILOGUE
Deputy Attorney General


VERIFICATION

STATE OF IDAHO)
) ss.
County of Ada)

JAMES A. BURNS, Lead Investigator of the Securities Bureau of the Department of Finance, State of Idaho, being first duly sworn, deposes and says:

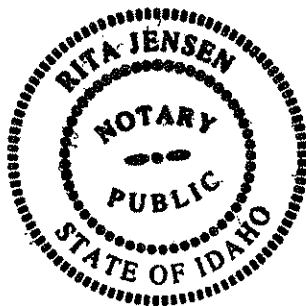
I have read the foregoing Verified Complaint, and know the contents thereof; and that the same are true to the best of my knowledge and belief.


DATED this 30th day of June, 2010.



JAMES A. BURNS

SUBSCRIBED AND SWORN to before me this 30 day of June, 2010.





Notary Public for Idaho
Residing at: Meridian, Idaho
My Commission Expires: 3/6/2013