

LAWRENCE G. WASDEN
Attorney General

LOREN K. MESSERLY
Deputy Attorney General
State of Idaho
P. O. Box 83720
Boise, ID 83720-0031
Telephone: 208.332.8093
Fax: 208.332.8016
ISBN 7434
Loren.messerly@finance.idaho.gov

**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.

GLOBAL AUTO SALES LLC,
CHAD LONGSON, and BRANDON
BARRINGTON,

Defendants.

Case No. CV01-21-19595

COMPLAINT

Fee category: Exempt

COMES NOW the State of Idaho, Department of Finance, Patricia R. Perkins, Director, (the "Department"), by and through its counsel, the Office of the Idaho Attorney General, Loren Messerly, 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.

SUMMARY

2. The Department alleges that Defendants Global Auto Sales, LLC (“Global Auto”), Chad Longson (“Longson”), and Brandon Barrington (“Barrington” and collectively, “Defendants”) violated Idaho’s securities laws when they solicited Idaho investors to purchase securities in the form of promissory notes in order to finance their used car business. Notes are defined as securities in Idaho Code § 30-14-102(28).

3. These securities were unregistered and were marketed by an unregistered agent of the issuer, in violation of Idaho law. Defendants also made material misrepresentations about the collateral for the investments and failed to disclose material facts regarding a prior regulatory enforcement action brought by the Department against Respondent Longson based on similar facts and securities law violations.

JURISDICTION AND VENUE

4. Jurisdiction is proper under the Act pursuant to Idaho Code §§ 30-14-610 and 5-514. The acts and practices alleged herein comprising violations of law by the above-named Defendant occurred in Idaho. The used car business operated in Ada County.

5. Venue is proper, pursuant to Idaho Code § 5-404, as Defendants Longson and Global Auto reside in Ada County.

DEFENDANTS

6. Global Auto is a limited liability company formed by Barrington and his wife in Idaho on February 15, 2012. The company was administratively dissolved on June 18, 2019. Barrington filed a Statement of Dissolution for Global Auto on December 12, 2018. Longson filed a Statement of Rescission of the dissolution on January 2, 2019. Global Auto has been

administratively dissolved since June 18, 2019.

7. Longson is a resident of Eagle, Idaho. Longson was a member of Global Auto since approximately 2013. Longson has never been registered as a securities agent or in any other capacity under the Act.

8. Barrington is a resident of Middleton, Idaho. Barrington was the founder of Global Auto in 2012. Barrington has never been registered as a securities agent or in any other capacity under the Act.

FACTS

The Used Car Business Through Global Auto and Xtreme Finance

9. Barrington has been in the used car business since he was a teenager. In 2012, he created Global Auto as the entity to run his own used car business, with a used car lot located in Boise and later in Garden City, Idaho.

10. In approximately 2012-2013, Longson met Barrington and they agreed to be partners in the used car business. They became 50-50 members of the Global Auto entity. Longson intended to help Barrington expand his financing arm of the business, i.e. used car buyers who could not obtain third-party financing to buy used cars from Global Auto could obtain financing “in-house”, from an entity also owned by Barrington and Longson.

11. Longson organized two entities that ultimately facilitated the financing arm of the business: Xstream Capital LLC that he registered with the Idaho Secretary of State on November 16, 2012 and Xtreme Finance LLC that he registered with the Idaho Secretary of State on July 30, 2013. Longson and Barrington were also 50-50 members/owners of Xtreme Finance.

12. Longson and Barrington operated a used car business that advertised itself as “Buy Here-Pay Here.” This meant the potential buyer of a used car from Global Auto could get financing

for the purchase, if they needed it, from the related-entity Xtreme Finance, and make payments on said financing at the same location, though the cost of that financing was high: with loans bearing interest rates in the high twenties.

13. Barrington was mostly responsible for the used car buying and selling through Global Auto. Longson was responsible for the financing business through Xtreme Finance.

Longson's History of Raising Funds From Investors and Making Private Loans and His Agreement and Order With the Department

14. Longson had a history of private lending, though not private lending in the used car business. From approximately 1998-2005, Longson owned a mortgage company licensed in Idaho. In 2005, he operated a fund, organized as C&C Capital, LLC, that made "hard money" loans for businesses and real property development (the "Fund"). The Fund suffered losses on its loans related to the economic downturn in 2007.

15. The Department investigated the Fund as well as Longson and his partner. On May 17, 2010, Longson signed an Agreement and Order ("2010 A&O") that resolved the Department's investigation. The 2010 A&O stated, "... C&C funded its business dealings through the issuance of promissory notes to investors. The real estate based notes were generally collateralized, directly or indirectly, by either first or second priority position deeds of trust. The inventory-based notes were indirectly collateralized by UCC-1 filings, providing C&C with a secured position in the inventory. ... Beginning April 2005 through July 2007, C&C sold investments in the form of promissory notes, totaling approximately \$8 million to twenty-seven investors. C&C used the investment proceeds to fund real estate transactions. Additionally, from January 2008 through July 2008, C&C sold investments in the form of promissory notes totaling approximately \$3.3 million to eleven investors. C&C used the investment proceeds to fund inventory financing. All notes were issued by C&C."

16. The 2010 A&O found that all the promissory notes were securities under the Act and were sold by Longson and his partner to the many Idaho investors in violation of the Act's prohibitions (found in Idaho Code sections 30-14-301 and -402) on selling unregistered securities through unregistered issuer agents. Longson admitted to these findings and violations and agreed to a \$15,000 fine. Longson also agreed "to comply with all provisions of the Idaho Uniform Security Act (2004) in the future."

17. Barrington claims that he was not aware of Longson's 2010 A&O.

Global Auto and Xstream Capital Raising Funds from Investors

18. To increase their capability to offer private financing to the buyers of their used cars, Longson began raising funds from private investors. Similarly, to help fund growth of Global Auto sales and its operations, Longson began raising funds from private investors.

19. Longson used a similar approach to what he used with the Fund. He issued promissory notes to investors. The notes typically had a 2-3 year maturity date and provided monthly interest-only payments at 10-15%.

20. Some of the notes were issued by Global Auto. Some of the notes were issued by Xtreme Finance. Some of the notes were signed by Longson and/or Barrington solely on behalf of the entity and other notes were also signed by Longson and/or Barrington individually as additional borrowers. Most or all the notes had language referring to the debt being protected by a security interest in car titles or automobile sales contracts. At least one investor received a separate security agreement and a personal guaranty from Barrington and Longson and their wives.

21. The Defendants disclosed to the Department three investors in Global Auto, for a total of \$549,230.45, and six investors in Xtreme Finance for a total of \$1,081,625. All of the investors were Idaho residents.

22. At no time were Global Auto or Xtreme Finance's promissory notes registered as securities in Idaho nor did they qualify for an exemption.

Global Auto Investment of \$100,000 by BT

23. Longson had personal relationships with several of the investors. In March 2016, one investor referred his brother, BT, to Longson. BT had funds that he had invested in a different used car business; BT was looking for a new opportunity for investing those funds. BT did not know Longson prior to investing.

24. Longson did not disclose his 2010 A&O to BT. Most of the investors in Global Auto and Xtreme Finance did not know about the 2010 A&O, which could have alerted them to the protections they were entitled to under the Act.

25. Longson did not disclose that he was selling an unregistered security to BT, in violation of Idaho law, and that he was acting as an unregistered issuer agent, also in violation of Idaho law. Most of the investors in Global Auto and Xtreme Finance did not know about these violations of the Act.

26. Longson sent BT a copy of a promissory note similar to the note that had been issued to BT's brother when that brother invested. The promissory note for BT ("1st BT Note") stated that the borrower was Global Auto, that the amount owed to BT was \$50,000, that monthly interest-only payments of \$416.66 (10%) would be paid, and the balance (i.e. principal of \$50,000) was due on May 5, 2018. The note also stated in bold: "**This note is secured by Titles to vehicles purchased with said funds. All titles shall be held in a safe place and will be accessible at all times to Investor upon request.**" Longson executed the 1st BT Note on behalf of Global Auto, which note was dated April 5, 2016. As stated in the bolded portion above, the 1st BT Note referred to BT as an "Investor." BT wrote a check dated April 7, 2016, to Global Auto for \$50,000, with

the note: “for Investment.”

27. It is unclear how Global Auto intended to secure the 1st BT Note through car titles. For example, Global Auto already had “floor plan” financing that funded their on-going purchase of vehicles. Floor plan lenders commonly take a security interest in all the vehicle inventory and in all assets of the business. For example, an entity Dealer Services Corporation filed a UCC Financing Statement on April 6, 2012, that gave notice of a security interest in all of Global Auto’s “assets and properties wherever located, including without limitation all equipment of any kind or nature, all vehicles, vehicle parts and inventory now owned or hereafter acquired, without limitation, purchase money inventory, the purchase of which was financed or floorplanned by Dealer Services Corporation for Debtor of whatever kind or nature, and all returns, repossessions, exchanges, substitutions, attachments, additions, accessions, accessories, replacements, and proceeds thereof; all accounts, accounts receivable, chattel paper, and general intangibles now owned or hereafter acquired by Debtor together with the proceeds thereof;”

28. There is no indication that Defendants did anything to provide BT with his own security, through car titles or otherwise, for the 1st BT Note. There is no indication that Defendants used the \$50,000 from BT to buy vehicles or that Defendants tracked any vehicles as being purchased using the \$50,000 from BT.

29. In June of 2016, BT learned (through BT’s brother) that Longson and his business was seeking to obtain additional investor funding. BT reached out to Longson and eventually they decided that BT would provide additional funds of \$50,000. Longson provided BT with a second promissory note (“2nd BT Note”) that was similar to the first note and replaced the first note.

30. The 2nd BT Note stated that the borrower was Global Auto, that the amount owed to BT was \$100,000, that the note was “Revised (Investment increase),” that monthly interest-only

payments of \$813.33 (10%) would be paid, and the balance (i.e. principal of \$100,000) was due on July 2, 2018. The note also stated in bold: **“This note is secured by Titles to vehicles purchased with said funds. All titles shall be held in a safe place and will be accessible at all times to Investor upon request.”** Longson executed the 2nd BT Note on behalf of Global Auto, which note was dated June 2, 2016. As stated in the bolded portion above, the 2nd BT Note referred to BT as an “Investor.” BT’s wife (LT) wrote a check dated June 2, 2016, to Global Auto for \$50,000, with the note: “for Investment.”

31. There is no indication that Defendants did anything to provide BT with his own security, through car titles or otherwise, for the 2nd BT Note. There is no indication that Defendants used the \$100,000 from BT to buy vehicles or that Defendants tracked any vehicles as being purchased using the \$100,000 from BT.

Defendants Wind Down The Business, Cannot Pay Investors in Full, and Have No Security Protection for BT’s Investment

32. Global Auto and Xtreme Finance made its interest-only payments to the investors for several years. Global Auto and Xtreme Finance sold and financed many vehicles during its several years of operation. For a considerable period, Barrington and Longson paid themselves each a \$13,000 monthly salary out of the businesses.

33. The businesses, however, hit hard times and stopped making payments to its investors in late 2018. For example, BT had been receiving his monthly interest payments on the 2nd BT Note past the maturity date of July 2, 2018. He received those monthly payments through October of 2018. Defendants made interest payments totaling \$24,166.28 to BT from approximately May 2016 through October 2018. However, payments then stopped, and BT did not receive repayment of the remaining balance, the principal of \$100,000.

34. Global Auto liquidated in 2018, selling its vehicle inventory, and Xtreme Finance

continued collecting on its private auto loans. The business could not pay back all of its creditors and investors. Defendants worked out modifications for various of its creditors and investors.

35. During the windup of the business in late 2018 and into 2019, BT asked to confirm that his 2nd BT Note was “secured by Titles to vehicles purchased with said funds.” Defendants could not provide any evidence of specific vehicles purchased with BT’s funds or that were held as security for his investment.

36. On February 19, 2020, BT and his wife filed suit against Longson and Global Auto seeking to recover their \$100,000 investment. Longson brought a motion to dismiss the entire case that was unsuccessful. Thereafter, in approximately July of 2020, Longson paid \$40,000 to BT to settle BT’s claims against Longson. BT amended the lawsuit to add Barrington and continues to seek a judgment against Global Auto and Barrington.

CLAIMS FOR RELIEF

COUNT ONE

Securities Fraud - False and Misleading Statements and Omissions (Defendants Longson and Global Auto) (Violation of Idaho Code § 30-14-501)

37. The allegations of the paragraphs 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. Longson’s misrepresentations, on behalf of Global Auto, to BT related to his investment being secured through vehicle titles were made in connection with the offer, sale or purchase of securities. Global Auto and Longson’s misrepresentations were false and misleading,

constituting violations of Idaho Code § 30-14-501(2).

40. Longson's omissions of material facts and failures to disclose to investors and prospective investors as set forth in paragraphs 24-25 above (e.g., related to the 2010 A&O) were made in connection with the offer, sale or purchase of securities, and constitute violations of Idaho Code § 30-14-501(2) as to each omission and failure to disclose to each investor.

41. Per the plain language of the statute and Idaho case law, intent is not an element of the claim.

COUNT TWO
Offer and Sale of Unregistered Securities
(All Defendants)
(Violation of Idaho Code § 30-14-301)

42. The allegations of the paragraphs above are realleged and incorporated herein as if set forth verbatim.

43. Defendants offered for sale and sold in Idaho securities in the form of promissory notes and/or investment contracts. Notes are defined as securities in Idaho Code § 30-14-102(28).

44. Such securities were not registered with the Department as required by Idaho Code § 30-14-301.

45. Pursuant to Idaho Code § 30-14-301, it is unlawful to offer or sell unregistered securities.

46. Defendants' solicitation of and sale of securities to several Idaho investors, without those securities being properly registering in Idaho, constitutes a violation of Idaho Code § 30-14-301.

47. Per the plain language of the statute and Idaho case law, intent is not an element of the claim.

COUNT THREE
Offer and Sale of Securities by an Unregistered Issuer Agent
(Respondent Longson)
(Violation of Idaho Code § 30-14-402)

48. The allegations of the paragraphs above are realleged and incorporated herein as if set forth verbatim.

49. In effecting or attempting to effect purchases or sales of securities to various investors, Longson was acting as an agent of the issuer (Global Auto and Xtreme Finance), as defined by Idaho Code § 30-14-102(2).

50. Idaho Code § 30-14-402 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"

51. Longson's solicitation and sale of Global Auto and Xtreme Finance securities to several Idaho investors, including receiving compensation of \$13,000 a month, without properly registering with the Department as an agent of the issuer, constitutes a violation of Idaho Code § 30-14-402.

52. Per the plain language of the statute and Idaho case law, intent is not an element of the claim.

PRAYER FOR RELIEF

WHEREFORE, the Department prays for judgment in favor of the Department 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., as to Counts One through Three 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 the Act or any rule promulgated thereunder, pursuant to Idaho Code § 30-14-603(b)(1), and in particular, that they be permanently enjoined from selling or offering for sale securities in any form in the state of Idaho and from engaging in the business of advising others as to the value of securities or the advisability of investing in, purchasing, or selling securities in the state of Idaho.

3. That Defendants be ordered to pay a civil penalty of up to \$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), and that the Court award a money judgment in favor of the Department in such amount.

4. That Defendants be ordered to make restitution to investors, including BT, pursuant to Idaho Code § 30-14-603(b)(2)(C); that Defendants pay this amount to the Department, to be held for the benefit of and to be delivered to investors; that the Court award a money judgment in favor of the Department in such amount; and that such restitution be deemed not an asset of the Department.

5. That the Department be awarded attorney fees and costs incurred in the preparation and prosecution of this action, pursuant to Idaho Code §§ 12-117 and/or 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.

6. That for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. § 523, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Defendants under any judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Defendants of the federal or state securities laws or any regulation or order issued under such laws, as set forth

in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. § 523(a)(19).

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

DATED this 22nd day of December 2021.

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL

/s/ Loren K. Messerly
LOREN K. MESSERLY
Deputy Attorney General