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STATE OF IDAHO
COUNTY OF BOUNDARY
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**IN THE DISTRICT COURT OF THE FIRST JUDICIAL DISTRICT
OF THE STATE OF IDAHO, IN AND FOR BOUNDARY COUNTY**

STATE OF IDAHO, DEPARTMENT OF
FINANCE, SECURITIES BUREAU,

Plaintiff,

vs.

KIP HARTMAN,

Defendant.

Case No. CV. 2012. 0375

COMPLAINT

Fee category: Exempt

COMES NOW the State of Idaho, Department of Finance, Gavin M. Gee, Director, (the 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

ASSIGNED TO

JUDGE Verby

have either violated or are about to violate provisions of the Act or any rule promulgated thereunder.

2. Kip Hartman (Hartman) is an individual residing in Bonners Ferry, Boundary County, Idaho. The acts and practices herein comprising violations of law by the above-named defendant occurred primarily in Boundary County, Idaho.

CASE SUMMARY

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

4. The Department alleges that Hartman offered or sold securities in the form of life settlement contracts issued by Retirement Value, LLC (RV), of Texas, to at least five Idaho investors, in an aggregate amount of \$439,882.31. Hartman received \$49,236.08 in commissions from the sale of these life settlement contracts.

5. Hartman defrauded investors by misrepresenting the investment and by omitting material information from the investor solicitations. Hartman failed to register these securities, he failed to register as an issuer agent, and he failed to register as an investment adviser, all as required by law.

6. Hartman was well compensated for selling the life settlement contract to investors, but his investors received no return on their investment, and may have lost the investment. Despite demand, the invested funds have not been returned.

7. Hartman claimed to be an investment adviser and advised investors about investing in securities, but he was not registered with the Department to transact business as an investment adviser.

DEFENDANT

8. Defendant Kip Hartman graduated from high school in 2003. He obtained an Idaho insurance license on October 7, 2005, and has since worked in the insurance industry.

9. Hartman has never registered as a securities agent, representative, or investment adviser.

10. Hartman formed Hartman, LLC as a Nevada limited liability company on February 4, 2010. Hartman later dissolved Hartman, LLC and formed Hartman, Inc., dba Hartman Financial, Inc., a Nevada corporation, on August 1, 2011.

11. Neither of Hartman's companies has ever registered with the Department as a broker-dealer.

12. Hartman provides financial planning services to clients, which includes insurance and investment advice. Hartman's last known residence was on Sweetwater Road in Bonners Ferry, Idaho.

FACTS

Retirement Value, LLC

13. Retirement Value, LLC (RV) is a Texas limited liability company formed by Richard H. Gray (Gray) to engage in the business of selling investments in the death benefits of life insurance policies, which policies are also referred to as "life settlement contracts," or "viatical settlements." RV marketed and referred to the investments as its "Re-Sale Life Insurance Policy Program."

14. After an investigation, on March 29, 2010, the Texas Securities Commissioner entered an Emergency Cease and Desist Order against RV and others for engaging in fraud in connection with the offer and sale of securities, for offering for sale unregistered securities and

for offering for sale securities without being registered as a dealer or agent.

15. On April 9, 2010, the Texas Insurance Commissioner entered an Emergency Cease and Desist Order against RV and Gray for committing fraudulent and dishonest acts and/or engaging in unfair and deceptive acts or practices in the business of insurance.

16. On May 5, 2010, the State of Texas filed a lawsuit against RV, Gray, and others, alleging violations of the Texas Securities Act, to include that the defendants offered and sold unregistered securities; that the defendants and various agents were not registered as dealers, agents or salesman as required by law; that the defendants engaged in fraud and fraudulent practices in connection with the sale of securities; and that the defendants violated the Texas Deceptive Trade Practices Act. RV was placed in receivership because of this action. As of the date of this complaint, the suit is currently pending.

17. Although Gray and RV offered and sold the securities in an allegedly fraudulent manner, the underlying life settlement policies are real, and have value. These are now held by the Receiver. The Receiver has estimated that if it holds the RV Life Settlements to maturity, the investors could obtain 100% return of their investment, give or take 20%. However, this plan was complicated by a subsequent bankruptcy filing. Additionally, holding the securities to maturity entails certain risks, among them that the insured individuals will outlive the paid up premiums, and new premiums will need to be paid to keep the policies in force. The ultimate return to investors is unknown and speculative.

Defendant Hartman

18. Hartman lured clients by asserting that he was able to help them make better decisions about their finances because he worked with their attorneys and accountants, as a team. Hartman claimed that he was able to work with any product available in the market, including

insurance, securities and commodities investments, and that he was qualified to do estate planning. Hartman stated, verbally to clients and/or in advertising materials, that he was a registered investment adviser, a certified financial planner, and that he had completed the Series 7 and Series 65 securities exams. Hartman possessed none of these credentials.

19. Hartman advertised that he had taken Certified Financial Planner and Chartered Life Underwriter courses, and that he had earned the Financial Services Specialist designation. None of those statements were true.

20. Hartman became acquainted with RV sometime in or around the end of 2009. On December 15, 2009, Hartman entered into licensing and compensation agreements with RV whereby he would be paid a gross commission of 12 percent on the total amount invested into the Re-Sale Life Insurance Policy Program.

21. Once signed with RV, Hartman began offering the Re-Sale Life Insurance Policy Program to investors.

22. In order to beguile investors into signing the agreements, Hartman made the misrepresentations set forth below. Hartman also omitted from his sales pitch material information necessary to make an informed investment decision. These misrepresentations and omissions were made at various times, but were made primarily in or around Bonners Ferry and Sandpoint, Idaho. The misrepresentations and omissions were made, typically, in the days immediately preceding a given investment.

23. Hartman offered or sold RV's Re-Sale Life Insurance Policy Program to five investors in the total amount of \$439,882.31, thereby making commissions totaling \$49,236.08.

24. Hartman, at all times material herein, was not registered with the Department or the Financial Industry Regulatory Authority (FINRA) as a broker-dealer, or as a broker-dealer

agent.

25. Hartman has never been registered with the Department as an investment adviser.

26. The securities sold by Hartman were not registered with the Department.

Investors

27. Beginning by at least January 2010, and continuing through March 2010, Hartman solicited, offered and/or sold unregistered securities to at least five investors. Hartman's misrepresentations and omissions of material facts were made in conversations between Harman and investors that occurred in the days preceding the investments.

Investor L.G.

28. In late 2009, L.G. began speaking with Hartman about several different investment options for some recently inherited money. During these discussions, Hartman convinced L.G. that he was a financial expert. Hartman told L.G. that he was a registered investment adviser, a certified financial planner, and that he had completed the Series 7 and Series 65 securities exams. Hartman possessed none of these credentials.

29. Hartman told L.G. that he could help her with investing in securities, covered calls, options, mutual funds, and/or insurance.

30. Hartman told L.G. that he had made \$20 million by "shorting" the housing market.

31. L.G. told Hartman it was imperative that she protect her principal, and that she could not afford to make any mistakes with her investment. She told him she wanted to make the safest investment, and the best return, that she could.

32. As discussions progressed, Hartman pushed L.G. toward the RV investment. He told her that an investment into RV's Re-Sale Life Insurance Policy Program would be the best

fit for her. He also created a sense of urgency by pointing out to her that certain of the life settlement policies had become fully subscribed and were no longer available, and that if she wanted to select her own policies, which Hartman knew she did, she would have to hurry.

33. Hartman told L.G. that the RV investment was low risk because everyone dies. He said that the only risk was time, that is, when she would receive the return on her investment. Hartman thus led L.G. to believe that the return on her investment was guaranteed.

34. Hartman did not tell L.G. of the risk that the insured could outlive the pre-paid premiums, in which case it would require additional investment from her to preserve the policy. Hartman also did not tell L.G. that she could lose the entire principal amount invested if such additional policy premiums were not paid.

35. Hartman told L.G. that she would be able to get her investment moneys back upon ten days or two weeks' notice, that she could expect a 16 percent average rate of return on the investment, that he had personally invested in the RV Re-Sale Life Insurance Policy Program, and that he successfully "cashed out" at least part of his investment.

36. Hartman eventually convinced L.G. to invest \$100,000 into RV's Re-Sale Life Insurance Policy Program through Hartman, which she did on January 13, 2010. Hartman received a \$12,000 commission off L.G.'s investment.

37. Not long after making the investment with Hartman, L.G. decided she wanted her money back. At that time, Hartman confirmed to L.G. that it would take a week to 10 days to get her money back. However, to date, L.G. has not had her investment principal returned to her, nor has she received any return on the RV investment.

Investor F.S.

38. Investor F.S. first became aware of Hartman through a friend who suggested that

F.S. contact Hartman to discuss his finances.

39. When F.S. met with Hartman to discuss his finances, Hartman mentioned RV's Re-Sale Life Insurance Policy Program. Hartman told F.S. that if he invested into the program, he would own a percentage of several life settlement policies. Hartman explained that F.S. would profit from the investment upon the death of the insured. Based on Hartman's representations, F.S. understood that he would receive 14 to 20 percent or more of the maturity value of the policy. Hartman further told F.S. that the investment was low risk.

40. Based on Hartman's representations and recommendations, F.S. attempted to roll over the amount of \$29,581.63 into a Traditional IRA with Hartman on January 11, 2010, and invested in in the RV program.

41. Hartman did not receive a commission from F.S.'s investment either because by that time, RV was under regulatory scrutiny and ceased paying commissions, or because the IRA rollover was not ultimately successful.

Investor S.D.

42. S.D. is the trustee of the P.P.D. Revocable Living Trust (the Trust). S.D. was referred to Hartman by an acquaintance who was impressed with what she thought were the creative ways Hartman could make her money with fewer fees involved.

43. S.D. and Hartman met several times in January, 2010, to discuss S.D. investing with Hartman. During these discussions, S.D. told Hartman that S.D.'s chief investment goal was safety of his principal. S.D. told Harman how the Trust had lost hundreds of thousands of dollars recently, and he did not want to lose any more. He told Hartman that "I wanted as much as possible a low-risk or risk-free investment. I didn't want to take any chances. I was willing to take less yield. I just didn't want to lose any more."

44. S.D. told Hartman that the investment “is all I have. This is my retirement.”

45. To induce S.D. to place the investment with him, Hartman told S.D.: he could offer S.D. any service that Edward Jones could offer; that he could help S.D. invest in futures if S.D. desired; that the investment was guaranteed, because everyone is going to die; that S.D. would be buying specific policies from specific people; that Hartman could sell the policy to someone else and return S.D.’s principal; that S.D. could get the principal out anytime by paying a small fee; that he had purchased some of the policies himself; and that S.D. could expect a return of 16% to 18%;

46. On or about February 16, 2010, S.D. invested \$181,300.68 into RV’s Re-Sale Life Insurance Policy Program through Hartman. Hartman received a \$21,756.08 commission from the investment.

47. To date, S.D. has not received any return on the investment made with Hartman. Further, S.D. has been not received the return of the investment principal.

Investor G.P.

48. Investor G.P. became aware of the investment opportunity with RV through Hartman around the end of 2009 from one of G.P.’s friends who was also discussing the investment opportunity with Hartman.

49. Hartman provided G.P. with a background on himself, to include that he was an investment adviser who managed large accounts. Hartman also told G.P. that he was licensed to sell securities and insurance.

50. During a discussion regarding the investment opportunity with RV, Hartman explained to G.P. that as an investor, she would own a percentage of a life insurance policy, depending on the amount invested. Hartman further explained that upon the death of the insured,

the policy matured and the proceeds were paid to investors. G.P. understood that she would be able to choose in which insurance policies she could invest. Hartman told G.P. to expect a 14 to 20 percent return on her investment. Hartman also told G.P. that the investment was low risk – it was a “sure investment” because eventually, the policies would mature. Hartman informed G.P. that he had personally invested in the RV Re-Sale Life Insurance Policy Program, and that he had made money from his investment.

51. Following Hartman’s recommendations, G.P. liquidated \$29,000 from an investment account with Fidelity and invested it into RV’s Re-Sale Life Insurance Policy Program through Hartman. Hartman received a \$3,480 commission off G.P.’s investment.

52. To date, G.P. has not received any return on the investment made with Hartman. Further, G.P. has been unable to receive the return of her investment principal

Misrepresentations

53. To induce investors to invest, Hartman made several false representations.

a. Hartman told investors that the Re-Sale Life Insurance Policy Program was not a security. That was false because the Re-Sale Life Insurance Policy Program is a security as that term is defined by Idaho Code § 30-14-102(28)(e), which defines a security as including “a viatical settlement, life settlement or senior settlement or similar agreement.”

b. Hartman represented to some investors that the investment was low risk or risk free, and that the invested principal was safe. However, it was a risky investment because Hartman placed the investment with a company that has been taken over by a receiver and its owner accused of fraud. The principal was not safe because the investors cannot get their investment returned.

c. Hartman led investors to believe that there was a guaranteed return on the

investment by saying that it was only a matter of when an insured would die, not if. But, the return was not guaranteed because an insured could outlive the pre-paid policy premiums. In that case, if additional premiums were not paid by the investor, the entire investment could be lost. Additional investments into premiums would also reduce the returns.

d. Hartman represented to some investors that they could withdraw all or part of the invested funds with two weeks or so notice. This is false because the policies are illiquid until the insured dies and the policy matures. This is also false because investors have been unable to withdraw their funds, despite requests. Several investors have asked for return of their funds, but Hartman has not returned the money.

e. Hartman represented to some investors that they could obtain return of all or part of the invested funds by selling the policy to another investor. This is false because the policies were owned by RV, and the investment was structured so that investors were loaning RV money to buy policies. Investors had no ability to sell RV's policy.

f. Hartman told investors that he had personally invested into RV's Re-Sale Life Insurance Program. However, Hartman never invested his own funds with RV.

g. Hartman told investors and represented in advertisements provided to investors and prospective investors that he was an investment adviser, implying that he was registered with the Department in that capacity. This is false because Hartman has never been registered as an investment adviser.

h. Hartman told investors that he was licensed to sell securities. This is false because Hartman has never been licensed to sell securities.

i. Hartman told investors that he was a registered investment adviser, a certified financial planner, and that he had successfully completed the Series 7 and Series 65 securities

exams. This was false because Hartman never possessed such credentials.

Material Omissions

54. Hartman 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 Hartman. Hartman failed to disclose the following material information:

- a. Information about Hartman's financial condition or operating history;
- b. Information about RV's financial condition or operating history;
- c. Information about Richard H. Gray, RV's owner, chief executive officer, and member;
- d. That the State of Texas was investigating RV for violations of Texas securities laws;
- e. That investors may be required to pay additional monies in the instance that an insured lived beyond their estimated life expectancy and there was not enough in reserves to pay policy premiums to keep a policy in-force;
- f. That investors could lose the entire principal amount invested if additional policy premiums were not paid in certain circumstances, as described above;
- g. That the investment was not liquid;
- h. The amount and type of compensation paid to Hartman, despite requests;
- i. That Hartman was not registered as an agent to sell the securities, as required by Idaho's Uniform Securities Act (2004);
- j. That the Re-Sale Life Insurance Policies were securities issued by RV, but were not registered as required by Idaho's Uniform Securities Act (2004);

- k. That Hartman was not registered as an investment adviser; and
- l. That he was not a registered investment adviser or a certified financial planner.

COUNT ONE
(Fraud - False and Misleading Statements)

55. The allegations of paragraphs 1, 2 and 8 through 54 above are realleged and incorporated herein as if set forth verbatim.

56. 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.

57. Hartman's misrepresentations to investors and prospective investors as set forth in paragraph 53 and its subparagraphs were made in connection with the offer, sale or purchase of securities. Hartman's misrepresentations were false and misleading, constituting violations of Idaho Code § 30-14-501(2) as to each misrepresentation to each investor.

58. Hartman's omissions of material facts and failures to disclose to investors and prospective investors as set forth in paragraph 54 and its subparagraphs 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.

COUNT TWO
(Fraudulent Conduct)

59. The allegations of paragraphs 1, 2 and 8 through 54 above are realleged and incorporated herein as if set forth verbatim.

60. 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.

61. Hartman's acts as set forth in paragraphs 1, 2 and 8 through 54 above were made in connection with the offer, sale or purchase of securities. His conduct as described in paragraphs 1, 2 and 8 through 56 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. The fraud was accomplished by luring people into the investment with misrepresentations and omissions, all as alleged in paragraphs 1, 2 and 8 through 54 above.

62. Hartman furthered the fraud by lying about his credentials, and by giving investment advice when he was not licensed to do so.

COUNT THREE
(Failure to Register as an Investment Adviser)

63. The allegations of paragraphs 1, 2 and 8 through 54 above are realleged and incorporated herein as if set forth verbatim.

64. Idaho Code § 30-14-102(15) defines investment adviser as any person who, for compensation, engages in the business of advising others as to the value of securities or the advisability of investing in, purchasing, or selling securities.

65. Idaho Code § 30-14-403(a) states that it is unlawful for a person to transact business in Idaho as an investment adviser unless registered with the Department as such.

66. Hartman advised his clients to purchase the RV securities. He also advised them to sell other securities in order to purchase RV securities.

67. By giving this advice, Hartman transacted business in Idaho as an investment adviser. Hartman was not registered as an investment adviser with the Department as required

by Idaho Code § 30-14-403(a).

68. Hartman's investment advice to his clients while not registered as an investment adviser with the Department constituted violations of Idaho Code § 30-14-403(a).

COUNT FOUR
(Unregistered Securities)

69. The allegations of paragraphs 1, 2 and 8 through 56 above are realleged and incorporated herein as if set forth verbatim.

70. Hartman sold or offered for sale in Idaho securities in the form of life settlement contracts. Such securities were not registered with the Department as required by Idaho Code § 30-14-301.

71. Hartman's selling or offering of unregistered securities constituted violations of Idaho Code § 30-14-301.

COUNT FIVE
(Failure to Register as an Agent)

72. The allegations of paragraphs 1, 2 and 8 through 56 above are realleged and incorporated herein as if set forth verbatim.

73. Idaho Code § 30-14-102(2) states that any individual who represents an issuer in effecting or attempting to effect purchases or sales of the issuer's securities is an agent under the Act.

74. Idaho Code § 30-14-402(a) states that it is unlawful for an individual to transact business in Idaho as an agent unless registered with the Department as such.

75. Hartman transacted business in Idaho as an agent of issuer RV when he offered and sold RV securities to his clients. At the time of these transactions, Hartman was not registered as an agent with the Department as required by Idaho Code § 30-14-402(a), thereby

violating that statute.

PRAYER FOR RELIEF

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

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

78. That Hartman 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 he be permanently enjoined from selling or offering for sale securities in any form in the state of Idaho.

79. That Hartman 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), for total penalties of at least \$50,000, and that the Court award a money judgment in favor of the Department in such amount.

80. That Hartman be ordered to disgorge commissions paid as a result of the sale of RV's Re-Sale Life Insurance Policy Program to investors, pursuant to Idaho Code § 30-14-603(b)(2)(C), in the amount of \$49,236.08; that Hartman pay that 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 disgorgement be deemed not an asset of the Department.

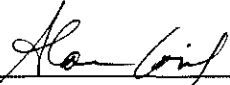
81. That the Department be awarded attorney fees and costs incurred in the preparation and prosecution of this action, pursuant to Idaho Code §§ 26-3106(1)(c) and 12-121,

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.

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

DATED this 9 day of OCTOBER, 2012.

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL



ALAN CONILOGUE
Deputy Attorney General