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APP 0.8.1998

J. DAVID NAVARRO, Clerk  
By JENNIFER DOWNING  
DEPUTY

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

State of Idaho, Department of Finance, )  
 )  
 )  
 Plaintiff, )  
 )  
 vs. )  
 )  
 Louise Martinez Schneider, )  
 )  
 Defendant. )

Civil No. 96017970

COMPLAINT

Fee Category: Exempt

Comes now the State of Idaho, Department of Finance, Gavin M. Gee, Director, by and through counsel, to complain and allege as follows:

JURISDICTION

1. This action is brought under the provisions of the Idaho Securities Act, Title 30, Chapter 14, Idaho Code, and in particular Idaho Code §30-1442 wherein the Director of the Idaho Department of Finance (Department) is empowered to bring actions seeking injunctive and other relief against defendants who have either violated or are about to violate provisions of the Idaho Securities Act (Act) or any Rule thereunder.

**VENUE**

2. The acts and practices alleged herein comprising violations of law by the above-named Defendant occurred in the conduct of trade and commerce in Ada County and elsewhere in the State of Idaho.

**DEFENDANT**

3. Defendant Louise M. Schneider (Schneider) resides at 2305 Claremont Drive, Boise, Idaho. Schneider has conducted business under the assumed business names: Louise M. Schneider and Associates, LMS Investment Management, Louise M. Schneider Investment Management, Schneider Capital Management, and Schneider and Bishop Investments.

4. Schneider has been licensed as a securities salesperson with the Idaho Department of Finance at various times since November 1981. Schneider has been employed at the Boise, Idaho branch offices of the following broker-dealer firms.

- a. November 1981 - November 1983; Merrill Lynch, Pierce, Fenner and Smith.
- b. November 1983 - January 1989; Prudential Securities Incorporated (formerly Prudential-Bache Securities).
- c. January 1989 - March 1991; Shearson Lehman Brothers (now Smith Barney, Inc.). Schneider was allowed to resign from the firm following an internal review of her handling of an account. She was cited by the firm on her Form U-5 ("Uniform Termination Notice for Securities Industry Registration") as being a "compliance risk."
- d. June 1991 - September 1991; Linsco/Private Ledger.

- e. September 1991 - January 1994; Aurex Financial Corporation.
- f. April 1994 - March 1996; Multi-Financial Securities Corporation. Schneider was terminated from Multi-Financial on March 8, 1996. The reason provided by the firm for Schneider's discharge was: "Violation of firm policy". The firm stated on Schneider's Form U-5: "In response to the firm's request for information regarding a verbal complaint from [a customer], the firm discovered that Schneider had executed promissory notes and accepted an investment in a business enterprise from a customer of the firm."

5. Coincident with her employment as a registered securities salesperson, Schneider also participated in art-related business activities. These business dealings took the form of buying and selling artwork for her own account, and participation in at least two local art galleries. Schneider offered and sold investment contract interests in her personal art inventory to various individuals, including securities clients. Additionally, Schneider created joint-venture investment interests in specified pieces of art with various individuals, including securities clients.

6. Schneider was the subject of an investigation initiated by the Idaho Department of Finance between 1991 and 1992. The alleged violations of the Idaho Securities Act resulting from the investigation were settled with the execution of an administrative Agreement and Order between Schneider and the Department on June 27, 1994 (Docket No. 1994-7-56). In that Order, Schneider admitted

violations of the Idaho Securities Act and agreed to multiple remedial sanctions. It was also agreed that any violations of the Act or the Agreement and Order after its execution would allow the Department to use all allegations contained in the Agreement and Order in any subsequent proceeding. A true and correct copy of that Order is attached as Exhibit A.

7. Following a customer complaint made to the Department in October 1994, a second investigation of the securities related activities of Schneider was begun by the Department. That investigation has resulted in the filing of this action.

#### BACKGROUND

##### MONEY TAKEN BY SCHNEIDER INTO BANKING ACCOUNTS OWNED OR CONTROLLED BY SCHNEIDER

##### Loans From Customers

8. Beginning on a date uncertain, but at least since 1991, Schneider has accepted loans from various of her securities clients. These loans bear varying terms and interest rates. Schneider used the proceeds from the loans to pay her personal and business expenses, as well as other creditors.

9. Borrowing money from a customer is defined in Rule 117.20 of the rules pursuant to the Idaho Securities Act as a "deceptive or manipulative act or practice." IDAPA 12.01.08.117.20. Pursuant to Rule 110, deceptive or manipulative acts "operate as a fraud or deceit", as that phrase is used in Idaho Code §30-1403(3).

##### Investment Contract Securities

10. Beginning on a date uncertain, but at least since 1989,

Schneider offered and sold unregistered investment contract securities to various of her securities clients and other Idaho residents. Schneider promised investors and offerees various stated rates of return with the prospect of additional profits that would be derived through Schneider's expertise in buying and selling artwork. Investors were led to believe that their investment was, in part, collateralized by an existing art inventory owned solely by Schneider. Investors were also led to believe that a portion of investment proceeds might be used to purchase additional artwork that Schneider could sell profitably. Some investors were led to believe that they were investing jointly with Schneider in one or more specified pieces of art. The offer and sale of unregistered securities is prohibited by Idaho Code §30-1416.

11. In connection with the offer and sale of the unregistered investment contract securities, Schneider made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, in violation of Idaho Code §30-1403(2).

12. In connection with the offer and sale of the investment contract securities, Schneider engaged in acts, practices, and courses of business that operated or would operate as a fraud or deceit, in violation of Idaho Code §30-1403(3).

#### Insolvency

13. By way of background, insolvency is grounds for

revocation of the registration of a securities salesperson. Idaho Code §30-1413(8) defines insolvency as being, "either in the sense that his liabilities exceed his assets or in the sense that he cannot meet his obligations as they mature...." Schneider is insolvent. Her insolvency is relevant to allegations of fraudulent conduct set forth hereinafter. The following are short histories of Schneider's relationships with three local banks.

14. First Security Bank. Schneider's banking relationship with First Security Bank (FSB) has been ongoing since the early 1980's. In April 1990, Schneider owed FSB over \$80,000 under various unsecured notes. During March 1991, Schneider sought and received an additional funding commitment from FSB for \$115,000. Schneider's personal income was promised as the primary source of repayment for this loan. The secondary source of repayment was the liquidation of artwork owned by Schneider and pending income tax refunds. On August 26, 1991, FSB denied Schneider's request for a \$12,000 extension of credit. Schneider's obligation to FSB was "charged-off" by the bank on November 26, 1991. The charge-off totaled \$249,323.42. The charge-off affected the bank's reported assets but did not result in a forgiveness of the debt.

15. FSB "work-out"/collection specialists negotiated loan repayment agreements with Schneider on four separate occasions between December 1991 and February 1994. In each instance, Schneider admitted that she was in default on the outstanding obligation. Schneider failed to meet the terms of each succeeding loan workout arrangement. Today, Schneider's personal debt to FSB exceeds \$300,000. She has not made any payments to FSB in over one

year.

16. First Interstate Bank. Between 1990 and 1992, Schneider obtained several loans from First Interstate Bank (FIB). These loans included a home-equity line of credit and other unsecured loans. The primary source of loan repayment on at least one of the unsecured loans was to be proceeds from the sale of artwork owned by Schneider.

17. In January 1992, FIB placed Schneider's loans on "zero accrual" and downgraded the loans again due to the borrower's payment history and to reflect the higher risk associated with the loans. FIB continued loan collection activities and suspended additional extensions of credit under Schneider's line of credit in May 1992. FIB had continual payment problems with the Schneider loans during 1992 and 1993. FIB began foreclosure proceedings against the Schneider home-equity loan in August 1993 but halted these proceedings when the loan was brought current. In October 1993, Schneider was sued by FIB to collect on her outstanding personal note. Schneider paid off this note on October 28, 1993. October 28, 1993 is also the date Schneider obtained loan proceeds from a securities client. It remained necessary for FIB to conduct sporadic collection efforts to obtain payment on Schneider's home-equity loan. FIB again threatened foreclosure in September 1994.

18. West One Bank. Schneider paid off the First Interstate Bank home-equity loan during 1995. She did this by obtaining a \$70,000 home equity loan from West One Bank. In her loan application/financial statement given to West One Bank, Schneider failed to a) report the more than \$300,000 that she still owed to

First Security Bank, b) inform the bank of the previous collection lawsuit filed by First Interstate Bank, and c) properly disclose that she had experienced any past due debts.

### Analyses of Customer Accounts

19. Following are analyses of wrongful activities by Schneider in four separate customer accounts. These analyses are set forth for purposes of illustrating the types of violative conduct engaged in by Schneider, as well as specific wrongdoing in these accounts. The following four customers are not the only customers for whom redress is sought through this action.

#### Customer JS

20. JS was a securities customer of Schneider while Schneider was employed by Shearson Lehman Brothers. JS's date of birth was November 23, 1915. At all times relevant to this complaint, JS was a widow. Schneider noted on JS's new account form at Shearson that no discretionary authority was to be exercised over JS's account.

21. On August 10, 1989 Schneider caused a \$15,000 check to be drawn against the securities account of JS. Withdrawal of the \$15,000 resulted in depletion of accumulated cash, redemption of money market funds, and the incurring by JS of a margin balance in excess of \$9,500. Prior to this transaction, JS had no margin liability in this account. Schneider took possession of this check, which had been made payable to JS, cross-endorsed the check and deposited the check into a checking account owned and controlled by Schneider.

22. On January 26, 1990 Schneider caused a \$10,000 check to



be drawn against the securities account of JS in the payee name of "First Security Bank for [JS] #10333 17 0047". JS incurred additional margin borrowing in her account due to issuance of the \$10,000 check. Schneider took possession of this check and deposited it into a checking account owned and controlled by Schneider. In obtaining this check, Schneider signed JS's name on a Shearson "Transfer Authorization", which is the document to be signed by a customer when funds are transferred from the customer's account to the name of, or for the benefit of, another person. At the date of this transaction, Schneider had no authority to sign on behalf of JS.

23. On December 26, 1990 Schneider caused a \$13,000 check to be drawn against the securities account of JS in the payee name "First Security Bank for 023-10333-17 N/O Schneider." Withdrawal of the \$13,000 was accomplished through a combination of selling equity securities, and increasing JS's margin balance by an amount in excess of \$9,000. Schneider took possession of this check and deposited it into a checking account owned and controlled by Schneider. In obtaining this check, Schneider signed JS's name on a Shearson "Transfer Authorization". At the date of this transaction, Schneider had no authority to sign on behalf of JS.

24. When questioned about the above transactions, Schneider testified to the Department that JS desired that her money not be kept in the securities market, but instead invested in money markets or art investments, so long as her principal would not be put at risk. Schneider testified that, following those instructions, she determined that JS's money be invested in art.

25. Following an internal review of these transactions, Shearson allowed Schneider to resign from the firm. On Schneider's Form U-5, Shearson stated that Schneider was a "compliance risk/does not adhere to company policy."

26. JS submitted a claim to Shearson based on her losses due to the above transactions. Shearson paid JS \$62,408.04, representing \$38,000 principal transferred from her account, plus interest. Shearson has submitted a claim in arbitration against Schneider to recover the money paid to JS. That claim is pending.

27. If, as testified by JS, the withdrawals by Schneider were without JS's consent, two violations of the Act have occurred. First, the withdrawals were unauthorized transactions which are defined in Rule 117.08 as deceptive or manipulative acts. IDAPA 12.01.08.117.08. The unauthorized transactions operated as a fraud or deceit in violation of Idaho Code §30-1403(3).

28. In addition, the unauthorized withdrawals of JS's money, which were then deposited by Schneider into her own account, were the taking of unauthorized control of client funds (conversion). Unauthorized control of client funds operates as a fraud or deceit upon the customer in violation of Idaho Code §30-1403(3).

29. To the extent that JS authorized the withdrawal of the funds in order to invest in art, as described by Schneider, then the recommendation that securities in her account be sold in order to purchase the art investment was an unsuitable recommendation, which is defined in Rule 118 (IDAPA 12.01.08.118) as a deceptive or manipulative act. The unsuitable recommendation operated as a fraud or deceit in violation of Idaho Code §30-1403(3).

30. In addition, the withdrawal of funds from JS's account put her account into a margin position, against the instructions of JS. Because the withdrawal affected JS's account in this manner, the recommendation of sales of securities in order to purchase art was unsuitable, and a violation of Idaho Code §30-1403(3).

31. To the extent that the money withdrawn from the account of JS was later assigned to ownership interests in pieces of art, the transactions were sales of unregistered investment contract securities, as described above in Paragraph 10, and hence a violation of Idaho Code §30-1416.

32. Schneider was allowed to resign from Shearson in February 1991. She again became licensed in Idaho with Linsco/Private Ledger on June 14, 1991. JS's new account card at Linsco indicates that Schneider opened JS's Linsco account on April 18, 1991, and that JS executed the account card on May 24, 1991. Schneider was therefore transacting securities business in Idaho while not licensed to do so, in violation of Idaho Code §30-1406.

33. During May 1991, JS wired \$12,000 directly to Schneider's business bank account at First Security Bank. The \$12,000 was not forwarded to Linsco for credit to JS's securities account. On July 8, 1991 Schneider forwarded a \$6,000 check to Linsco's clearing dealer (Pershing) for credit to JS's securities account. No additional payments were made by Schneider to a securities account owned by JS until October 1994. The unauthorized use of JS's money was the taking of unauthorized control of client funds (conversion). Unauthorized control of client funds operates as a fraud or deceit upon the customer, in violation of Idaho Code §30-

1403(3).

34. Schneider testified to the Department that she guaranteed JS would not lose money in her investments. Guaranteeing a customer against loss in any securities transaction is a deceptive or manipulative practice, as defined in Rule 117.10 (IDAPA 12.01.08.117.10), and operated as a fraud or deceit in violation of Idaho Code §30-1403(3).

Customer BD

35. BD is JS's sister. Her date of birth is March 12, 1922. BD first opened a securities account with Schneider in the late 1980's, while Schneider was employed by Prudential Securities. BD moved her account to Shearson, following Schneider, during 1989. At all times relevant to this complaint, BD was a divorcee.

36. Schneider was allowed to resign from Shearson in February, 1991. She again became licensed in Idaho with Linsco Private Ledger on June 14, 1991. BD's new account card at Linsco indicates that Schneider opened BD's Linsco account on April 18, 1991, and that BD executed the account card on May 26, 1991. Schneider was therefore transacting securities business in Idaho while not licensed to do so, in violation of Idaho Code §30-1406.

37. On May 29, 1991, BD wired \$12,000 directly to Schneider's business bank account at First Security Bank. BD has testified to the Department that she never intended to loan any funds to Schneider, or to invest in art. The \$12,000 was not forwarded to Linsco for credit to BD's securities account. On July 8, 1991 Schneider forwarded a \$6,000 check to Linsco's clearing dealer (Pershing) for credit to BD's securities account.

38. Schneider left Linsco in September 1991 and became associated with Aurex Financial. BD moved her account to Aurex. In June 1992, BD unexpectedly received a \$13,751 check drawn on her account at Aurex. BD called Schneider for an explanation, and was told to return the funds to Schneider. BD wrote a \$12,000 check to Schneider, which was deposited in Schneider's business account at First Security.

39. On August 13, 1993 approximately \$19,000 was wired by Schneider to BD's current securities account, which is not managed by Schneider. Therefore, for a period of 14 - 26 months, money from BD which had been intended for investment purposes was under Schneider's personal control. The unauthorized uses of BD's money, which was deposited by Schneider into her own account, were the taking of unauthorized control of client funds (conversion). Unauthorized control of client funds operates as a fraud or deceit upon the customer, in violation of Idaho Code §30-1403(3).

Customer LH

40. LH first contacted Schneider in approximately June 1993 when she was in the process of obtaining a divorce. In April 1994, after obtaining proceeds from her divorce settlement, LH again contacted Schneider, seeking investment advice. Schneider informed LH that, because she was not then licensed as a securities salesperson, she could not conduct securities transactions.

41. Schneider informed LH that LH's money could be invested in Schneider's art investment, with a guaranteed 12% rate of return. Based upon that advice, LH wrote a check to Schneider for \$35,000, representing the balance of the proceeds from her divorce

settlement to that point, and substantially all of LH's liquid net worth. The money was deposited into one of Schneider's checking accounts, and was used to fund Schneider's ongoing personal and business expenses.

42. The art transaction described above was a sale of an unregistered investment contract security, and therefore a violation of Idaho Code §30-1416.

43. In connection with the offer and sale of the investment contract security, Schneider made various untrue statements of material fact and omitted to state material facts necessary in order to make the statements made not misleading, in violation of Idaho Code §30-1403(2).

44. No reasonable grounds existed for Schneider to believe that the recommendation to LH of an investment in the art investment contract was not unsuitable for LH, as defined in Rule 118 (IDAPA 12.01.08.118). The recommendation was therefore a deceptive and manipulative act, and operated as a fraud or deceit in violation of Idaho Code §30-1403(3).

Customer LB

45. LB received a divorce settlement in 1991. During the summer of 1994 she sold a commercial building she had received in the settlement. The proceeds of the sale represented substantially all of LB's net worth. Having little investment experience, LB was referred to Schneider for the purpose of investing her assets. LB informed Schneider she would need approximately \$45,000 to pay taxes due in April 1995 as a result of the property sale, and that she wanted to buy a house. Her stated objectives with respect to

investment of the \$45,000 were therefore liquidity and safety.

46. On or about August 17, 1994 LB opened a securities account with Multi-Financial Securities Corp. through Schneider. Schneider recommended to LB that the \$45,000 be invested in art. Schneider explained that the art investment guaranteed a 12% annual rate of return and some potential additional profits if the art investment experienced additional profits. Schneider also represented that the art investment was liquid, safe and suitable for LB's needs. LB would not be required to do anything to receive the promised returns. No additional disclosures were made regarding the investment characteristics or risks.

47. LB gave Schneider a \$45,000 check made payable to Louise M. Schneider. The check was subsequently deposited to a checking account owned and controlled by Schneider. No records or contracts were created in connection with the completion of this transaction. Within two weeks of the receipt of LB's investment, Schneider made payments in excess of \$33,000 to other art investors, investment contract purchasers and securities clients. The balance of LB's funds were used to pay Schneider's personal and business expenses.

48. LB subsequently deposited \$151,000 to her securities account with Multi-Financial. At the direction and recommendation of Schneider, LB began purchasing and selling securities. Although Schneider recommended the purchase and sale of various securities to LB, Schneider marked nearly every securities trade ticket as having been an "unsolicited" trade. Marking the trade tickets unsolicited allowed Schneider's activities in LB's account to come under less scrutiny from Schneider's supervising home office.

49. On or about October 14, 1994, Schneider solicited LB to make an additional investment in the art investment contract. Schneider informed LB that the art investment was providing a better return than anything in LB's securities account. LB followed Schneider's recommendations. To facilitate the investment, Schneider had \$25,000 wired to LB from LB's securities account. LB then wrote a check to Schneider in the amount of \$25,000. Schneider used LB's personal check to obtain a cashiers check, and deposited this check into a checking account owned and controlled by Schneider. No records or contracts were created evidencing the investment, or the terms of the investment. On the same date she deposited LB's check for \$25,000, Schneider forwarded at least \$7000 to a former client's securities account. Schneider used the balance of LB's investment to pay personal and business expenses.

50. In early 1995, representatives of the Department contacted LB. Shortly after that contact, Schneider produced to LB back-dated promissory notes, made payable to LB, to evidence the prior transactions in question. Because of LB's then complete trust in Schneider, LB executed the back-dated notes. LB also was solicited to, and did sign, various correspondence written by Schneider objecting to the Department's investigation of Schneider.

51. By August 1995, Schneider had convinced LB to become a "partner" in the art business. Toward this purported end, Schneider requested a \$25,000 check from LB. Schneider explained that to make the partnership official, LB needed to give Schneider the \$25,000, but only temporarily; the \$25,000 was to be returned



to LB within two weeks. To fund this investment, it was necessary for LB to liquidate most of her remaining stock portfolio. Schneider again marked these trade tickets as unsolicited. LB gave Schneider a check for \$25,000 on or about August 12, 1995.

52. LB anticipated becoming a partner, but no partnership agreement was drawn-up and Schneider avoided any movement toward a meaningful business operation of the purported art business. Records later produced by Schneider to LB indicated that LB's last \$25,000 investment was being treated as the others, i.e., a 12% guaranteed rate of return.

53. LB began to become suspicious of Schneider's activities during the Fall of 1995. At this point, LB had nearly \$100,000 invested in the art investment contract, while very little was left invested in securities. After consultations with various advisers, LB demanded repayment on the art investment from Schneider.

54. In September 1995, Schneider directed the withdrawal of approximately \$14,000 from LB's securities account. Schneider had this check delivered to LB and explained to her that these funds represented a partial pay-back of what Schneider owed LB. Schneider subsequently paid LB an additional \$52,000 in October 1995. The \$52,000 was deposited to LB's credit union checking account. Schneider convinced LB that she had been, or soon would be, repaid in full, and that Schneider would arrange for the money to be transferred to LB's securities account. Schneider furthered this deception by recommending the purchase of more than \$90,000 in securities in LB's securities account. Unknown to LB, the purchase of the securities could not be accomplished without incurring a

significant margin position.

55. Schneider made unsuitable recommendations to LB, as defined in Rule 118 (IDAPA 12.01.08.118). Those recommendations include, but are not limited to, a) recommending the purchase of various art investment contracts, b) recommending the use of margin as a suitable investment strategy, and c) recommending the liquidation of marketable securities in order to make art investments. Those recommendations were deceptive and manipulative acts, and operated as a fraud or deceit in violation of Idaho Code §30-1403(3).

56. Schneider violated Idaho Code §30-1416 through the sale of the unregistered investment contract to LB.

57. In connection with the offer and sale of the investment contract and other securities to LB, Schneider made various untrue statements of material fact and omitted to state material facts necessary in order to make the statements made not misleading, in violation of Idaho Code §30-1403(2).

58. Pursuant to the terms of the Agreement and Order entered between the Department and Schneider on June 27, 1994, Schneider could conduct securities business only at offices with on-site supervision for a period of three years from the date of the Order. Schneider was without a supervisor from November 1994 until July 1995. During that period she continued to provide advice to LB concerning her securities account, and omitted to inform LB that she was unable to conduct securities business without an on-site supervisor. Holding herself out to LB as being able to conduct securities business during this period was a deceptive act in

violation of Idaho Code §30-1403(3).

59. Schneider directed the removal of money from the securities account of LB and told LB that these funds were repayments from Schneider for money owed to LB from the art business. Removing money from LB's account without LB's knowledge and authorization constitutes an unauthorized transaction as defined in Rule 117.08 (IDAPA 12.01.08.117.08). The unauthorized transaction was a deceptive and manipulative act, and operated as a fraud or deceit in violation of Idaho Code §30-1403(3).

60. By providing false information to LB regarding the current asset value of her securities account, and the true source of the \$14,000 payment, Schneider engaged in acts which operated as a fraud and deceit, in violation of Idaho Code §30-1403(3).

61. Schneider recommended the purchase of more than \$90,000 in securities in LB's account in order to deceive LB into believing that her total art investment had been, or soon would be, repaid. The recommendation was followed by LB. Unknown to LB, the purchase resulted in the account incurring a significant margin position. The recommendation made by Schneider was a deceptive and manipulative act, and operated as a fraud or deceit in violation of Idaho Code §30-1403(3).

62. By marking securities trade tickets unsolicited, when in fact the trades were solicited, Schneider engaged in acts, practices and courses of business which operated as a fraud and deceit, in violation of Idaho Code §30-1403(3).

**OTHER CURRENT ALLEGATIONS**

63. Schneider failed to provide prior written notice to her

employing broker-dealer firms of her business activities occurring outside the scope of her regular employment, i.e. the art business, as is required by Rule 81 (IDAPA 12.01.08.081).

64. Schneider failed to notify the Director of a claim filed against her by Smith Barney, Inc. for the recovery of money paid by the firm to Schneider customer JS. Rule 60 (IDAPA 12.101.08.060) requires notification to the Director within thirty days of receipt of the initial pleading.

#### OTHER PREVIOUS ALLEGATIONS

65. The Agreement and Order entered into between the Department and Schneider on June 27, 1994, which is attached as Exhibit A, provides that any future violation of the Act by Schneider would allow the Department to use all allegations contained in the Agreement and Order in any subsequent proceeding. Agreement and Order at Paragraph 35. The allegations contained in that Agreement and Order are, in part, as follows.

#### Unauthorized Securities Transactions

66. In March 1988, while a customer was residing out of the country, Schneider purchased an Idaho Health Facilities municipal bond in the account of the customer without the customer's knowledge or consent. The execution of a transaction which is unauthorized, as defined in Rule 117.08 (IDAPA 12.01.08.117.08), is a deceptive and manipulative act, which operated as a deceit in violation of Idaho Code §30-1403(3). Schneider admitted this violation in the Agreement and Order.

Failure to Notify the Director Of a Civil Complaint

67. Schneider failed to notify the Director of a civil complaint filed against her on August 3, 1993 by First Interstate Bank of Idaho. The Complaint and Summons were served upon her on August 4, 1993. Schneider thereby violated Rule 60 (IDAPA 12.01.08.060) which provides that a salesman shall notify the Director of any civil complaint filed against her within thirty days of receipt of the initial pleading. Schneider admitted this violation in the Agreement and Order.

COUNT ONE

The allegations contained in paragraphs 1 through 67 are hereby realleged as if fully set forth.

68. Schneider offered and sold securities to individuals in this state in violation of an antifraud provision of the Idaho Securities Act, Idaho Code §30-1403(2), in that she made untrue statements of material fact and omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading. The untrue statements of Schneider include, but are not limited to, the following:

- A. Guaranteeing a 12% rate of return on the art investment contract, without a reasonable basis for that claim.
- B. Misrepresenting that investments in the art investment contract would be used for the purchase of art, when in fact the money invested was used for Schneider's personal and business expenses.

- C. Misrepresenting that investments in the art investment contract were safe.
- D. Misrepresenting that an art investment was liquid.
- E. Misrepresenting that the purchases and sales of securities in LB's securities account were unsolicited.
- F. Misrepresenting to LB that her \$25,000 investment in the art business would be repaid within two weeks.

Omissions of Schneider include, but are not limited to, the following:

- G. Schneider failed to disclose that investments in the art business would be used to pay personal and business expenses, prior investors, and outstanding delinquent debts.
- H. Schneider failed to disclose the art inventory associated with investments, and the cost basis and market value of each art piece.
- I. Schneider failed to disclose the aggregate debt owed on the art inventory due to other investment contract purchasers and bank commitments.
- J. Schneider failed to disclose that the art inventories had previously been offered as a means of loan repayment to both First Security Bank and First Interstate Bank.
- K. Schneider failed to disclose the total investment amount invested in the program by other investors and the number of other investors involved in the art investment contract.
- L. Schneider failed to disclose her personal financial difficulties that might render her incapable of repaying

loans or investment contract guarantees.

- M. Schneider failed to disclose that she was the subject of ongoing loan collection efforts by First Security Bank since at least November 1991.
- N. Schneider failed to disclose that she was often past due on her loans with First Interstate Bank and that she was the subject of continual collection efforts since at least February 1992 through approximately September 1994.
- O. Schneider failed to disclose that First Security Bank of Idaho charged-off approximately \$250,000 owed by the Defendant in November 1991.
- P. Schneider failed to disclose that First Interstate Bank suspended additional extensions of credit during 1992.
- Q. Schneider failed to disclose that she owed First Security Bank in excess of \$200,000, and that her loan with First Security Bank had been formally renegotiated at least four times. Each time the loan was renegotiated, Schneider acknowledged that she was in default on the loans.
- R. Schneider failed to disclose her total indebtedness owed to 1) art investment contract purchasers, 2) other securities clients who had lent her money, 3) other securities clients whose money she had obtained for her personal benefit, and 4) financial institutions and other creditors.
- S. Schneider failed to disclose that she was engaging in outside business activities that required disclosure to her employing broker-dealer, and that she had failed to advise her employing broker-dealers of these outside business activities.

- T. Schneider failed to disclose the risks associated with an investment in art.
  - U. Schneider failed to disclose that solicited transactions were being reported as unsolicited, and the lessened amount of supervisory scrutiny given to a trade marked "unsolicited".
  - V. Schneider failed to disclose the meaning, significance, and possible negative consequences of trading on margin.
  - W. Schneider failed to disclose that loans from securities customers are prohibited under the rules pursuant to the Idaho Securities Act.
  - X. Schneider failed to disclose that the investment contract securities were required to be registered under the Idaho Securities Act, and that they were not so registered.
69. Schneider has violated Idaho Code §30-1403(2).

**COUNT TWO**

The allegations contained in paragraphs 1 through 69 are hereby realleged as if fully set forth.

70. Schneider offered and sold securities to persons in this state in violation of an antifraud provision of the Idaho Securities Act, Idaho Code §30-1403(3), in that she engaged in acts, practices, and courses of business which operated as a fraud or deceit upon other persons. Schneider's acts, practices, and courses of business which operated as a fraud or deceit include, but are not limited to, the following:

- A. The pattern of misrepresentations and omissions referred to in Paragraph 68, above.



- B. Unauthorized transactions in the accounts of JS and LB, and an unauthorized purchase of an Idaho Health Facilities municipal bond.
- C. The taking of unauthorized control of client funds in the accounts of JS and BD.
- D. Recommending the sale of marketable securities in the accounts of JS and LB in order to facilitate the purchase of art and/or investment in the art investment contract. The recommendations were made without reasonable grounds to believe that the recommendations were not unsuitable for JS and LB.
- E. Recommending the sale of securities in the account of JS in order to facilitate the purchase of art, when the sale put her account into a margin position, against the instructions of JS. The recommendation was made without reasonable grounds to believe that the recommendation was not unsuitable for JS.
- F. Guaranteeing a customer against loss in a securities transaction.
- G. Recommending the purchase of an art investment contract to JS, LH, and LB. The recommendations were made without reasonable grounds to believe that the recommendations were not unsuitable for JS, LH, and LB.
- H. Recommending the use of margin as a suitable investment strategy for LB. The recommendation was made without reasonable grounds to believe that the recommendation was not unsuitable for LB.
- I. Providing false information to LB regarding the current asset

value of her securities account, and the true source of the \$14,000 payment to LB.

- J. Recommending the purchase of more than \$90,000 in securities to LB in order to deceive LB into believing that her total art investment had been, or soon would be, repaid. Unknown to LB, the purchase could not be accomplished without incurring a significant margin position. The recommendation was made without reasonable grounds to believe that the recommendation was not unsuitable for LB.
  - K. Marking trade tickets "unsolicited", when in fact the trades were solicited.
  - L. Borrowing money from customers.
  - M. Holding herself out to LB as being able to conduct securities business during a period when she was unable to do so pursuant to the terms of the June 27, 1994 Agreement and Order.
  - N. Operation of a ponzi-like scheme in which, through various deceptive and manipulative acts and practices, money was obtained from securities customers and others in order to pay previously incurred personal obligations to financial institutions, securities customers, and other creditors.
71. Schneider has violated Idaho Code §30-1403(3).

**COUNT THREE**

The allegations contained in paragraphs 1 through 71 are hereby realleged as if fully set forth.

72. Schneider transacted business in this state as a securities salesperson during periods when she was not licensed to

do so.

73. Schneider has violated Idaho Code §30-1406.

**COUNT FOUR**

The allegations contained in paragraphs 1 through 73 are hereby realleged as if fully set forth.

74. Schneider offered and sold investment contract securities in this state which were not registered under the Idaho Securities Act.

75. Schneider has violated Idaho Code §30-1416.

**COUNT FIVE**

The allegations contained in paragraphs 1 through 75 are hereby realleged as if fully set forth.

76. Schneider failed to notify the Director of pleadings issued and filed against her.

77. Schneider has violated Rule 60 of the rules pursuant to the Idaho Securities Act (IDAPA 12.01.08.060).

**COUNT SIX**

The allegations contained in paragraphs 1 through 77 are hereby realleged as if fully set forth.

78. Schneider engaged in business activities, for which she received compensation, outside the scope of her regular employment, without providing prior written notice to her employing broker-dealer firm.

79. Schneider has violated Rule 81 of the rules pursuant to

the Idaho Securities Act (IDAPA 12.01.08.081).

**PRAYER FOR RELIEF**

Wherefore, Plaintiff prays for a Judgment in favor of Plaintiff and against Defendant as follows:

A. That Defendant be adjudged to have violated the Idaho Securities Act and rules thereunder.

B. That Defendant be permanently enjoined from engaging in any acts, practices or omissions which would constitute violations of the Idaho Securities Act, Title 30, Chapter 14, Idaho Code, or any rule or order thereunder, and in particular, that she be permanently enjoined from:

1. Transacting securities business in the State of Idaho until such time as Defendant has registered as a salesperson with the Idaho Department of Finance, in accordance with Title 30, Chapter 14, Idaho Code;

2. Selling or offering for sale nonexempt securities in any form in the State of Idaho until such time as the securities have been registered with the Idaho Department of Finance in accordance with Title 30, Chapter 14, Idaho Code;

3. In connection with the offer, sale or purchase of any security:

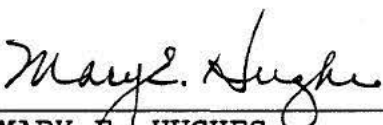
(a) Employing any device, scheme or artifice to defraud;

(b) Making any untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading;

- (c) Engaging in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person.
4. Aiding, abetting, counseling, inducing or causing any other person to engage in any of the types of conduct described in paragraphs 1, 2 or 3, above.
- C. That Defendant be prohibited from claiming the availability of, using, or offering or selling securities, under any exemption under the Idaho Securities Act without receiving the prior written consent of the Director.
- D. That Defendant be ordered to restore to each person in interest any consideration which may have been acquired or transferred in violation of the Idaho Securities Act.
- E. That Plaintiff be awarded attorney's fees and costs incurred in the preparation and the prosecution of this action, and if judgment is taken by default herein, that \$5,000 is a reasonable attorney's fee.
- F. Such other and further relief as this Court may deem equitable and just.

DATED this 8<sup>th</sup> day of April, 1996.

  
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DAVID G. HIGH  
Chief of Civil Litigation

  
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MARY E. HUGHES  
Deputy Attorney General  
Department of Finance