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BEFORE THE DEPARTMENT OF BUSINESS OVERSIGHT
OF THE STATE OF CALIFORNIA

In the Matter of)	File No.: 17606/2277248
)	
THE CALIFORNIA COMMISSIONER OF)	1) STATEMENT IN SUPPORT OF ORDER
BUSINESS OVERSIGHT,)	LEVYING ADMINISTRATIVE
)	PENALTIES UNDER
Complainant,)	CORPORATIONS CODE SECTION
v.)	25252;
)	
SCOTT D. SCHROEDER,)	2) DESIST AND REFRAIN ORDER
)	
Respondent.)	

Jan Lynn Owen, the Commissioner of Business Oversight ("Commissioner") of the California Department of Business Oversight ("Department") (collectively referred to herein as "Complainant") alleges and charges as follows:

I. STATEMENT OF FACTS

1. At all relevant times herein, Scott D. Schroeder ("Schroeder") was a registered agent, beginning on October 16, 2003, and an advisory representative, beginning on October 12, 2004, for Milkie Ferguson Investments, Inc. ("Milkie Ferguson"), a now defunct Texas corporation. Schroeder terminated his relationship with Milkie Ferguson on January 27, 2012. While employed

1 by Milkie Ferguson, Schroeder operated from a branch office located at 1579 North Topanga
2 Canyon Blvd., Topanga, California. Schroeder’s last known business address is 6080 Center Drive,
3 6th Floor, Los Angeles, California.

4 2. In July 2004, the Texas State Securities Board issued a Disciplinary Order to
5 Schroeder for offering and selling securities in the State of Texas without a license and was ordered
6 to pay an administrative fine of \$5,000.00.

7 3. On June 23, 2009, Milkie Ferguson entered into a licensee agreement with Retirement
8 Value, LLC (“Retirement Value”), a Texas limited liability company, to sell securities in the form of
9 life settlement contracts which were labeled resale life insurance policies purchased by Retirement
10 Value (“life settlement contracts”). From July 2009 through March 2010, Milkie Ferguson offered
11 and sold these life settlement contracts to about 42 California investors. Schroeder offered or sold
12 these life settlement contracts to at least three of the 42 California investors in an amount totaling
13 approximately \$690,000.00. Schroeder received at least \$95,952.00 in compensation for selling
14 these securities to investors.

15 4. The Commissioner has not issued a permit or other form of qualification authorizing
16 the offer and sale of the securities referred to herein in the State of California.

17 5. In connection with the offer and sale of the life settlement contracts, Schroeder made
18 an untrue statement of material fact or omitted to state a material fact necessary to make the
19 statements made, in light of the circumstances under which they were made, not misleading. These
20 misrepresentations and/or omissions include the following:

21 a) Schroeder failed to disclose that the chief executive officer and founder of Retirement
22 Value, Gray, had had prior actions taken against him and the companies he controlled based on fraud
23 and other illegal conduct, including:

24 i) On January 25, 2007, the Texas Banking Commissioner issued an Order to
25 Cease and Desist Activity against Gray, doing business as First Security Trust, prohibiting the use of
26 the word “trust” in its business name without approval of the Texas Department of Banking
27 (“TDB”). Additionally, the order prohibited any public representation implying TDB’s approval to
28 do business as a fiduciary for hire.

1 ii) On September 8, 2008, Gray, individually and in his capacity as managing
2 member of Hill Country Funding, LLC, entered into an agreement with the Securities Commissioner
3 of the State of Texas to rescind sales of securities in the form of “bonded life settlement contracts”
4 deemed to be fraudulent.

5 iii) On June 22, 2010, pursuant to the Texas Department of Insurance’s (“TDI”)
6 action to revoke Gray’s insurance license, Gray agreed to surrender his General Life, Accident and
7 Health license. TDI alleged that Gray, who sold bonded life settlements, committed an unfair or
8 deceptive act in the business of insurance by making an untrue statement of a material fact in
9 violation of Texas insurance law.

10 b) Schroeder failed to disclose to the investors that the Texas State Securities Board had
11 issued a Disciplinary Order against him in July 2004 for offering and selling securities in the State of
12 Texas without a license and he was ordered to pay an administrative fine of \$5,000.00.

13 6. On March 29, 2010, the Texas Securities Commissioner issued an Emergency Cease
14 and Desist Order against Retirement Value and Richard ‘Dick’ Gray (“Gray”), Retirement Value’s
15 founder, president, and chief executive officer. The order alleged that the named parties violated
16 Texas state securities laws and, more specifically, had engaged in securities fraud.

17 7. On May 5, 2010, the State of Texas filed a lawsuit against Retirement Value, Gray,
18 and others. Schroeder and Milkie Ferguson were named as third party defendants (“Texas lawsuit”).
19 Retirement Value was subsequently placed in receivership under the supervision of the State of
20 Texas. On December 7, 2011, the court granted the State’s motion for partial summary judgment
21 against Retirement Value, finding that “Retirement Value’s product was a security.” Furthermore,
22 Retirement Value was found to have “engaged in fraud or fraudulent practices in the course of
23 selling unregistered securities” and, on February 21, 2013, the court ordered Retirement Value to
24 pay restitution to investors in the amount of \$77,600,000.00.

25 8. On May 28, 2014, the court in the Texas lawsuit severed the claims against Schroeder
26 and entered a judgment against him based on the Texas Uniform Fraudulent Transfer Act. The court
27 ordered Schroeder to pay damages equal to the commissions he received from selling the life
28 settlement contracts in the amount of \$382,662.11, plus interest and attorney’s fees.

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II. ORDER LEVYING ADMINISTRATIVE PENALTIES
(For Violations of Corporations Code Sections 25110 and 25401)

9. The Commissioner alleges and incorporates by reference paragraphs 1 – 8 of this Statement in Support as though fully set forth herein.

10. Corporations Code section 25252 authorizes the Commissioner to issue an order levying administrative penalties against any person for willful violations of any provision of the Corporate Securities Law of 1968 (“CSL”) and any rules promulgated thereunder. Specifically, Corporations Code section 25252 provides, in relevant part:

The commissioner may, after appropriate notice and opportunity for hearing, by orders, levy administrative penalties as follows:

(b) Any broker-dealer or investment adviser that willfully violates any provision of this division to which it is subject, or that willfully violates any rule or order adopted or issued pursuant to this division and to which it is subject, is liable for administrative penalties of not more than five thousand dollars (\$5,000) for the first violation, not more than ten thousand dollars (\$10,000) for the second violation, and not more than fifteen thousand dollars (\$15,000) for each subsequent violation.

11. Based upon the foregoing findings of fact, as set forth fully above in paragraphs 1 – 8, Respondent willfully violated the following provisions:

a) Corporations Code section 25110 by offering and selling life settlement contracts that are not qualified by the Department or exempt to at least three investors.

b) Corporations Code section 25401, subsection (b) by making untrue statements of material fact or omitting to state a material fact in connection with the offer and sale of securities to at least three investors.

WHEREFORE, good cause showing, and pursuant to Corporations Code section 25252, the Commissioner prays for an order levying administrative penalties against Respondent Scott D. Schroeder, as follows:

A) Under Corporations Code section 25252, the Commissioner shall levy administrative penalties of five thousand dollars (\$5,000) for the first violation of Corporations Code section 25110, ten thousand dollars (\$10,000) for the second violation, and fifteen thousand dollars (\$15,000) for

1 each subsequent violation, as shown above, for a total amount of thirty thousand dollars (\$30,000) or
2 according to proof.

3 B) Under Corporations Code section 25252, the Commissioner shall levy
4 administrative penalties of five thousand dollars (\$5,000) for the first violation of Corporations
5 Code section 25401, ten thousand dollars (\$10,000) for the second violation, and fifteen thousand
6 dollars (\$15,000) for each subsequent violation, for a total amount of thirty thousand dollars
7 (\$30,000) or according to proof.

8 C) The total amount of administrative penalties for Respondent's violations of
9 Corporations Code sections 25110 and 25401 is sixty thousand dollars (\$60,000), or according to
10 proof. This amount shall be paid to the Commissioner within sixty (60) days of the issuance of the
11 order levying administrative penalties against Respondent Scott D. Schroeder. The check shall be
12 made payable to "The Department of Business Oversight," and shall be sent by Respondent to the
13 following address: Marlou de Luna, Esq., Senior Corporations Counsel, Department of Business
14 Oversight, 320 W. 4th Street, Suite 750, Los Angeles, CA 90013.

15 III. DESIST AND REFRAIN ORDER

16 12. The Commissioner alleges and incorporates by reference paragraphs 1 – 8 of this
17 Statement in Support as though fully set forth herein.

18 13. Based upon the foregoing findings of fact as set forth fully above in paragraphs 1 –
19 8, the Commissioner is of the opinion that the life settlement contracts offered or sold by
20 Schroeder are securities and subject to qualification under the CSL and are being or have been
21 offered or sold without being qualified, in violation of section 25110 of the CSL. Under
22 Corporations Code section 25532, Scott D. Schroeder is hereby ordered to desist and refrain from
23 the further offer or sale in the State of California of securities, including but not limited to, the life
24 settlement contracts described above, unless and until qualification has been made under this law
25 or unless exempt.

26 14. Further, the Commissioner is of the opinion that the life settlement contracts offered
27 or sold by Schroeder were offered or sold in this state by means of written or oral communications
28 that included untrue statements of material fact or omitted to state material facts necessary to make

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the statements made, in light of the circumstances under which they were made, not misleading, in violation of Corporations Code section 25401, subsection (b). Under Corporations Code section 25532, Scott D. Schroeder is hereby ordered to desist and refrain from offering or selling or buying or offering to buy any security in the State of California, including but not limited to, the life settlement contracts described above, by means of any written or oral communication which includes an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

This Order is necessary, in the public interest, for the protection of investors and consistent with the purposes, policies, and provisions of the CSL.

Dated: September 18, 2014

JAN LYNN OWEN
Commissioner of Business Oversight

By: _____
Mary Ann Smith
Deputy Commissioner
Enforcement Division