

generated business amongst the local farming community in the greater Watertown area and he attended the same church as some of his clients.

3. By March 2000, Loren Holzhueter began exploiting his network of clients, business associates and friends to recruit investors for ISC. Holzhueter was enormously successful in this effort; from January 2008 through November 2014 alone, he raised at least \$10.4 million from more than 100 investors.

4. But, in raising funds for ISC, Holzhueter and ISC (a) lied to prospective investors about the nature of their investment and the use of their funds; and (b) operated a classic Ponzi scheme – using funds from new investors to pay returns to old investors.

5. In persuading his victims to invest in ISC, Holzhueter told a wide array of lies. Holzhueter told some investors that their investments would be placed in a separate investment account at ISC and that they could withdraw their funds at any time. Holzhueter told other investors that their money would be invested in mutual funds or bonds. He told some investors that their investment would be placed in an Individual Retirement Account (“IRA”) or a similar tax-deferred account. Holzhueter offered other investors so-called “promissory notes” that he said would be used to “grow ISC’s business” and/or expand ISC’s operations through the acquisition of other insurance agencies.

6. None of the forgoing representations was true. In reality, Loren Holzhueter and ISC deposited investor funds directly into ISC’s general bank accounts and used investor funds to (a) fund ISC’s payroll and general operations, (b) pay off ISC’s existing bank debts, (c) pay the premiums on at least \$9.2 million of insurance policies on Loren Holzhueter’s life for the benefit of Arlene Holzhueter (his wife) and Aaron Holzhueter (his son), and (d) make payments to Loren Holzhueter and entities under his control.

7. More recently, Loren Holzhueter and ISC hid four additional important pieces of information from his investors: that (a) at least as of 2012, Loren Holzhueter and ISC were engaging in a Ponzi scheme – *i.e.*, a portion of the amounts raised from new ISC investors were being used to make interest and principal payments to previous ISC investors, (b) in November 2013, ISC had its records seized by the Internal Revenue Service, Criminal Investigative Division (“IRS-CI”) pursuant to a search warrant, and (c) ISC raised new investor funds and paid at least \$637,000 from the account where investor funds were kept to Holzhueter’s and ISC’s defense attorneys –to make settlement payments to a redeeming investor.

8. By making material misrepresentations and omissions to ISC investors, and by engaging in a fraudulent Ponzi scheme, Loren Holzhueter and ISC committed securities fraud in violation of Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. 240.10b-5] and Section 17(a) of the Securities Act of 1933 (the “Securities Act”) [15 U.S.C. § 77q(a)]. In addition, Defendant Loren Holzhueter is liable as a control person under Section 20(a) of the Exchange Act [15 U.S.C. § 78t(a)] for the violations by ISC identified herein.

9. Since March 2000, ISC has benefited from defrauding its investors – from 2008 through 2014 alone ISC had the use of at least \$10.4 million of investor funds. While ISC made some payments to investors – often disguised as “interest” – investors have lost at least \$7 million as a result of Defendants’ Ponzi scheme.

10. In addition to keeping his business afloat with investors’ money, Loren Holzhueter personally benefitted from defrauding investors in ISC. Specifically: (a) out of the accounts where investor funds were comingled with other ISC revenue, Loren

Holzhueter (and, on occasion, his family) received \$511,000 from ISC accounts containing investor funds; (b) ISC used \$230,000 of investors' cash to pay off a loan owed by Relief Defendant Honefi, LLC ("Honefi") – an entity that Loren Holzhueter controlled and owned with his wife; (c) ISC paid Honefi approximately \$166,350 from accounts containing investor funds; (d) during 2013 and 2014, ISC paid at least \$437,000 in premiums out of accounts containing investor funds to maintain at least \$9.2 million in insurance policies on Loren Holzhueter's life for the benefit of his family; and (e) used some investor funds to make payments on ISC debts that Loren and Arlene Holzhueter had personally guaranteed.

11. On January 21, 2015, the SEC brought this lawsuit to halt Defendants' violations of the federal securities laws, to prevent further harm to investors, and to seek disgorgement and civil penalties stemming from Defendants' wrongdoing, among other remedies.

12. On April 22, 2015, counsel for Loren Holzhueter notified the SEC that Loren Holzhueter had died the previous day.

13. Accordingly, the SEC names Loren Holzhueter's Estate as a Defendant, and names Arlene and Aaron Holzhueter as additional relief defendants to prevent them from benefitting from Loren Holzhueter's fraud – either through the insurance policies that were purchased with money raised from defrauded investors, by assets transferred to them during the course of the fraud, or by operation of Loren Holzhueter's Estate. The SEC's claims against the Relief Defendants are to recover funds transferred to them; those claims do not require proof of any securities law violations by the Relief Defendants.

JURISDICTION AND VENUE

14. The SEC brings this action pursuant to Section 20(b) of the Securities Act [15 U.S.C. §77t(b)], and Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. §§78u(d) and 78u(e)].

15. This Court has jurisdiction over this action pursuant to Section 22 of the Securities Act [15 U.S.C. § 77v] and Section 27 of the Exchange Act [15 U.S.C. § 78aa].

16. Venue is proper in this Court pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Many of the acts, practices and courses of business constituting the violations alleged herein occurred within the jurisdiction of the United States District Court for the Western District of Wisconsin.

17. Loren Holzhueter resided -- and ISC resides -- within the Western District of Wisconsin and both Loren Holzhueter and ISC conducted business therein.

18. Loren Holzhueter and ISC directly and indirectly made use of the means and instrumentalities of interstate commerce and of the mails in connection with the acts, practices, and courses of business alleged herein.

DEFENDANTS AND RELATED PARTIES

19. **Loren W. Holzhueter**, now deceased, was a resident of Jefferson County, Wisconsin. Loren Holzhueter was the president, Chief Executive Officer (“CEO”), majority owner and registered agent of Defendant ISC, and was part-owner and managing member of Relief Defendant Honefi.

20. **The Estate of Loren W. Holzhueter**, is the successor in interest to Loren Holzhueter who is deceased. At present, the executor of Loren Holzhueter’s Estate (if any) is unknown.

21. **ISC, Inc.**, is a Wisconsin corporation formed in 1985 and headquartered in Watertown, Wisconsin. ISC is an insurance brokerage – formerly owned and controlled by Defendant Loren Holzhueter – that sells homeowners, auto, farm, and life insurance policies and the investments described in this lawsuit. ISC has at least 12 offices – operating under various names – throughout the State of Wisconsin.

RELIEF DEFENDANTS

22. **Honefi, LLC** is a Wisconsin limited liability company with its principal place of business in Watertown, Wisconsin. Loren Holzhueter owned Honefi along with his wife and controlled its operations.

23. **Arlene Holzhueter**, age 69, is a resident of Jefferson County, Wisconsin. She is Loren Holzhueter’s widow and the primary beneficiary on most – if not all – of Loren Holzhueter’s life insurance policies. She currently works as an administrative assistant for ISC in Watertown, Wisconsin.

24. **Aaron Holzhueter**, age 36, is a resident of Oconomowoc, Wisconsin. He is Loren Holzhueter’s son and the secondary (or contingent) beneficiary on most of Loren Holzhueter’s life insurance policies. After the SEC filed its Complaint, Aaron Holzhueter became CEO of ISC.

FACTS

Background:

25. Loren Holzhueter was a longtime resident of Jefferson County, Wisconsin and worked in the area of Oconomowoc and Watertown, Wisconsin for at least 30 years. He owned a tax preparation business, Quality Tax and Accounting Services, LLC (“Quality Tax”), from 1985 until his death in April 2015.

26. In the 1990s, Holzhueter joined the Watertown-based insurance brokerage ISC which sold a wide array of insurance policies. After joining ISC, Holzhueter continued to offer tax services through Quality Tax.

27. At that time, ISC had five offices and approximately 30 employees.

28. In 2004, Loren Holzhueter purchased ISC from its original owner. From that purchase until his death in April 2015, Loren Holzhueter was ISC's President and majority owner. At all times between that purchase and the filing of the SEC's Complaint in this case, ISC was controlled and operated by Loren Holzhueter.

29. After purchasing ISC, Loren Holzhueter expanded its operations. ISC grew to 12 offices throughout Wisconsin, often by acquiring other insurance agencies. Between 2011 and 2012 alone, ISC's payroll grew from \$900,000 for 28 employees to \$2.1 million for 54 employees.

30. As ISC's operations expanded, its operating income was not enough to keep up with the company's expenses. ISC, therefore, took on bank debt.

31. According to ISC's internal financial statements, as of June 30, 2010, ISC owed over \$183,000 on a line of credit extended by its custodian bank and had a negative cash balance in its general account of over \$270,000.

32. ISC's bank debt expanded in 2011. According to ISC's internal financial statements, by August 31, 2011, it had an outstanding balance of \$169,385 on the line of credit, had taken out a new bank loan with an outstanding principal balance of over \$388,115, and had a negative cash balance in its general account of \$432,896.97.

Loren Holzhueter Raises Money From Investors:

33. ISC's operating income and bank debt was not enough to fund ISC's operations. Even before he bought out ISC's previous owners, Loren Holzhueter began raising money from investors to finance ISC's operations. As Loren Holzhueter expanded ISC's offices and payroll and took on additional bank debt, he continued raising money from individuals – including many clients of his insurance and tax preparation business.

34. Loren Holzhueter encouraged people who trusted him to invest their money with ISC. Many of ISC's investors are family, friends, and tax and insurance clients that Loren Holzhueter has known for years – sometimes decades. Loren Holzhueter gained some investors' trust because he did their taxes and sold them insurance. Loren Holzhueter met other investors because he had a large client base among the local community.

35. Loren Holzhueter's started raising money for ISC as early as March 2000. His fundraising from investors accelerated starting in 2008. From January 2008 through November 2014 alone, Loren Holzhueter raised at least \$10.4 million from at least 100 investors. Some of the investors Loren Holzhueter recruited are retired and have modest or limited financial resources.

36. Loren Holzhueter told certain investors that they were opening investment accounts with ISC. He told other investors that he would use their funds to expand ISC's business by purchasing other insurance agencies or buying out his business partners.

37. In exchange for their investments, Loren Holzhueter and ISC offered investors a guaranteed fixed-rate of return. Depending on the investor, Loren Holzhueter offered a guaranteed return usually ranging from 2% to more than 8% – which was in excess

of the then-prevailing rates for bank deposits, CDs and other fixed-return investment vehicles.

38. Loren Holzhueter usually portrayed this opportunity as a liquid investment; he often assured investors that they could redeem their investment or withdraw some of their principal at any time. He told others that – rather than receiving monthly interest payments by check – they could “reinvest” the interest by leaving it in their ISC account.

39. Loren Holzhueter was the primary contact for individual investors in ISC. Loren Holzhueter typically communicated with investors in person or on the phone and received investment funds from clients by check during face-to-face meetings. ISC sent many investors their purported interest payments through the U.S. Mail.

40. The investments that Loren Holzhueter solicited in ISC were documented in various ways. For some investors, Loren Holzhueter created a “Promissory Note” that was provided to the investor. The “Promissory Note” typically identified the principal amount, the annual interest rate and maturation date.

41. In other instances, Loren Holzhueter provided the investor with a signed receipt, prepared on a form document bearing ISC’s name that he signed. The receipts indicated that the funds were an investment and identified the date of the investment and, in some instances, indicated the interest rate to be paid and the frequency of the interest payments.

42. Loren Holzhueter met with these ISC investors periodically to apprise them of their account performance, sometimes in conjunction with a review of their tax returns. He provided most of these investors with summaries of their account performance on ISC letterhead. These “Summary Sheets” indicated the investor’s name, the amount invested,

date(s) of investment, and the total balance as of a given date. Some Summary Sheets also indicate the interest rate. To support the summaries, Loren Holzhueter often provided purported “transaction details” or an “Interest / Earnings Statement.”

43. All of the ISC investments – regardless of how they were documented – are “securities” as that term is defined in Exchange Act Section 3(a)(10) [15 U.S.C. § 78c(a)(10)] and Securities Act Section 2(a)(1) [15 U.S.C. § 77b(a)(1)].

Loren Holzhueter’s Misrepresentations and Omissions to ISC Investors:

44. In the course of convincing investors to invest their money with ISC, Loren Holzhueter made several material misrepresentations and omissions about the nature of the investment. Specifically, Loren Holzhueter: (a) falsely told certain investors that their money would be placed in segregated investment accounts, (b) falsely told certain investors that their funds were invested in mutual funds or bonds, (c) falsely told several investors that their funds were invested in a tax-deferred account, and (d) falsely told a number of other investors that he was raising funds to “buy out” the widow of a former business partner.

45. In addition, Loren Holzhueter failed to tell investors the truth about how their funds would be used. While ISC, indeed, used some investor cash to fund expansion, that was not the only way investor funds were used. Investor funds were deposited into ISC’s general accounts – where they were intermingled with other revenue – and ISC used these funds to (a) fund general operations; (b) fund payroll for ISC’s employees; (c) make payments to Loren Holzhueter and entities under his control; (d) pay ISC’s existing bank debt; (e) pay Honefi’s bank debt; (f) make Ponzi scheme payments to earlier investors as purported interest payments earned on their investments, or to redeem all or part of their principal investments; (g) make settlement payments to a complaining investor; and (h) pay

the premiums on at least \$9.2 million of insurance on Loren Holzhueter's life with Arlene and Aaron Holzhueter as the named beneficiaries.

46. Finally, Loren Holzhueter failed to inform those who invested after November 2013 that IRS-CI was investigating him or that the IRS-CI had seized ISC's financial records pursuant to a search warrant.

Loren Holzhueter Lied About the Nature and Risks of the ISC Investment:

47. From 2008 through November 2014, Loren Holzhueter led many prospective ISC investors to believe that their investments would be placed in separate investment accounts and that they could withdraw their funds at any time.

48. He told some of these investors that the funds placed in these separate investment accounts were invested in mutual funds, bonds or other secure investments.

49. For example, Loren Holzhueter – acting through ISC – led at least two investors to believe that (a) they were opening up a separate investment account invested in mutual funds and (b) were opening a separate Uniform Gift to Minor Account for each of their four children.

50. Starting in June 2012, Loren Holzhueter and ISC successfully convinced a married couple (“Investors A&B”) to make an investment with ISC. Investors A&B invested funds they received by redeeming accounts at another brokerage. They told Loren Holzhueter that they would use this investment for their retirement (the “Retirement Funds”). They invested the proceeds of these redemptions with ISC beginning in June 2012.

51. Loren Holzhueter told Investors A&B that their Retirement Funds would be placed in a separate investment account at ISC. He even asked them how he should title the ISC account that held the Retirement Funds.

52. In July 2012, Investors A&B invested additional funds with ISC for their children's education. Loren Holzhueter assured Investors A&B that these funds would be invested in Uniform Gift to Minor Accounts ("UGMAs") that would allow funds to be applied toward the education of their children. A UGMA is a tax-advantaged account that allows parents to act as custodian for an account in their child's name, and allows the custodian to make withdrawals for limited purposes (including education) until the child turns 21, at which point the child is given full control of the account.

53. Although Loren Holzhueter never fulfilled his promise to place Investor A&B's investment in a separate account or to open any Uniform Gift to Minor Accounts for their children, Loren Holzhueter attempted to maintain that illusion. For example, during two meetings in the second half of 2013, Loren Holzhueter provided Investors A&B with handwritten notes and a "Summary Sheet" indicating their funds were invested in separate accounts that had been growing at a rate of at least 5%. He also told them that the Retirement Funds were invested in mutual funds and other similar securities.

54. During these same two meetings, Loren Holzhueter led Investors A&B to believe – through both oral representations and a document Holzhueter provided Investors A&B – that the investment for the benefit of their children was in a separate account.

55. Loren Holzhueter also told several other investors that their separate investment account would be a tax deferred account (such as an IRA, 401(k), or similar tax-deferred vehicle).

56. For example, in November 2012, Loren Holzhueter recommended that one of his clients, "Investor C," roll over his IRA account at another brokerage to an investment

account at ISC. Investor C agreed and invested over \$97,000 of his retirement savings with ISC.

57. Loren Holzhueter told Investor C that his account at ISC would be a Simplified Employee Pension Individual Retirement Account (“SEP-IRA”) or similar tax-deferred account that Loren Holzhueter would manage. Holzhueter told Investor C he could get his money back at any time.

58. Loren Holzhueter provided Investor C with Summary Sheets showing that his investment earned 5.2%, but did not disclose where the funds were invested or what the underlying securities were.

59. Instead of rolling Investor C’s investment into a tax-sheltered SEP-IRA, ISC deposited \$97,076.38 of Investor C’s savings into an ISC checking account that had a \$0 balance. Within ten days, Investor C’s funds were entirely dissipated. Instead of maintaining Investor C’s funds in a tax-deferred account, Loren Holzhueter and ISC used Investor C’s money, among other things, to (a) fund ISC’s general business operations, (b) make over \$33,000 in payments to meet ISC’s payroll, (c) pay approximately \$7,500 to one of ISC’s lenders and (d) transfer \$7,000 to Holzhueter and Honefi.

60. Investor C subsequently invested \$5,449 in January 2013 and \$38,500, in April 2013, \$16,000 of which was to be deposited into his tax-deferred account for tax year 2012. Investor C’s \$5,449 investment was instead deposited into an ISC checking account with a \$0 balance and was used the same day to fund cashier’s checks payable to Loren Holzhueter. Investor C’s \$38,500 investment was deposited into an ISC checking account with a \$0 balance and was dissipated the same day to fund, among other things, payments on ISC’s bank loan, bank fees, and payments to other investors.

61. Between January 2008 and November 2014, Loren Holzhueter – acting through ISC – told other investors that their funds were being used to finance ISC’s expansion, including the acquisition of specific insurance businesses.

62. The representations identified in Paragraphs 47-61 were false when made. In reality:

- (a) As to Investors A&B and similarly situated investors, Loren Holzhueter and ISC did not place investor funds in separate investment accounts of any kind – and specifically did not place investor funds in Uniform Gift to Minor Accounts;
- (b) As to Investors A&B and similarly situated investors, none of investors’ funds were invested in mutual funds, bonds or any similar investment vehicle;
- (c) As to Investor C and similarly situated investors, Loren Holzhueter and ISC did not place investor funds into a SEP-IRA or similar tax-deferred account; and
- (d) Loren Holzhueter and ISC did not use investor funds exclusively to expand and/or finance the acquisition of other insurance agencies.

63. Instead of investing the amounts raised as they represented to investors, Loren Holzhueter and ISC took investors’ cash and placed it directly into ISC’s operating accounts. While a portion of the invested funds was used to purchase other insurance agencies as part of ISC’s expansion, Loren Holzhueter and ISC used investor funds for other purposes, including to meet ISC’s payroll, to pay off ISC’s bank loans, to make payments to Loren Holzhueter and his family, and to pay the premiums on at least \$9.2 million in life insurance policies on Loren Holzhueter with Arlene Holzhueter and Aaron Holzhueter named as beneficiaries. Moreover, as alleged in paragraphs 77-85 below, investor funds also were used to perpetuate a Ponzi scheme (*i.e.*, new investor funds were used to make interest and principal payments to old investors).

64. Each of the misrepresentations identified in paragraphs 47-61 above were material. In making an investment decision, a reasonable investor would deem it important that:

- (a) instead of placing the investors' funds in a segregated investment account that the investor could access at any time, Loren Holzhueter and ISC fed investor funds directly into ISC's general accounts where they were intermingled;
- (b) instead of placing investor funds into an IRA or similar tax deferred account, funds were sent to ISC's general accounts;
- (c) instead of investing in mutual funds and/or other conservative investments, at best, all investor funds were invested in a small, private insurance agency (ISC) with a heavy debt load; and
- (d) instead of solely using investor cash to fund ISC's purchase of insurance agencies, portions of investors' principal were used to (i) satisfy ISC's payroll, (ii) make payments on ISC's existing bank debt, (iii) make payments to Loren Holzhueter and other entities Loren Holzhueter's owned, (iv) pay for at least \$9.2 million in life insurance for Loren Holzhueter, and (v) engage in a Ponzi scheme (*i.e.*, use new investor cash to make interest and principal payments to earlier ISC investors).

65. In making the misrepresentations and omissions identified in paragraphs 47-61 above, Loren Holzhueter and ISC acted with scienter. At the time he told prospective investors about the nature of their investment, Loren Holzhueter knew – or recklessly disregarded – that the representations in paragraphs 47-61 above were not true.

Loren Holzhueter Lied about Raising Money to Buy Out Former Partners:

66. As alleged above, Loren Holzhueter often told investors that their investment would be used to finance the purchase of other insurance agencies. After May 2014, he began to tell investors that he needed funds for the purchase of a specific agency located in Beaver Dam, Wisconsin.

67. Specifically, by May 2014, Loren Holzhueter was telling potential investors that he needed additional cash to buy out a former business partner's ownership interest in a Beaver Dam insurance agency. Loren Holzhueter told several prospective investors that his "partner" in Beaver Dam, had died suddenly, and that he needed to buy-out the former partner's widow. He told other investors that he needed the money to provide financial assistance to the widow. He told some of these investors he needed to raise between \$200,000 and \$250,000 for these purposes.

68. Loren Holzhueter's story was false. In fact, Loren Holzhueter and ISC already had purchased the ownership interest in the Beaver Dam office and had completed payments due to the former owner's widow under the purchase agreement months earlier -- in January 2014. Moreover, neither the original owner of the Beaver Dam agency nor his widow has ever sought financial assistance from ISC or Loren Holzhueter.

69. The misrepresentations described in paragraphs 66-68 above were material. In making decisions regarding their investments, a reasonable investor would find it important that their investment was not being used as represented -- *i.e.*, to finance the further expansion of ISC -- but rather was being placed into ISC's general accounts and used to keep ISC operating.

70. In making the misrepresentations identified in paragraphs 66-68 above, Loren Holzhueter and ISC acted with scienter. At the time he informed prospective investors that their investment would be used to fund the outstanding balance of the purchase price of the Beaver Dam agency, Loren Holzhueter knew that ISC's purchase was already complete and that investor funds would instead be placed in ISC's general accounts.

Loren Holzhueter Failed to Disclose to Prospective Investors that He Was the Subject of an IRS Investigation:

71. Until his death, Loren Holzhueter was the subject of a criminal investigation of the IRS-CI. According to an unsealed November 4, 2013 search warrant affidavit, Loren Holzhueter was being investigated for potential violations of federal law, including mail fraud, wire fraud, and money laundering.

72. In November 2013, the IRS-CI executed a search warrant at ISC's headquarters in Watertown. In connection with that search, IRS agents seized electronic media, customer files, bank records and other financial records both in paper and electronic form.

73. After the November 2013 search, Loren Holzhueter – acting through ISC – continued to raise money from investors. From November 2013 to January 21, 2015, Loren Holzhueter and ISC raised millions of dollars of additional funds from dozens of investors.

74. After November 2013, Loren Holzhueter and ISC did not tell all of his current and prospective investors that Loren Holzhueter was under investigation by the IRS-CI and that ISC's records had been seized during a search of its headquarters.

75. This was a material omission. Before investing (or continuing to invest) in ISC's expansion – an investment presumably dependent on ISC's ability to generate revenue – a reasonable investor would consider it important that (a) the person who controlled ISC was under criminal investigation, and (b) the company at the heart of the investment had been the subject of a search and seizure conducted by agents of the IRS-CI.

76. In making the material omissions identified in paragraphs 71-75 above, Loren Holzhueter and ISC acted with scienter. Loren Holzhueter was present during the search of ISC's headquarters by the IRS-CI in November 2013. At the time he solicited and accepted

investments in ISC after November 2013, Loren Holzhueter knew that he was under investigation by the IRS-CI and that ISC's computers and records had been seized during a search of its headquarters.

Loren Holzhueter Operated ISC As A Ponzi Scheme:

77. As ISC's expansion continued, its financial condition deteriorated. For example – according to ISC's internal financial statements – in the first eight months of 2011, ISC had a net loss of \$182,151.61 and, as of August 31, 2011, had current assets of (\$230,998.18). By the end of June 2013, ISC had only \$554 in its general accounts.

78. Although he raised more than \$3.2 million from investors after June 2013, ISC continued to burn through its cash. By the end of October 2014, ISC had just over \$19,500 left in its general accounts.

79. To meet his mounting obligations to pay interest and principal to investors, Loren Holzhueter and ISC engaged in a fraudulent Ponzi scheme; they used money raised from new ISC investors to pay off interest obligations and principal redemptions owed to ISC's existing investors.

80. For example, Investors A&B demanded that Loren Holzhueter return the funds they invested with ISC. Loren Holzhueter met this redemption request by paying Investors A&B a total of \$140,000 by checks dated February 4, 2014. To make those payments, Loren Holzhueter used new investor proceeds that had been deposited on January 22, 2014.

81. Loren Holzhueter and ISC also diverted investor funds through their defense attorneys to make settlement payments to a redeeming investor. For example:

- (a) On March 17, 2014, ISC received \$55,000 from an investor. On the same day, Loren Holzhueter purchased a \$55,000 cashier's check

drawn on an ISC bank account payable to ISC. In turn, Loren Holzhueter cashed that cashier's check on March 28, 2014 to make up part of the purchase price of a \$75,000 cashier's check payable to ISC's and Loren Holzhueter's defense counsel;

- (b) On March 25, 2014, ISC received \$275,000 from investors and, just three days later, Loren Holzhueter purchased a \$325,000 cashier's check using funds from ISC's bank account, payable to ISC's and Loren Holzhueter's defense counsel;
- (c) On April 21, 2014, ISC received \$40,000 from an investor and, on the same day, Loren Holzhueter purchased a \$40,000 cashier's check using funds from ISC's bank account that was then endorsed over to ISC's and Loren Holzhueter's defense counsel;
- (d) On May 5, 2014, ISC received \$6,000 from an investor and deposited it in ISC's account. Two days later, a \$5,000 check payable to ISC's and Loren Holzhueter's defense counsel cleared the same account; and
- (e) On May 27, 2014, ISC received funds from two investors: one investment of \$125,000 and another investment of \$50,000. The same day, Loren Holzhueter bought two cashier's checks that he endorsed over to ISC's and Loren Holzhueter's defense counsel: one for \$125,000 and one for \$50,000. These investors' funds were deposited into the ISC account that Holzhueter used to fund the cashier's checks.

82. In total – including the \$620,000 payments identified in paragraph 81(a)-(e) – Loren Holzhueter and ISC transferred approximately \$637,000 to ISC's and Loren Holzhueter's defense counsel between March 2014 and May 2014.

83. The transfers of \$620,000 of investor funds to ISC's and Loren Holzhueter's defense counsel identified in paragraph 81(a)-(e) were then used to make two settlement payments – totaling \$620,000 – to redeem an investor in ISC who was demanding a return of principal.

84. Loren Holzhueter did not disclose to prospective investors in ISC that a portion of their investments could be used to make principal and interest payments to earlier

investors or to complete settlement payments to investors seeking to redeem their investment.

85. Loren Holzhueter and ISC continued to raise funds from investors and continued to operate a Ponzi scheme to meet their interest and principal obligations. Between May 2014 and the SEC's January 21, 2015 Complaint in this case, ISC received approximately \$1.7 million in new investments from at least 32 investors. Rather than use the \$1.7 million as represented, Loren Holzhueter and ISC used the majority of those funds to perpetuate their Ponzi scheme and for Loren Holzhueter's personal benefit. Of the \$1.7 million raised, approximately \$1.4 million was used to make interest and principal payments to other investors, and approximately \$103,000 was transferred to Loren Holzhueter and entities under his control.

Loren Holzhueter Transfers Investor Funds to Honefi:

86. In addition to using investor assets to pay off obligations to old investors and to pay himself, Loren Holzhueter also used investor funds to pay obligations of another entity that he controls – Honefi.

87. In June 2010, Honefi repaid a \$638,464.54 bank loan. ISC repaid a portion of Honefi's loan from ISC's bank accounts. In doing so, ISC used at least \$230,000 of investor funds to pay down Honefi's debt.

88. In addition, between April 21, 2009 and November 10, 2014, ISC made payments to Honefi – out of the accounts into which investor funds were comingled with other ISC revenue – totaling \$166,350.

89. The proceeds identified in paragraphs 86-88 are the proceeds of the violations committed by Loren Holzhueter and ISC described in this Complaint.

90. Relief Defendant Honefi has no legitimate claim to the amounts received from ISC identified in paragraphs 86-88.

Loren Holzhueter Uses Investor Funds to Pay for at Least \$9.2 million in Life Insurance for the Benefit of His Family:

91. In addition to diverting investor funds as described above, starting no later than mid-2000, Loren Holzhueter used investor funds to purchase dozens of insurance policies on his own life (the “Life Insurance Policies”). The premiums for the Life Insurance Policies were paid by ISC out of accounts where ISC’s operating income was comingled with investor funds.

92. From January 2013 through December 2014 alone, ISC used \$437,740 – from accounts holding investor funds – to pay the premiums on the Life Insurance Policies.

93. On several occasions between 2008 and January 2015, ISC could not have afforded to pay the premiums for the Life Insurance Policies without taking in additional funds from defrauded investors. Moreover, during several periods between 2008 and January 2015, ISC could not have remained solvent and met its premium obligations on the Life Insurance Policies without the money Loren Holzhueter illegally raised from investors.

94. The total death benefits for the Life Insurance Policies are at least \$9.2 million.

95. Between at least January 2014 and January 2015, Loren Holzhueter told several investors that the Life Insurance Policies were in place to secure the repayment of their investment. He told investors that, in the event of his death, the proceeds from the policies would be paid to ISC investors to make them whole.

96. In reality, Loren Holzhueter's wife, Arlene Holzhueter was named as the primary beneficiary on the Life Insurance Policies and his son, Aaron Holzhueter, was named as a secondary beneficiary on several of the policies.

97. The proceeds of the life insurance policies identified in paragraphs 91-96 above are the result of the violations committed by Loren Holzhueter and ISC described in this Complaint.

98. Relief Defendants Arlene and Aaron Holzhueter have no legitimate claim to any amounts derived from the Life Insurance Policies which were maintained using funds raised from defrauded investors.

99. Pursuant to this Court's January 28, 2015 Temporary Restraining Order, the Life Insurance Policies are currently frozen pending further order of the Court.

The Ponzi Scheme Runs Out of Cash:

100. Loren Holzhueter's payments to investors were, ultimately, unsustainable. Even as he continued to raise hundreds of thousands of dollars from investors every month, ISC's financial condition worsened.

101. Even though ISC received over \$400,000 from investors in October 2014 – on top of its normal operating revenue – by the end of October 2014, ISC had only \$19,592.83 in cash remaining in its general accounts.

102. Loren Holzhueter raised an additional \$253,000 from investors in just the first three weeks of November 2014. Yet, by the end of November 2014, ISC had only \$30,807.95 in its general accounts.

103. Notwithstanding Loren Holzhueter's continued solicitation of investments for ISC, on December 1, 2014, ISC's bank sent Holzhueter a "Notice of Default," stating that ISC had defaulted on a \$150,000 line of credit with the bank.

104. Although he had promised investors that they could access their principal and get access to their money at any time, from November 2014 through January 2015, Loren Holzhueter refused to make payments demanded by a number of worried investors.

Loren Holzhueter Invoked the Fifth Amendment in Response to Questions Posed by the SEC:

105. As part of its investigation into the securities law violations identified in this Complaint, the SEC issued an investigative subpoena to Loren Holzhueter requiring him to appear and provide testimony under oath to the SEC regarding the funds he raised from investors.

106. At Loren Holzhueter's December 3, 2014 investigative testimony, the SEC asked him questions about ISC, including questions about: (a) Loren Holzhueter's representations to prospective investors; (b) Loren Holzhueter and ISC's use of funds raised from investors; (c) ISC's financial condition; (d) Loren Holzhueter's transfer of investor funds to himself, his family and entities under his control; and (e) Loren Holzhueter and ISC's use of new investor funds to pay off earlier investors.

107. Loren Holzhueter refused to answer any of the substantive questions posed by the SEC and invoked his right against self-incrimination under the Fifth Amendment to the U.S. Constitution.

108. In addition, before his death, Loren Holzhueter produced to the SEC a declaration (dated March 18, 2015) stating that he would refuse to answer any of the

allegations in the SEC's Complaint – or any questions related to those allegations – based on his rights under the Fifth Amendment. He further stated that “[i]f called as a witness in this proceeding, in discovery or at a trial or hearing, while the criminal investigation is pending, I will continue to assert my privileges as outlined herein.”

COUNT I
**Violations of Section 10(b) of the Exchange Act,
and Exchange Act Rule 10b-5
(Against Defendants Estate of Loren Holzhueter and ISC)**

109. Paragraphs 1-108 are realleged and incorporated by reference.

110. As more fully described in paragraphs 1-108, Loren Holzhueter and ISC, in connection with the purchase and sale of securities, by the use of the means and instrumentalities of interstate commerce and by the use of the mails, directly and indirectly: used and employed devices, schemes and artifices to defraud; made untrue statements of material fact 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; and engaged in acts, practices and courses of business which operated or would have operated as a fraud and deceit upon purchasers and prospective purchasers of securities.

111. As described in more detail in paragraphs 1-108 above Loren Holzhueter and ISC acted with scienter in that they knowingly or recklessly made the material misrepresentations and omissions and engaged in the fraudulent scheme identified above.

112. By reason of the foregoing, Defendants the Estate of Loren Holzhueter and ISC violated Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. 240.10b-5].

COUNT II

**Violations of Section 17(a)(1) of the Securities Act
(Against Defendants Estate of Loren Holzhueter and ISC)**

113. Paragraphs 1-108 are realleged and incorporated by reference as though fully set forth herein.

114. By engaging in the conduct described in paragraphs 1-108 above, Loren Holzhueter and ISC in the offer and sale of securities, by the use of the means and instruments of interstate commerce, directly or indirectly, employed devices, schemes and artifices to defraud.

115. Loren Holzhueter and ISC intentionally or recklessly engaged in the devices, schemes, artifices, transactions, acts, practices and courses of business described above.

116. By reason of the foregoing, Defendants Estate of Loren Holzhueter and ISC violated Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

COUNT III

**Violations of Sections 17(a)(2) and (3) of the Securities Act
(Against Defendants Estate of Loren Holzhueter and ISC)**

117. Paragraphs 1-108 are realleged and incorporated by reference as though fully set forth herein.

118. By engaging in the conduct described in paragraphs 1-108 above, Loren Holzhueter and ISC, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, have:

- a. obtained money or property by means of untrue statements of material fact or by omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and
- b. engaged in transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon the purchasers of such

securities.

119. Loren Holzhueter and ISC made the untrue statements and omissions of material fact and engaged in the devices, schemes, artifices, transactions, acts, practices and courses of business described above.

120. By reason of the foregoing, Defendants Estate of Loren Holzhueter and ISC have violated Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. § 77q(a)(2)-(3)].

COUNT IV
Control Person Liability Under Section 20(a) of the Exchange Act
(Against Defendant Estate of Loren Holzhueter)

121. Paragraphs 1-108 are realleged and incorporated by reference as if set forth fully herein.

122. Defendant ISC violated Section 10(b) of the Exchange Act [15 U.S.C. §§78j(b)] and Rule 10b-5 [17 C.F.R. §240.10b-5(a) and (c)] thereunder as described in Count I above, which is incorporated by reference as if set forth fully herein.

123. At all times relevant to the Complaint, Loren Holzhueter controlled the day-to-day affairs of ISC and possessed, directly or indirectly, the power to direct or cause the direction of the management and policies of ISC. Loren Holzhueter was involved in the formulation and execution of the fraudulent acts, misrepresentations and omissions by ISC described in paragraphs 1-108 above.

124. Loren Holzhueter directly or indirectly controlled ISC within the meaning of Section 20(a) of the Exchange Act [15 U.S.C. § 78t(a)].

125. The Estate of Loren Holzhueter is, therefore, liable as a control person for the violations by ISC of Section 10(b) of the Exchange Act [15 U.S.C. §§78j(b)] and Rule 10b-5 [17 C.F.R. §240.10b-5(a) and (c)] thereunder.

126. Pursuant to Section 20(a) of the Exchange Act [15 U.S.C. § 78t(a)], the Estate of Loren Holzhueter is liable jointly and severally with and to the same extent as ISC.

COUNT V
(Relief Defendant Honefi)

127. Paragraphs 1-108 are realleged and incorporated by reference.

128. In June 2010, Loren Holzhueter and ISC transferred investor funds for the benefit of Relief Defendant Honefi. These transfers were, in part, used to pay off Honefi's existing debt to a bank.

129. In total, in June 2010, Honefi benefitted from ISC's transfer of at least \$230,000 in investor principal.

130. In addition, between April 21, 2009 and November 10, 2014, ISC made payments to Honefi – out of the accounts into which investor funds were comingled with other ISC revenue – totaling \$166,350.

131. The proceeds identified in paragraphs 86-88 are the proceeds of the violations committed by Loren Holzhueter and ISC described in this Complaint.

132. Relief Defendant Honefi has no legitimate claim to the amounts received from ISC identified in paragraphs 86-88, and therefore was unjustly enriched by receiving those funds.

COUNT VI
(Relief Defendants Arlene Holzhueter and Aaron Holzhueter)

133. Paragraphs 1-108 are realleged and incorporated by reference.

134. Starting no later than mid-2000, Loren Holzhueter and ISC used investor funds to pay the premiums on insurance policies that insured the life of Loren Holzhueter and named Arlene and Aaron Holzhueter as beneficiaries.

135. As described in more detail in paragraphs 91-99 above, Loren Holzhueter used investor funds to amass at least \$9.2 million in Life Insurance Policies for the benefit of Relief Defendants Arlene and Aaron Holzhueter.

136. Starting no later than mid-2000, ISC paid the premiums for those policies out of accounts that held investor funds. For example, from January 2013 through December 2014 alone, ISC used \$437,740 – taken out of accounts holding investor funds – to pay the premiums on Loren Holzhueter’s Life Insurance Policies.

137. Any proceeds from the Life Insurance Policies discussed in paragraphs 91-99 are the proceeds of the violations committed by Loren Holzhueter and ISC described in this Complaint.

138. In addition, while Loren Holzhueter was raising funds from investors in ISC, he directed payments to Aaron and Arlene Holzhueter (and entities under their control) out of accounts containing investor funds.

139. Moreover, by operation of law and through the administration of Loren Holzhueter’s Estate, Arlene and/or Aaron Holzhueter have obtained ownership of assets financed using investor funds – including ownership interest in the assets of Honefi which has been financed, in part, using investor funds.

140. Relief Defendants Arlene Holzhueter and Aaron Holzhueter have no legitimate claim to the proceeds of the Life Insurance Policies identified in paragraphs 91-99, (or other assets obtained using investor funds as described herein) and therefore – absent disgorgement of those proceeds – Arlene Holzhueter and Aaron Holzhueter would be unjustly enriched by receiving those funds.

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that this Court:

I.

Issue findings of fact and conclusions of law that defendants committed the violations charged and alleged herein.

II.

Enter an Order of Permanent Injunction restraining and enjoining Defendant ISC, its officers, agents, servants, employees, attorneys and those persons in active concert or participation with ISC who receive actual notice of the Order, by personal service or otherwise, and each of them from, directly or indirectly, engaging in the transactions, acts, practices or courses of business described above, or in conduct of similar purport and object, in violation of Section 17(a) of the Securities Act [15 U.S.C. §§ 77q(a)], and Section 10(b) of the Exchange Act [15 U.S.C. § 78j] and Rule 10b-5 [17 CFR § 240.10b-5] thereunder.

III.

Issue an Order requiring Defendants Estate of Loren Holzhueter and ISC – and Relief Defendants Honefi, Arlene Holzhueter and Aaron Holzhueter – to disgorge any and all ill-gotten gains received as a result of the violations alleged in this Complaint, including prejudgment interest.

IV.

With regard to the Defendants' violative acts, practices and courses of business set forth herein, issue an Order imposing upon Defendant ISC appropriate civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

V.

Retain jurisdiction of this action in accordance with the principals of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

VI.

Grant such other relief as this Court deems appropriate.

JURY DEMAND

Pursuant to Rule 38 of the Federal Rules of Civil Procedure, the Commission hereby requests a trial by jury.

**UNITED STATES SECURITIES
AND EXCHANGE COMMISSION**

By: /s/ Timothy S. Leiman
Timothy S. Leiman (Leimant@sec.gov)
Robert Moyer (Moyer@sec.gov)
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Chicago, IL 60604
Telephone: (312) 353-7390

Attorneys for Plaintiff

AO 440 (Rev. 06/12) Summons in a Civil Action

UNITED STATES DISTRICT COURT

for the

Western District of Wisconsin

UNITED STATES SECURITIES & EXCHANGE COMMISSION,

Plaintiff(s)

v.

ESTATE OF LOREN W.HOLZHUETER, ET AL.

Defendant(s)

Civil Action No. 15-cv-45

SUMMONS IN A CIVIL ACTION

To: (Defendant's name and address) Aaron Holzhueter, Relief Defendant
c/o
Marcus J. Berghahn
Hurley, Burish & Stanton, S.C.
33 East Main Street, Suite 400
Madison, Wisconsin 53703

A lawsuit has been filed against you.

Within 21 days after service of this summons on you (not counting the day you received it) — or 60 days if you are the United States or a United States agency, or an officer or employee of the United States described in Fed. R. Civ. P. 12 (a)(2) or (3) — you must serve on the plaintiff an answer to the attached complaint or a motion under Rule 12 of the Federal Rules of Civil Procedure. The answer or motion must be served on the plaintiff or plaintiff's attorney, whose name and address are:

Timothy S. Leiman
United States Securites and Exchange Commission
175 West Jackson Blvd., Suite 900
Chicago, IL 60604

If you fail to respond, judgment by default will be entered against you for the relief demanded in the complaint. You also must file your answer or motion with the court.

CLERK OF COURT

Date:

Signature of Clerk or Deputy Clerk

Civil Action No. 15-cv-45

PROOF OF SERVICE

(This section should not be filed with the court unless required by Fed. R. Civ. P. 4 (l))

This summons for *(name of individual and title, if any)* _____
was received by me on *(date)* _____ .

I personally served the summons on the individual at *(place)* _____
_____ on *(date)* _____ ; or

I left the summons at the individual's residence or usual place of abode with *(name)* _____
_____, a person of suitable age and discretion who resides there,
on *(date)* _____ , and mailed a copy to the individual's last known address; or

I served the summons on *(name of individual)* _____ , who is
designated by law to accept service of process on behalf of *(name of organization)* _____
_____ on *(date)* _____ ; or

I returned the summons unexecuted because _____ ; or

Other *(specify)*:

My fees are \$ _____ for travel and \$ _____ for services, for a total of \$ _____ 0.00 .

I declare under penalty of perjury that this information is true.

Date: _____

Server's signature

Printed name and title

Server's address

Additional information regarding attempted service, etc:

AO 440 (Rev. 06/12) Summons in a Civil Action

UNITED STATES DISTRICT COURT

for the

Western District of Wisconsin

UNITED STATES SECURITIES & EXCHANGE COMMISSION,

Plaintiff(s)

v.

ESTATE OF LOREN W.HOLZHUETER, ET AL.

Defendant(s)

Civil Action No. 15-cv-45

SUMMONS IN A CIVIL ACTION

To: (Defendant's name and address) Arlene Holzhueter, Relief Defendant
c/o
Stephen E. Kravit
Benjamin J. Glicksman
Kravit, Hovel & Krawczyk, S.C.
825 North Jefferson St.
Milwaukee, WI 53202

A lawsuit has been filed against you.

Within 21 days after service of this summons on you (not counting the day you received it) — or 60 days if you are the United States or a United States agency, or an officer or employee of the United States described in Fed. R. Civ. P. 12 (a)(2) or (3) — you must serve on the plaintiff an answer to the attached complaint or a motion under Rule 12 of the Federal Rules of Civil Procedure. The answer or motion must be served on the plaintiff or plaintiff's attorney, whose name and address are:

Timothy S. Leiman
United States Securites and Exchange Commission
175 West Jackson Blvd., Suite 900
Chicago, IL 60604

If you fail to respond, judgment by default will be entered against you for the relief demanded in the complaint. You also must file your answer or motion with the court.

CLERK OF COURT

Date: _____

Signature of Clerk or Deputy Clerk

Civil Action No. 15-cv-45

PROOF OF SERVICE

(This section should not be filed with the court unless required by Fed. R. Civ. P. 4 (l))

This summons for *(name of individual and title, if any)* _____
was received by me on *(date)* _____ .

I personally served the summons on the individual at *(place)* _____
_____ on *(date)* _____ ; or

I left the summons at the individual's residence or usual place of abode with *(name)* _____
_____, a person of suitable age and discretion who resides there,
on *(date)* _____ , and mailed a copy to the individual's last known address; or

I served the summons on *(name of individual)* _____ , who is
designated by law to accept service of process on behalf of *(name of organization)* _____
_____ on *(date)* _____ ; or

I returned the summons unexecuted because _____ ; or

Other *(specify)*:

My fees are \$ _____ for travel and \$ _____ for services, for a total of \$ _____ 0.00 _____ .

I declare under penalty of perjury that this information is true.

Date: _____

Server's signature

Printed name and title

Server's address

Additional information regarding attempted service, etc: