SECURITIES AND EXCHANGE COMMISSION
By: ANDREW M. CALAMARI
Regional Director
New York Regional Office
200 Vesey Street, Suite 400
New York, New York 10281-1022
(212) 336-1100

WILLIAM E. FITZPATRICK
ACTING UNITED STATES ATTORNEY
(Designated Local Counsel)
By: CATHERINE R. MURPHY
Assistant U.S. Attorney
970 Broad Street
Newark, New Jersey 07102
Email: catherine.murphy2@usdoj.gov
(973) 297-2098

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

U.S. SECURITIES AND EXCHANGE COMMISSION, **Plaintiff,** **-against-** **WILLIAM R. SCHANTZ III and VERTO CAPITAL MANAGEMENT LLC,** **Defendants.**	Civil Action No. **COMPLAINT**

Plaintiff U.S. Securities and Exchange Commission ("Commission"), for its Complaint against defendants William R. Schantz ("Schantz") and Verto Capital Management LLC ("Verto") (collectively, "Defendants"), alleges as follows:

SUMMARY OF ALLEGATIONS

1. This action concerns an illegal securities offering orchestrated by defendant Schantz and his entity, defendant Verto. From at least November 2013 through at least

November 2015, Verto and another entity controlled by Schantz issued approximately $12.5 million in nine-month 7% promissory notes ("Notes") to at least 80 investors based on false representations regarding the collateral backing the Notes, the past profitability of Schantz's companies, Defendants' use of investor proceeds, and Verto's internal financial reporting. The Note sales purportedly were to fund Verto's purchase and sale of life insurance policies on the secondary market (also referred to as "life settlements").

2. Defendants sold the Notes primarily through a group of Texas insurance brokers (the "Brokers") who targeted religious investors. Schantz authorized the Brokers to use marketing materials bearing logos for Verto and an affiliated entity, also owned by Schantz, that created the false impression that the Notes were relatively safe investments. For example, the materials misrepresented the amount of collateral (*i.e.*, insurance policies) backing the Notes and also misleadingly portrayed Verto and its affiliates as historically profitable (in fact, they had been unprofitable for several years). Similar false statements regarding purported collateral appeared in offering documents that Defendants prepared for Verto investors.

3. In addition, the offering materials for the Notes misleadingly told investors that Verto would buy and sell policies only with "third parties." In 2015, however, when Verto ran into financial difficulty, Schantz began transferring several Verto-owned policies to a new Schantz-controlled investment fund – without timely paying Verto the full market value of those policies. Verto investors thus effectively financed those transactions to the benefit of Schantz's separate fund and detriment of Verto investors. Defendants never disclosed this conflict of interest to Verto investors.

4. Verto also misleadingly promised to use investor funds only for "general working capital purposes," without disclosing to investors that Schantz was (1) taking outsized

distributions for himself (i.e., over $3.4 million, or over 25% of investor funds taken in); and (2) using new investor money to repay prior investors in Ponzi-like fashion.

5. Due to the high cost of servicing the Notes (including 7% interest in nine months and a 7% commission paid to the Brokers), insufficient profit from the life settlement transactions, and Schantz's outsized (and improper) personal use of investor funds, Schantz failed to repay at least 36 investors within their 9-month Note terms (and has entered into so-called "forbearance agreements" with those investors). Verto currently owes remaining investors approximately $4 million, including accrued interest.

6. In addition, the Notes sales constituted unregistered sales of securities for which no applicable registration exemption existed and, thus, violated the securities sale registration provisions of the federal securities laws.

7. By this action, the Commission seeks, among other things, to terminate Defendants' fraudulent activity and protect investors by maximizing assets available for their recovery.

VIOLATIONS

8. By virtue of the conduct alleged herein, each of the Defendants, directly or indirectly, singly or in concert, has engaged and is engaging in transactions, acts, practices and courses of business that constitute violations of Sections 5(a), 5(c), 17(a)(2), and 17(a)(3) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)].

9. Unless Defendants are permanently restrained and enjoined, they will again engage in the acts, practices, transactions and courses of business set forth in this complaint and in acts, practices, transactions and courses of business of similar type and object.

NATURE OF THE PROCEEDINGS AND RELIEF SOUGHT

10. The Commission brings this action pursuant to authority conferred by Securities Act Section 20(b) [15 U.S.C. § 77t(b)], seeking a final judgment permanently enjoining Defendants from future violations of the securities laws provisions that Defendants violated as alleged in this Complaint, ordering Defendants to disgorge their ill-gotten gains and imposing on Defendant Schantz a civil money penalty pursuant to Securities Act Section 20(d) [15 U.S.C. § 77t(d)].

JURISDICTION AND VENUE

11. This Court has jurisdiction over this action pursuant to 28 U.S.C. § 1331, and Securities Act Sections 20(b), 20(d) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b), 77t(d), 77v(a)].

12. Venue is proper in this district pursuant to 28 U.S.C. § 1391(b)(2), and Securities Act Section 22(a) [15 U.S.C. § 77v(a)]. Certain of the events constituting or giving rise to the alleged violations occurred in the District of New Jersey. For example, Schantz is a resident of Moorestown, New Jersey; Verto's office is headquartered in Maple Shade, New Jersey; and some of the investors were located in New Jersey.

13. In connection with the conduct alleged in this complaint, Defendants, directly or indirectly, have made use of the means or instruments of transportation or communication in, and the means or instrumentalities of interstate commerce, or of the mails, or of the facilities of a national securities exchange.

DEFENDANTS

14. **Schantz**, 62, resides in Moorestown, New Jersey. Schantz founded and owns defendant Verto, as well as entities Senior Settlements LLC, Mid Atlantic Financial, LLC,

Bedrock Funding, LLC, Harper Financial, LLC, and Green Leaf Capital Management LLC ("Green Leaf"). Schantz was last associated with an NASD member firm in 2000. In 2002, the NASD sanctioned and suspended Schantz for having brokered the sale of unregistered nine-month notes (similar to those alleged in this Complaint) without disclosing the sales to the NASD-member firm with which he was associated. In 2006, Schantz entered into a consent order with the New Jersey Bureau of Securities (for the same conduct) and disgorged $7,000 in commissions he earned selling these nine-month notes.

15. **Verto** is a Delaware Limited Liability Company that is headquartered in Maple Shade, New Jersey, that Schantz formed in 2009. According to its website, Verto conducts private placement securities offerings to accredited investors and invests in bundles of life settlements.

FACTS

I. Verto's Business Model

16. From at least November 2013 through November 2015, Defendants issued approximately $12.5 million in Verto Notes to approximately 80 investors.[1] Generally, the Brokers sold Verto Notes to Texas investors, who learned of the Note program through the Brokers' advertisements on a Christian-themed radio show. A few investors, however, were located elsewhere across the country, including New Jersey, Indiana, Nevada, and South Carolina.

17. Each Note investor signed a Purchaser's Representative Certification containing boilerplate statements concerning his or her net worth and sophistication (*i.e.* that they were accredited investors). However, neither the Brokers nor Schantz took any steps to assure

[1] Some of these Notes were issued in the name of Verto's holding company, Mid Atlantic. Since on or around February 2014, all of the Notes were issued by Verto.

themselves that investors were accredited. No "Form D" – stating that Verto has complied with the exemption in Rule 506(c) of the Securities Act – has ever been filed with the Commission.

18. According to a Verto-issued "Information Booklet" for the "Verto Nine Month Secured Note Program," (the "Information Booklet"), Verto "engaged in the business of purchasing existing life insurance policies in the secondary market ('Life Settlements') for its own accounts as well as with a view to reselling them to third parties." The Information Booklet also states that Verto "will purchase Life Settlements with the assistance of Senior Settlements, LLC (the 'Originator')" and that "[t]he Originator has been involved in the Life Settlement market for over 16 years."

19. According to the Information Booklet, a "life settlement" is the sale of a life insurance policy by its owner to a third party purchaser (often through a licensed broker) for more than its immediate cash "surrender" value (but at a discount to the policy's face value or death benefit). The discount depends on the insured's life expectancy. Sellers typically are elderly individuals who can no longer afford their policy premium payments.

20. By their terms, the Notes were to mature nine months from issuance with 7% interest (a 9.3% annualized return). According to the Information Booklet, "the repayment of the Promissory Notes is secured by a collateral assignment and pledge of all of the Life Settlements owned by the issuer from time-to-time which includes Life Settlements acquired with the proceeds of the note." If Verto defaults on a Note, the holder, "subject to the law of the State of New Jersey will have the legal right to obtain ownership of one of more Life Settlements in order to generate cash to repay the amounts due under the [N]ote."

II. <u>Misrepresentations in the Offer and Sale of the Verto Notes</u>

21. From in or about October 2013 through 2015, Defendants, through the Brokers

and otherwise, made misrepresentations in marketing and offering materials for the Notes regarding purported collateral backing the Notes, the profitability of Schantz's companies, Verto's use of investor proceeds, and Verto's internal financial reporting.

22. The offering documents included the Information Booklet that was provided to Note investors as well as a Promissory Note Purchase Agreement that was signed by Verto and the Note investors (the "Promissory Note Purchase Agreement"). Exhibits to the Promissory Note Purchase Agreement included a Form of Promissory Note (the "Form of Promissory Note") and Collateral Assignment and Pledge Agreement (the "Collateral Assignment and Pledge Agreement"); both were executed by Verto.

23. The Brokers also distributed to potential Note investors a marketing brochure concerning the Note program containing information that Schantz provided to the Brokers and language that Schantz approved for the Brokers' use with potential investors (the "Marketing Brochure").

24. The Marketing Brochure also appeared (and purported) to be issued by Senior Settlements or Verto, as it prominently featured the "Senior Settlements" or "Verto Capital Management" logo (but not the Brokers' own business logo).

25. The Marking Brochure described the Notes as "a short term excellent growth investment" that was "not a speculative investment" and that an event of default was "unlikely."

26. In or about late 2013, language nearly identical to the Marketing Brochure also appeared on the Brokers' publicly-available websites.

A. <u>Misrepresentation Concerning Collateral</u>

27. The Marketing Brochure falsely and misleadingly stated that the Notes were "fully collateralized," and specifically that the "Life Settlement assets will have a minimum ratio

of 2:1 or 200%. . . ."

28. The quoted 200% collateral language meant that, at any given time, the "face-value" of Verto-owned insurance policies (*i.e.*, the policies' ultimate full payout amount upon the death of the insured) would equal at least 200% of the amount of Verto's outstanding note indebtedness at that time.

29. For most of the time period December 2013 through in or about November 2015, however, the face value of the Verto-owned insurance policies was materially less than the promised 200% of the outstanding note indebtedness. In fact, the face value of the Verto-owned policies reached 200% for, at most, only a few months; for approximately half the time that Notes were being issued, it hovered between 100% and 200%; and for approximately the other half, it fell below 100% (dipping as low as 28% at one point). The "face value" of the collateral for current Note holders is less than 100%.

B. Misrepresentation Concerning Profitability

30. The Marketing Brochure further misleadingly stated that "Verto Capital Management and its affiliate Senior Settlements have built a growing and profitable business over the past 16 years and the probability of a business failure is extremely remote." This statement was false and misleading, as Schantz's entities incurred losses of approximately $1 million or more each year from 2011 through 2013. Furthermore, the probability of a business failure was not "extremely remote," as Schantz's various businesses had been struggling since at least the 2008 financial crisis, contrary to the false impression left by the marketing brochure.

31. Furthermore, from its inception, the Note program operated at a significant loss, generating insufficient returns from life settlement trading to cover expenses.

C. Misrepresentation Concerning Third-Party Sales

32. The Collateral Assignment and Pledge Agreement limited Verto's ability to resell its policies to third parties: "[Verto] may sell, transfer and convey any Policy to a third party for value." Contrary to this, however, on or around June 2015, Schantz transferred two Verto-owned policies to Green Leaf, an entity formed by Schantz around the same time for the purpose of selling subscriptions in fractional interests of policies, without paying Verto the full value for them up front and without any formal sale or accounting documentation. Schantz subsequently transferred two additional Verto-owned policies to Green Leaf in the same manner. By contrast, when Verto sold policies to actual third parties, it generally received cash payment from the third party within a few days.

33. After Verto transferred policies to Green Leaf, Green Leaf sold fractional interests in portions of those policies to Green Leaf investors. Green Leaf then used part of the proceeds of those sales to pay Verto at least part of the fair market value of the transferred policies.

34. Schantz's undisclosed transfers of the four Verto-owned policies to Green Leaf, an entity whose sole member and owner was Schantz, contradicted the Verto offering documents' statement to trade policies only with "third parties." Green Leaf was not a third party as it was an entity that, like Verto, was solely owned by Schantz. Thirty investors purchased Notes after those transfers began. Moreover, all Verto investors who held Notes after those transactions have experienced actual harm because Verto did not timely receive full market value for selling its policies to Green Leaf. Instead, Verto investors essentially financed Green Leaf's purchases of those policies.

D. Misrepresentation Concerning Financial Statements

35. The Information Booklet falsely stated that "[Verto] will prepare and make available its income statements and balance sheets (which will be reflected in year-end income

statements and balance sheets as of December, 31st),” and that “[Verto’s] financial statements are internally prepared in accordance with Generally Accepted Accounting Principles.” At the time this statement was made it was false because Verto did not maintain income and balance sheets and did not have financial statements. In fact, Verto does not maintain any financial books or records on a current basis and has not completed a financial summary for 2014 to date.

E. <u>Misrepresentation Concerning Use of Funds</u>

36. The Promissory Note Purchase Agreement stated that Verto will use investor funds for “general working capital purposes including but not limited to fund [Verto’s] purchase and acquisition of life insurance policies and the cost and expenses necessary to maintain the life insurance policies in full force and effect, such as policy premiums, broker fees, servicer fees and underwriting fees.” Contrary to this statement, however, Schantz used Note sale proceeds to (1) take disproportionately large distributions for himself; and (2) and covered the shortfall by using new investor money to pay old Note investors, in Ponzi-like fashion.

37. Throughout the note offerings, Schantz was using Verto investor funds to distribute to himself over $3.4 million – over 25% of the $12.5 million received from Verto investors.

38. While telling investors that Verto would use their money for working capital purposes, Schantz was actually funding his own misappropriations by routinely repaying earlier investors with later Verto-investor money. According to Verto, from the start of the Note program in November 2013 through November 2015, Verto made approximately $3 million in profit by selling policies. During this same period (November 2013 through November 2015), Schantz made distributions to himself totaling roughly $2.8 million and paid over $700,000 in broker fees for the Notes. Thus, for at least a significant time period, Schantz’s only source of cash to repay his earliest Note holders was new investor money. Schantz also routinely has

commingled funds related to his various entities in their various bank accounts, making it difficult to ascertain precisely where Verto investor money has gone.

F. "Activity Reports" Misrepresentation

39. The Information Booklet stated that Verto "will prepare and distribute quarterly activity reports…evidencing all activity for the previous quarter," which detailed life insurance policies that were sold and the policies in inventory. At best, Schantz prepared quarterly activity reports sporadically, and he apparently disseminated only two (for the third and fourth quarters of 2014). He disseminated those two reports solely to certain of the Brokers and certain investors (as part of their Note subscription package). Both of those activity reports painted a false picture of Verto's profitability. The reports discuss certain insurance policy trades that did not occur during the time period identified. For example, the Third Quarter 2014 Trading Activity Report lists a specific policy with a $1,800,000 face value, and states that Verto sold the policy on September 13, 2014 for a profit of $145,000 and a profit percentage of 33.72%. Although Verto claims it was at one point in contract to purchase the policy, the deal fell through and Verto never owned or sold this policy. In addition, Verto identified a profitable trade on a policy that Verto apparently never owned. Specifically, the Third Quarter 2014 Trading Activity Report lists a another policy with $1 million face amount, and states that Verto sold the policy on September 20, 2014 for a profit of $40,000 and a profit percentage of 14.81%. Verto has never owned or sold this policy.

G. Material Omissions in the Forbearance Agreements

40. According to Verto, Note holders have been repaid approximately $9 million, leaving 36 unpaid Note holders owed approximately $3.5 million excluding interest. Those 36 have signed "forbearance" agreements with Verto, extending their Notes by nine months or less.

41. The forbearance agreements state in part: "Verto acknowledges and agrees that the Note has matured and that the principal and accrued interest is currently due and payable in full," and Verto "ratifies and confirms that the Note is valid and binding and enforceable in accordance with its terms." The agreements further state that the Note holders, "without waiving any rights and remedies" under the original Notes, have agreed to forbear exercising those rights.

42. In entering into the forbearance agreements, Verto did not correct any of its prior misstatements or omissions to Verto investors described in paragraphs 21-39 above and, thus, essentially reaffirmed them. Thus, for example, although Verto and/or the Brokers have informed at least some forbearing Note investors that Verto currently lacks sufficient funds to repay the Notes, Verto has not informed forbearing investors that Verto's "face-value" insurance policy collateral is less than 100% (far below the 200% originally promised), or that Verto has been repaying those investors who refused to forbear (from the limited funds currently available).

43. Consequently, each forbearance agreement constitutes a continuation of Defendants' prior misrepresentations to the forbearing investors.

<u>FIRST CLAIM FOR RELIEF</u>
Violations of Securities Act Sections 17(a)(2) and 17(a)(3)
(All Defendants)

44. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 43 of this Complaint.

45. Defendants, directly or indirectly, singly or in concert, by use of the means or instruments of transportation or communication in interstate commerce, or of the mails, in connection with the offer or sale of securities, have: (a) obtained, and are obtaining, money or property by means of untrue statements of material fact, or have omitted, and are omitting, to

state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; and (b) engaged, and are engaging, in transactions, acts, practices and courses of business which would operate as a fraud or deceit upon the purchaser.

46. By reason of foregoing, Defendants, directly or indirectly, singly or in concert, have violated, are violating, and unless enjoined, will continue to violate Securities Act Sections 17(a)(2) and 17(a)(3) [15 U.S.C. § 77q(a)(2) and 77q(a)(3)].

SECOND CLAIM FOR RELIEF
Violations of Securities Act Sections 5(a) and 5(c)
(All Defendants)

47. The Commission realleges and incorporates by reference each and every allegation contained in paragraphs 1 through 43.

48. Defendants were primary participants in the offerings and sales of the Notes.

49. At the time of the offers and sales of the Notes, no registration statements were filed or in effect regarding those securities offerings and sales, and no exemption from such registration applied to those offerings and sales.

50. Defendants, directly or indirectly, made use of the means or instruments of transportation or communication in interstate commerce or of the mails to offer and sell securities through the use or medium of a prospectus or otherwise, and carried or caused to be carried through the mails, or in interstate commerce, by means or instruments of transportation, such securities for the purpose of sale or for delivery after sale, when no registration statement had been filed or was in effect as to such securities.

51. By reason of the foregoing, Defendants violated, and unless enjoined will again violate, Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and (c)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court grant the following relief:

I.

A Final Judgment permanently, restraining and enjoining Defendants, their agents, servants, employees and attorneys and all persons in active concert or participation with them, who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations of Section 5 [15 U.S.C. §§ 77e(a) and (c)] and Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. § 77q(a)(2) and 77q(a)(3)].

II.

A Final Judgment ordering Defendants to disgorge their ill-gotten gains, plus prejudgment interest, and such other and further amount as the Court may find appropriate.

III.

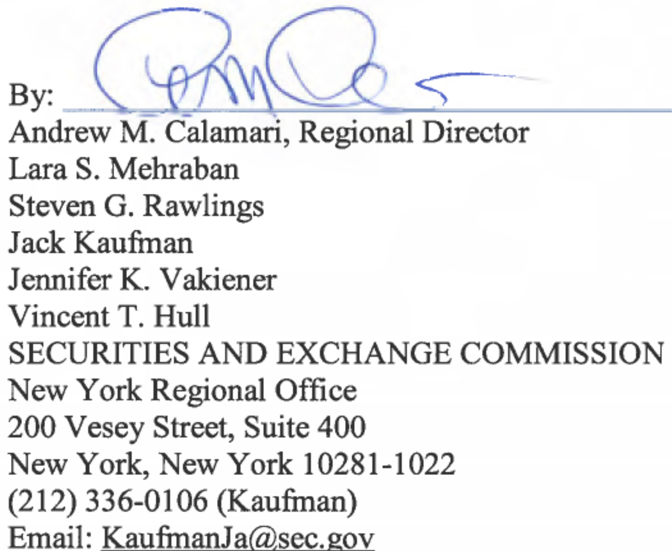
A Final Judgment ordering Defendants to pay civil money penalties pursuant to Securities Act Section 20(d) [15 U.S.C. § 77t(d)].

IV.

Such other and further relief as this Court deems just and proper.

Dated: May 4, 2017
New York, New York

SECURITIES AND EXCHANGE COMMISSION



By: ______________________
Andrew M. Calamari, Regional Director
Lara S. Mehraban
Steven G. Rawlings
Jack Kaufman
Jennifer K. Vakiener
Vincent T. Hull
SECURITIES AND EXCHANGE COMMISSION
New York Regional Office
200 Vesey Street, Suite 400
New York, New York 10281-1022
(212) 336-0106 (Kaufman)
Email: KaufmanJa@sec.gov

Local Counsel for Plaintiff

WILLIAM E. FITZPATRICK
ACTING UNITED STATES ATTORNEY (Designated Local Counsel)
By: CATHERINE R. MURPHY
Assistant U.S. Attorney
970 Broad Street
Newark, New Jersey 07102
Email: catherine.murphy2@usdoj.gov
(973) 297-2098

LOCAL CIVIL RULE 11.2 CERTIFICATION

Pursuant to Local Civil Rule 11.2, I certify that the matter in controversy alleged in the foregoing Complaint is not the subject of any other civil action pending in any court, or of any pending arbitration or administrative proceeding.

Dated: May 4, 2017
New York, New York

SECURITIES AND EXCHANGE COMMISSION

By: ______________________________

Andrew M. Calamari, Regional Director
Jack Kaufman
Jennifer K. Vakiener
SECURITIES AND EXCHANGE COMMISSION
New York Regional Office
200 Vesey Street, Suite 400
New York, New York 10281-1022
(212) 336-0106 (Kaufman)
Email: KaufmanJa@sec.gov

DESIGNATION PURSUANT TO LOCAL CIVIL RULE 101.1(f)

Pursuant to Local Civil Rule 101.1(f), the undersigned hereby designates the United States Attorney for the District of New Jersey to receive service of all notices or papers in this action at the following address:

Catherine R. Murphy
Assistant U.S. Attorney
970 Broad Street
Newark, New Jersey 07102
Email: catherine.murphy2@usdoj.gov
(973) 297-2098

Dated: May 4, 2017
New York, New York

SECURITIES AND EXCHANGE COMMISSION

By: ______________________

Andrew M. Calamari, Regional Director
Jack Kaufman
Jennifer K. Vakiener
SECURITIES AND EXCHANGE COMMISSION
New York Regional Office
200 Vesey Street, Suite 400
New York, New York 10281-1022
(212) 336-0106 (Kaufman)
Email: KaufmanJa@sec.gov