



IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

v.

CHRISTOPHER K. SCHRICHTE, HOWARD
C. HILL, NEWMARKET GLOBAL
MANAGEMENT I, LLC, and NEWMARKET
TECHNOLOGY FUND I, LLC,

Defendants.

Case No. 16 5773

COMPLAINT

JURY TRIAL DEMANDED

Plaintiff Securities and Exchange Commission (the “Commission”) alleges as follows against defendants Christopher K. Schrichte, Howard C. Hill, NewMarket Global Management I, LLC (the “Manager”), and NewMarket Technology Fund I, LLC (the “Fund”):

SUMMARY

1. In 2001, defendants Schrichte and Hill created the NewMarket Technology Fund to invest in technology companies. However, since at least 2007, Schrichte and Hill looted the Fund and the software company it owned (“Software Company”) to line their own pockets to the detriment of the Fund and its investors.

2. In breach of the fiduciary duty they owed as investment advisers to the Fund, Schrichte and Hill took almost a million dollars in interest-free loans from the Fund, and almost another \$500,000 in unauthorized and undisclosed transfers from the Fund and Software Company.

3. Then, when Schrichte and Hill sought additional investment money to keep the Fund and Software Company afloat, they misrepresented in Fund financial statements the nature and extent of the money they took from the Fund and Software Company. Specifically,

Schrichte and Hill raised \$5.9 million based on materially misstated financial statements, of which almost \$2.2 million—more than 37 percent—went back to Schrichte and Hill as salary, improper loans, or other misappropriations.

4. As a result of the conduct described in this complaint, Schrichte, Hill, and the Fund violated Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder and Section 17(a) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. § 77q(a)], and Schrichte, Hill, and the Manager violated Sections 206(1), 206(2), and 206(4) of the Investment Advisers Act of 1940 (“Advisers Act”) [15 U.S.C. §§ 80b-6(1), 80b-6(2), and 80b-6(4)] and Rule 206(4)-8 [17 C.F.R. § 275.206(4)-8] thereunder.

JURISDICTION AND VENUE

5. The Commission brings this action pursuant to Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. §§ 78u(d) and 78u(e)], Sections 20(b) and 20(d) of the Securities Act [15 U.S.C. §§ 77t(b) and 77t(d)], and Sections 209(d) and 209(e) of the Advisers Act [15 U.S.C. §§ 80b-9(d) and 80b-9(e)] to enjoin such acts, transactions, practices, and courses of business and to obtain disgorgement, prejudgment interest, civil money penalties, and such other and further relief as the Court may deem just and appropriate.

6. The Court has jurisdiction over this action pursuant to Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78aa], Sections 20(b), 20(d), and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b), 77t(d), and 77v(a)], and Sections 209(d), 209(e), and 214 of the Advisers Act [15 U.S.C. §§ 80b-9(d), 80b-9(e), and 80b-14].

7. Venue in this district is proper pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa], Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], and Section 214 of the

Advisers Act [15 U.S.C. § 80b-14]. Among other things, certain members of the Fund are residents of the Eastern District of Pennsylvania, and Schrichte, Hill, and the Manager have transacted business in the Eastern District of Pennsylvania.

DEFENDANTS

8. **Christopher K. Schrichte**, age 57, resides in Missoula, Montana. At all relevant times, Schrichte has been a managing member of the Fund; president and managing member of the Manager; and president and CEO of Software Company.

9. **Howard C. Hill**, age 57, is a resident of Washington, D.C. At all relevant times, Hill has been a managing member of the Fund; a managing member of the Manager; and executive vice president, general counsel, and secretary of Software Company.

10. **NewMarket Global Management I, LLC** is a Delaware limited liability company with its principal place of business in Washington, D.C. It manages only the Fund, and oversees its investments and day-to-day operations. The Manager is owned by Schrichte and Hill.

11. **NewMarket Technology Fund I, LLC** is a Delaware limited liability company established in 2001 with its principal place of business in Washington, D.C. Since its inception, the Fund has invested in only one asset, Software Company. Schrichte and Hill sold investors membership interests in the Fund, which are securities.

RELATED ENTITIES

12. **Software Company** is a privately held company with its principal place of business in Missoula, Montana. Software Company purports to provide information redaction software. The Fund owns a majority interest in Software Company, but Schrichte and Hill have

also issued themselves, and other individuals, shares in the company. Between, at the very least, 2007 and the present, Software Company has not been profitable.

13. **Accounting Firm** is a certified public accounting firm, located in Kensington, Maryland. Accounting Firm reviewed, but did not audit, the Fund's financial statements for certain years since at least 2006.

FACTS

Schrichte and Hill Created and Controlled the Fund

14. Schrichte and Hill created the Fund in 2001 to invest in private technology companies. Since 2001, 75 investors have invested approximately \$21 million in the Fund.

15. Schrichte and Hill founded the Manager to act as an unregistered investment adviser for the Fund. Since its inception, Schrichte and Hill have controlled the Manager, and have exercised final authority over all decisions made on behalf of the Fund, including decisions concerning the management of investor funds and disclosures to Fund investors.

16. The Fund's only investment has, at all times, been a controlling stake in Software Company, which has not been profitable since, at least, 2007. The Fund first invested in Software Company in 2001.

Schrichte and Hill Took Over Software Company

17. While Software Company was founded by others, in 2007 Schrichte and Hill appointed themselves to serve as Software Company's president and CEO and executive vice president, general counsel, and secretary, respectively. Since that time, Schrichte and Hill have controlled the Manager, the Fund, and Software Company with little to no oversight from outside parties.

18. Schrichte and Hill used this control to give themselves large salaries from Software Company. Between 2007 and 2014, Schrichte was paid a total of \$852,175 in salary by Software Company, and Hill was paid a total of \$813,903 in salary by Software Company.

Schrichte and Hill Used their Control to Loot the Fund and Software Company

19. Despite taking large salaries from Software Company, Schrichte and Hill used their control over the Fund and Software Company to additionally enrich themselves to the detriment of the Fund and its investors. From at least 2007 to 2014, rather than use investor money to support Software Company, Schrichte and Hill took \$955,000 in unauthorized loans from the Fund, and misappropriated an additional \$499,558 from the Fund and Software Company.

20. With regard to the unauthorized loans, Schrichte and Hill used their control over the Fund to loan \$955,000 through the Manager to themselves. These loans were interest free and without any corporate purpose. Directing the Fund to make these loans represented a conflict of interest for Schrichte, Hill, and the Manager, which they did not fully disclose to investors or otherwise rectify.

21. Schrichte used the loaned funds to pay his mortgage, personal property taxes, and other living expenses, and Hill used the funds to pay for personal living expenses, purchase luxury goods (e.g., jewelry and cars), and pay personal debt.

22. The Fund's operating agreement expressly prohibited the Manager from taking such loans without consent, providing in relevant part:

[t]he Manager may not, without the prior written consent of a Majority in Interest of the Members . . . lend money to . . . any Person, unless the Company holds securities (including, without limitation, convertible debt) issued by or otherwise owns an economic interest in such Person

23. Schrichte and Hill simply ignored the operating agreement. They did not seek and obtain prior written consent from the Fund's investors for any of these loans, nor did they abide by the operating agreement's other prerequisites for such actions.

24. In an apparent attempt to paper the file, Hill and/or Schrichte created purported non-interest bearing promissory notes that supposedly represented consideration for the loans. However, the purported promissory notes do not accurately document all the loans to the Manager, Schrichte, and Hill, and the books and records documenting such loans were incomplete and similarly inaccurate.

25. While the alleged promissory notes purport to be executed at the time the first loan was issued, the documents refer to loans that were initiated after the date of execution, suggesting that the promissory notes were back dated. Schrichte and Hill claim to have no recollection of when the promissory notes were signed.

26. Schrichte and Hill then unilaterally extended the maturity dates on the loans, originally due in August of 2012, by three years without any consideration and in contravention of the terms of the promissory notes.

27. After the Commission initiated its investigation, Schrichte and Hill each provided an amended schedule for their respective notes in an attempt to account for all the purported loans. Schrichte also began the process on October 9, 2014, of returning the monies the Manager improperly borrowed—more than seven years after the first loan—and finally repaid the loans by November 24, 2015.

28. In addition to these loans, between October 1, 2007, and October 31, 2014, Schrichte and Hill paid themselves the following amounts from the accounts of the Fund and Software Company:

	Fund	Software Company	Total
Schrichte	\$31,500	\$264,000	\$295,500
Hill	\$8,558	\$195,500	\$204,058
			TOTAL: \$499,558

29. There was no justification for these transfers contained in financial records for the Fund or Software Company.

30. During the Commission's investigation, Schrichte and Hill both testified that these payments represented reimbursements for business expenses they personally incurred, but they did not produce any receipts or records explaining these large transfers of money. Nor could Schrichte or Hill identify the legitimate business expenses purportedly justifying these payments.

Schrichte, Hill, and the Fund Misled Investors and Prospective Investors Regarding the Money They Transferred to Themselves

31. Schrichte, Hill, and the Fund failed to accurately disclose to investors and prospective investors that they were taking money from the Fund and Software Company.

32. The Fund's operating agreement required the Manager to provide Fund members with Fund financial statements audited or reviewed by certified public accountants on or before the 120th day following the end of each fiscal year.

33. Schrichte, Hill, and the Fund failed to abide by this requirement. Indeed, since 2008, Schrichte, Hill, and the Fund created financial statements for only 2008, 2010, and 2012. Even then, Schrichte and Hill did not provide these financial statements to investors and prospective investors in a timely fashion.

34. Schrichte and Hill mailed Fund investors annual reports containing the 2008 Fund financial statements in or around October 2009, the 2010 Fund financial statements in or around November 2011, and the 2012 Fund financial statements in or around September 2013.

35. In addition to providing these annual reports to existing Fund investors, Schrichte and Hill used the reports to solicit new investments in the Fund, sending the reports to prospective investors.

36. These annual reports contained material misrepresentations and omissions about the money Schrichte and Hill took from the Fund and Software Company.

37. With respect to the close to \$1 million in loans, the annual reports disclosed that the Fund had outstanding loans to the Manager, but did not disclose that the Manager had then loaned that money to Schrichte and Hill. Nor did the Fund's reports disclose that the promissory notes purportedly underlying these loan transactions were not contemporaneously prepared, or that Schrichte and Hill unilaterally extended the maturity dates on the loans in contravention of the terms of the promissory notes.

38. With respect to the additional funds Schrichte and Hill misappropriated, at no point—in the annual report, or anywhere else—did Schrichte, Hill, or the Fund disclose to investors or prospective investors that Schrichte and Hill had taken an additional approximately \$500,000 from the Fund and Software Company.

39. The 2008, 2010, and 2012 Fund financial statements disclosed "Related Party Transactions" such as: (1) loans taken by the Manager; (2) salaries paid to Schrichte and Hill by Software Company; (3) rent purportedly due to Schrichte from Software Company; and (4) "Reimbursable Expenses." However, the financial statements contained no disclosure of the \$500,000 paid to Schrichte and Hill.

40. For the entire 2008 to 2012 time period, the Fund financial statements disclosed that Schrichte and Hill had received approximately \$16,000 in reimbursable expenses. This is well below the actual amount that Schrichte and Hill transferred to themselves during this time period, which they now claim was reimbursement for expenses they personally incurred on behalf of Software Company or the Fund.

41. Also, given that Schrichte and Hill were both managing members of the Fund and the Manager, and officers of Software Company, Schrichte, Hill, and the Fund were obligated to—and yet did not—report in the Fund’s financial statements the non-salary compensation and other consideration Schrichte and Hill received from the Fund and Software Company.

42. Defendants’ failure to disclose the nature and extent of these transfers to Schrichte and Hill and related details rendered the Fund’s financial statements materially misleading. Between February 1, 2010, and February 20, 2014, Schrichte and Hill raised \$5.9 million for the Fund, of which almost \$2.2 million—more than 37 percent of the funds raised—went back into Schrichte’s and Hill’s pockets as salary, improper loans, or other misappropriations.

TOLLING OF STATUTE OF LIMITATIONS

43. Schrichte, Hill, the Manager, and the Fund agreed to toll any statute of limitations applicable to the claims alleged herein during the periods from May 8, 2015, through November 8, 2015, November 8, 2015, through May 8, 2016, and May 8, 2016, through November 8, 2016.

FIRST CLAIM FOR RELIEF **Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder** **(Against Schrichte, Hill, and the Fund)**

44. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 43, inclusive, as if they were fully set forth herein.

45. By engaging in the conduct described above, defendants Christopher K. Schrichte, Howard C. Hill, and NewMarket Technology Fund I, LLC knowingly or recklessly, in connection with the purchase or sale of securities, directly or indirectly, by use of the means or instrumentalities of interstate commerce, or the mails, or the facilities of a national securities exchange:

- (a) employed devices, schemes, or artifices to defraud;
- (b) made untrue statements of material facts or 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
- (c) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon any person in connection with the purchase or sale of any security.

46. By engaging in the foregoing conduct, defendants Christopher K. Schrichte, Howard C. Hill, and NewMarket Technology Fund I, LLC violated, and unless enjoined will continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder.

SECOND CLAIM FOR RELIEF
Violations of Section 17(a) of the Securities Act
(Against Schrichte, Hill, and the Fund)

47. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 46, inclusive, as if they were fully set forth herein.

48. By engaging in the conduct described above, defendants Christopher K. Schrichte, Howard C. Hill, and NewMarket Technology Fund I, LLC, in the offer or sale of

securities, by the use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly:

- (a) knowingly or recklessly employed devices, schemes, or artifices to defraud;
- (b) knowingly, recklessly, or negligently obtained money or property by means of untrue statements of material facts, or omissions 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
- (c) knowingly, recklessly, or negligently engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon the purchaser.

49. By engaging in the foregoing conduct, defendants Christopher K. Schrichte, Howard C. Hill, and NewMarket Technology Fund I, LLC violated and, unless restrained and enjoined, will continue to violate Section 17(a) of the Exchange Act [15 U.S.C. § 77q(a)].

THIRD CLAIM FOR RELIEF
Violations of Sections 206(1), 206(2), and 206(4)
of the Advisers Act and Rule 206(4)-8 Thereunder
(Against Schrichte, Hill, and the Manager)

50. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 49, inclusive, as if they were fully set forth herein.

51. By engaging in the conduct described above, defendants Christopher K. Schrichte, Howard C. Hill, and NewMarket Technology Management I, LLC directly or indirectly, by use of the mails or the means or instrumentalities of interstate commerce while acting as an investment adviser:

- (a) knowingly or recklessly employed devices, schemes, or artifices to defraud advisory clients or prospective advisory clients; and

- (b) knowingly, recklessly, or negligently engaged in transactions, practices, or courses of business which operated as a fraud or deceit upon clients or prospective clients.

52. By engaging in the conduct described above, defendants Christopher K. Schrichte, Howard C. Hill, and NewMarket Technology Management I, LLC, directly or indirectly, by use of the mails or the means or instrumentalities of interstate commerce while acting as an investment adviser, engaged in acts, practices, or courses of business which are fraudulent, deceptive, or manipulative by:

- (a) Making an untrue statement of material fact or omitting to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to any investor or prospective investor in a pooled investment vehicle; and
- (b) Engaging in an act, practice, or course of business that is fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in a pooled investment vehicle.

53. By engaging in the foregoing conduct, defendants Christopher K. Schrichte, Howard C. Hill, and NewMarket Technology Management I, LLC violated and, unless restrained and enjoined, will continue to violate Sections 206(1), 206(2), and 206(4) of the Advisers Act [15 U.S.C. §§ 80b-6(1), 80b-6(2), and 80b-6(4)] and Rule 206(4)-8 [17 C.F.R. § 275.206(4)-8] thereunder.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court enter a final judgment:

I.

Permanently restraining and enjoining defendants Christopher K. Schrichte, Howard C. Hill, and NewMarket Technology Fund I, LLC from, directly or indirectly, violating Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder;

II.

Permanently restraining and enjoining defendants Christopher K. Schrichte, Howard C. Hill, and NewMarket Technology Fund I, LLC from, directly or indirectly, violating Section 17(a) of the Exchange Act [15 U.S.C. § 77q(a)];

III.

Permanently restraining and enjoining defendants Christopher K. Schrichte, Howard C. Hill, and NewMarket Global Management I, LLC from, directly or indirectly, violating Sections 206(1), 206(2), and 206(4) of the Advisers Act [15 U.S.C. §§ 80b-6(1), 80b-6(2), and 80b-6(4)] and Rule 206(4)-8 [17 C.F.R. § 275.206(4)-8] thereunder;

IV.

Ordering defendants Christopher K. Schrichte, Howard C. Hill, NewMarket Global Management I, LLC, and NewMarket Technology Fund I, LLC to disgorge any and all ill-gotten gains, together with prejudgment interest thereon, derived from the activities set forth in this Complaint;

V.

Ordering defendants Christopher K. Schrichte, Howard C. Hill, NewMarket Global Management I, LLC, and NewMarket Technology Fund I, LLC to pay civil penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)], Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], and/or Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)]; and

VI.

Granting such other and further relief as this Court may deem just, equitable, and appropriate.

Dated: November 7, 2016

Respectfully submitted,

BY: Christopher R. Kelly
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