

**IN THE UNITED STATES DISTRICT COURT  
FOR THE MIDDLE DISTRICT OF TENNESSEE**

**MARION P. DEMOSS, BARBARA J.  
GALYEN, and PATRICIA J. KELLEY** )

**Plaintiffs,** )

**v.** )

**TERRY L. KRETZ, GEORGE THORPE,  
and MICHAEL C. LYNN** )

**Defendants.** )

**Case No.: 3-07-0405  
Judge Trauger  
JURY DEMAND**

---

**AMENDED COMPLAINT**

---

COMES NOW, MARION P. DEMOSS, BARBARA J. GALYEN, and PATRICIA J. KELLEY, Plaintiffs, who would show the court as follows:

**BACKGROUND AND OVERVIEW**

**PARTIES**

1. Plaintiff Marion P. DeMoss (“DeMoss”) is a resident of Nashville, Tennessee.
2. Plaintiff Barbara J. Galyen (“Galyen”) is a resident of Larkspur, California.
3. Plaintiff Patricia J. Kelley (“Kelley”) is a resident of Brookfield, Wisconsin.
4. Defendant Terry L. Kretz (“Kretz”) resides at 186 Putter Point, Gallatin, Sumner County, Tennessee.
5. Defendant George B. Thorpe (“Thorpe”) resides at 131 Clearview Circle, Hendersonville, Sumner County, Tennessee.

6. Defendant Michael C. Lynn (“Lynn”) is a resident of 147 Clark Drive, Mt. Juliet, Wilson County, Tennessee.

7. Hanover Corporation, LLC (“Hanover”) is a Tennessee limited liability company. Hanover closed its offices located at Suite 205 One Lakeview, 25 Century Blvd. Nashville, Davidson County, Tennessee, 37214 on October 9, 2006. No new address was posted. The agent for service of process for Hanover is Defendant Terry Kretz, who is located at 1695 Jacobs, Drive, Gallatin, Sumner County, Tennessee.

### **JURISDICTION AND VENUE**

8. The causes of action arise from violations of the Securities Act of 1933, Securities Exchange Act of 1934, The Securities Act of Arizona, Arizona Consumer Protection Act, Tennessee Securities Act of 1980, Tennessee Consumer Protection Act, Tennessee law, Wisconsin Uniform Security Law, Wisconsin law, California Corporate Securities Law of 1968, California law and common law.

9. This court has jurisdiction over this cause pursuant to § 22(a) of the Securities Act of 1933 and § 27 of the Securities Act of 1934.

10. Venue is proper in this court pursuant to 15 U.S.C. § 77(v) and 15 U.S.C. § 78(aa), because Hanover is founded, has its headquarters and principal executive offices, and transacts business in this District.

### **FACTUAL ALLEGATIONS**

11. In 2002, Defendant Terry L. Kretz formed Hanover Corporation, LLC. Kretz was an owner, President, CEO, and Chairman of the Board of Directors.

12. The Board of Directors of Hanover Corporation, LLC (“Hanover”) consisted of Kretz, George Thorpe, and Robert Haley.

13. Starting in 2004 and continuing until July of 2006, Hanover, by and through its employees and representatives, sold promissory notes as part of a plan to raise capital for Hanover.

14. The promissory notes were sold in multiple states including, but not limited to, Tennessee, Arizona, Wisconsin, and California.

15. Under the terms of the promissory notes, the holder of the promissory note was promised monthly payments of interest at a stated fixed rate ranging from fifteen to twenty-five percent (15%-25%) per annum, said stated rate varying with each respective promissory note.

16. The promissory notes had terms ranging from nine (9) months to thirty-six (36) months. The promissory notes would be renewed at the end of the term for an additional term of nine (9) months or longer unless the investor notified Hanover of their objection to renewal of the note. The note would continue to be renewed thereafter until the investor objected.

17. From 2004 to 2006, Defendants Kretz, Thorpe and Lynn (collectively the “Defendant-Sellers”) met with many noteholders by telephone or in person. Defendant-Sellers directly and/or indirectly through the actions and statements of others solicited the Plaintiffs to purchase promissory notes issued by Hanover as maker, and signed by one or more of the Defendant-Sellers.

18. Defendant-Sellers directly and/or indirectly through the actions and statements of others orally represented in full or in part to the Plaintiffs that the capital from the notes would be invested in money market funds, options, options on real estate, bonds, treasury notes, bank notes, equity investments and Hanover operating capital.

19. Defendant-Sellers directly and/or indirectly through the actions and statements of others represented to the Plaintiffs that the returns from the invested capital would be used to pay the interest guaranteed to the Plaintiffs in the promissory note.

20. Plaintiffs and others purchased the promissory notes issued by Hanover based upon the information disseminated by Defendant-Sellers. The Plaintiffs initially invested amounts ranging from \$50,000 to \$350,000 in the promissory note(s).

21. Defendant-Sellers directly and/or indirectly through the actions and statements of others solicited similar investments from other individual investors located in numerous other states. The promissory notes received by the Plaintiffs are attached as Collective Exhibit A.

22. Hanover did not invest the funds from the loans in money market funds, options, options on real estate, bonds, treasury notes, bank notes, equity investments and Hanover operating capital as was represented to the Plaintiffs.

23. In reality, funds were misused by Defendant-Sellers for purposes other than those represented to the Plaintiffs:

- a. On information and belief, a substantial portion of the capital raised through the sale of promissory notes was distributed to Defendant-Sellers;
- b. The funds were used to service the interest payments of noteholders who invested earlier;
- c. The funds were used to purchase residential real property in Gallatin, Tennessee in the name of Terry Kretz;

d. The funds were invested in companies without Hanover receiving shares or other ownership interest entitling Hanover to receive dividends or other distributions as were promised to the Plaintiffs.

24. The initial interest payments on the notes were serviced from the investment of other individuals in a ponzi scheme intended to defraud investors.

25. Hanover was unprofitable in 2005 and 2006.

26. At the time Plaintiffs invested, Defendant-Sellers knew or should have known that Hanover lacked the present or potential ability to service the debt of the promissory notes held by the Plaintiffs and other similarly situated investors.

27. Hanover's commodities trading programs were unprofitable in 2005. In January, 2006, Hanover stopped trading commodities.

28. Throughout 2006, Defendant-Sellers directly and/or indirectly through the actions and statements of others continued to represent to the Plaintiffs that Hanover was performing well even after Plaintiffs inquired as to why they were not receiving the promised interest payments pursuant to the terms of their promissory notes.

29. In reality, Defendant-Sellers directly and/or indirectly through the actions and statements of others knowingly and intentionally misrepresented the condition of the business to the Plaintiffs. Hanover was losing money trying to pay the interest required under the promissory notes resulting in Hanover's unprofitability for 2005 and 2006.

30. The statements made to the Plaintiffs were false in that Defendant-Sellers directly and/or indirectly through the actions and statements of others stated that Hanover was able to invest

the Plaintiffs' money for a return that would allow for the timely payment of interest on the promissory notes. In reality, Hanover was unable make the payments as represented to the Plaintiffs.

31. Defendant-Sellers knew that new investors were needed to pay promised returns to current investors due to the unprofitability of the trading program.

32. In addition to the false information regarding the use of the capital and the ability of Hanover to pay the promised returns on the promissory notes, Defendant-Sellers directly and/or indirectly through the actions and statements of others provided substantial amounts of false information, including:

- a. That the interest payments were delayed but would be paid soon, when in reality the promised payments were never made.
- b. That the Plaintiffs would be given a full explanation of why the payments were delayed, when in reality an explanation was never provided and the payments were never made.
- c. That Hanover had never been late in sending payments and that Hanover's timely payments would continue, when in reality Hanover had been late in sending payments and would continue to be late or altogether fail to make the payments.

33. The Plaintiffs believed the statements disseminated by Defendant-Sellers were true and the Plaintiffs relied on these statements when investing in Hanover.

34. Defendant Sellers failed to provide investors with substantial amounts of material information including:

- a. The personal use of the capital raised from the sale of the promissory notes by Kretz and others including the purchase of a house in Defendant Kretz's name with Hanover funds..
- b. The true nature of Hanover as a ponzi scheme.
- c. The inability of Hanover to repay the principal balance of the promissory notes at the end of their terms.
- d. The inability of Hanover to pay the promised monthly interest payments.
- e. That in July of 2005, Hanover was investigated by the State of Tennessee Securities Division for violations of state securities law.
- f. That in November of 2005, the State of Tennessee filed a lawsuit against Hanover, Defendant Kretz, and Defendant Thorpe for securities fraud, selling unregistered securities and failing to register as broker-dealers and sought to place Hanover in a receivership.

35. Only some of the Plaintiffs ever received interest payments and none of the Plaintiffs received the full amount due under the terms of the promissory notes. The payments are currently in default.

36. The Plaintiffs were never repaid their initial investment at the end of the term of the promissory notes, and the promissory notes are in default.

37. As a result of the fraudulent misrepresentations of Defendant-Sellers, Plaintiffs have been damaged in the amount of Five Hundred Sixty-Six Thousand Three Hundred Eighty-Four and 1/100 Dollars (\$566,384.01) as of December 28, 2006, representing the face amount of the Plaintiffs'

investment in promissory notes issued by Hanover and unpaid interest which continues to accrue at the maximum default rate permitted under the terms of the promissory notes.

## CAUSES OF ACTION

### COUNT I - Negligent Misrepresentation

38. The allegations contained in Paragraphs 1-37 are realleged and incorporated by this reference as if set forth herein.

39. Defendant-Sellers contacted the Plaintiffs in person or by telephone at their home and asked them to invest in promissory notes issued by Hanover. These discussions were made in a business setting as Defendant-Sellers, agents of Hanover, convinced the Plaintiffs to invest in the promissory notes issued by Hanover.

40. Defendant-Sellers received a direct financial benefit as a result of the sales of promissory notes to the Plaintiffs and other similarly situated investors.

41. Defendant-Sellers falsely represented to the Plaintiffs that the funds from the promissory notes would be invested in money market funds, options, options on real estate, bonds, treasury notes, bank notes, equity investments and Hanover operating capital. In reality, the funds were used to make interest payments to other noteholders, to purchase property in the name of Defendant Kretz, and for other uses not represented to the Plaintiffs. Their false representations were intended to provide a measure of security to the Plaintiffs that they would receive the interest guaranteed under the promissory.

42. The statements made to the Plaintiffs were false in that Defendant-Sellers stated they were able to invest the Plaintiffs' money for a return that would allow for the timely payment of

interest on the promissory notes. In reality, Hanover was unable or unwilling to invest the money as represented to the Plaintiffs.

43. At the time of the original investment, Defendant-Sellers knew or should have known that Hanover lacked the present or potential ability to service the debt of the promissory notes of the Plaintiffs and other similarly situated investors because the funds were not properly invested.

44. On information and belief, the initial interest payments on the notes were serviced from the investment of other individuals in a ponzi scheme intended to defraud investors.

45. The Plaintiffs believed the statements disseminated by Defendant-Sellers were true and the Plaintiffs justifiably relied on these statements when investing in Hanover.

46. The negligent misrepresentations of Defendant-Sellers have harmed the Plaintiffs resulting in the loss of their entire investment plus the promised interest.

#### **COUNT II - Fraudulent Misrepresentation**

47. The allegations contained in Paragraphs 1-46 are realleged and incorporated by this reference as if set forth herein.

48. Defendant-Sellers directly and/or indirectly through the actions and statements of others knowingly and recklessly represented to the Plaintiffs that their investment in the promissory notes would be invested in money market funds, options, options on real estate, bonds, treasury notes, bank notes, equity investments and Hanover operating capital. In reality, Defendant-Sellers knew that the funds would not be used in the manner represented to the Plaintiffs. In reality, the funds were used to make interest payments to other noteholders, to purchase property in the name of Defendant Kretz, and for other uses not represented to the Plaintiffs. Defendant-Sellers' false

representations were intended to provide a measure of security to the Plaintiffs that the interest guaranteed under the promissory note would be paid.

49. The Defendant-Sellers statements disseminated to the Plaintiffs were false in that Defendant-Sellers stated they were able to invest the Plaintiffs' money for a return that would allow for the timely payment of interest on the promissory notes. In reality, Defendant-Sellers were unable or unwilling to invest the money as represented to the Plaintiffs.

50. At the time of each respective investment, Defendant-Sellers knew that Hanover lacked the present or potential ability to service the debt of the promissory notes of the Plaintiffs and other similarly situated investors because the funds were not properly invested.

51. The Plaintiffs believed the statements disseminated by Defendant-Sellers were true and the Plaintiffs justifiably relied on these statements when investing in Hanover.

52. Defendants' knowing misrepresentations have harmed Plaintiffs, resulting in the loss of their entire investment plus accrued interest at the default rate as stated in the promissory note.

### **COUNT III - Conversion**

53. The allegations contained in Paragraphs 1-52 are realleged and incorporated by this reference as if set forth herein.

54. Defendants have taken or caused to be taken money from the Plaintiffs in the amount of Five Hundred Sixty-Six Thousand Three Hundred Eighty-Four and 1/100 Dollars (\$566,384.01) as of December 28, 2006.

55. Defendants' conversion of Plaintiff's money have deprived Plaintiffs of their money.

56. Defendants took Plaintiffs money with the intent to permanently deprive the Plaintiffs of their money.

57. The Defendants actions caused Plaintiff to suffer damages resulting in the entire loss of their money.

**COUNT IV - Statutory Violation of 15 U.S.C. §78j**

58. The allegations contained in Paragraphs 1-57 are realleged and incorporated by this reference as if set forth herein.

59. Prior to July 2006, in connection with the sale of securities in violation of Section 10(b) and Rule 10b-5 thereunder of the Securities Exchange Act of 1934 (15 U.S.C. §78j(b) and 17 C.F.R. 240.10b-5), Defendants by the use of means or instrumentalities of interstate commerce and of the mails, directly or indirectly and knowingly or with reckless disregard committed the following acts:

- a. Sold securities (promissory notes issued by Hanover) without complying with the registration requirements of the Securities Act of 1933.
- b. Failed to disclose material facts necessary to make the statements by Defendant-Sellers to the Plaintiffs not misleading.

60. In order to induce the Plaintiffs to invest in Hanover, Defendant-Sellers made representations relating to the use of the promissory note funds which included untrue statements and/or omissions of material facts they should have known would be relied upon by the Plaintiffs including but not limited to the following:

- a. Funds from the promissory notes were invested in money market funds, options, options on real estate, bonds, treasury notes, bank notes, equity investments and Hanover operating capital;

- b. Hanover would pay monthly interest returns equal to the fixed rates on the promissory notes attached as Exhibit "A".
- c. Hanover was sufficiently capitalized to pay the returns promised;
- d. Hanover was performing well;
- e. Failing to disclose that in July of 2005, Hanover was investigated by the State of Tennessee Securities Division for violations of state securities law;
- f. Failing to disclose that in November of 2005, the State of Tennessee filed a lawsuit against Hanover, Defendant Kretz, and Defendant Thorpe for securities fraud, selling unregistered securities and failing to register as broker-dealers and sought to place Hanover in a receivership.

61. In light of Hanover's inability to pay Plaintiffs under the terms of the promissory notes, the facts withheld from the Plaintiffs are material, and if these material omissions were disclosed to the Plaintiffs, the Plaintiffs would not have invested in Hanover.

62. In light of Hanover's inability to pay Plaintiffs under the terms of the promissory notes, these facts which were misstated by the Defendant-Sellers directly and/or indirectly through the actions and statements of others to the Plaintiffs constitute untrue statements of present material facts, and if the true facts were fully disclosed, the Plaintiffs would not have relied on said misstatements when investing in Hanover.

63. Plaintiffs did not fully discover the omission of material facts and the falsity of any misstatements until on or about August 2006. Sufficient time has not elapsed since the discovery of the omissions of material facts or the falsity of material misstatements or since such discovery could have been made by the exercise of reasonable diligence to bar this action.

64. Plaintiffs have been damaged in an amount equal to their entire investment and request rescission of the contract and return of the amount of their investment plus accrued interest at the statutory rate.

**COUNT V - Statutory Violation 15 U.S.C. §77q**

65. The allegations contained in Paragraphs 1-64 are realleged and incorporated by this reference as if set forth herein.

66. Prior to July 2006, in connection with the sale of Securities, and in violation of Section 17(a) of the Securities Act of 1933 (15 U.S.C. §77q), Defendant-Sellers, by the use or means or instrumentalities of interstate commerce and of the mails, directly or indirectly and knowingly or with reckless disregard committed the following acts:

- a. Obtained money from the Plaintiffs by means of untrue statements of material facts and/or omitted to state material facts necessary to make the statements made by the Defendants not misleading.
- b. Engaged in transactions, practices, or course of business which operated as a fraud or deceit upon the Plaintiffs, investors in Hanover Corporation, LLC.

67. In order to obtain money from the Plaintiffs, the Defendant-Sellers made representations directly or indirectly through the actions and statements of others relating to the use of the promissory note funds which contained untrue statements and/or omissions of material facts they should have known would be relied upon the by Plaintiffs.

68. Defendant-Sellers negligently remained silent and/or failed to disclose material facts to the Plaintiffs when in fact said Defendants had actual knowledge of the inability of Hanover to pay the interest promised to the Plaintiffs in the promissory notes

69. The facts withheld from and/or misstated to the Plaintiffs are material, and if these material omissions and/or true facts were correctly disclosed to the Plaintiffs, the Plaintiffs would not have invested in Hanover.

70. Plaintiffs did not fully discover the omitted material facts and misstatements until on or about August 2006. Sufficient time has not elapsed since the discovery of the omissions of material facts or the falsity of material misstatements or since such discovery could have been made by the exercise of reasonable diligence to bar this action.

71. Plaintiffs have been damaged in an amount equal to their entire investment and request rescission of the contract and return of the amount of their investment plus accrued interest at the statutory rate.

**COUNT VI - Statutory Violation 15 U.S.C. §77I**

72. The allegations contained in Paragraphs 1-71 are realleged and incorporated by this reference as if set forth herein.

73. Prior to July 2006, in connection with the sale of Securities, and in violation of Section 12(a) of the Securities Act of 1933 (15 U.S.C. §77I), Defendants sold and offered to sell securities in violation of the registration and prospectus requirements of Section 5 of the Securities Act of 1933 (15 U.S.C. § 77e).

74. Hanover did not have an effective registration statement in place at the time the promissory notes were sold to Plaintiffs as is required under Section 5(a).

75. Hanover did not provide the Plaintiffs a prospectus prior to the sale of the promissory notes as is required under Section 5(b).

76. Plaintiffs have been damaged in an amount equal to their entire investment and request rescission of the contract and return of the amount of their investment plus accrued interest at the statutory rate.

**COUNT VII - Statutory Violation 15 U.S.C. §77o**

77. The allegations contained in Paragraphs 1-76 are realleged and incorporated by this reference as if set forth herein.

78. Defendant-Sellers acted as controlling persons within the meaning of §15 of the Securities Act of 1933 (15 U.S.C. §77o). By reason of their senior management positions and/or directorships in Hanover, these defendants had the power to influence and did influence directly and indirectly Hanover to engage in the unlawful acts and conduct complained of herein.

79. Defendant-Sellers at all relevant times acted as control persons of Hanover, and had the power to influence and exercised the same to cause Hanover to engage in the unlawful acts and conduct complained of herein.

80. Plaintiffs have been damaged in an amount equal to their entire investment and request Defendant-Sellers be held jointly and severable liable for the amount of the Plaintiffs' investment plus accrued interest at the statutory rate.

**COUNT VIII - Statutory Violation 15 U.S.C. §78t**

81. The allegations contained in Paragraphs 1-80 are realleged and incorporated by this reference as if set forth herein.

82. Defendant-Sellers acted as controlling persons within the meaning of §20 of the Securities Act of 1934 (15 U.S.C. 78t). By reason of their senior management positions and/or

directorships in Hanover, these defendants had the power to influence and did influence directly and indirectly Hanover to engage in the unlawful acts and conduct complained of herein.

83. Defendant-Sellers at all relevant times acted as control persons of Hanover, and had the power to influence and exercised the same to cause Hanover to engage in the unlawful acts and conduct complained of herein.

84. Plaintiffs have been damaged in an amount equal to their entire investment and request Defendant-Sellers be held jointly and severable liable for the amount of the Plaintiffs' investment plus accrued interest at the statutory rate.

**COUNT IX - Statutory Violation of Tenn. Code. Ann. § 48-2-104**

85. Plaintiffs reallege the allegations contained in Paragraphs 1-84 and the allegations are incorporated by this reference as if set forth herein.

86. T.C.A. § 48-2-104 states:

- (a) It is unlawful for any person to sell any security in this state unless:
- (1) It is registered under this part;
  - (2) The security or transaction is exempted under § 48-2-103; or
  - (3) The security is a covered security.

87. The promissory notes issued by Hanover are securities as the term is defined in T.C.A. § 48-2-102(16) and are not exempt under T.C.A. § 48-2-103.

88. The promissory notes have not been registered in compliance with the T.C.A. § 48-2-101 *et seq.*

89. Plaintiffs request damages equal to the consideration paid for the promissory notes plus interest at the rate of 10% per annum from the date of payment of the consideration.

**COUNT X - Statutory Violation of Tenn. Code. Ann. § 48-2-109(a)**

90. Plaintiff DeMoss realleges the allegations contained in Paragraphs 1-89 and the allegations are incorporated by this reference as if set forth herein.

91. T.C.A. § 48-2-109(a) states “It is unlawful for any person to transact business from or in this state as a broker-dealer or agent unless such person is registered as a broker-dealer or agent under this part....”

92. Defendant Kretz initiated the sale of the promissory notes from Hanover to Plaintiff DeMoss by executing the promissory note.

93. Kretz is not registered as a broker-dealer in the state of Tennessee.

94. Plaintiff DeMoss requests damages equal to the consideration paid for the promissory notes plus interest at the rate of 10% per annum from the date of payment of the consideration.

**COUNT XI - Statutory Violation of Tenn. Code. Ann. § 48-2-121(a)**

95. Plaintiff DeMoss realleges the allegations contained in Paragraphs 1-94 and the allegations are incorporated by this reference as if set forth herein.

96. T.C.A. § 48-2-121(a) states:

It is unlawful for any person, in connection with the offer, sale or purchase of any security in this state, directly or indirectly, to:

- (1) Employ any device, scheme, or artifice to defraud.
- (2) Make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading; or
- (3) Engage in any act, practice or course of business which operates or would operate as fraud or deceit upon any person.

97. Hanover is a ponzi scheme organized by Defendant Kretz to defraud investors by having them invest in promissory notes with a fixed rate of return. The interest is then paid from the funds from other investors while the principal is paid to Defendant-Sellers and the others. Only by maintaining a constant stream of new investors can Hanover fulfill its contractual obligation to make the monthly interest payments to Plaintiff DeMoss and other similarly situated investors.

98. Defendant Kretz directly and/or indirectly through the actions and statements of others falsely represented to Plaintiff DeMoss that her investment in the promissory notes would be invested in money market funds, options, options on real estate, bonds, treasury notes, bank notes, equity investments and Hanover operating capital. Defendant Kretz also falsely stated that the company was performing well.

99. In reality, Plaintiff's investment was used to service interest payments to current noteholders, to purchase property in the name of Defendant Kretz, and for other uses not represented to the Plaintiff. Hanover was also unprofitable and could not make the promised payments to Plaintiff.

100. Plaintiff DeMoss requests damages equal to the consideration paid for the promissory notes plus interest at the rate of 10% per annum from the date of payment of the consideration.

#### **COUNT XII - Tennessee Consumer Protection Act**

101. Plaintiff DeMoss reallege the allegations contained in Paragraphs 1-100 and the allegations are incorporated by this reference as if set forth herein.

102. Defendants' actions and misrepresentations concerning the sale of promissory notes in Tennessee violate the Consumer Protection Act of 1977, T.C.A. § 47-18-101 (et seq.) as specified below.

103. Under § 47-18-104(b)(12), “Representing that a consumer transaction confers or involves rights, remedies or obligations that it does not have or involve or which are prohibited by law” is a violation of the Consumer Protection Act.

104. Defendant Kretz directly and/or indirectly through the actions and statements of others represented to Plaintiff DeMoss that the purchase of the promissory note entitled her to receive monthly interest payments.

105. In reality, Defendant Kretz knew that Hanover would be unable to make the interest payments and return the principal of the loans.

106. Under § 47-18-104(b)(27), “Engaging in any other act or practice which is deceptive to the consumer or to any other person” is a violation of the Consumer Protection Act.

107. Defendant Kretz directly and/or indirectly through the actions and statements of others falsely represented to the Plaintiff DeMoss that she would receive fixed monthly interest payments in order to deceive her to invest in the promissory notes issued by Hanover.

108. The Defendants misrepresentations were willful and were committed with knowledge of the falsity of the statements.

109. Defendant Kretz’s violations of Tennessee Consumer Protection Act have harmed Plaintiff DeMoss resulting in the loss of her entire investment.

110. Plaintiff DeMoss requests treble damages pursuant to T.C.A. § 47-18-109 (a)(3), reasonable attorney’s fees and costs pursuant to T.C.A. § 47-18-109(e)(1), and that the Defendants be enjoined from transferring the funds which they fraudulently acquired from Plaintiffs.

**COUNT XIII - Statutory Violation of Wis. Stat. § 551.21**

111. Plaintiff Kelley realleges the allegations contained in Paragraphs 1-110 and the allegations are incorporated by this reference as if set forth herein.

112. Wis. Stat. § 551.21 states:

(a) It is unlawful for any person to offer or sell any security in this state unless at least one of the following conditions is met:

- (1) The security is registered under this chapter;
- (2) The security or transaction is exempted under § 551.22 or 551.23; or
- (3) The security is a federal covered security.

113. The promissory notes issued by Hanover and sold by Kretz and Lynn are securities as the term is defined in Wis. Stat. § 551.21(13)(a) and are not excluded under Wis. Stat. § 551.21(13)(b) nor exempt under Wis. Stat. § 551.22.

114. The promissory notes have not been registered in compliance with either Wis. Stat. § 551.25 or Wis. Stat. § 551.26.

115. Plaintiff Kelley requests damages equal to the consideration paid for the promissory notes plus interest at the rate of 10% per annum from the date of payment of the consideration.

**COUNT XIV - Statutory Violation of Wis. Stat. § 551.31**

116. Plaintiff Kelley realleges the allegations contained in Paragraphs 1-115 and the allegations are incorporated by this reference as if set forth herein.

117. Wis. Stat. § 551.31(1) states “[I]t is unlawful for any person to transact business from or in this state as a broker-dealer unless licensed under this chapter as a broker-dealer.”

118. Defendants Kretz and Lynn initiated the sale of the promissory notes from Hanover to Plaintiff Kelley.

119. Neither Kretz nor Lynn is licensed as a broker-dealer in the state of Wisconsin.

120. Neither Kretz nor Lynn fall under the exemptions contained in Wis. Stat. § 551.31(1).

121. Plaintiff Kelley requests damages equal to the consideration paid for the promissory notes plus interest at the rate of 10% per annum from the date of payment of the consideration.

**COUNT XV - Statutory Violation of Wis. Stat. § 551.41**

122. Plaintiff Kelley realleges the allegations contained in Paragraphs 1-121 and the allegations are incorporated by this reference as if set forth herein.

123. Wis. Stat. § 551.41 states:

“It is unlawful for any person, in connection with the offer, sale or purchase of any security in this state, directly or indirectly:

(1) To employ any device, scheme, or artifice to defraud.

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

(3) To engage in any act, practice or course of business which operates or would operate as fraud or deceit upon any person.”

124. Hanover is a ponzi scheme organized by Defendant Kretz to defraud investors by having them invest in promissory notes with a fixed rate of return. The interest is then paid from the funds from other investors while the principal is paid to Defendant Kretz and the others. Only by maintaining a constant stream of new investors can Hanover fulfill its contractual obligation to make the monthly interest payments to the Plaintiffs and other similarly situated investors.

125. Kretz directly and/or indirectly through the actions and statements of others falsely represented to the Plaintiff Kelley that her investment in the promissory notes would be invested in money market funds, options, options on real estate, bonds, treasury notes, bank notes, equity investments and Hanover operating capital. Kretz directly and/or indirectly through the actions and statements of others also falsely stated that the company was performing well.

126. In reality, Plaintiff Kelley's investment was used to service interest payments to current noteholders, to purchase property in the name of Defendant Kretz, and for other uses not represented to the Plaintiffs. Hanover was also unprofitable and could not make the promised payments to Plaintiff Kelley.

127. Plaintiff Kelley requests damages equal to the consideration paid for the promissory notes plus interest at the rate of 10% per annum from the date of payment of the consideration plus attorney's fees.

**COUNT XVI - Statutory Violation of Wis. Stat. § 551.43**

128. Plaintiff Kelley realleges the allegations contained in Paragraphs 1-127 and the allegations are incorporated by this reference as if set forth herein.

129. Wis. Stat. § 551.43 states:

It is unlawful for a broker-dealer to effect in this state any transaction in, or to induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance, including any fictitious quotation. The division may by rule define the terms "manipulative, deceptive or other fraudulent device or contrivance."

130. Kretz and Lynn directly and/or indirectly through the actions and statements of others falsely represented to Plaintiff Kelley that her investment in the promissory notes would be invested in money market funds, options, options on real estate, bonds, treasury notes, bank notes, equity investments and Hanover operating capital. Kretz and Lynn also falsely stated that the company was performing well.

131. Plaintiff Kelley requests damages equal to the consideration paid for the promissory notes plus interest at the rate of 10% per annum from the date of payment of the consideration.

**COUNT XVII - Statutory Violation of Wis. Stat. § 100.18**

132. The allegations contained in Paragraphs 1-131 are realleged and incorporated by this reference as if set forth herein.

133. Wis. Stat. § 100.18(1) states:

No person, firm, corporation or association, or agent or employee thereof, with intent to sell, distribute, increase the consumption of or in any wise dispose of any...securities..., directly or indirectly, to the public for sale, hire, use or other distribution, or with intent to induce the public in any manner to enter into any contract or obligation relating to the purchase, sale, hire, use or lease of any...securities..., shall make, publish, disseminate, circulate, or place before the public, or cause, directly or indirectly, to be made, published, disseminated, circulated, or placed before the public, in this state, in a newspaper, magazine or other publication, or in the form of a book, notice, handbill, poster, bill, circular, pamphlet, letter, sign, placard, card, label, or over any radio or television station, or in any other way similar or dissimilar to the foregoing, an advertisement, announcement, statement or representation of any kind to the public relating to such purchase, sale, hire, use or lease of such real estate, merchandise, securities, service or employment or to the terms or conditions thereof, which advertisement, announcement, statement or representation contains any assertion, representation or statement of fact which is untrue, deceptive or misleading.

134. Kretz and Lynn directly and or indirectly through the actions and statements of others represented to Plaintiff Kelley that the purchase of the promissory note entitled her to receive monthly interest payments.

135. In reality, Defendants Kretz and Lynn knew that Hanover would be unable to make the interest payments and return the principal of the loans.

136. Defendants Kretz and Lynn directly and/or indirectly through the actions and statements of others falsely represented to the Plaintiff Kelley that she would receive fixed monthly interest payments in order to deceive her to invest in the promissory notes issued by Hanover.

137. The Defendants misrepresentations were willful and were committed with knowledge of the falsity of the statements

138. Defendants' actions have harmed Plaintiff Kelley resulting in the loss of her entire investment.

139. Plaintiff Kelley requests damages equal to the amount of their investment, interest at the rate of 10% per annum from the date of payment of the consideration, reasonable attorney's fees and costs pursuant to Wis. Stat. § 100.18(11)(b), and that the Defendants be enjoined from transferring the funds which it fraudulently acquired from Plaintiff Kelley and that a receiver composed of a committee of the Plaintiffs be appointed.

**COUNT XVIII - Statutory Violation of Cal. Corp. Code § 25110**

140. Plaintiff Galyen realleges the allegations contained in Paragraphs 1-139 and the allegations are incorporated by this reference as if set forth herein.

141. Cal. Corp. Code § 25110 states:

It is unlawful for any person to offer or sell in this state any security in an issuer transaction (other than in a transaction subject to Section 25120), whether or not by or through underwriters, unless such sale has been qualified under Section 25111, 25112 or 25113 (and no order under Section 25140 or subdivision (a) of Section 25143 is in effect with respect to such qualification) or unless such security or transaction is exempted or not subject to qualification under Chapter 1 (commencing with Section 25100) of this part.

142. The promissory notes issued by Hanover and sold by Kretz and Lynn to Plaintiff Galyen are securities as the term is defined in Cal. Corp. Code § 25019 and are not exempt under Cal. Corp. Code § 25100 *et seq.*

143. The promissory notes have not been registered in compliance with Cal. Corp. Code § 25211, 25212, or 25213.

144. Plaintiff Galyen requests damages equal to the consideration paid for the promissory notes plus interest at the rate of 10% per annum from the date of payment of the consideration.

**COUNT XIX - Statutory Violation of Cal. Corp. Code § 25210**

145. Plaintiff Galyen realleges the allegations contained in Paragraphs 1-144 and the allegations are incorporated by this reference as if set forth herein.

146. Cal. Corp. Code § 25210 states “[N]o broker-dealer shall effect any transaction in, or induce or attempt to induce the purchase or sale of , any security in this state unless the broker-dealer has first applied for and secured from the commissioner a certificate, then in effect, authorizing that person to act in that capacity.”

147. Defendants Kretz and Lynn initiated the sale of the promissory notes from Hanover to Plaintiff Galyen.

148. Neither Kretz nor Lynn is licensed as a broker-dealer in the state of California.

149. Neither Kretz nor Lynn is exempt from the licensing requirements under Cal. Corp. Code § 25200 *et seq.*

150. Plaintiff Galyen requests damages equal to the consideration paid for the promissory notes plus interest at the rate of 10% per annum from the date of payment of the consideration.

**COUNT XX - Statutory Violation of Cal. Corp. Code § 25216**

151. The allegations contained in Paragraphs 1-150 are realleged and incorporated by this reference as if set forth herein.

152. Cal. Corp. Code § 25216 (a) states:

No broker-dealer or agent shall effect any transaction in, or induce or attempt to induce the purchase or sale of, any security in this state by means of any manipulative, deceptive or other fraudulent scheme, device, or contrivance. The commissioner shall, for the purposes of this subdivision, by rule define such schemes, devices or contrivances as are manipulative, deceptive, or otherwise fraudulent.

153. Defendants Kretz, Thorpe and Lynn directly and/or indirectly through the actions and statements of others falsely represented to Plaintiff Galyen that her investment in the promissory notes would be invested in other corporations. Kretz, Thorpe and Lynn directly and/or indirectly through the actions and statements of others also falsely stated that the company was performing well.

154. In reality, Plaintiff Galyen's investment was used to service interest payments to current noteholders, to purchase property in the name of Defendant Kretz, and for other uses not represented to the Plaintiffs. Hanover was also unprofitable and could not make the promised payments to Plaintiff Galyen.

155. Plaintiff Galyen requests damages equal to the consideration paid for the promissory notes plus interest at the rate of 10% per annum from the date of payment of the consideration.

**COUNT XXI - Statutory Violation of Cal. Corp. Code § 25401**

156. Plaintiff Galyen realleges the allegations contained in Paragraphs 1-155 and the allegations are incorporated by this reference as if set forth herein.

157. Cal. Corp. Code § 25401 states:

It is unlawful for any person to offer or sell a security in this state or buy or offer to buy a security in this state by means of any written or oral communication which includes an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

158. Kretz, Thorpe and Lynn directly and/or indirectly through the actions and statements of others falsely represented to Plaintiff Galyen that her investment in the promissory notes would be invested in other corporations. Kretz, Thorpe and Lynn directly and/or indirectly through the actions and statements of others also falsely stated that Hanover was performing well. Kretz, Thorpe and

Lynn directly and/or indirectly through the actions and statements of others failed to disclose material information to Plaintiff Galyen regarding the operations of Hanover and the use of her investment.

159. Plaintiff Galyen requests damages equal to the consideration paid for the promissory notes plus interest at the rate of 10% per annum from the date of payment of the consideration.

**COUNT XXII - Statutory Violation of Cal. Corp. Code § 25403**

160. Plaintiff Galyen realleges the allegations contained in Paragraphs 1-159 and the allegations are incorporated by this reference as if set forth herein.

161. Cal. Corp. Code § 25403 states:

(a) Every person who with knowledge directly or indirectly controls and induces any person to violate any provision of this division or any rule or order thereunder shall be deemed to be in violation of that provision, rule, or order to the same extent as the controlled and induced person.

(b) Any person that knowingly provides substantial assistance to another person in violation of any provision of this division or any rule or order thereunder shall be deemed to be in violation of that provision, rule, or order to the same extent as the person to whom the assistance was provided.

(c) It shall be unlawful for any person directly or indirectly to do any act or thing which would be unlawful for that person to do under any provision of this division or any rule or order thereunder through or by any other person.

162. Defendants Kretz, Thorpe & Lynn acted as controlling persons. By reason of their senior management positions and/or directorships in Hanover, these Defendants had the power to influence and did influence directly and indirectly Hanover to engage in the unlawful acts and conduct complained of herein.

163. Defendants Kretz, Thorpe and Lynn at all relevant times acted as control persons of Hanover, and had the power to influence and exercised the same to cause Hanover to engage in the unlawful acts and conduct complained of herein.

164. Plaintiff Galyen has been damaged in an amount equal to her entire investment and request Defendants Kretz, Thorpe & Lynn be held jointly and severable liable for the amount of the Plaintiff's investment plus interest at the rate of 10% per annum from the date of payment of the consideration.

165. Plaintiff Galyen requests damages equal to the consideration paid for the promissory notes plus interest at the rate of 10% per annum from the date of payment of the consideration.

**COUNT XXIII - Statutory Violation of Cal. Civil Code § 1770**

166. Plaintiff Galyen realleges the allegations contained in Paragraphs 1-165 and the allegations are incorporated by this reference as if set forth herein.

167. Cal. Civil Code § 1770(a) states:

The following unfair methods of competition and unfair or deceptive acts or practices undertaken by any person in a transaction intended to result or which results in the sale or lease of goods or services to any consumer are unlawful:

(14) Representing that a consumer transaction confers or involves rights, remedies or obligations that it does not have or involve or which are prohibited by law.

168. Kretz, Thorpe & Lynn directly and/or indirectly through the actions and statements of others represented to Plaintiff Galyen that the purchase of the promissory note entitled her to receive fixed monthly interest payments.

169. In reality, Defendants Kretz, Thorpe & Lynn knew that Hanover would be unable to make the interest payments and return the principal of the loans.

170. Defendants' violations have harmed Plaintiff Galyen resulting in the loss of her entire investment.

171. Pursuant to Cal. Civil Code § 1780, Plaintiff Galyen request punitive damages, reasonable attorney's fees and costs, and that the Defendants be enjoined from transferring the funds which it fraudulently acquired from the Plaintiffs.

**PRAYER FOR RELIEF**

Plaintiffs prays the following relief from this Honorable Court:

1. That service of process issue and Defendants be required to come forth and answer.
2. That a jury be impounded to try this cause.
3. That Plaintiffs be awarded money damages for the securities violations, conversion, and torts by the Defendants.
4. That the promissory note agreements between the Plaintiffs and Hanover be rescinded and the funds paid to Hanover returned.
5. That Plaintiff DeMoss be awarded treble damages pursuant to T.C.A. § 47-18-109(a)(3).
6. That Plaintiff Kelley be award double damages pursuant to Wis. Stat. § 100.18(11)(b).
7. That Plaintiff Galyen be award punitive damages pursuant to Cal. Civil Code § 1780.
8. Injunction to prevent transfer of the Plaintiffs' assets and other waster of Hanover's assets
9. That Plaintiffs be awarded attorney's fees and costs pursuant to T.C.A. § 47-18-109(e)(1), A.R.S. § 44-2001, Wis. Stat. § 100.18(11)(b), and Cal. Civil Code § 1780.
10. Such other further relief that this Honorable Court deems proper and just.

RESPECTFULLY submitted on this 30th day of June, 2008.

/s/ John A. Beam, III  
John A. Beam, III BPR# 11796  
Kristin J. Fecteau BPR# 19772  
J. Matthew Sharp BPR# 025682  
Equitus Law Alliance, PLLC  
f/k/a/ Beam & Rogers, PLLC  
709 Taylor Street  
P.O. Box 280240  
Nashville, Tennessee 37228  
(615) 251-3131

**CERTIFICATE OF SERVICE**

I hereby certify that on the 30th day of June, 2008, I electronically filed the Amended Complaint with the Clerk of this Court using the CM/ECF system which will automatically send email notification of such filing to the following parties who are CM/ECF participants:

Thomas J. Dement, II  
Jack P. Brewer  
Leitner, Williams, Dooley, and Napolitan  
414 Union Street, Suite 1900  
Nashville, TN 37219

Keith C. Dennen  
Susan R. High-McAuley  
Bone, McAllester Norton PLLC  
511 Union Street, Suite 1600  
Nashville, TN 37219

and served defendants who have not yet identified their attorney of record by depositing a copy in United States mail with adequate postage thereon and addressed as follows:

Terry L. Kretz  
186 Putter Point  
Gallatin, TN 37066

/s/ J. Matthew Sharp  
John A. Beam, III BPR# 11796  
Kristin J. Fecteau BPR# 19772  
J. Matthew Sharp BPR# 025682  
Equitus Law Alliance, PLLC

f/k/a Beam & Rogers, PLLC  
709 Taylor Street  
P.O. Box 280240  
Nashville, Tennessee 37228  
(615) 251-3131  
Attorneys for Plaintiffs

nashville  
post.com