COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE SECRETARY OF THE COMMONWEALTH
SECURITIES DIVISION
ONE ASHBURTON PLACE, ROOM 1701
BOSTON, MASSACHUSETTS 02108

IN THE MATTER OF: JOHN WILLIAM CRANNEY, CRANNEY CAPITAL I, LLC, CRANNEY CAPITAL III, INC., AND CRANNEY INDUSTRIES d/b/a BELMONT INDUSTRIES	)	Docket No: 2012-0059

2012 JUL 24 AM 10: 23
SECURITIES

NOTICE OF ADJUDICATORY PROCEEDING

Please take notice that William Francis Galvin, Secretary of the Commonwealth, by his Enforcement Section of the Securities Division (respectively, the "Enforcement Section" and "Division") seeks an Order: (a) requiring Respondents to temporarily cease and desist from acting as unregistered broker-dealers or as investment advisers and investment adviser representatives; (b) requiring Respondents to temporarily cease and desist from effectuating the offer and sale of unregistered securities in the Commonwealth until and unless the securities are properly registered or sold pursuant to an exemption from registration under the Act; (c) requiring Respondents to temporarily cease and desist from fraudulent activity in violation of the Act and Regulations; (d) requiring Respondents, after notice and opportunity for hearing, to permanently cease and desist from acting as unregistered broker-dealers or investment advisers and investment adviser representatives; (e) requiring Respondents, after notice and opportunity for hearing, to permanently cease and desist from effectuating the offer and sale of unregistered securities in the Commonwealth until and unless the securities are properly registered or sold pursuant to an exemption from registration under the Act; (f) requiring Respondents, after notice

and opportunity for hearing, to permanently cease and desist from fraudulent activity in violation of the Act and Regulations; (g) requiring Respondents to provide an accounting of all proceeds that were received as a result of the alleged wrongdoing, and to offer rescission to and fairly compensate victims for those losses attributable to the alleged wrongdoing; (h) requiring Respondents to disgorge all proceeds and other direct or indirect remuneration received from the alleged wrongdoing; (i) requiring Respondents to pay an administrative fine in an amount and upon such terms and conditions as the Director or Hearing Officer may determine; (j) barring Respondents from acting as or being associated with any Massachusetts-registered broker-dealer; (k) barring Respondents from acting as or being associated with any Massachusetts-registered investment adviser or investment adviser representative; and (l) requesting the Director or Hearing Officer to take such further action against Respondents as may be deemed just and appropriate for the protection of investors.

Respondents have the right to request an adjudicatory hearing at which they may show good cause why such an order and sanctions should not be entered. The adjudicatory proceeding is governed by Massachusetts General Laws, Chapter 110A and by the Rules set forth in Title 950 of the Code of Massachusetts Regulations beginning at Section 10.00.

The matters of fact and law in the proceeding are set forth in the Administrative Complaint, a copy of which is filed and served herewith.

In accordance with 950 Mass. Code Regs. 10.06(e), Respondents must file an answer to each allegation set forth in the Administrative Complaint within twenty-one (21) days after service upon Respondents. A Respondent who fails to file a timely answer may be deemed to be in default, and the allegations of the Administrative Complaint may thereupon be accepted as true and the proceedings determined against the defaulting party by issuance of a final order.

WILLIAM FRANCIS GALVIN
SECRETARY OF THE COMMONWEALTH

Diane Young-Spitzer
Associate Director
Massachusetts Securities Division
One Ashburton Place, Room 1701
Boston, Massachusetts 02108

Dated: July 24, 2012

COMMONWEALTH OF MASSACHUSETTS
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ADMINISTRATIVE COMPLAINT

I. PRELIMINARY STATEMENT

The Enforcement Section ("Enforcement Section") of the Massachusetts Securities Division of the Office of the Secretary of the Commonwealth ("Division") files this administrative complaint ("Complaint") to commence an adjudicatory proceeding against John William Cranney ("Cranney"), Cranney Capital I, LLC, Cranney Capital III, Inc., and Cranney Industries d/b/a Belmont Industries (collectively, "Respondents") for violating MASS. GEN. LAWS ch. 110A, the Massachusetts Uniform Securities Act ("Act"), and 950 MASS. CODE REGS. 10.00 *et seq.* ("Regulations"). The Complaint alleges that Respondents engaged in a Ponzi scheme that defrauded at least 36 (thirty-six) victims from multiple states of approximately $10.4 million dollars and failed to register and acted as broker-dealers or as investment advisers and investment adviser representatives in violation of the Act and Regulations. The Complaint further alleges that Respondents effectuated the offer and sale of unregistered securities in violation of the Act and its related Regulations.

For any and all of the reasons set forth above, it is in the public interest and will protect Massachusetts investors to enter an Order: (a) requiring Respondents to temporarily cease and desist from acting as unregistered broker-dealers or as investment advisers and investment adviser representatives; (b) requiring Respondents to temporarily cease and desist from effectuating the offer and sale of unregistered securities in the Commonwealth until and unless the securities are properly registered or sold pursuant to an exemption from registration under the Act; (c) requiring Respondents to temporarily cease and desist from fraudulent activity in violation of the Act and Regulations; (d) requiring Respondents, after notice and opportunity for hearing, to permanently cease and desist from acting as unregistered broker-dealers or investment advisers and investment adviser representatives; (e) requiring Respondents, after notice and opportunity for hearing, to permanently cease and desist from effectuating the offer and sale of unregistered securities in the Commonwealth until and unless the securities are properly registered or sold pursuant to an exemption from registration under the Act; (f) requiring Respondents, after notice and opportunity for hearing, to permanently cease and desist from fraudulent activity in violation of the Act and Regulations; (g) requiring Respondents to provide an accounting of all proceeds that were received as a result of the alleged wrongdoing, and to offer rescission to and fairly compensate victims for those losses attributable to the alleged wrongdoing; (h) requiring Respondents to disgorge all proceeds and other direct or indirect remuneration received from the alleged wrongdoing; (i) requiring Respondents to pay an administrative fine in an amount and upon such terms and conditions as the Director or Hearing Officer may determine; (j) barring Respondents from acting as or being associated with any Massachusetts-registered broker-dealer; (k)

barring Respondents from acting as or being associated with any Massachusetts-registered investment adviser or investment adviser representative; and (l) requesting the Director or Hearing Officer to take such further action against Respondents as may be deemed just and appropriate for the protection of investors.

II. SUMMARY

The Division alleges that the fraudulent offers and sales of unregistered and non-exempt securities by John W. Cranney ("Cranney"), who also goes by Jack Cranney, of 885 Concord Avenue, Belmont, Massachusetts, have been part of a complex nationwide Ponzi scheme to defraud at least thirty-six (36) individual victims from Massachusetts, Maryland, California, Michigan, Kansas, Georgia, New Hampshire, Texas, Utah, Maine, Tennessee, Connecticut, Missouri and Florida of approximately $10.4 million dollars. In Massachusetts alone, at least ten (10) victims invested approximately $1,510,069.15 with Cranney.

In the past ten (10) years, Cranney created at least five (5) separate and related entities known as Cranney Capital I, LLC, Cranney Capital I Employee Stock Ownership Trust, Cranney Capital II, LLC, Cranney Capital III, Inc., and Cranney Industries d/b/a Belmont Industries to facilitate this scheme. Individually and through these unregistered entities, Cranney offered and sold unregistered securities in the form of promissory notes. Cranney used his affiliation with family, friends and colleagues at Shaklee Corporation ("Shaklee"), many of whom he has known for fifteen (15) to twenty (20) years, to gain their trust and solicit investments. The majority of Cranney's victims are affiliated with Shaklee and many are senior citizens. Shaklee is a multi-level marketing company that produces and distributes nutritional and personal care products. Cranney's family

brought Shaklee to New England. Cranney is an independent distributor for Shaklee and a sponsor of approximately 50,000 independent distributor contracts, but Cranney testified that he could not be sure about the exact numbers because "[Shaklee] purge[s] the records, and they don't tell us exactly, so that could go up and down. I have no way of knowing." In describing his role as a sponsor, Cranney stated it is "to help and basically train people, talk to them, work with them in the Shaklee business. It's typified as a large extended tribal family." Cranney believes he is within the top twenty (20) in the Shaklee hierarchy, although because Shaklee does not publish that information he really does not know.

Cranney falsely represented himself as a financial advisor and/or investment fund manager and enticed unsuspecting victims with promises of high returns on safe investments. Cranney is not registered in Massachusetts or any other state to sell securities or provide investment advice. Cranney falsely represented in many instances that funds would be placed into a legitimate investment vehicle as part of a qualified retirement plan. Upon information and belief, he used the funds for his own personal purposes, to fund his distributorship of Shaklee, and to repay amounts to other victims.

The Division alleges that victims received promissory notes signed by Cranney, in varying amounts, with terms that required repayment ranges between fifty-five (55) days or one (1) to twelve (12) years, and with interest rates that ranged from "prime" rate plus two (2) percent, capped at ten (10) to twelve (12) percent annually. Upon maturity of the note, the victims were automatically renewed for a period of years unless written notice was received within 120 to 180 days of the maturity date. While some victims did receive payments of principal and interest, upon information and belief those payments

were made using funds obtained from other victims and Cranney was able to continue to operate his scheme as long as most of the victims kept renewing their investments. Beginning in approximately 2008, Cranney began to default on making payments on outstanding promissory notes. Cranney began to repeatedly ignore victim calls or emails and remained out of reach. As more victims demanded either interest or principal payments to be returned, Cranney's scheme began to unravel.

Cranney and his wife have put their home at 885 Concord Avenue in Belmont, Massachusetts up for sale with an asking price of $3.8 million. On March 11, 2011, Cranney conveyed all of his interest in 885 Concord Avenue, Belmont, Massachusetts to himself as Trustee of the John William Cranney Revocable Trust, and to his wife, as trustee of a revocable trust in her name, as tenants in common.

On April 24, 2012, one victim, identified below as Victim Three, filed a civil lawsuit against Cranney, individually and as Trustee of the John William Cranney Revocable Trust, and against Cranney's wife, as trustee of a revocable trust in her name, in Middlesex Superior Court in Massachusetts for breach of contract, fraud, conversion, and fraudulent transfer. On May 7, 2012, Victim Three obtained a $250,000 attachment on Cranney's residence in Belmont, Massachusetts.

On June 7, 2012, another victim, identified below as Victim Four, filed a civil lawsuit against Cranney, individually and as Trustee of the John William Cranney Revocable Trust, Cranney's wife, as trustee of a revocable trust in her name, Cranney Industries, Inc. d/b/a Belmont Industries, and Shaklee, in Middlesex Superior Court in Massachusetts for breach of promissory note, fraud, conversion, unjust enrichment, and

fraudulent transfer. On June 13, 2012, Victim Four obtained a $200,000 attachment on Cranny's residence in Belmont, Massachusetts.

On July 10, 2012, several victims, including the son of the victim identified below as Victim Fifteen, jointly filed a lawsuit against Cranney, Cranny Capital I, and Cranney Capital III in United States District Court for the District of Massachusetts to recoup funds totaling more than $3.5 million invested with Cranney and the Cranney entities. Upon information and belief, all of the Cranney victims who brought suit against Cranney and his entities in federal court are elderly individuals.

The Division estimates that Massachusetts victims alone have invested $1.5 million with Cranney and his entities, and with the additional victims from other states, the Division estimates that the total amount invested with Cranney and his entities is at least $10.4 million.

Upon information and belief, the Division believes that the majority of funds are not invested in any fund or employee stock ownership trust, but instead were retained by Cranney for personal gain.

III. JURISDICTION AND AUTHORITY

1. The Massachusetts Securities Division is a division of the Office of the Secretary of the Commonwealth with jurisdiction over matters relating to securities as provided for by the Act. The Act authorizes the Division to regulate: (1) the offers, sales and purchases of securities; (2) those individuals offering and/or selling securities within the Commonwealth; and (3) those individuals transacting business as broker-dealers or acting as investment advisers within the Commonwealth.

2. The Division brings this action pursuant to the enforcement authority conferred upon it by Section 407A of the Act and MASS. GEN. LAWS ch. 30A, wherein the Division has the authority to conduct an adjudicatory proceeding to enforce the provisions of the Act and all related rules and regulations promulgated thereunder.

3. This proceeding is brought in accordance with Sections 101, 201, 301 and 407A of the Act and its related Regulations. Specifically, those acts and practices constituting violations of the Act occurred in the Commonwealth of Massachusetts.

4. The Division specifically reserves the right to amend this Complaint and/or bring additional administrative complaints to reflect information developed during the current and ongoing investigation.

IV. RELEVANT TIME PERIOD

5. Except as otherwise expressly stated, the conduct described herein occurred during the approximate period of time between April 23, 2002 to date ("Relevant Time Period").

V. RESPONDENTS

6. John William Cranney ("Cranney"), who also goes by Jack Cranney, 70, is a natural person with a residential address of 885 Concord Avenue, Belmont, Massachusetts 02478. Cranney is the founder of Cranney Capital I, LLC and Cranney Capital III, Inc. J.W. Cranney is listed as the Operating Manager of Cranney Capital II, LLC in its Iowa corporation filings. Cranney is listed as the President, Treasurer, Secretary, and Director of Cranney Industries, Inc. in its Massachusetts corporation filings. Cranney has never been registered with the Division in any capacity.

7. Cranny Capital I, LLC ("Cranney Capital I") is an active domestic limited liability company that was organized under the laws of the state of Iowa on July 26, 2004. An administrative dissolution of Cranney Capital I was filed on August 9, 2011. Cranney Capital I was retroactively reinstated on August 9, 2011. The sole Operating Manager of Cranney Capital I is J.W. Cranney. Cranney Capital I has not filed articles of organization in Massachusetts. Cranney Capital I has never held a registration in Massachusetts as a broker-dealer, an investment adviser, or in any other capacity in the securities business. Cranney Capital I has never filed an application for registration of, or notice of exemption for, securities to be offered in Massachusetts. Cranney represented to victims that Cranney Capital I was a qualified retirement plan structured as an Employee Stock Ownership Trust ("ESOT").

8. Cranney Capital III, Inc. ("Cranney Capital III") is a domestic for-profit corporation that was organized under the laws of the state of Iowa on December 13, 2004. Cranney Capital III's sole director and president is John W. Cranney of 885 Concord Avenue, Belmont, Massachusetts 02478. Cranney Capital III has a home office location of 885 Concord Avenue, Belmont, Massachusetts 02478. Cranney Capital III has not filed articles of organization in the Commonwealth of Massachusetts. Cranney Capital III has never held a registration in Massachusetts as a broker-dealer, an investment adviser, or in any other capacity in the securities business. Cranney Capital III has never filed an application for registration of, or notice of exemption for, securities to be offered in Massachusetts.

9. Cranney Industries, Inc. d/b/a Belmont Industries ("Cranney Industries") is a wholesale and retail independent distributor of health and nutritional supplements for the

Shaklee Corporation. Cranny Industries is an active domestic profit corporation organized under the laws of the Commonwealth of Massachusetts on October 1, 1980. Cranney is listed as the President, Treasurer, Secretary, and Director of Cranney Industries, Inc. in its Massachusetts corporation filings. According to filings made with the Secretary of the Commonwealth, Cranney Industries maintained a principal place of business at 97 Blanchard Road, Cambridge, Massachusetts, 02138. This location was closed in 2012. Cranney Industries has never held a registration in Massachusetts as a broker-dealer, an investment adviser, or in any other capacity in the securities business. Cranney Industries has never filed an application for registration of, or notice of exemption for, securities to be offered in Massachusetts.

VI. RELATED PARTIES

10. Shaklee Corporation ("Shaklee") is a company that manufactures nutrition and personal care products. Shaklee products are sold through a multi-level marketing system by independent distributors. Shaklee is incorporated in the State of Delaware and its corporate headquarters is located at 4747 Willow Road, Pleasanton, California 94588-2740. Shaklee maintains a website located at www.shaklee.com.

10. Howard Musin ("Musin") is an individual who is listed as the registered agent for Cranney Capital I, Cranney Capital II, and Cranney Capital III with an address of 2190 NW 82nd Street, Suite 4, Clive, Iowa 50325. Musin has prepared tax returns for Cranney and his related corporate entities and other distributors for Shaklee up until 2011. In July of 2011, a federal court permanently barred Musin, his wife Jill Schwartz-Musin, and their three companies (SSC Services, Inc., M-S Services Inc., and Schwartz's Systems

Corporation) from preparing tax returns for others after engaging in misconduct and fraud in preparing tax returns.

11. Robert Deel ("Deel") is an individual who is listed as the "CEO and trading strategist"[1] for Tradingschool.com with a principal place of business located at 38119 Clear Creek Street, Murrieta, California 92562. Deel provided to the Division that Tradingschool.com is a "one person company" and that the company "addresses the disciplines of trading psychology, strategic technical analysis, and tactical trading." Deel was a licensed dental hygienist from 1978 to 2003 and has not been affiliated with a broker-dealer or investment adviser since approximately 1997. Deel provided several trading sessions between 2008 and 2009 at Cranney's home at 885 Concord Avenue, Belmont, Massachusetts 02478 at a cost of $1,9995.00 per person.

12. Cranney Capital II, LLC ("Cranney Capital II") is a domestic limited liability company that was organized under the laws of the state of Iowa on July 26, 2004. An administrative dissolution of Cranney Capital II was filed on August 9, 2011. According to filings made with the Iowa Secretary of State, Cranney Capital II maintained a principal place of business at 2190 NW 82nd Street, Suite 4, Clive, Iowa 50325. J.W. Cranney is listed as the Operating Manager of Cranney Capital II, LLC in its Iowa corporation filings. Cranney Capital II has not filed articles of organization in the Commonwealth of Massachusetts. Cranney Capital II has never held a registration in Massachusetts as a broker-dealer, an investment adviser, or in any other capacity in the securities business. Cranney Capital II has never filed an application for registration of, or notice of exemption for, securities to be offered in Massachusetts.

[1] Following receipt of a subpoena issued by the Division, Deel deleted the term CEO and trading strategist from the website www.tradingschool.com.

13. Cranney Productions, LLC ("Cranney Productions") is a domestic limited liability company that was organized under the laws of the state of Nevada on November 12, 2009. According to filings made with the Secretary of State of Nevada, John W. Cranney is the manager of Cranney Productions, with an address listed at 885 Concord Avenue, Belmont, Massachusetts 02478. Cranney Productions hosts the Shaklee Business Development Conference, a two-day training seminar to teach independent distributors how to build their Shaklee business and sells business development tools for Shaklee. (See Business Development Conference Newsletter for 2012, at Exhibit 1). Cranney Productions maintains a website located at www.crannymeetings.com and at least eight (8) other related domains. (See Screenshot of Cranney Productions website, at Exhibit 2).

VII. FACTS AND ALLEGATIONS

A. INTRODUCTION

14. The Division initiated its investigation into Respondents' unregistered investment-related activities after receiving a written complaint from a victim couple from Maine on May 18, 2012.

15. After receiving the written complaint, the Division subpoenaed documents, interrogatories, and testimony from Cranney.

16. Cranney provided testimony under oath before the Division on July 13, 2012 pursuant to a subpoena.

B. JOHN W. CRANNEY BACKGROUND

17. Cranney, 70, is a natural person with a residential address of 885 Concord Avenue, Belmont, Massachusetts 02478.

18. Cranney does not have an educational or professional background in anything related to the securities industry.

19. Cranney has never been registered with the Division, any other state or federal regulator, or FINRA in any capacity.

20. Beginning on or about April 2002, and continuing until April 2012, in Massachusetts and elsewhere in the United States, Cranney operated a fraudulent scheme by which he defrauded at least thirty-six (36) individuals of millions of dollars.

21. The scheme consisted of Cranney obtaining funds from victims by representing, falsely, that he would manage the funds through Cranney Capital I, LLC ESOT, Cranney Capital III, and/or Cranney Industries. Cranney represented that he would repay the victims their principal and a high rate of interest.

SHAKLEE CORPORATION AFFILIATION

22. The Cranney family brought the Shaklee business to New England.

23. Cranney has worked for Shaklee Corporation, a direct sales natural nutrition company, for the last forty-five (45) years under an independent distributorship contract.

24. In 1967, Cranney obtained his Shaklee independent distributorship contract by filling out an application and was "sponsored" into Shaklee by an individual who had an existing independent distributorship contract with Shaklee.

25. Shaklee is a multi-level marketing system that is comprised of a hierarchy of groups of individuals who obtain independent distributorship contracts with Shaklee. Individuals who have existing independent distributorship contracts with Shaklee sponsor new individuals into Shaklee to enable them to obtain independent distributorship contracts with Shaklee.

26. Operating under a Shaklee independent distributorship contract generally involves direct sales of Shaklee health and personal care products to customers, as well as recruiting and training new Shaklee salespeople. Individuals within the Shaklee hierarchy are not only compensated for the products he or she sells, but they are also compensated for the products sold by salespeople in their Shaklee "downline," i.e. they are compensated for the products sold by salespeople he or she has trained and for products sold by salespeople those salespeople have trained, and so forth.

27. A 2012 Shaklee newsletter describes Cranney's involvement with Shaklee as follows:

> Jack Cranney sponsored into Shaklee in 1967. He decided the income opportunity and lifestyle of network marketing were a perfect fit. After quickly becoming a Master Coordinator, Jack sponsored his parents into Shaklee about a year later and helped them grow to the rank of Master too. Many in Shaklee fondly remember [Cranney's mother], who lived to be 103.
>
> In the early 1970s, Jack began publishing support material about how to build successful network marketing businesses. His programs and training material have been used all over the world, and he holds copyrights on hundreds of sales plans.
>
> The Cranneys have driven dozens of luxury cars earned through their Shaklee business and have travelled around the world on incentive trips. They hold several all-time company records, including the largest vertical and horizontal development for 2010.

(See Exhibit 1).

28. Cranney's mother opened a Shaklee downline group office under the name Cranney Industries in Cambridge, Massachusetts in 1973 because she and Cranney's

father were members of Cranney's downline at Shaklee. Cranney took over Cranney Industries in the late 1980s.

29. Cranney testified that he is likely in the top twenty (20) of individuals in the Shaklee hierarchy.

30. Cranney is the sponsor for approximately 50,000 individual Shaklee independent distributorship contracts, but Cranney testified that he could not be sure about the exact numbers because Shaklee "purge[s] records." As a sponsor, Cranney testified that he trains individuals who fall in his immediate "downline" of sponsorships and assists them in growing their Shaklee businesses.

31. Cranney receives commissions based on his downline of independent distributorship contracts. Cranney testified that he receives commissions on three (3) or four (4) subsets of groups that fall below him in the Shaklee hierarchy. Cranney's commissions are generated by product sales by the three (3) or four (4) subsets of groups that fall below him, and he earns three (3) to six (6) percent on the sales of the individuals within those subset groups.

32. Cranney holds and attends training sessions in Massachusetts and across the country for the subset of groups that he sponsors within Shaklee.

33. He has also hosted training sessions at his home for a fee in Belmont, Massachusetts for individuals whom he sponsors within Shaklee.

CRANNEY INDUSTRIES D/B/A BELMONT INDUSTRIES

34. Cranny Industries d/b/a Belmont Industries ("Cranney Industries") is a corporation organized under the laws of the Commonwealth of Massachusetts on October 1, 1980.

35. Cranney testified that Cranney Industries is the first of the subset groups in his downline in the Shaklee hierarchical structure.

36. Cranney testified that there are approximately 10,000 individuals with independent distributorship contracts with Shaklee who fall within the Cranney Industries group.

37. Cranney testified that the purpose of Cranney Industries is "[t]o sell Shaklee products and build other organizations."

38. From 1973 until two (2) to three (3) months ago, Cranney Industries was based out of a leased office location at 97 Blanchard Road, Cambridge, Massachusetts 02478.

39. Cranney testified that only one (1) or two (2) individuals ever worked directly out of the Cambridge office location.

40. Cranney, through Cranney Industries, has issued promissory notes to individuals. Cranney testified that he has issued two (2) to three (3) promissory notes through Cranney Industries.

41. Cranney Industries has never held registrations in Massachusetts as a broker-dealer, investment adviser, or in any other capacity in the securities business.

42. Cranney Industries has never filed an application for the registration of, or notice of exemption for, securities to be offered in Massachusetts.

CRANNEY CAPITAL I

43. Cranney Capital I filed articles of organization in Iowa in July of 2004.

44. Cranney testified that Cranney Capital I was an "ESOT" but could not identify what the acronym ESOT stood for.

45. According to documents produced by Cranney to the Division pursuant to a subpoena, an "ESOT" refers to an "Employee Stock Ownership Trust."

46. Cranney testified that approximately seven (7) years ago Jill Schwartz-Musin and Howard Musin, his tax accountants that he met through Shaklee who are members of his downline, told him that he could set up an "ESOT" and referred him to an attorney in Arizona.

47. A federal court permanently barred Howard Musin, his wife Jill Schwartz-Musin and their three companies (SSC Services, Inc., M-S Services Inc., and Schwartz's Systems Corporation) from preparing federal tax returns for others in 2011. The firm fabricated deductible business expenses for its clients, which included many Shaklee distributors.

48. Cranney testified that the Musins "do probably more tax returns for Shaklee people than anybody in America."

49. Cranney testified that he set up the "ESOT" through the attorney in Arizona and the Musins.

50. Cranney testified further, "Well, the way it was described to me was there was [sic] two, there was an ESOT, that's E-S-O-T, and there was an ESOP, so I set up the bank account in ESOT and one in an ESOP. I didn't really understand the difference. . ."

51. The Division has not received any documents by Cranney related to an "ESOP."

52. The Division alleges that Cranney's "Employee Stock Ownership Trust" title is a fictitious amalgamation of two legitimate entities: an Employee Share Ownership Trust (ESOT), a trust account through which a company can sell its shares to employees, and

an Employee Stock Ownership Plan (ESOP), a program encouraging employees to purchase stock in their company.

53. Cranney testified that he does not have much understanding of what an ESOT is but that it is a fund that a small company could set up for a group of individuals, similar to a 401(k) account. Cranney testified that the "ESOT" was for "a few people that want to fund a fund." Cranney further testified that the "ESOT" was a "fund to fund," which he described as "you could transfer money from a qualified plan to an ESOT, and until the money was actually taken out there was no tax due."

54. The Division alleges that Cranney utilized the "ESOT" to obtain access to investors' retirement funds and avoid a taxable event when retirement funds were transferred out of an investor's account to the Cranney Capital I "ESOT."

55. Upon information and belief, Cranney was not operating a qualified retirement plan or ESOT. Victims were not employees of Cranney related entities. Instead, Cranney intended to and did use the victim funds for his own purposes and to repay amounts to other victims. The ESOT was merely a vehicle to enable the transfer of qualified retirement plan monies without incurring taxes.

56. Cranney knowingly held himself out as an investment manager and financial adviser when he was not licensed or registered in the securities industry at any time during the relevant time period.

57. Cranney solicited victims to invest with him and represented that he would manage their money.

58. Cranney promised victims a rate of return for their investment ranging between "prime" rate plus two (2) percent, capped at ten (10) to twelve (12) percent, annually,

with a term ranging from fifty-five (55) days or one (1) to twelve (12) years, guaranteed by a promissory note signed by Cranney.

59. Cranney provided victims with a "Qualified Plan Transfer Request Letter" that he prepared and signed, in order to facilitate the wire transfer of funds from their prior qualified retirement plan or individual retirement account into a Cranney Capital I, LLC ESOT bank account established at Bank of America.

60. The "Qualified Plan Transfer Request Letter" states in multiple places that the individual is transferring funds from his or her qualified retirement plan to a "qualified retirement plan" account with Cranney Capital I, LLC, ESOT.

61. The address that Cranney included on some transfer paperwork for the Cranney entities was for a P.O. Box under his name, demonstrating that the plan that he represented as "qualified" was not held at a legitimate financial institution.

62. At least one victim who invested with Cranney received account transfer paperwork from Cranney that provided: "Cranney Capital I, LLC is authorized to invest company assets in anything legal, including margin, hedge, puts, calls and other investment strategies such as loans." (See Account Transfer Paperwork, at Exhibit 3).

63. Cranney represented to victims that fund transfers from their retirement accounts to the Cranney Capital I ESOT could be done without incurring taxes or penalties because Cranney's account was also a qualified retirement plan.

64. Individuals executed "Qualified Plan Transfer Request Letters" to liquidate retirement savings, including 401(k) accounts, and other retirement plans to invest in what they believed, due to the representations of Cranney, was a qualified retirement plan.

65. Following the receipt of the wire transfer funds, Cranney prepared and executed promissory notes indicating the amount of the transfer as a "loan" received by Cranney Capital I, with no mention of the ESOT.

66. When promissory notes became due, these notes were automatically renewed unless notice was provided in advance by victims.

67. Cranney prepared fake account statements which purported to reflect "loan" payments, interest, and amortization schedules.

68. When victims requested payment of all or part of their money and "interest," upon information and belief, Cranney paid some of them with funds received from other victims.

69. On other occasions when victims requested payment of all or part of their money and "interest," Cranney evaded their calls and emails, and sometimes used his travel schedule or wife's illness as excuses for his lack of availability.

CRANNEY CAPITAL III

70. Cranney Capital III filed articles of organization in Iowa in December of 2004.

71. Cranney described Cranney Capital III as: "[A] corporation that basically if people give me money I give them a note, and I reinvest their money in my businesses, and I pay them out on the note when it comes to either term or whatever arrangements were made by the note."

72. Cranney testified that Cranney Capital III is not an "ESOT" plan like Cranney Capital I.

73. Cranney knowingly held himself out as an investment manager and financial adviser when he was not licensed or registered in the securities industry at any time during the relevant time period.

74. Cranney solicited individuals to invest with him and represented that he would manage their money.

75. Cranny represented to many individuals that he would invest their money in some type of investment vehicle earning a high interest rate. For example, at least one victim wrote out a check to Cranney Capital III in 2006 with the memo line "Investment fund." (See Check Copy, at Exhibit 4). Another wrote out a check to Jack Cranney personally in 2006 for $50,000 with the memo line "Investment." (See Check Copy, at Exhibit 5).

76. Cranney promised victims a high rate of return for their investment ranging from "prime" rate plus two (2) percent, capped at ten (10) to twelve (12) percent annually, with a term ranging from fifty-five (55) days or one (1) to twelve (12) years, guaranteed by a promissory note signed by Cranney.

77. Following the receipt of funds from victims, Cranney prepared and executed promissory notes indicating the amount of the transfer as a "loan" received by Cranney Capital III.

78. Cranney testified that he issued promissory notes through Cranney Capital III to individuals who he knew through Shaklee.

79. When promissory notes became due, these notes were automatically renewed unless notice was provided in advance by victims.

80. Cranney prepared fake account statements which purported to reflect "loan" payments, interest, and amortization schedules.

81. When victims requested payment of all or part of their money and "interest," upon information and belief, Cranney paid some of them with funds received from other victims.

82. On other occasions when victims requested payment of all or part of their money and "interest," Cranney evaded their calls and emails, and sometimes used his travel schedule or wife's illness as excuses for his lack of availability.

CRANNEY ENTITY TOTALS

83. Cranney testified that he has issued approximately twenty-five (25) to thirty (30) promissory notes through Cranney Capital I and Cranney Capital III for a total of between six (6) and eight (8) million dollars.

84. However, the Division estimates that these figures are higher. The Division estimates that at least thirty-six (36) individual victims from multiple states purchased unregistered securities in the form of promissory notes through Cranney, Cranney Capital I, Cranney Capital III and Cranney Industries and have sustained losses in excess of ten (10) million dollars.

85. Cranney testified that he has known most of the people whom he has issued promissory notes to through their affiliation with Shaklee for at least fifteen (15) to twenty (20) years, and some as many as thirty (30) years.

86. Cranney Capital I, Cranney Capital III, and Cranney Industries have never held registrations in Massachusetts as broker-dealers, investment advisers, or in any other capacity in the securities business.

87. Cranney Capital I, Cranney Capital III, and Cranney Industries have never filed applications for the registration of, or notice of exemption for, securities to be offered in Massachusetts.

C. INITIAL VICTIM COMPLAINT TO THE DIVISION

VICTIMS ONE AND TWO[2]

88. Victims One and Two are a couple in their 70s from Maine.

89. Victims One and Two told the Division that they have known Cranney for approximately thirty-five (35) years through their work with Shaklee because they are Shaklee independent distributors and are members of Cranney's downline through Shaklee.

90. Victims One and Two first learned of the existence of Cranney Capital I from Cranney in 2007.

91. After learning of Cranney Capital I, Victim One attended two investment courses at Cranney's house in Belmont, Massachusetts led by Robert Deel.

92. Cranney represented to Victims One and Two that he had set up an investment fund called Cranney Capital I and that he and Deel would manage that fund.

93. Cranney represented that Robert Deel was well-recognized on Wall Street and was a well-known investor and broker.

94. Cranney represented to Victims One and Two that they could earn eight (8) percent interest by investing their retirement money in the Cranney Capital I fund.

95. Cranney provided Victims One and Two with paperwork to enable them to transfer money from their existing retirement account to Cranney Capital I.

[2] Names and confidential personal information have been withheld to preserve the privacy of victims.

96. On August 14, 2008, Victim One completed a one-page form provided by Cranney to Victims One and Two titled "Qualified Plan Transfer Request Letter."

97. The Qualified Plan Transfer Request Letter form included the following pre-typed language: "I have established a qualified retirement plan account with **CRANNEY CAPITAL I, LLC, EMPLOYEE STOCK OWNERSHIP TRUST.** Please liquidate and transfer ____ all or $_____ (check all or fill in amount to be transferred) of my accounts indicated above with you, in cash, to John W. Cranney, Trustee, Cranney Capital I, LLC, Employee Stock Ownership Trust, per instructions below. . . ."

98. At no time have Victims One and Two been employees of Cranney Capital I.

99. At no time during conversations with Victims One and Two did Cranney discuss that their funds would be invested in an employee stock ownership trust for Cranney Capital I.

100. On the Qualified Plan Transfer Request Letter form, Victim One indicated that the name of account was "IRA Rollover" and filled in $200,000 for the amount to be transferred to Cranney Capital I.

101. Victims One and Two transferred $200,000 from their Individual Retirement Account ("IRA") held at Charles Schwab to invest in Cranney Capital I.

102. Although Cranney represented to Victims One and Two that they could rollover their retirement savings into Cranny Capital I as an investment, Cranney provided Victims One and Two with an acknowledgment letter and a promissory note stating that their money was a "loan" to Cranney Capital I.

103. Cranney sent an Acknowledgment Letter dated August 26, 2008 ("Victims One and Two Acknowledgment Letter") to Victim One acknowledging receipt of $200,000.00 by wire transfer to Cranney Capital I on August 15, 2008.

104. The Victims One and Two Acknowledgment Letter stated: "Interest will be paid on this loan at a rate of prime plus two percent (2%) per annum (simple interest) capped at twelve percent (12%) per annum (simple interest). The prime rate will be the rate established and published by Bank of America."

105. The Victims One and Two Acknowledgment Letter also stated: "A Promissory Note containing the above terms and signed by Cranney Capital I will be sent. The term of the Promissory note evidencing this loan will be from September 1, 2008 until August 30, 2009."

106. Victims One and Two subsequently received a promissory note. The promissory note for Victims One and Two ("Victims One and Two Promissory Note") is dated September 1, 2008 for the value of $200,000 and contained the following language:

> FOR VALUE RECEIVED, the undersigned Cranney Capital I of 885 Concord Avenue, Belmont, Massachusetts, (hereinafter the "Borrower"), promises to pay to the order of [Victim One, Victim One's Address] (hereinafter the "Lenders") their heirs, successors, and assigns (collectively referred to as the "Parties"), the sum of Two Hundred Thousand and 00/100 Dollars ($200,000.00) with simple interest in the amount of prime (as determined by Bank of America) plus Two percent (2 %) per annum capped at Twelve percent (12%) for the term of the Note. The term of this Note shall be One (1) year starting September 1, 2008 and ending August 31, 2009."

107. When Victims One and Two asked Cranney why the Acknowledgment Letter and Promissory Note provided that their money was a "loan" to Cranney Capital I, Cranney

told them he legally had to prepare the paperwork stating that their money was a "loan" in order to avoid paying taxes.

108. Despite asking Cranney repeatedly for account statements after making their investment, Victims One and Two did not receive account statements related to their $200,000 investment in Cranney Capital I in 2008 and most of 2009.

109. In September of 2009, Cranney produced a fictitious account statement on Cranney Capital I letterhead for Victims One and Two representing that their money was earning an annual rate of seven percent (7%) interest, but also representing that their money earned three different interest rates in 2008, ranging from 5.5 to 6.5 percent interest.

110. The September 2009 account statement provided that an open balance of $215,328.77 still remained.

111. During the fall of 2009, Victims One and Two asked Cranney what was happening to their money and he responded that it was parked in a large fund drawing great interest and that they should not be concerned.

112. Cranney sent a letter to Victim One dated September 15, 2009 regarding a "Modified Contract November 15, 2009."

113. The September 15, 2009 letter from Cranney to Victim One also included an attached document titled "Modified Promissory Note" for the amount of $200,000 dated November 15, 2009.

114. The Modified Promissory Note contained the following language:

> This Modified Promissory Note shall extend the lump sum payment date of the original Promissory Note to August 26, 2010. Provided, however, that this lump sum payment date shall be extended automatically for a period one (1) year if Lenders fail to

> notify Borrower in writing by certified mail (receipt date shall be the date of notification) within thirty (90) [sic] days of relevant lump sum payment date. Such renewal of this Modified Promissory Note is perpetual and is halted only upon Borrower received [sic] the required written notice prior to the end of the applicable renewal term. Should Lenders give the required written notice then Borrower shall be obligated to pay all principal and interest due under the Modified Promissory Note.

115. The Modified Promissory Note was solely signed by John W. Cranney, as Manager of Cranney Capital I.

116. Victims One and Two had never discussed with Cranney nor agreed to the modified promissory note that he sent them.

117. Beginning in October of 2009 through early December of 2009, Victims One and Two repeatedly asked Cranney when they would receive their annual minimum distribution from their retirement fund.

118. After many telephone calls from Victims One and Two to Cranney, in mid-December of 2009 Cranney sent a check from Cranney Capital I for $10,000.00 to Victims One and Two, without providing any paperwork associated with the annual minimum distribution.

119. The check from Cranney to Victims One and Two for $10,000.00 came from a Bank of America account under the name Cranney Capital I, and posted with Bank of America on December 16, 2009. At the time this check posted, the Cranney Capital I account had a balance of $115.58. Bank of America charged Cranney a $35.00 overdraft fee for the $10,000.00 check Cranney wrote to Victims One and Two. On December 17, 2009, Cranney transferred $20,000.00 into this Cranney Capital I account from another Bank of America account under the name Cranney Industries, Inc.

120. Throughout 2010, Victims One and Two asked Cranney about the fund several times and Cranney assured them that their money was in the fund and doing well.

121. In the fall of 2010, Victims One and Two asked Cranney several times over the course of a few months to withdraw all of their money from the fund and return it to them.

122. Cranney responded to Victims One and Two's requests to withdraw their money by telling them that their money was invested in a fund that could not be touched for many months. Cranney ignored additional withdrawal requests during 2010 from Victims One and Two to withdraw their money as soon as possible. At other times during 2010 when Victims One and Two brought up the subject of their withdrawal request, Cranney acted as if it was the first time he had learned of their request to withdraw their money.

123. After many telephone calls to Cranney, he sent Victims One and Two their annual minimum distribution for 2010 towards the end of the year, without any accompanying paperwork.

124. In early 2011, Victims One and Two sent several e-mails to Cranney again requesting all of their money back, but Cranney did not respond to the e-mail requests.

125. Throughout 2011, Victims One and Two requested on several occasions to Cranney that he return their money, but he did not respond to them. Victims One and Two also sent Cranney a letter requesting their money back in 2011, but Cranney did not respond to the letter.

126. After many telephone calls, e-mails, and several personal visits, Cranney sent Victims One and Two their annual minimum distribution for 2011 towards the end of the year, without any accompanying paperwork.

127. In February of 2012, Victims One and Two hired a lawyer who drafted a letter requesting their money back and Victims One and Two hand-delivered it to Cranney. Cranney told Victims One and Two not to worry and that their funds were safe. He also told Victims One and Two that he had just renewed the long-term fund again and did not realize that they wanted their money back.

128. In April of 2012, Victims One and Two again hired a lawyer to draft a follow up request to Cranney that they wanted their money back.

129. In response to the lawyer's second letter, Cranney provided a one-page document titled "Agreement" dated April 10, 2012 ("Victims One and Two Agreement") to Victims One and Two.

130. Victims One and Two Agreement provides the following:

> It is agreed between John W[.] Cranney and [Victim One] that John W. Cranney will at the sale of 885 Concord Avenue, Belmont (the "Property" of John W. Cranney) cash out the Cranney Capital I presently in place.
>
> This will be considered a "legal position" against the sale of the said "Property". [sic] Transfer of funds will be completed within 15 days of the sale (closing) of the house at 885 Concord Avenue, Belmont, MA 02478[.]
>
> This is done in good faith by both parties and is to be kept confidential between the two parties.
>
> Signed: John W. Cranney

131. Victims One and Two Agreement was not discussed nor agreed to by Victims One and Two and was only signed by John William Cranney.

132. On May 19, 2012, the Division received a written complaint from Victims One and Two describing their concerns related to Cranney and their $200,000 investment with him.

133. To date, Cranney has not returned Victims One and Two's investment from Cranney Capital I.

D. MASSACHUSETTS VICTIMS

VICTIM THREE

134. Victim Three is an individual who is a resident of Andover, Massachusetts.

135. Cranney testified that he has known Victim Three since approximately 2010 and that Victim Three was a friend of Cranney's wife's family from Michigan.

136. Prior to Victim Three giving Cranney money, Cranney represented to Victim Three that he was a financial adviser and investment manager.

137. Cranney solicited Victim Three for money to invest with him to manage.

138. Cranney provided Victim Three with documents that would enable Victim Three to transfer money from other accounts into Cranney Capital I.

139. Cranney knew that the source of Victim Three's funds was his entire 401(k) account from Charles Schwab and in October 2010 convinced Victim Three to transfer all of these funds into Cranney Capital I for him to manage.

140. Cranney told Victim Three that he could transfer his 401(k) funds to Cranney Capital I without incurring any taxes or penalties because Cranney Capital I was also a qualified plan.

141. Victim Three filled out a two-page form provided by Cranney to Victim Three titled "Qualified Plan Transfer Request Letter" for him to fill out and give to the current custodian of his funds to enable a transfer of all of those funds to Cranney Capital I.

142. The Qualified Plan Transfer Request Letter form for Victim Three contained the following language:

> I have established a qualified retirement plan account with **CRANNEY CAPITAL I, LLC, EMPLOYEE STOCK OWNERSHIP TRUST.** Please liquidate and transfer ____ all or $_____ (check all or fill in amount to be transferred) of my accounts indicated above with you, in cash, to John W. Cranney, Trustee, Cranney Capital I, LLC, Employee Stock Ownership Trust, per instructions below. . . .

143. Victim Three filled out the Qualified Plan Transfer Request Letter form on October 20, 2010 with his address and an instruction to transfer $193,000.00 to Cranney Capital I.

144. Cranney signed his name on the form above a signature line for "John W. Cranney, Trustee/Custodian" and under a section that provided: "Cranney Capital I, LLC Employee Stock Ownership Trust hereby accepts from your custodianship the above requested transfer of assets for the qualified plan account established for the above named participant."

145. At no time has Victim Three been an employee of Cranney Capital I.

146. At no time did Cranney state that Victim Three's investments would be invested in a trust for Cranney Capital I.

147. Upon information and belief, Cranney Capital I is not a qualified retirement plan.

148. Cranney sent Victim Three an Acknowledgment Letter signed by Cranney dated October 25, 2010 ("Victim Three Acknowledgement Letter") on Cranney Capital I letterhead.

149. The Victim Three Acknowledgment Letter represented that: "[i]nterest will be paid on this loan at the rate ten percent (10%) per annum (simple interest) for the first year and then prime plus two percent for the next four years per annum (simple interest) with the total loan capped at ten percent (10%)."

150. The Victim Three Acknowledgement Letter also provided that a Cranney Capital I promissory note would be sent at a later date and that the term of the note would be five (5) years "but will renew automatically, unless Cranney Capital I receives written request that the Note be paid in part or in full at the end of a specific term. This written notice must be received by Cranney Capital I at the address contained in the Promissory Note within 180 days of the end of the applicable Note term."

151. Cranney represented to Victim Three that he had to refer to his investment as a "loan" to avoid paying taxes.

152. In July of 2011, Victim Three requested all of his investment back from Cranney.

153. In August of 2011, Cranney sent a letter accompanied by certain documents to Victim Three, including an account statement, the October 25, 2010 letter to Victim Three, a promissory note dated October 25, 2010, the Qualified Plan Transfer Request Letter, and a copy of a Charles Schwab business card with some handwritten notes on it.

154. The promissory note for Victim Three ("Victim Three Promissory Note") that was included as an attachment to Cranney's August 2011 letter was dated October 25, 2010. The Victim Three Promissory Note described Cranney Capital I as the "Borrower"

of $193,000.00 from Victim Three for a duration of five (5) years, with "Ten Percent (10%) simple interest for a period of One (1) Year and then prime plus two percent (as determined by Bank of America) for the following Four (4) Years."

155. The Victim Three Promissory Note contained a provision that the note would renew automatically for three (3) years unless Victim Three provided 180 days notice to Cranney Capital I. The note further provided that such automatic renewal was "perpetual and is only halted upon [Victim Three] giving the required written notice prior to the end of the applicable renewal term and receiving all principal and interest due under the Note."

156. Cranney generated or instructed a part-time assistant to generate the fictitious account statement dated from August 2011, which represented a "Nominal Annual Rate" of ten (10) percent interest. The August 2011 account statement provided that "[a]n open balance of $207,858.36 still remains."

157. On August 9, 2011, Victim Three e-mailed Cranney with the subject "Confirmation to Withdraw my 401K Immediately." Victim Three wrote the following to Cranney:

> Thank you for stopping by Sunday evening . . . I was surprised and disappointed that I am unable to rapidly withdraw my money and don't understand why this is an issue. . . . Please expedite my request and let me know when i [sic] can pick up a check. i [sic] don't care what you have to do because you always represented to me that my funds were available. I would never have given you my money if i [sic] ever thought i [sic] would be in the position where i [sic] have to chase you down for weeks and still not have my funds.

158. On August 10, 2011, Victim Three replied to his initial e-mail to Cranney and asked when he could pick up his check.

159. On August 11, 2011, Victim Three again replied to his e-mail chain to Cranney and wrote the following:

> Jack, [a]t this point it would be obvious to anyone that you are engaged in some type of scam with my 401K funds. No serious businessman would act so evasive over three weeks of my many straightforward and regular requests. It is clear i [sic] have been blatantly lied to and as a result I am not only disappointed but now very upset . . . . Repeatedly you assured me i [sic] would have access to my funds at any time i [sic] desired. When i [sic] asked you how i [sic] would get my funds if you were unavailable you told me your people would be responsive. Yet now you are using the excuse of being out of time as the justification for hiding from my request. . . . [Y]ou claim to have a pool of $15M and for some inexplicable reason can not [sic] write me a check for $200K. . . . Jack, I am incredibly disappointed because i [sic] counted you as a legitimate businessman, a trusted advisor and someone from whom i [sic] could learn. This experience has has [sic] left me with the opposite view.

160. On or around August 21, 2011, Cranney and Victim Three met to discuss questions that Victim Three had about his account with Cranney.

161. The following day, August 22, 2011, Victim Three sent Cranney a letter summarizing the discussion he had with Cranney the previous night. The letter from Victim Three to Cranney was titled "***Immediate return of my entire 401K***" and provided the following summary:

> Thank you for stopping by last night to review the status of my investments you are managing. . . . After contemplating our discussion I remain skeptical regarding the legality of how you coerced me in investing my entire 401K with you. Your comments yesterday only further raised concern because of all of the contradictory claims and your lack of coming forth with actual facts and or [sic] specifics.
>
> In summary we discussed the following:
>
> 1. My money (approximately $200K) is not invested in the stock market but instead is in hard assets (gold).

2. My money is part of a $15 million pool you own, control and invest on my behalf and others. These funds are made up of your own money, your sister's money, multiple Shaklee associates and me. You are able to pay a premium interest rate buy [sic] securing an aggressive interest rate on a long term deposit on the total $15 million and then you trade in the market for the additional points that make up 10% (for example if you receive 4% in the long term note you trade for the remaining 6%). . . . You also indicated my money was the last fund you included in this group and this was done as a favor to me given I am being treated as family.

3. You indicated the $15 million pool is invested for a fixed 5 years that is difficult to break. However you indicated you would be able to break the fund but it would take approximately 6-8 weeks to complete. **Can you explain why it is so difficult to break and why it would take so long?** Also if you are trading for 6% of $15 million that means you have to clear almost $1million [sic] per year. [I]t is unclear to me why you are not able to just write me a check for $200K given the amount of money you are turning over.

. . .

5. You explained that my money was classified as a promissory note in order to preserve my funds and not subject me to the volatilities of the stock market. . . . This is concerning because my understanding is that the money is in an ESOP. **Why is the money received as a promissory note yet invested in an ESOP?**

. . .

8. Last night together we went through my entire investment files since you first started advising me and there was no documentation. This documentation is important as I am very confused and concerned about how this transaction is constructed. What I remember is that this was a short-term investment and that I had access to my money at any time either directly or through a transfer of funds. I have always been clear that I am not a financial expert and have depended on your financial expertise. . . .

. . .

10. Specifically my money is classified as a loan. But how is my loan collateralized? **In other words how are you able to guarantee my funds? What happens to my money if you file for bankruptcy?** The more I think about this entire arrangement the more concerned I become.

. . .

> 12. Last night you recommended that I stay invested for the balance of the 10% payout period. . . .
> . . .
>
> . . . I expect a written response ***by end day on Friday August 28, 2011***. If I do not receive a written communication from you by Friday 8/26 [sic] I will conclude you are either unwilling or unable to return my funds; or you may be engaged in some type of illegal or illegitimate scheme which has potentially defrauded me of my hard earned money.

162. On March 11, 2011, Cranney conveyed all of his interest in 885 Concord Avenue, Belmont, Massachusetts to himself as Trustee of the John William Cranney Revocable Trust, and to his wife, as trustee of a revocable trust in her name, as tenants in common.

163. On September 5, 2011, Victim Three and Cranney executed an agreement ("Victim Three Agreement") that provided the following terms:

> It is agreed between John W[.] Cranney and [Victim Three] that John W. Cranney will at the sale of 885 Concord Ave Belmont (the "Property" of John w [sic] Cranney)[,] [Victim Three] will be given $193,000 at 10% interest upon closing of the house and transfer of funds. This will be considered a "first position" against the sale of the said "Property". [sic]

164. The Victim Three Agreement also contained a provision that the agreement be kept confidential.

165. Cranney has not returned any of Victim Three's principal or interest from his investment in Cranney Capital I.

166. On April 24, 2012, Victim Three filed a civil lawsuit against Cranney, individually and as Trustee of the John William Cranney Revocable Trust, and against Cranney's wife, as trustee of a revocable trust in her name, in Middlesex Superior Court in Massachusetts for breach of contract, fraud, conversion, and fraudulent transfer.

167. On May 7, 2012, Victim Three obtained a $250,000 attachment on Cranney's residence in Belmont, Massachusetts.

VICTIM FOUR

168. Victim Four is a 70-year old individual who is a resident of Haverhill, Massachusetts. Victim Four did not complete her high school education.

169. Victim Four was a friend of the Cranney family and worked for Cranney Industries periodically in the early 2000s.

170. Cranney represented to Victim Four that he was an investment manager of a multi-million dollar investment fund.

171. Cranney represented to Victim Four that he was advising her in her best interest when he told her about the investment fund.

172. In approximately January of 2002, Cranney advised Victim Four that she should use equity in her home to obtain income to generate until she was eligible for Social Security payments.

173. Cranney conveyed to Victim Four that she could provide this money to him and he would give her a high rate of interest.

174. Cranney represented to Victim Four that her money was safe and that this was a wise investment.

175. Cranney chose a mortgage broker for Victim Four to visit and through this broker, Victim Four mortgaged her home and provided Cranney with $95,000 in early January of 2002.

176. Later in January of 2002, Cranney persuaded Victim Four to liquidate her entire 401(k) account and give him an additional $45,000, which he told her would earn twelve (12) percent interest.

177. Victim Four asked Cranney about taxes and penalties related to withdrawing her 401(k) funds and Cranney told her not to worry about it.

178. Cranney prepared a promissory note for Victim Four dated April 23, 2002 ("Victim Four Promissory Note") that described Cranney Industries, Inc. d/b/a Belmont Industries of 97 Blanchard Rd., Cambridge, Massachusetts 02478 as the "Borrower" of $140,000.00 from Victim Four with a "balloon payment" due on April 23, 2007.

179. The Victim Four Promissory Note provided that Victim Four would receive monthly payments.

180. The Victim Four Promissory Note also provided that the annual interest rate would be twelve (12) percent simple interest for the first three (3) years and thereafter interest would accrue at four (4) percent above the Fleet Bank Boston prime lending rate per year capped at twelve (12) percent per year.

181. In approximately May of 2003, the Internal Revenue Service ("IRS") assessed $10,000 in taxes and $500 in penalties against Victim Four for her early withdrawal of $45,000 from her 401(k) account.

182. Victim Four had to ask Cranney for the funds to pay the taxes and penalties and he wrote her a check for $10,000 on June 9, 2003, but it was returned due to insufficient funds. Cranney subsequently wrote four (4) separate checks for $2,500 which Victim Four used to pay the taxes.

183. From 2003 through May of 2007, Cranney paid Victim Four monthly payments of approximately $1,400 each drawn from the Cranney Industries account.

184. From June 2007 through February 2008, Cranney made lower monthly payments to Victim Four of $700 each from Cranney Industries.

185. On February 20, 2008, Victim Four received $500 from Cranney Industries.

186. Victim Four has not received any other payments from Cranney or any Cranney entity to date.

187. On April 23, 2007, Cranney failed to make the balloon payment to Victim Four.

188. Cranney repeatedly represented to Victim Four that he would pay her in full.

189. On March 30, 2010, Cranney provided Victim Four with a "Confirmatory Agreement" ("Victim Four Confirmatory Agreement").

190. The Victim Four Confirmatory Agreement provided that the Victim Four Promissory Note would be modified such that (a) the balloon payment date would be extended to March 31, 2012, (b) interest on the Victim Four Promissory Note would be capped at ten (10) percent interest per year, (c) monthly payments of $700 would be paid to Victim Four to reduce interest payments due, and (d) interest would not be compounded on the Victim Four Promissory Note.

191. The Victim Four Confirmatory Agreement was only signed by John W. Cranney, who was listed as the President of Cranney Industries, Inc. d/b/a Belmont Industries.

192. Victim Four has not received any additional payments from Cranney or any Cranney entity to date.

193. Victim Four does not have any other life savings and is struggling to make her mortgage payments on her home.

194. On June 7, 2012, Victim Four filed a civil lawsuit against Cranney, individually and as Trustee of the John William Cranney Revocable Trust, Cranney's wife, as trustee of a revocable trust in her name, Cranney Industries, Inc. d/b/a Belmont Industries, and Shaklee, in Middlesex Superior Court in Massachusetts for breach of promissory note, fraud, conversion, unjust enrichment, and fraudulent transfer.

195. On June 13, 2012, Victim Four obtained a $200,000 attachment on Cranny's residence in Belmont, Massachusetts.

VICTIMS FIVE AND SIX

196. Victims Five and Six are a couple who are residents of Essex, Massachusetts.

197. Victim Five met Cranney in approximately 2007 through Shaklee.

198. Cranney discussed Cranney Capital I with Victim Five beginning in approximately 2009.

199. Cranney provided paperwork to Victim Five to enable him to transfer funds from his existing retirement account into Cranney Capital I.

200. Victim Five filled out the paperwork that Cranney provided to him and wired $57,067.13 to Cranney Capital I on February 18, 2010.

201. Cranney sent Victim Five an Acknowledgment Letter signed by Cranney on March 23, 2010 ("Victim Five Acknowledgement Letter") on Cranney Capital I letterhead.

202. The Victim Five Acknowledgment Letter represented that: "[i]nterest will be paid on this loan at the rate of ten percent (10%) per annum (simple interest)."

203. The Victim Five Acknowledgment Letter further provided that a promissory note would be sent at a later date, and that the term of the note would be one (1) year from the

deposit date, but would renew automatically unless Cranney Capital I received a written request for all or part of the money within 180 days before the end of the note term.

204. Cranney also prepared a promissory note to Victim Five ("Victim Five Promissory Note") dated February 18, 2010. The Victim Five Promissory Note described Cranney Capital I as the "Borrower" of $57,067.13 from Victim Five for a duration of one (1) year, with interest described as ten (10) percent annual interest.

205. The Victim Five Promissory Note provided that the note would renew automatically for three (3) years unless Victim Five provided 180 days notice before the end of the note term. If the note is renewed, then the new rate after the first year would be "prime (as determined by Bank of America) plus Two percent (2 %) per annum capped at Ten percent (10%) for the term of the Note."

206. The Victim Five Promissory Note further provided that such automatic renewal was "perpetual and is only halted upon [Victim Five] giving the required written notice prior to the end of the applicable renewal term and receiving all principal and interest due under the Note."

207. Victim Five signed and dated a form titled "Participant Investment Directive Cranney Capital I, LLC, Employee Stock Ownership Trust" on March 24, 2010 which provided that:

> The undersigned acknowledges that he/she is an account holder in the Cranney Capital I, LLC, Employee Stock Ownership Trust. As an account holder, I hereby authorize and direct the Trustee of the Cranney Capital I, LLC, Employee Stock Ownership Trust to invest the value of my account in membership interests of Cranney Capital I, LLC. I understand that the Operating Manager of the Cranney Capital I, LLC is authorized to invest company assets in anything legal, including margin, hedge, puts, calls and other investment strategies such as loans.

(See Exhibit 3).

208. At no time has Victim Five been an employee of Cranney Capital I.

209. Cranney also provided paperwork to Victim Six to enable her to transfer funds into Cranney Capital I.

210. Victim Six filled out transfer paperwork that Cranney provided to her and wired $65,491.18 to Cranney Capital I on February 18, 2010.

211. Cranney sent Victim Six an Acknowledgment Letter signed by Cranney on March 23, 2010 ("Victim Six Acknowledgement Letter") on Cranney Capital I letterhead.

212. The Victim Six Acknowledgment Letter represented that: "[i]nterest will be paid on this loan at the rate of ten percent (10%) per annum (simple interest)."

213. The Victim Six Acknowledgment Letter further provided that a promissory note would be sent at a later date, and that the term of the note would be one (1) year from the deposit date, but would renew automatically unless Cranney Capital I received a written request for all or part of the money within 180 days before the end of the note term.

214. Cranney also prepared a promissory note to Victim Six ("Victim Six Promissory Note") dated February 18, 2010. The Victim Six Promissory Note described Cranney Capital I as the "Borrower" of $65,491.58 from Victim Six for a duration of one (1) year, with interest described as ten (10) percent annual interest.

215. The Victim Six Promissory Note provided that the note would renew automatically for three (3) years unless Victim Six provided 180 days notice before the end of the note term. If the note is renewed, then the new rate after the first year would be "prime (as determined by Bank of America) plus Two percent (2 %) per annum capped at Ten percent (10%) for the term of the Note."

216. The Victim Six Promissory Note further provided that such automatic renewal was "perpetual and is only halted upon [Victim Six] giving the required written notice prior to the end of the applicable renewal term and receiving all principal and interest due under the Note."

217. Victims Five and Six have not received any account statements or additional documents from Cranney since the acknowledgement letters and promissory notes.

218. To date, Victims Five and Six have not received any principal or interest payments from Cranney or any Cranney entity.

VICTIMS SEVEN AND EIGHT

219. Victims Seven and Eight are a couple who are residents of Arlington, Massachusetts.

220. Cranney has known Victims Seven and Eight for fifteen (15) to twenty (20) years and that they are Shaklee independent distributors within Cranney's Shaklee downline group.

221. Victim Seven invested $3,307.12 into Cranney Capital I in August 2009.

222. Cranney sent Victim Seven an Acknowledgment Letter signed by Cranney on March 23, 2010 ("Victim Seven Acknowledgement Letter") on Cranney Capital I letterhead.

223. The Victim Seven Acknowledgment Letter represented that: "[i]nterest will be paid on this loan amount at the rate of ten percent (10%) per annum (simple interest) for the first year. The second and third year[s] will be paid at the rate of prime plus two percent simple interest per annum, capped at 10%, based on the published prime rates of Bank of America."

224. The Victim Seven Acknowledgment Letter further provided that a promissory note would be sent at a later date, and that the term of the note would be three (3) years from deposit date, but would renew automatically unless Cranney Capital I received a written request for all or part of the money within 120 days before the end of the note term.

225. Cranney also prepared a promissory note to Victim Seven ("Victim Seven Promissory Note") dated August 26, 2009. The Victim Seven Promissory Note described Cranney Capital I as the "Borrower" of $3,307.12 from Victim Seven for a duration of three (3) years, with interest described as ten (10) percent for the first year, and then the new rate after the first year would be "prime (as determined by Bank of America) plus Two percent (2 %) per annum capped at Ten percent (10%) for the balance of the term of the Note[.]"

226. The Victim Seven Promissory Note contained a provision that the note would renew automatically for three (3) years unless Victim Seven provided 120 days notice before the end of the note term. The note further provided that such automatic renewal was "perpetual and is only halted upon [Victim Seven] giving the required written notice prior to the end of the applicable renewal term and receiving all principal and interest due under the Note."

227. The Victim Seven Promissory Note is only signed by John W. Cranney, who is listed as the Manager of Cranney Capital I.

228. On the evening of May 29, 2009, Victim Eight e-mailed Cranney a spreadsheet of her and her husband's, Victim Seven, 2009 budget along with directions to their house in anticipation of a meeting with Cranney the following day.

229. Victim Eight invested $188,625.00 into Cranney Capital I in June 2009.

230. Cranney sent Victim Eight an Acknowledgment Letter signed by Cranney on July 18, 2009 ("Victim Eight Acknowledgement Letter") on Cranney Capital I letterhead.

231. The Victim Eight Acknowledgment Letter represented that: "[i]nterest will be paid on this loan amount at the rate of ten percent (10%) per annum (simple interest) for the first year. The second and third year[s] will be paid at the rate of prime plus two percent simple interest per annum, capped at 10%, based on the published prime rates of Bank of America."

232. The Victim Eight Acknowledgment Letter further provided that a promissory note would be sent at a later date, and that the term of the note would be three (3) years from deposit date, but would renew automatically unless Cranney Capital I received a written request for all or part of the money within 120 days before the end of the note term.

233. Cranney also prepared a promissory note to Victim Eight ("Victim Eight Promissory Note") dated June 30, 2009. The Victim Eight Promissory Note described Cranney Capital I as the "Borrower" of $188,625.00 from Victim Eight for a duration of three (3) years, with interest described as ten (10) percent for the first year, and then the new rate after the first year would be "prime (as determined by Bank of America) plus Two percent (2 %) per annum capped at Ten percent (10%) for the balance of the term of the Note[.]"

234. The Victim Eight Promissory Note contained a provision that the note would renew automatically for three (3) years unless Victim Eight provided 120 days notice before the end of the note term. The note further provided that such automatic renewal was "perpetual and is only halted upon [Victim Eight] giving the required written notice

prior to the end of the applicable renewal term and receiving all principal and interest due under the Note."

235. To date, Cranney has not made any principal or interest payments to Vicims Seven and Eight related to their investments in Cranney Capital I.

VICTIMS NINE AND TEN

236. Victims Nine and Ten are a couple from Gloucester, Massachusetts.

237. Cranney testified that he has known Victims Nine and Ten for fifteen (15) to twenty (20) years and that they are Shaklee independent distributors within Cranney's Shaklee downline group.

238. Cranney provided documents to Victims Nine and Ten that would enable them to transfer money from other accounts into Cranney Capital I.

239. Cranney provided Victims Nine and Ten a one-page form titled "Qualified Plan Transfer Request Letter" for Victims Nine and Ten to fill out and give to the current custodian of their funds to enable a transfer of those funds to Cranney Capital I. The form contained the following language:

> I have established a qualified retirement plan account with **CRANNEY CAPITAL I, LLC, EMPLOYEE STOCK OWNERSHIP TRUST.** Please liquidate and transfer ____ all or $_____ (check all or fill in amount to be transferred) of my accounts indicated above with you, in cash, to John W. Cranney, Trustee, Cranney Capital I, LLC, Employee Stock Ownership Trust, per instructions below. . . .

240. At no time have Victims Nine and Ten been employees of Cranney Capital I.

241. At no time did Cranney state that Victims Nine and Ten's investments would be invested in a trust for Cranney Capital I.

242. In the spring of 2008, Victim Ten wired $36,162.99 to Cranney Capital I.

243. Cranney provided an acknowledgment letter signed by him dated May 10, 2008 to Victim Ten ("Victim Ten Acknowledgment Letter") acknowledging that $36,162.99 was received by wire transfer on April 23, 2008.

244. The Victim Ten Acknowledgment Letter stated that "[i]nterest will be paid on this loan at the rate of prime plus two percent (2%) per annum (simple interest) capped at twelve percent (12%) per annum (simple interest). The prime rate will be the rate established and published by Bank of America."

245. The Victim Ten Acknowledgment Letter also stated that a promissory note would be sent at a later date and that "[t]he term of the Promissory note evidencing this loan will be eight years from the date of deposit, but will renew automatically, unless Cranney Capital I receives written request that the Note be paid in part or in full at the end of a specific term. This written notice must be received by Cranney Capital I at the address contained in the Promissory Note within 180 days of the end of the applicable Note term."

246. Cranney drafted and sent a promissory note to Victim Ten ("Victim Ten Promissory Note") reflecting her investment with Cranney Capital I.

247. The Victim Ten Promissory Note described Cranney Capital I of 885 Concord Avenue, Belmont, Massachusetts as the "Borrower" of $36,162.99 from Victim Ten for a duration of eight (8) years, with interest described as "the amount of prime (as determined by Bank of America) plus Two percent (2 %) per annum capped at Twelve percent (12%) for the term of the Note."

248. The Victim Ten Promissory Note contained a provision that the note would renew automatically for three (3) years unless Victim Ten provided 180 days notice to obtain

principal and interest payments. The note further provided that such automatic renewal was "perpetual and is only halted upon [Victim Ten] giving the required written notice prior to the end of the applicable renewal term and receiving all principal and interest due under the Note."

249. The Victim Ten Promissory Note is only signed by John W. Cranney, who is listed as the Manager of Cranney Capital I.

250. In the spring of 2008, Victim Nine wired $348,498.12 to Cranney Capital I.

251. Cranney provided an acknowledgment letter signed by him dated May 10, 2008 to Victim Nine ("Victim Nine Acknowledgment Letter") acknowledging that $348,498.12 was received by wire transfer on April 23, 2008.

252. The Victim Nine Acknowledgment Letter stated that "[i]nterest will be paid on this loan at the rate of prime plus two percent (2%) per annum (simple interest) capped at twelve percent (12%) per annum (simple interest). The prime rate will be the rate established and published by Bank of America."

253. The Victim Nine Acknowledgment Letter also stated that a promissory note would be sent at a later date and that "[t]he term of the Promissory note evidencing this loan will be eight years from the date of deposit, but will renew automatically, unless Cranney Capital I receives written request that the Note be paid in part or in full at the end of a specific term. This written notice must be received by Cranney Capital I at the address contained in the Promissory Note within 180 days of the end of the applicable Note term."

254. Cranney drafted and sent a promissory note to Victim Nine ("Victim Nine Promissory Note") reflecting his investment with Cranney Capital I.

255. The Victim Nine Promissory Note described Cranney Capital I of 885 Concord Avenue, Belmont, Massachusetts as the "Borrower" of $36,162.99 from Victim Nine for a duration of eight (8) years, with interest described as "the amount of prime (as determined by Bank of America) plus Two percent (2 %) per annum capped at Twelve percent (12%) for the term of the Note."

256. The Victim Nine Promissory Note contained a provision that the note would renew automatically for three (3) years unless Victim Nine provided 180 days notice to obtain principal and interest payments. The note further provided that such automatic renewal was "perpetual and is only halted upon [Victim Nine] giving the required written notice prior to the end of the applicable renewal term and receiving all principal and interest due under the Note."

257. The Victim Nine Promissory Note is only signed by John W. Cranney, who is listed as the Manager of Cranney Capital I.

258. Cranney testified that Victim Nine also gave additional money to Cranney Capital III.

259. When asked where Victims Nine and Ten's money went after they gave it to Cranney, Cranney testified: "The money was put into the business. I put it back in. Well, not in the business. I think it was put back into wherever I needed to make money with it. . . ."

260. Cranney made several monthly payment checks to Victim Nine between 2008 and the end of 2009, ranging from checks for $7,000 to $10,500. All checks written to Victim Nine were written on Bank of America checks from the accounts of Cranney Capital III and Cranney Industries.

261. To date, Cranney has not paid Victims Nine and Ten any principal or interest payments for their investments into Cranney Capital I.

VICTIMS ELEVEN AND TWELVE

262. Victims Eleven and Twelve are a couple who are residents of Topsfield, Massachusetts.

263. Victims Eleven and Twelve invested a total of $78,709.02, in the form of two checks to Cranney Capital I for $16,825.99 and $61,883.03, in 2007.

264. Cranney sent Victim Eleven an Acknowledgment Letter signed by Cranney on August 1, 2007 ("Victim Eleven Acknowledgement Letter") on Cranney Capital I letterhead.

265. The Victim Eleven Acknowledgment Letter represented that: "[i]nterest will be paid on this loan at the rate of prime plus two percent (2%) per annum (simple interest) capped at ten percent (10%) per annum (simple interest). The prime rate will be the rate established and published by Bank of America."

266. The Victim Eleven Acknowledgment Letter further provided that a promissory note would be sent at a later date, and that the term of the note would be ten (10) years from deposit date, but would renew automatically unless Cranney Capital I received a written request for all or part of the money within 180 days before the end of the note term.

267. Cranney also prepared a promissory note to Victim Eleven ("Victim Eleven Promissory Note") dated August 1, 2007. The Victim Eleven Promissory Note described Cranney Capital I as the "Borrower" of $78,709.02 from Victim Eleven for a duration of

ten (10) years, with interest described as "prime (as determined by Bank of America) plus Two percent (2 %) per annum capped at Ten percent (10%) for the term of the Note."

268. The Victim Eleven Promissory Note provided that the note would renew automatically for three years (3) unless Victim Eleven provided 180 days notice before the end of the note term. The note also provided that such automatic renewal is "perpetual and is halted only upon [Victim Eleven] giving the required written notice prior to the end of the applicable renewal term and receiving all principal and interest due under the Note."

269. Upon information and belief, Victims Eleven and Twelve have not been paid any principal or interest payments from their investments with Cranney Capital I.

VICTIM THIRTEEN

270. Victim Thirteen is an individual who is a resident of Dartmouth, Massachusetts.

271. Cranney testified that he has known Victim Thirteen for approximately six (6) to seven (7) years through alarm system work that Victim Thirteen has done on Cranney's Belmont home and that Victim Thirteen may be in Cranney's Shaklee independent distributor group.

272. Victim Thirteen invested $398,208.31 into Cranney Capital I in April 2005, with an additional $710.12 invested in May 2005, and $270.44 invested in August 2005 for a total investment of $399,188.75.

273. The source of Victim Thirteen's funds was a traditional IRA account held at A.G. Edwards & Sons, Inc.

274. Cranney sent Victim Thirteen an Acknowledgment Letter signed by Cranney dated August 30, 2005 ("Victim Thirteen Acknowledgement Letter") on Cranney Capital I letterhead.

275. The Victim Thirteen Acknowledgment Letter represented that: "[i]nterest will be paid on the total loan at the rate of prime plus two percent interest as established and published by Bank of America. The term of this note will be eight years from the date of deposit, but will renew automatically to the conditions and interest specified in the note dated August 30, 2005. Please notify us in writing if you wish to withdraw the funds giving 180 days notice."

276. Cranney also issued a promissory note to Victim Thirteen ("Victim Thirteen Promissory Note") dated August 30, 2005. The Victim Thirteen Promissory Note described Cranney Capital I as the "Borrower" of $399,208.19 from Victim Thirteen for a duration of eight (8) years, with interest described as "the amount of prime (as determined by Bank of America) plus Two percent (2 %) per annum capped at Twelve percent (12%) for the term of the Note."

277. The Victim Thirteen Promissory Note contained a provision that the note would renew automatically for three (3) years unless Victim Thirteen provided 180 days notice to obtain principal and interest payments. The note further provided that such automatic renewal was "perpetual and is only halted upon [Victim Thirteen] giving the required written notice prior to the end of the applicable renewal term and receiving all principal and interest due under the Note."

278. The Victim Thirteen Promissory Note is only signed by John W. Cranney, who is listed as the Manager of Cranney Capital I.

279. Cranney generated or instructed a part-time assistant to generate a fictitious account statement in 2008 for Victim Thirteen ("Victim Thirteen Account Statement"). The account statement represented a "nominal annual rate" of 7.250%, but also showed fifteen (15) interest rate changes ranging from 7.250% to 10.250% interest between 2005 and 2008.

280. The 2008 Victim Thirteen Account Statement stated that "[a]n open balance of 532,230.44 still remains."

281. To date, Cranney has not paid Victim Thirteen any principal or interest payments from his investments into Cranney Capital I.

E. OUT-OF-STATE VICTIMS

VICTIM FOURTEEN

282. Victim Fourteen is an individual who is a resident of Salt Lake City, Utah.

283. Victim Fourteen is Cranney's sister.

284. Cranney represented that Victim Fourteen could give him money for an investment that would earn at least six (6) percent annual interest.

285. Victim Fourteen used money from a retirement trust from her deceased husband's retirement plan to give to Cranney as an investment.

286. In August of 2008, Victim Fourteen invested $400,000 with Cranney Capital I.

287. Cranney sent Victim Fourteen an Acknowledgment Letter signed by Cranney on August 13, 2008 ("Victim Fourteen Acknowledgement Letter") on Cranney Capital I letterhead.

288. The Victim Fourteen Acknowledgment Letter represented that: "[i]nterest will be paid on this loan at the rate of prime plus two percent (2%) per annum (simple interest)

capped at twelve percent (12%) per annum (simple interest). The prime rate will be the rate established and published by Bank of America."

289. The Victim Fourteen Acknowledgment Letter further provided that a promissory note would be sent at a later date, and that the term of the note would be from September 1, 2008 until August 30, 2009. There was no language in the acknowledgement letter regarding renewal of the note.

290. Cranney also prepared a promissory note to Victim Fourteen ("Victim Fourteen Promissory Note") dated September 1, 2008. The Victim Fourteen Promissory Note described Cranney Capital I as the "Borrower" of $400,000.00 from Victim Fourteen for one (1) year, beginning September 1, 2008 through August 31, 2009. The Victim Fourteen Promissory Note described the interest as "prime (as determined by Bank of America) plus Two percent (2 %) per annum capped at Twelve percent (12%) for the term of the Note." The note contained no renewal provisions.

291. In September of 2009, Cranney sent Victim Fourteen a new promissory note dated September 1, 2009 which attempted to extend the investment period.

292. Victim Fourteen did not agree to extend the investment, and wrote a letter to Cranney on September 14, 2009 requesting all of her money back. Victim Fourteen requested the money be returned as soon as possible because she needed to submit accounting information related to her retirement account.

293. Victim Fourteen wrote another letter to Cranney dated November 3, 2009 which stated:

> As you know, I have been trying to get you to communicate with me for nearly two months without success. Your letter of September 1st makes it quite clear that we have different memories of any financial discussions. You have decided what you will do

> with my money. That decision is mine to make, not yours. . . . I am instructing you to return my initial $400,000 plus interest by the end of November 2009.

294. In a letter dated June 6, 2012 from Victim Fourteen to Cranney, Victim Fourteen wrote the following: "Dear Jack, [i]t is impossible to reach you by any known means. . . . My tax year has ended April 1, 2011 – March 31, 2012 and so I have to get my tax report in by next month." The June 6, 2012 letter from Victim Fourteen also included a chart summarizing that she had received three (3) checks totaling $154,700.00 between 2009 and 2011, one check from Cranney Industries and two checks from Cranney Capital I. Victim Fourteen further provided in her letter: "Amount still owing [Victim Fourteen] . . . $345,300.00. This is principal – no interest. Jack I need my money. When can I expect a check?????"

295. To date, Cranney owes Victim Fourteen the return of the remainder of her principal and interest payments.

VICTIM FIFTEEN

296. Victim Fifteen was an individual and resident of Fresno, California.

297. Victim Fifteen knew Cranney for over forty (40) years through working with him through a Shaklee independent distributorship contract.

298. Within two (2) months of Victim Fifteen's husband passing away, Cranney flew out to California to visit Victim Fifteen and went to her house to tell her about a great investment that she could make with him.

299. Cranney told her that her investment would be risk free and guaranteed that her funds could not be lost.

300. Cranney told Victim Fifteen about investments from other people that Victim Fifteen also knew through Shaklee to convince Victim Fifteen that investing with him was a good idea because other people she knew had done so.

301. Victim Fifteen cashed out stocks and withdrew money from her bank account to give to Cranney as an investment.

302. Victim Fifteen also withdrew money from an IRA account to invest with Cranney and was charged a penalty for early withdrawal.

303. Victim Fifteen and her accountant had to "hound" Cranney to respond to them and obtain proper documentation from him related to the IRA penalty.

304. Victim Fifteen made three (3) separate investments in 2008 to Cranney Capital I and Cranney Capital III, and invested a total of $104,217.95 with the Cranney entities.

305. Cranney provided an acknowledgment letter and promissory note to Victim Fifteen in 2008 that described an eight-year term to the note.

306. Victim Fifteen had never discussed an eight-year term for her investment with Cranney.

307. Approximately six (6) months after Victim Fifteen's initial investment, Cranney attempted to solicit more money from her, but she did not agree to do so.

308. Victim Fifteen never received any principal or interest payments from Cranney.

309. Victim Fifteen passed away in 2011 at the age of seventy-seven (77).

310. Victim Fifteen's sons wrote to Cranney in January of 2012 and asked to liquidate their mother's investment with him to enable them to settle their mother's estate.

311. Victim Fifteen's sons and their accountant discovered that Victim Fifteen should have received annual distributions from a qualified retirement plan due to her age

eligibility, but had never received any from Cranney because, upon information and belief, he had not set up a qualified plan like he had represented.

312. To date, Cranney has not returned Victim Fifteen's principal or interest payments from her investment in Cranney Capital I and Cranney Capital III and her sons have been unable to settle their mother's estate without information from Cranney.

313. On July 10, 2012, Victim Fifteen's son, as executor of her estate, jointly filed a lawsuit with other Cranney victims against Cranney, Cranny Capital I, and Cranney Capital III in United States District Court for the District of Massachusetts to recoup funds totaling more than $3.5 million invested with Cranney and the Cranney entities. Upon information and belief, the other Cranney victims who brought suit against Cranney and his entities are elderly individuals currently in their 80s.

F. TOTAL VICTIMS AND AMOUNTS INVESTED WITH CRANNEY ENTITIES

314. The Division is aware of ten (10) Massachusetts victims who invested money with Cranney.

315. The Division estimates that the total amount that these ten (10) Massachusetts victims invested with Cranney is $1,510,069.15.

316. The Division is aware of thirty-six (36) total victims who invested money with Cranney, including victims from Massachusetts, Maryland, California, Michigan, Kansas, Georgia, New Hampshire, Texas, Utah, Maine, Tennessee, Connecticut, Missouri, and Florida.

317. The Division estimates that the total amount that these thirty-six (36) victims invested with Cranney is $10,370,304.63.

318. When asked what he did with the money given by individuals, Cranney testified: "I mean the money would be put back into the business entities and basically it would be used for whatever training, travel, what we did with people, and just general development of the business and the maintenance of the facility that we used and all of the things that go along with the business."

G. CONTACT WITH CRANNEY REGARDING DIVISION'S INVESTIGATION

319. During the course of its investigation, the Division reached out to individuals that it identified as victims with Cranney and his entities. On at least one occasion, a victim contacted Cranney after the Division left a message for her. When the victim spoke with Cranney on the phone, Cranney gave her specific instructions on how to respond to the Division staff if the victim returned the call to the Division. Cranney told her that everything was fine and not to discuss certain details of her investment that she made with him. Cranney told the victim that if she told the Division that she made an "investment" with him as opposed to a "loan," that his "goose would be cooked." Cranney instructed the victim to tell the Division that she made a deal with Jack to loan him money for ten (10) percent return per year and that she was very happy with the deal she made with him. He instructed her not to say the word "investing" to the Division, but instead to use the word "note" or "loan" when describing the deal with him.

H. CONCLUSION

320. All of Cranney's representations to his victims concerning his ability to manage their money were false. Cranney was not a financial advisor or investment manager in any capacity related to the securities industry.

321. Upon information and belief, Cranney knew that the money he obtained from victims was not used for any investment purpose, but was instead used by Cranney for his own personal benefit, his related Shaklee distributorship, and to pay other victims who requested payment when their notes became due or who had a specific periodic payment plan before their note was due.

322. On or about 2008, Cranney began to default on payments to some victims when they demanded money back.

323. Cranney persuaded many victims to renew or modify existing promissory notes in order to delay payment.

324. Cranney created fictitious account statements to assure victims that their money was safe and they would be paid in full.

325. The Cranney entities own no real or personal property whose present value exceeds one thousand dollars ($1,000.00).

326. Individually, Cranney owns no real or personal property worth more than ten thousand dollars ($10,000.00) other than his residential home.

327. Cranney agreed to grant two victims a "first position" or "legal position" in the sale of his residential home at 885 Concord Avenue, Belmont, Massachusetts in order to repay their principal plus interest. These agreements were not secured interests in his home.

328. During its investigation, the Division uncovered twenty (20) related bank accounts with Bank of America, including accounts in the name of Cranney Capital I, Cranney Capital II, Cranney Capital III, Cranney Industries, Cranney, and Cranney and

his wife. Six (6) of these bank accounts have been closed. The highest balance of the open bank accounts is $103.47 and the lowest balance is $3.43.

329. Cranney also maintained twelve (12) related accounts at Charles Schwab & Co. and CyberTrader, Inc., A Charles Schwab Co. ("Schwab"). One (1) of these Schwab accounts has been closed. The highest balance of the open Schwab accounts is $1,266.76 and the lowest balance is $200.00.

330. On March 15, 2011, for no consideration, Cranney conveyed all of his interest in 885 Concord Avenue, Belmont, Massachusetts to himself, as Trustee of The John William Cranney Revocable Trust and to his wife, as Trustee of a revocable trust in her name, as tenants in common.

331. Within the last month, Cranney testified that he had taken the residence out of trust so that he could refinance his home with Chase.

332. Cranney testified that in his view he has the ability and intention to repay the "loans," "based on the fact that at some point the house will sell, that's going to give me probably 40 to 50 percent of it, and then from there this stuff is scattered out over years of time. . . ."

333. Currently, Cranney's residential home is offered for sale at $3.8 million. He has two (2) outstanding mortgage obligations of approximately $1.5 million and $500,000.

VIII. VIOLATIONS OF THE MASSACHUSETTS UNIFORM SECURITIES ACT

A. Count 1:

334. Section 101 of the Act states that:

> It is unlawful for any person, in connection with the offer, sale or purchase of any security, 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 the 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 a fraud or deceit upon any person.

MASS. GEN. LAWS ch. 110A, § 101.

335. The Division herein restates and re-alleges the facts and allegations set forth in paragraphs 1 through 333 above.

336. The conduct of Respondents, as described above, constitutes a violation of MASS. GEN. LAWS ch. 110A, § 101.

B. Count 2: Violation of Section 201(a)

337. Section 201(a) of the Act provides, in pertinent part: "(a) It is unlawful for any person to transact business in this commonwealth as a broker-dealer or agent unless he is registered under this chapter." MASS. GEN. LAWS ch. 110A, § 201(a).

338. The Division herein restates and re-alleges the facts and allegations set forth in paragraphs 1 through 333 above.

339. The conduct of Respondents, as described above, constitutes a violation of MASS. GEN. LAWS ch. 110A, § 201(a).

C. Count 3: Violation of Section 201(b)

340. Section 201(b) of the Act provides, in pertinent part:

> (b) It is unlawful for any broker-dealer or issuer to employ an agent unless the agent is registered. The registration of an agent is not effective during any period when he is not associated with a particular broker-dealer registered under this chapter or a particular issuer. When an agent begins or terminates a connection with a broker-dealer or issuer, or begins or terminates those activities which make him an agent, the agent as well as the broker-dealer or issuer shall promptly notify the secretary.

MASS. GEN. LAWS ch. 110A, § 201(b).

341. The Division herein restates and re-alleges the facts and allegations set forth in paragraphs 1 through 333 above.

342. The conduct of Respondents, as described above, constitutes a violation of MASS. GEN. LAWS ch. 110A, § 201(b).

D. Count 4: Violation of Section 201(c)

343. Section 201(c) of the Act provides, in pertinent part: "(c) It is unlawful for any person to transact business in this commonwealth as an investment adviser or as an investment adviser representative unless he is so registered under this chapter." MASS. GEN. LAWS ch. 110A, § 201(c).

344. The Division herein restates and re-alleges the facts and allegations set forth in paragraphs 1 through 333 above.

345. The conduct of Respondents, as described above, constitutes a violation of MASS. GEN. LAWS ch. 110A, § 201(c).

E. Count 5: Violation of Section 201(d)(i)

346. Section 201(d)(i) of the Act provides, in pertinent part:

> (d) It is unlawful for: (i) any investment adviser required to be registered to employ an investment adviser representative unless the investment adviser representative is registered under this chapter, but the registration of an investment adviser representative shall not be effective during any period when he is not employed by an investment adviser registered under this chapter . . . .

MASS. GEN. LAWS ch. 110A, § 201(d)(i).

347. The Division herein restates and re-alleges the facts and allegations set forth in paragraphs 1 through 333 above.

348. The conduct of Respondents, as described above, constitutes a violation of MASS. GEN. LAWS ch. 110A, § 201(d)(i).

F. Count 6: Violation of Section 301

349. Section 301 of the Act provides:

> It is unlawful for any person to offer or sell any security in the commonwealth unless:--
>
> (1) the security is registered under this chapter;
> (2) the security or transaction is exempted under section 402; or
> (3) the security is a federal covered security.

MASS. GEN. LAWS ch. 110A, § 301.

350. The Division herein restates and re-alleges the facts and allegations set forth in paragraphs 1 through 333 above.

351. The conduct of Respondents, as described above, constitutes a violation of MASS. GEN. LAWS ch. 110A, § 301.

IX. STATUTORY BASIS FOR SECURITIES DIVISION'S ACTION

352. Section 407A of the Act, entitled Violations; Cease and Desist Orders; Costs, provides in pertinent part:

> (a) If the secretary determines, after notice and opportunity for hearing, that any person has engaged in or is about to engage in any act or practice constituting a violation of any provision of this chapter or any rule or order issued thereunder, he may order such person to cease and desist from such unlawful act or practice and may take such affirmative action, including the imposition of an administrative fine, the issuance of an order for an accounting, disgorgement or rescission or any other such relief as in his judgment may be necessary to carry out the purposes of [the Act].

MASS. GEN. LAWS ch. 110A, § 407A(a).

353. The Division herein restates and re-alleges the facts and allegations set forth in paragraphs 1 through 333 above.

354. The conduct of Respondents, as described above, constitutes a violation of MASS. GEN. LAWS ch. 110A, § 407A.

X. PUBLIC INTEREST

For any and all of the reasons set forth above, it is in the public interest and will protect Massachusetts investors to enter an Order: (a) requiring Respondents to temporarily cease and desist from acting as unregistered broker-dealers or as investment advisers and investment adviser representatives; (b) requiring Respondents to temporarily cease and desist from effectuating the offer and sale of unregistered securities in the Commonwealth until and unless the securities are properly registered or sold pursuant to an exemption from registration under the Act; (c) requiring Respondents to temporarily cease and desist from fraudulent activity in violation of the Act and Regulations; (d) requiring Respondents, after notice and opportunity for hearing, to permanently cease and desist from acting as unregistered broker-dealers or investment advisers and investment adviser representatives; (e) requiring Respondents, after notice and opportunity for hearing, to permanently cease and desist from effectuating the offer and sale of unregistered securities in the Commonwealth until and unless the securities are properly registered or sold pursuant to an exemption from registration under the Act; (f) requiring Respondents, after notice and opportunity for hearing, to permanently cease and desist from fraudulent activity in violation of the Act and Regulations; (g) requiring Respondents to provide an accounting of all proceeds that were received as a result of the alleged wrongdoing, and to offer rescission to and fairly compensate victims for those losses attributable to the alleged wrongdoing; (h) requiring Respondents to disgorge all proceeds and other direct or indirect remuneration received from the alleged wrongdoing;

(i) requiring Respondents to pay an administrative fine in an amount and upon such terms and conditions as the Director or Hearing Officer may determine; (j) barring Respondents from acting as or being associated with any Massachusetts-registered broker-dealer; (k) barring Respondents from acting as or being associated with any Massachusetts-registered investment adviser or investment adviser representative; and (l) requesting the Director or Hearing Officer to take such further action against Respondents as may be deemed just and appropriate for the protection of investors.

XI. RELIEF REQUESTED

WHEREFORE, the Enforcement Section of the Division requests that the Director or Hearing Officer take the following actions:

A. Find as fact all the allegations set forth in paragraphs 1 through 333, inclusive of the Complaint;

B. Find that all sanctions and remedies detailed herein are in the public interest and necessary for the protection of Massachusetts investors;

C. Issue a Cease and Desist Order against Respondents ordering Respondents to temporarily cease and desist from acting as unregistered broker-dealers or as investment advisers and investment adviser representatives and from effectuating the offer and sale of unregistered securities in the Commonwealth until and unless the securities are properly registered or sold pursuant to an exemption from registration under the Act;

D. Issue a Cease and Desist Order against Respondents ordering Respondents to temporarily cease and desist from fraudulent activity in violation of the Act and Regulations;

E. Enter a permanent Order against Respondents ordering Respondents to permanently cease and desist from acting as unregistered broker-dealers or investment advisers and investment adviser representatives and from effectuating the offer and sale of unregistered securities in the Commonwealth until and unless the securities are properly registered or sold pursuant to an exemption from registration under the Act;

F. Enter a permanent Order against Respondents ordering Respondents to permanently cease and desist from fraudulent activity in violation of the Act and Regulations;

G. Order Respondents to provide an accounting of all proceeds that were received as a result of the alleged wrongdoing, and to offer rescission to and fairly compensate victims for those losses attributable to the alleged wrongdoing;

H. Order Respondents to disgorge all proceeds and other direct or indirect remuneration received from the alleged wrongdoing;

I. Impose an administrative fine on Respondents in an amount and upon such terms and conditions as the Director or Hearing Officer may determine;

J. Bar Respondents from acting as or being associated with any Massachusetts-registered broker-dealer, investment adviser or investment adviser representative; and

K. Take such further action against Respondents as may be deemed just and appropriate for the protection of investors.

MASSACHUSETTS SECURITIES DIVISION
ENFORCEMENT SECTION
By its attorneys,

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