

STATE OF ARKANSAS
SECURITIES DEPARTMENT

IN THE MATTER OF
FORTRESS FOUNDATION, INC.,
LEROY HOBACK, O. BRUCE MIKELL,
G. T. FUNDS, INC., RAYMOND M. STREIG,
WILLIAM E. SCHWERDTFEGER,
GLORIA N. STREIG, RA'NIC STREIG
SCHWERDTFEGER and ALL PERSONS
EMPLOYED BY OR OTHERWISE
AFFILIATED WITH THOSE ENTITIES
OR THOSE PERSONS

No S-05-001-05-CD01

CEASE AND DESIST ORDER

The Staff of the Arkansas Securities Department (the Staff) has received information and has in its possession certain evidence which indicates that FORTRESS FOUNDATION, INC., LEROY HOBACK, President, O. BRUCE MIKELL, Secretary, G. T. FUNDS, INC., RAYMOND M. STREIG, President, WILLIAM E. SCHWERDTFEGER, Vice President, GLORIA N. STREIG, Secretary, and RA'NIC STREIG SCHWERDTFEGER, Treasurer, have violated provisions of the Arkansas Securities Act (the Act), codified at Ark. Code Ann. §§ 23-42-101, *et seq.* (Repl. 2000).

FINDINGS OF FACT

1. FORTRESS FOUNDATION, INC. (FFI) is the name of two entities. The first was incorporated in the country of Belize on 21 August 2003. This corporation was registered to do business in Arkansas with the Arkansas Secretary of State on 24 September 2003. The second corporation with this name was incorporated in Nevada on 1 March 2004. The Nevada corporation was never registered to do business as a foreign corporation with the

Arkansas Secretary of State. Although these are two separate corporations, they were used as the alter ego of the owners, Leroy Hoback and O. Bruce Mikell, who represented to the public that there was but one corporation and made no distinction between the two. At the owners' direction, only one set of books was made for FFI. Therefore, the two corporations are referred to herein as one corporation.

2. LEROY HOBACK (HOBACK), a resident of Bentonville, Arkansas, is the half owner, chairman, president and co-secretary of the Belizean corporation identified in ¶ 1, above, and the half owner, co-chairman, vice president and treasurer of the Nevada corporation identified in ¶ 1, above. To the public, who was led to believe that there was but one corporation named Fortress Foundation, Inc., HOBACK was always identified as the president of FFI.
3. O. BRUCE MIKELL (MIKELL), a resident of Warrior, Alabama, is the half owner, co-chairman, vice president and secretary of the Belizean corporation identified in ¶ 1, above, and the half owner, co-chairman, vice president and secretary of the Nevada corporation identified in ¶ 1, above.
4. G. T. FUNDS, INC. (GTF) is a corporation incorporated in the state of Washington on 12 October 2001.
5. RAYMOND M. STREIG (STREIG), currently a resident of the Houston, Texas area, is the president of GTF.
6. WILLIAM E. SCHWERDTFEGER (SCHWERDTFEGER), currently a resident of the Houston, Texas area, is the vice president of GTF.
7. GLORIA N. STREIG, currently a resident of the Houston, Texas area, is the secretary of

GTF.

8. RA'NIC STREIG SCHWERDTFEGER, currently a resident of the Houston, Texas area, is the treasurer of GTF.
9. In the summer of 2003 HOBACK and MIKELL agreed to form a company to engage in trading foreign currencies. MIKELL knew STREIG, who he believed to be a knowledgeable and experienced foreign currency trader. MIKELL contacted STREIG by telephone to discuss the possibility of trading foreign currencies for HOBACK and MIKELL. STREIG and SCHWERDTFEGER informed HOBACK and MIKELL that their company was GTF. In subsequent telephone conversations and emails, STREIG and SCHWERDTFEGER told HOBACK and MIKELL that they could expect enormous profits. STREIG was represented to have had vast experience in foreign currency trading and extensive contacts in the foreign currency marketplace. In any trade of foreign currencies, STREIG said one could look for a profit of 20 basis points and an overall rate of return of 4% per day.
10. On 18 October 2003, an agreement was signed between GTF and FFI, STREIG and SCHWERDTFEGER signing for GTF and HOBACK and MIKELL signing for FFI. The agreement provided that FFI would procure investors, who would invest money in FFI. FFI would gather this money and send it on to GTF to be pooled and traded in foreign currencies. The trading was to take place in the United Kingdom, and the trades described were for the physical delivery of foreign currency, an unregulated activity in the United States. No where in the contract was a broker, trader or company through which this trading would be accomplished named. Any profits would be split between GTF and FFI. By addendum to the

contract signed by HOBACK and MIKELL and STREIG in November, 2003, GTF also charged a per trade commission of \$170 per transaction, defined as follows: “An FX Transaction is entered and then exited from the FX Market will be construed as two separate (round trip) FX Transactions each an \$85.00 USD commission, a total of \$170.00 USD per round trip FX Transaction.” This contract was not part of the sales literature known as the Investor Packet (to be discussed in ¶ 12, below) and was not shown to all investors, although some of them did see it.

11. HOBACK and MIKELL had never met STREIG or SCHWERDTFEGER in person when they signed the contract with GTF discussed above in ¶ 10. They had only communicated by telephone and email. Before the contract was signed, at the suggestion and with the help of STREIG and SCHWERDTFEGER, HOBACK and MIKELL incorporated FFI in Belize, doing so without ever going to Belize. Later, at the suggestion of their accountant, HOBACK and MIKELL formed a second corporation named Fortress Foundation, Inc. in Nevada, also without visiting Nevada.
12. HOBACK and MIKELL with the help of STREIG put together printed materials to be used to market this investment to the general public referred to as the Investor Packet. FFI was identified in the packet as a “group of experienced, diversified and financially successful philanthropists.” HOBACK and MIKELL used a seminar method of selling these investments. Individuals would be invited to a seminar about foreign currency trading at a local motel in Rogers, Arkansas and told about trading foreign currency. For the first meeting, which was held in October or November, 2003, HOBACK was the presenter, but FFI hired another person to make the presentation. Through this presentation and also

through its marketing literature, the Investor Packet, prospective investors were told that they could make a great deal of money, the exact amount of which varied from 3 % to 6 % per month to 4 % to 8 % a day in currency trading. This was possible, they were told, because of STREIG, who was touted to be an expert currency trader. Currency trading was done by means of insider information, the prospective investors were told, and STREIG was privy to such information on a daily basis. Because of his access to such information, STREIG was said to be better than a computer program. He would make investors money and would not lose their money. They were also told that now was the first time ever anyone could open a currency trading account with less than \$1 million. Only because regulations had changed to allow smaller accounts, the investors were told, could one now trade foreign currencies for a minimum of \$100,000. Each of the prospective investors were told that the minimum investment for them was only \$10,000. In a few cases individuals were allowed to invest for less than that amount.

13. The contract between FFI and its investors was entitled “International Currency Trade Contract.” It described another type of foreign currency trading than the contract between FFI and GTF. It was described as “a private placement, by invitation only, “hedge fund,” with international currency trading being the primary function.” The contract contained four different investment strategies— speculative, aggressive, progressive and super conservative—, each described using the terms long and short trades, which refers to currency options and futures. According to the contract between FFI and the investors, the minimum investment was \$10,000, which had to stay on deposit for at least one year. FFI and the investor would evenly divide all “gross new monthly trade profits” received from GTF. Although the

contract provided that FFI “does not charge a ‘per trade’ commission[,] FFI does charge the Investor a 1% account management fee on the ‘net new monthly trade profits.’” Net new monthly trade profits were defined as the investor’s half of the gross new monthly trade profits.

14. HOBACK and MIKELL, with the help of STREIG and SCHWERDTFEGER, devised a sales force known as Commitment Holder Associates (CHAs). According to the Investor Packet, “FFI, international in scope, is the ‘Master Commitment Holder’ with a **major regulated currency trader.**” (Boldface in original.) These individuals, the CHAs, were to be “contracted directly with Fortress Foundation, Inc., the ‘Master Commitment Holder,’” and would be authorized to “present and assist the investor-client in completing all the necessary paperwork so he can become a client of FFI.” Stated differently, these individuals were permitted to market and sell investments in FFI. According to their contract with FFI, CHAs would earn commissions in four ways. First, CHAs would earn commissions of 10 % “derived from his/her first personally produced Investor’s deposits totaling \$30,000.” These commissions, which were called “training sales commission splits,” would continue “for as long as the Investors participate.” Second, CHAs would receive 10 % “from every new CHA he recruits.” Third, CHAs would earn “20 % commissions from the Net New Monthly Trade Profits of each and every additional personally produced Investor’s Net New Monthly Trade Profits, for as long as the Investor participates.” Lastly, CHAs were given as “10 % override commission on all personally recommended and appointed CHA’s commission earnings and overrides.” (Underline in original.)

15. These seminars or sales meetings began in October or November, 2003 in Rogers, Arkansas

and continued on a nearly monthly basis through 2004, the last meeting being held in December, 2004. From the beginning through October, 2004, FFI collected \$351,800 from 32 investors and sent it to GTF. Of that amount, the four officers of GTF, STREIG, SCHWERDTFEGER, Gloria Streig and Ra'Nic Streig Schwerdtfeger, used approximately 65% of that amount as if it were their own personal property, spending it for personal expenses through writing checks and using bank debit cards to access the money directly from GTF's bank account. So far, the Staff has not been able to account for approximately 35 % of this money, and it is possible that GTF wired that much money to an entity that could actually trade in foreign currencies. However, it also is not clear that if any currency trading was done, it was done on behalf of FFI. What is perfectly clear and undeniable is that no money whatever returned to FFI from GTF, even though GTF was supposed to have been engaged in currency trading of some type on FFI's behalf on a daily basis for almost a year.

16. FFI retained an accountant to produce statements showing its investors and its CHAs how much money each was making on a monthly basis. HOBACK or MIKELL would verbally give the accountant a rate of return for the month in question of anywhere from 20.94 % to 1.04 %, averaging in the neighborhood of 69 % per annum. This rate of return was not based on any known record of currency trading. STREIG and SCHWERDTFEGER would give HOBACK and MIKELL this rate of return in telephone conversations each month. Although investors were not disbursed profits because they understood from their contracts that they had to keep their money in their accounts for one year, the CHAs were paid their commissions on a regular basis. A total of \$15,070.29 was used to pay those commissions, and it came from funds invested by later investors and not from any real profits.

17. By the fall of 2004, HOBACK and MIKELL had become suspicious of STREIG and SCHWERDTFEGER and GTF and demanded to see statements of the trading activity. GTF had never sent FFI any statements showing any currency trading by a company or firm licensed to trade in foreign currency. GTF generated statements allegedly showing trading activity from December, 2003 through October, 2004. These statements showed dramatically different trading activity than that shown in the monthly statements prepared by FFI's accountant and sent out to the investors and CHAs. On total deposits of \$251,500, GTF showed profits of \$55,290.54, losses of \$114,227.01, commissions of \$2,550 and various other expenses of \$2,354.25.
18. After HOBACK and MIKELL had become suspicious of GTF and STREIG and SCHWERDTFEGER, they started looking for another entity with which to trade foreign currencies. An actual firm that trades foreign currencies was located by late 2004, and an account was opened with this firm in January, 2005. Approximately \$150,000 invested by about 15 new investors was deposited into this account. By February, 2005, it remained essentially unchanged.
19. None of the respondents were registered with the Arkansas Securities Department (the Department) in any capacity.
20. A check of the records of the Department shows that no security issued by FFI is registered in accordance with the Act.
21. A check of the records of the Commodity Futures Trading Commission (CFTC) shows that none of the respondents— FFI, GTF, STREIG, SCHWERDTFEGER, Gloria N. Streig or Ra'Nic Streig Schwerdtfeger— has ever been registered with the CFTC in any capacity.

CONCLUSIONS OF LAW

22. Ark. Code Ann. § 23-42-102(15)(A)(xi) (Supp. 2003) in pertinent part defines a security as an investment contract.
23. Ark. Code Ann. § 23-42-501 (Repl. 2000) provides that it is unlawful for any person to offer or sell any security which is not registered or which is not exempt from registration under the terms of the Act.
24. Ark. Code Ann. § 23-42-102(9) (Repl. 2000) defines issuer as any person who issues or proposes to issue any security.
25. Ark. Code Ann. § 23-42-102(2)(A) (Supp. 1999) defines agent as, *inter alia*, an individual representing the issuer of securities and effecting or attempting to effect purchases or sales of those securities.
26. The Commodities Exchange Act, as amended by the Commodity Futures Modernization Act of 2000, makes it unlawful to offer foreign currency futures and option contracts to retail customers unless the offeror is a regulated financial entity, such as a financial institution, a broker-dealer, a futures commission merchant, an insurance company, a financial holding company or an investment bank holding company. *See* 7 U.S.C. §§ 1, *et seq* (2000).
27. Ark. Code Ann. § 23-42-507(2) (Repl. 2000) provides that it is unlawful for any person in connection with the offer or sale of any security to make any untrue statement or omit to state a material fact necessary in order to make the statements made not misleading in light of the circumstances under which they are made.

OPINION

28. Investors made an investment by entering into an agreement entitled “International Currency Trade Contract.” According to this agreement, the investor would only invest money. All other activities that could result in making money were to be performed by FFI through GTF and its “Master Trader, “ who had achieved phenomenal rates of return in the past. The investor would and could play only a passive role and not be involved in the day-to-day operations of the enterprise into which he was asked to invest. The investor had no expertise or experience in operating a foreign currency trading business and was dependent on FFI and GTF, with whom FFI had contracted, to manage and operate this business. Because there was no limit on the number of investors, there were too many investors for any individual investors to have any meaningful input into the management of these investments. The investors in FFI would be involved in a common enterprise with the expectation of profits to be produced only from the managerial efforts of others. Therefore, under established legal precedent the investment sold in the “International Currency Trade Contract” is an investment contract and therefore a security as defined at Ark. Code Ann. § 23-42-102(15)(A)(xi) (Supp. 2003).
29. Because it caused the “International Currency Trade Contract” to be drafted and marketed, FFI is the issuer of that investment contract in accordance with Ark. Code Ann. § 23-42-102(9) (Supp. 2003).
30. HOBACK and MIKELL, in arranging for the seminar meetings and soliciting investors acted as agents of the issuer without being properly registered in violation of Ark. Code Ann. § 23-42-301(a) (Repl. 2000).

31. HOBACK and MIKELL with the help of STREIG and SCHWERDTFEGER and GTF drafted the International Currency Trade Contract which investors in FFI executed telling investors they were investing in a hedge fund featuring foreign currency futures and options. HOBACK and MIKELL communicated these statements through FFI's seminars or sales meetings. Because the contract between FFI and GTF did not provide for the trading of currency futures and options, these were untrue statements made by HOBACK and MIKELL, FFI, GTF, STREIG and SCHWERDTFEGER in connection with the sale or offer of a security in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).
32. Monthly statements caused to be prepared by HOBACK and MIKELL and sent out to investors reporting various high monthly rates of return were based on no documentation or objective evidence available to either of them. Because these rates of return on the investors' investments were stated with no information from an independent source showing that this was a reasonable rate of return, these were false statements made in connection with the sale or offer of a security in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).
33. The failure of GTF, STREIG, SCHWERDTFEGER, Gloria N. Streig and Ra'Nic Streig Schwerdtfeger to reveal to FFI or HOBACK and MIKELL that they had used GTF's bank account as their personal bank account, eventually using some 65% of the money collected and pooled together by FFI for personal use, was misleading and the omission of material facts in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).
34. In light of the absence of any registration with the CFTC in any capacity, the representation that STREIG was an experienced foreign currency trader with great experience, which was made by GTF to FFI, HOBACK and MIKELL, who then caused the same representation to

be made to FFI investors, was a false statement made in connection with the sale or offer of a security in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).

35. The representation in the International Currency Trading Contract entered into with FFI investors that there was no per trade commission, when HOBACK and MIKELL had agreed to a per trade commission by an addendum to the contract with GTF, was misleading and the omission of material facts in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).
36. The statement in the Investor Packet that FFI was a “group of experienced, diversified and financially successful philanthropists” was patently false. HOBACK and MIKELL, the sole owners of FFI, could not be truthfully and accurately described as such. This description of HOBACK and MIKELL was therefore false statement made in connection with the sale or offer of a security in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).
37. The statements made first by STREIG and SCHWERDTFEGER to HOBACK and MIKELL and then to FFI investors that persons trading foreign currencies with FFI through GTF could expect returns of anywhere from 3 % to 6 % per month or 4 % to 8 % per day were made with absolutely no information from an independent source showing that this was a reasonable rate of return and were, therefore, false statements made in connection with the sale or offer of a security in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).
38. The statements made in the Investor Packet concerning becoming a CHA that FFI was the “Master Commitment Holder” with a “**major regulated currency trader**” (boldface in original), which referred to GTF and STREIG, was false in light of the fact that neither GTF, nor STREIG have ever had a registration in place with the CFTC, the regulatory agency that would regulate foreign currency trading in this country. This was therefore a false statement

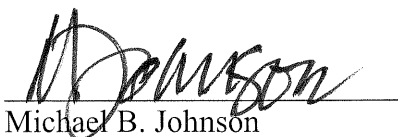
made in connection with the sale or offer of a security in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).

39. Contrary to the International Currency Trading Contract purchased by each FFI investor, all of the investors' money was not pooled and used to engaged in foreign currency futures and options. Over half of the money sent to GTF was used by GTF, STREIG, SCHWERDTFEGER, Gloria N. Streig and Ra'Nic Streig Schwerdtfeger, and there is no proof that the rest of the money sent to GTF was actually used in any way for the benefit of FFI investors. Statements made in the International Currency Trading Contract that the money would be so used were false statements made in connection with the sale or offer of a security in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).

ORDER

IT IS THEREFORE ORDERED that FORTRESS FOUNDATION, INC., LEROY HOBACK, President, O. BRUCE MIKELL, Secretary, G. T. FUNDS, INC., RAYMOND M. STREIG, President, WILLIAM E. SCHWERDTFEGER, Vice President, GLORIA N. STREIG, Secretary, and RA'NIC STREIG SCHWERDTFEGER, treasurer, as well as others whose identities are not yet known who are in positions of control of FORTRESS FOUNDATION, INC., or G. T. FUNDS, INC., and who are employed by or otherwise affiliated with FORTRESS FOUNDATION, INC., or G. T. FUNDS, INC., directly or through other companies, **CEASE AND DESIST** from any further actions in the state of Arkansas in connection with the offer or sale of the securities described above and any other securities until such time as the securities are properly registered or shown to be exempt from registration pursuant to the Arkansas Securities Act and the persons offering them for sale are properly registered or shown to be exempt from registration pursuant to the Arkansas Securities Act.

WITNESS MY HAND AND SEAL this 18th day of March, 2005.



Michael B. Johnson
ARKANSAS SECURITIES COMMISSIONER