STATE OF OREGON
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
DIVISION OF FINANCIAL REGULATION

In the Matter of: JEFFREY A. TRAUTMAN, Licensee.	Case No. S-15-0087 ORDER TO CEASE AND DESIST; ORDER ASSESSING CIVIL PENALTIES; ORDER DENYING USE OF EXEMPTIONS; AND CONSENT TO ENTRY OF ORDER

WHEREAS, the Director of the Department of Consumer and Business Services for the State of Oregon (hereinafter the "***Director***"), acting by and through the Division of Financial Regulation, formerly the Division of Finance and Corporate Securities (hereinafter the "***Division***"), and the authority of the Oregon Securities Law, Oregon Revised Statutes Chapter 59, has conducted an investigation of Respondent Jeffrey A. Trautman ("***Trautman***");

WHEREAS Trautman wishes to resolve this matter with the Director; and

WHEREAS Trautman submits to the jurisdiction of the Director, but otherwise, Trautman neither admits nor denies the Findings of Fact and Conclusions of Law set forth in Sections I and II below;

NOW THEREFORE, as evidenced by the signature subscribed on this Order, Trautman hereby CONSENTS to entry of this Order upon the Director's Findings of Fact and Conclusions of Law.

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350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387

I. FINDINGS OF FACT

The Director FINDS that, at all times relevant to this Order:

1. Trautman was an attorney licensed to practice law in the State of Oregon (Oregon State Bar No. 041090).

2. Trautman was the registered agent for LJ Empire, LLC ("***LJE***"), Oregon Secretary of State Corporations Division Registry Number 462569-96. Trautman was also the corporate attorney for LJE.

a. First Sale of Securities

3. Beginning on or about June 2013, the Division began an investigation into certain capital raising activities of LJE, including raising funds for the private financing of real estate located in Oregon.

4. Between 2007 and 2011, LJE solicited and received more than $2.4 million in funds from at least 20 investors (hereinafter the "***Investors***"), all of whom were either Oregon residents and/or the investment transaction occurred in Oregon (hereinafter the "***First Sale***").

5. In exchange for the funds, the Investors received promissory notes that promised rates of return ranging from 4% to 18%, and had maturity dates ranging from one to five years from the date of issuance (the "***Promissory Notes***").

6. Some of the Promissory Notes were accompanied by trust deeds (the "***Trust Deeds***"). The Trust Deeds purported to pledge an interest in real property to the Investors, such that repayment of a particular Promissory Note was secured by an interest in certain property. The Trust Deeds represented that the pledged property could be foreclosed and/or sold in the event of LJE's default on the underlying Promissory Note, with the proceeds going to repay all or part of the investment.

7. Trautman drafted many of the documents for the transactions, including but not limited to the Promissory Notes and Trust Deeds (the "***Sales Documents***"). In some instances, Trautman facilitated the delivery of the Sales Documents to the Investors.

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8. The Trust Deeds drafted by Trautman designated Trautman as the trustee, and the individual to whom the Trust Deed should be returned to after recording in the real property records of the County in which the subject property was located.

9. The Investors relied on the representations set forth in the Sales Documents that provided that their investments would be secured by real property, and such representations were material to the Investors' decisions to invest.

10. Despite the assurances of security represented in the Sales Documents, LJE did not disclose to one or more of the Investors that, in order to save money, the Trust Deeds were not recorded in the real property records unless specifically requested by an investor.

11. A majority of the Trust Deeds were either never recorded, or were recorded years after the sale transaction occurred. As a result, the security interests related to such Trust Deeds were not perfected, or were perfected years after the delivery of investment funds, in some instances after intervening liens had already been recorded on the subject property.

12. The investment funds delivered from the Investors to LJE were deposited in an LJE bank account at Chase Bank, and comingled with funds from other investors. Trautman was an authorized signor on the account.

13. Some of the Investor's funds were used to pay for expenses that were unrelated to the specific Oregon-based real estate projects in which the respective funds were to be used, including expenses for unrelated properties, general business expenses, personal expenses of one or more LJE members, and to make payments to other investors.

14. Trautman could have discovered through a reasonable investigation that LJE did not have the ability to pay the returns promised to the Investors in the Sales Documents.

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15. LJE failed to disclose to the Investors LJE's inability to pay the returns promised, and did not inform new LJE Investors that some of their investment funds would be used to repay prior LJE Investors.

b. Second Sale of Securities

16. Beginning in or before early 2012, Trautman knew that LJE was failing to pay Investors the returns promised in the Sale Documents underlying the First Sales.

17. In February 2012, LJE sent a letter to its Investors (the "***LJE Letter***"), informing them of LJE's inability to pay the rates of return promised in the Sale Documents, unilaterally reducing the rate of return for all Investors to 3%, and unilaterally extending the maturity date of any Promissory Notes that had either become due or were about to come due. Trautman signed the LJE Letter as a member of LJE.

18. The LJE Letter misrepresented the financial condition of LJE. For instance, the LJE Letter represented that reducing the returns paid to Investors to 3% "allows LJ Empire to stay solvent and make payments on property taxes, insurance and other essential expenses." In truth and in fact, as of the date of the LJE Letter, LJE was insolvent, as it was unable to pay its debts as they were coming due and its debts exceeded its assets, and it had not paid property taxes on a number of its properties since 2009 or 2010, thereby resulting in delinquent property tax accounts.

19. The LJE Letter further included a number of representations concerning LJE's inability to refinance its debts, and LJE's supposed recent inability to service its debts to the Investors due to a reduction in the rental income generated by the properties owned by LJE. Upon information and belief, Trautman did not conduct a reasonable investigation of the accuracy of these representations.

20. Trautman drafted many of the promissory note modifications (the "***Modifications***") that reduced the interest rate and extended the maturity date of any

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Promissory Notes that had come due on or around the date of issuance of the LJE Letter, and signed many of the Modifications on behalf of LJE (the "***Second Sale***").

21. Trautman could have discovered, through a reasonable investigation, the financial difficulties that LJE was experiencing for a couple of years before the LJE Letter was sent to the Investors. Other than the LJE Letter, Trautman did not disclose LJE's financial difficulties to the Investors.

c. Unregistered Securities and Unlicensed Issuers

22. The Division has no record of either the securities sold by LJE as part of the First Sale, or the Modifications subsequently sold and issued by LJE as part of the Second Sale, having ever been registered. Additionally, the Division has no record of LJE, or any agents or employees of LJE, having ever been licensed by any federal or state government agency to sell securities.

II. CONCLUSIONS OF LAW

The Director **CONCLUDES** that:

23. Pursuant to ORS 59.235, the Director has jurisdiction over Trautman for the violations described below. These violations occurred in the State of Oregon.

24. With respect to the First Sale described herein:

A. The investments sold by LJE to the Investors as part of the First Sale are "securities" as either "investment contracts," "notes," or "evidence of indebtedness," as defined by ORS 59.015(19)(a);

B. LJE offered and sold unregistered securities in Oregon in violation of ORS 59.055, and LJE sold securities in Oregon without being properly licensed in violation of ORS 59.165;

C. In connection with the purchase or sale of securities, LJE made untrue statements of material fact, and omitted to state material facts necessary in order to

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make the statements made, in light of the circumstances under which they were made, not misleading;

D. Trautman participated and materially aided LJE in the First Sale of securities, and thus, pursuant to ORS 59.115(3), is liable for LJE's above-described violations of ORS 59.055 and ORS 59.165, and for LJE having made, in connection with the purchase or sale of securities, untrue statements of material fact, and for omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

25. With respect to the Second Sale described herein:

A. The issuance of the Modifications relating to the First Sale was a new sale of securities with respect to ORS 59.005, *et seq*.;

B. The investments sold by LJE to the Investors as part of the Second Sale are "securities" as either "investment contracts," "notes," or "evidence of indebtedness," as defined by ORS 59.015(19)(a);

C. LJE offered and sold unregistered securities in Oregon in violation of ORS 59.055, and LJE sold securities in Oregon without being properly licensed in violation of ORS 59.165; and

D. Trautman participated and materially aided LJE in the Second Sale of securities, and thus, pursuant to ORS 59.115(3), is liable for LJE's above-described violations of ORS 59.055 and ORS 59.165, and for LJE having made, in connection with the purchase or sale of securities, untrue statements of material fact, and for omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

III. ORDER

26. The Director, pursuant to ORS 59.245(4), hereby ORDERS Trautman to CEASE AND DESIST from offering or selling securities, or participating or materially

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aiding in the sale of securities, to persons in or from the State of Oregon in violation of the Oregon Securities Law, its accompanying administrative rules, or violating any term of this Order.

27. The Director STRICTLY PROHIBITS Trautman, and any affiliated and/or successor person, business or corporation, or anyone acting directly or indirectly on his behalf or for his benefit, from raising capital, formally or informally, from other individuals or business entities, in whatever form, for use or investment on their behalf, without the Director's prior express written consent.

28. The Director, pursuant to ORS 59.045, hereby DENIES Trautman, and any affiliated and/or successor person, business or corporation affiliated with Trautman, or anyone acting directly or indirectly on his behalf or for his benefit, the use of exemptions to the securities registration requirements allowed by ORS 59.025 and ORS 59.035, without the Director's prior express written consent.

29. The Director, pursuant to ORS 59.995, hereby ASSESSES a $250,000 CIVIL PENALTY against Trautman for violations of ORS 59.055 and ORS 59.165, payable as follows:

A. Trautman shall pay $12,500 to the Department of Consumer and Business Services upon Trautman's execution of this Consent Order.

B. Trautman shall pay $12,500 to the Department of Consumer and Business Services on or before February 15, 2017.

C. The Director will SUSPEND the collection of $225,000 of the civil penalty, provided that Trautman shall pay an equivalent amount to the Investors' toward the debt within three (3) years from the effective date of this Order, and shall provide written proof of such payments to the Division within such timeframe. If at the conclusion of the three (3) year timeframe the $225,000 in payments to the Investors have been made, and Trautman has complied with all of the terms of this Order, the

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Director will permanently waive the $225,000 suspended civil penalty.

D. The Director reserves the right to immediately impose the suspended portion of the CIVIL PENALTY upon a determination that Trautman has violated any term of this Order.

30. Trautman stipulates and agrees that, within thirty (30) days from the effective date of this Order, he will self-report the above-described transactions, including providing a copy of this Order and disclosure of all relevant facts and circumstances, to the Oregon State Bar.

31. Should any provision of this Order require interpretation or enforcement, Trautman stipulates and agrees to the jurisdiction of the Marion County Circuit Court, Salem, Oregon.

32. The entry of this Order in no way limits further remedies which may be available to the Director under Oregon law.

SO ORDERED this 5th day of January, 2017, at Salem, Oregon.

PATRICK M. ALLEN, Director
Department of Consumer and Business Services

/s/ David Tatman
David A. Tatman, Chief of Enforcement
Division of Financial Regulation

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Approved as to form:

/s/ Robert L. Winkler
Robert L. Winkler, OSB No. 873701
Attorney for Trautman

12/29/2016
Date

CONSENT TO ENTRY OF ORDER

I, Jeffrey A. Trautman, state that I am a resident of the State of Oregon, that I have read the foregoing Order and that I know and fully understand the contents hereof; that I have been advised of my right to a hearing in this matter; that I have been represented by counsel in this matter; that I desire to resolve and settle this matter with the Director without admitting or denying the findings or conclusions set forth herein; that I voluntarily consent to the entry of this Order without any force or duress, expressly waiving any right to a hearing in this matter; that I understand that the Director reserves the right to take further actions against me to enforce this Order or to take appropriate action upon discovery of other violations of the Oregon Securities Law by me; and that I will fully comply with the terms and conditions stated herein.

I understand that this Order is a public document.

By: /s/ Jeffery A. Trauman
Jeffrey A. Trautman

State of OREGON
County of Marion

Signed and sworn to (or affirmed) before me on Dec. 29 , 2016,
by Jeffery A. Trautman.

/s/ Mandy C. Stoffer_____.
Notary Public - State of Oregon

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