

FEB 13 2008

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**IN THE DISTRICT COURT OF THE FOURTH JUDICIAL DISTRICT
OF THE STATE OF IDAHO, IN AND FOR ADA COUNTY**

STATE OF IDAHO, DEPARTMENT OF
FINANCE, SECURITIES BUREAU,

Plaintiff,

vs.

CAPITAL VENTURES LLC, TODD A.
WATTS, individually and dba Capital
Ventures LLC, and VOHN J. WATTS,
individually and dba Capital Ventures
LLC,

Defendants.

OV DC 0802973

Case No. _____

VERIFIED COMPLAINT

Fee category: Exempt

COMES NOW the State of Idaho, Department of Finance, Gavin M. Gee, Director, by and through its counsel, Alan Conilogue, Deputy Attorney General, and upon information and belief, complains and alleges as follows:

1. This action is brought pursuant to the Idaho Uniform Securities Act (2004), Idaho Code §

30-14-101 *et seq.* (the Act), and in particular Idaho Code § 30-14-603, wherein the Department is authorized to bring actions seeking injunctive and other relief against persons who have either violated or are about to violate provisions of the Act or any rule promulgated thereunder.

2. Defendant Capital Ventures LLC (Capital) is a limited liability company formed under the laws of the State of Idaho, with a primary place of business in Meridian, Ada County, Idaho. Todd A. Watts is an individual residing in Nampa, Canyon County, Idaho. Vohn J. Watts is an individual residing in Star, Canyon County, Idaho. The acts and practices herein comprising violations of law by the above-named defendants occurred in Ada County and elsewhere in the state of Idaho.

CASE SUMMARY

3. Plaintiff alleges that Defendants have issued securities in the form of joint venture agreements and investment contracts to forty nine (49) investors, in an aggregate amount of six million two hundred eighty seven thousand dollars (\$6,287,000). Between April 2006 and May 2007, Defendants solicited and accepted investor money and sent it to a Utah company named Paragon Investments, Inc., which in turn sent it to a New York company named Overseas Investors, LLC. Paragon was to pay Defendants 4% monthly, or 48% annual, interest on the money. Defendants in turn were to pay the investors 3% monthly interest (36% annually), keeping the 1% difference for themselves.

4. Defendants defrauded investors by misrepresenting the investment and by omitting material information from the investor solicitations. Defendants failed to register these securities, and Defendants failed to register as securities broker-dealers or agents, as required by law. Although Paragon Investments made its payments for a time to Defendants, and Defendants also made payments for a time to their investors, the scheme eventually collapsed. Paragon

Investments is not paying Defendants, and Defendants are not paying their investors. Despite demand, the invested funds have not been returned.

DEFENDANTS

5. Defendant Capital Ventures LLC is a limited liability company in good standing in the State of Idaho, doing business at 2484 N Stokesberry Place, Meridian, Idaho. Defendant Todd Watts and Defendant Vohn Watts formed Capital Ventures on April 11, 2006 and are its sole members.

6. Defendant Todd Watts has worked as a drywaller and painter and was self-employed as Watto Home Improvements and as Watts Drywall and Painting. From August 1998 through October 2002, Watts was a broker-dealer agent with Edward D. Jones. In October 2002, Watts went to work as a mortgage loan originator for PacWest Funding. In September of 2004, Watts formed Watts Financial Group, Inc, which along with Urwin Financial Group, Inc, formed Edmond Urwin Mortgage, LLC on September 8, 2004. Watts worked for Edmond Urwin Mortgage for about three years. On August 8, 2007, Watts Financial Group, Inc. was deleted as a member of Edmond Urwin Mortgage, LLC. Watts currently resides on Saddle Bag Way in Nampa, Idaho.

7. Defendant Vohn Watts is Todd Watts' younger brother. Until recently Vohn Watts worked in a mortgage lending related business. Vohn Watts currently resides on Fernan Lake Way, in Star, Idaho.

FACTS

8. Capital Ventures was formed on April 11, 2006, and two days later it signed a "Financial Joint Venture Agreement" with Paragon Investments, LLC, (Paragon) a Utah corporation. The agreement was signed by Todd Watts as Manager of Capital, and by Steven Elmont, President of

Paragon. The agreement provided that Defendants transfer \$150,000 to Paragon, and that Paragon would commence paying Defendants 4% monthly (48% annually) on the sum. The agreement allowed Defendants to “increase the amount of Funds in increments of no less than \$100,000.” In other words, Defendants could increase the amount invested with Paragon whenever it wanted, as long as the increase was at least \$100,000.

9. Paragon, like Defendants, took investor funds and forwarded them along to another entity; Thomas Bannon, doing business in New York as Overseas Investors, LLC.

10. To raise money to place with Paragon, Defendants soon began offering and issuing securities to individuals in the form of “Financial Joint Venture Agreement[s].” These agreements were almost identical to the one between Defendants and Paragon Investments, except that the interest rate was typically 3% monthly (36% annually). Thus, Defendants were able to solicit investor money, forward it to Paragon, and earn 1% monthly on it.

11. Paragon stopped paying interest in September, 2007. Defendants have requested return of all funds from Paragon, but Paragon has refused.

12. Defendants stopped paying their investors interest soon after Paragon stopped paying. Defendants were able to scrape together enough money to pay back a few investors, but have not returned funds to most of their investors. 44 investors are still owed an aggregate of five million six hundred ninety seven thousand dollars (\$5,697,000).

13. Defendants used new investor money to pay prior investors who wanted to liquidate their investments with Defendants.

14. In order to beguile investors into signing the agreements, Defendants made the misrepresentations set forth below. Defendants also omitted from their sales pitch important information necessary to make an informed investment decision.

15. The Financial Joint Venture Agreement between Defendants and Paragon, and the agreements between Defendants and individual investors, created a common enterprise whereby the investor would earn a return simply by providing the money. The investor was not expected to expend any effort to obtain the return, other than transferring the investment funds. The agreements thus constituted investment contracts.

16. Defendants, at all times material herein, were not registered with the State of Idaho or the National Association of Securities Dealers (NASD) (now known as the Financial Industry Regulatory Authority, or FINRA) as broker/dealers, or as broker/dealer agents.

17. The securities issued by Defendants were not registered with the State of Idaho or the NASD/FINRA.

Misrepresentations

18. To induce investors to invest, Defendants made certain representations. These representations were false.

a. Defendants represented to some investors that the investment was risk free or low risk, and the invested principal was safe. This was false because the investment was not risk free or low risk. Defendants told other investors that the investment was moderately or very risky. Further, Defendants have stopped paying the agreed interest and cannot return the invested funds because they cannot get investor money back from Paragon. An investment that does not pay the expected return and that loses the investors' money is not risk free.

b. Defendants represented that the investor could withdraw all or part of the invested funds upon 30 days written notice. This was false because investors have been unable to withdraw their funds, despite requests. Several investors have asked for return of their funds, but Defendants have not returned the money. Defendants have requested funds from Paragon, but

Paragon is not paying, either. Further, the representation was false due to the way the scheme was structured. Although Defendants promised to return investor money on 30 days notice, Defendants' Financial Joint Venture Agreement with Paragon prevented this. That agreement provided that Defendants could get their money out of the Paragon investment upon 30 day written notice, but stipulated "Each withdrawal shall be limited to a maximum of Two Hundred Fifty Thousand Dollars (\$250,000)." Defendants had the same term in the agreements with their investors. This was a crucial error by Defendants, and is a key misrepresentation. Defendants promised multiple investors that they could obtain funds in \$250,000 increments. If more than one investor requested return of \$250,000, Defendants could not obtain the full amounts requested because of the limit imposed by the Agreement with Paragon. For example, if four of Defendants' investors requested return of \$250,000 each on the same day, for a total request of \$1,000,000, Defendants could in turn request only \$250,000 from Paragon.

c. Defendants told investors that the investment was based on banking, bank arbitrage, and/or overnight funds trading between the United States and Europe. However, Defendants did not place investor funds in any bank or with anyone who participated in banking, bank arbitrage, or overnight funds trading. Defendants placed the funds with Paragon, which in turn sent the funds to Overseas Investments in New York. Defendants do not know what Overseas did with the money.

Material Omissions

19. Defendants did not tell potential investors certain information that would be necessary to make other statements not misleading, and that an investor would likely consider as material to a decision to invest with Defendants. Defendants failed to disclose the following material information:

- a. Information about Defendants' financial condition or operating history;
- b. That investor money would eventually be forwarded to an entity or entities about whom Defendants knew nothing;
- c. Information about Paragon's, Overseas Investment's, and Thomas Bannon's financial condition or operating history;
- d. That Defendants had no ability to track and monitor investor funds to ensure that investor money was being used for appropriate and legitimate purposes;
- e. That new investor money may be used to repay existing investors who wanted to liquidate their investment with Defendants;
- f. That some investors received higher rates of return than other investors;
- g. The amount and type of compensation paid to Defendants;
- h. That Defendants were not registered as agents to sell the securities, as required by the Idaho Uniform Securities Act (2004); and
- i. That the joint venture agreements were securities issued by Defendants, but were not registered as required by the Idaho Uniform Securities Act (2004).

COUNT ONE
(Fraud - False and Misleading Statements)

20. The allegations of paragraphs 1 through 19 above are realleged and incorporated herein as if set forth verbatim.

21. Idaho Code § 30-14-501(2) provides that it is unlawful for any person, directly or indirectly, in connection with the offer, sale or purchase of a security, to make an untrue statement of material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

22. Defendants' misrepresentations to prospective investors as set forth in paragraphs 18 a

through c were made in connection with the offer, sale or purchase of securities. Defendants' misrepresentations were false and misleading, constituting violations of Idaho Code § 30-14-501(2) as to each misrepresentation to each investor.

23. Defendants' omissions of material facts and failures to disclose to prospective investors as set forth in paragraph 19 were made in connection with the offer, sale or purchase of securities. Defendants' omissions of material facts and failures to disclose, as specifically set forth in paragraphs 19 a through k above, constitute violations of Idaho Code § 30-14-501(2) as to each omission and failure to disclose to each investor.

COUNT TWO
(Fraudulent Conduct)

24. The allegations of paragraphs 1 through 19 above are realleged and incorporated herein as if set forth verbatim.

25. Idaho Code § 30-14-501(3) provides that it is unlawful for any person, directly or indirectly, in connection with the offer, sale or purchase of a security, to engage in an act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

26. Defendants' acts as set forth in paragraphs 1 through 19 were made in connection with the offer, sale or purchase of securities. Their conduct as described in paragraphs 1 through 19 constitutes engaging in transactions, acts, practices, or courses of business which operate or would operate as a fraud or deceit upon investors or prospective investors, in violation of Idaho Code § 30-14-501(3) as to each victim.

COUNT THREE
(Unregistered Securities)

27. The allegations of paragraphs 1 through 19 above are realleged and incorporated herein

as if set forth verbatim.

28. Defendants issued, sold or offered for sale in Idaho securities in the form of joint venture agreements and investment contracts. Such securities were not registered with the Department as required by Idaho Code § 30-14-301.

29. The Defendants' failure to register such securities with the Department constitutes a violation of Idaho Code § 30-14-301.

COUNT FOUR
(Failure to Register)

30. The allegations of paragraphs 1 through 19 above are realleged and incorporated herein as if set forth verbatim.

31. Defendants transacted business in Idaho as broker-dealers. No Defendant was registered as a broker-dealer with the Department as required by Idaho Code § 30-14-401(a).

32. Defendants' failure to register as broker-dealers with the Department constitutes a violation of Idaho Code § 30-14-401(a).

33. Defendants transacted business in Idaho as agents of broker-dealers or of issuers. No Defendant was registered as an agent with the Department as required by Idaho Code § 30-14-402(a).

34. Defendants' failure to register as agents with the Department constitutes a violation of Idaho Code § 30-14-402(a).

PRAYER FOR RELIEF

WHEREFORE, the Department prays for judgment in favor of the Department and against Defendants as follows:

1. That Defendants be adjudged to have violated the Idaho Uniform Securities Act (2004), Idaho Code § 30-14-101 *et seq.*, rules promulgated thereunder, and other applicable

federal laws and regulations as proven at trial, as to Counts One through Four alleged above, as well as any additional counts proven at trial.

2. That Defendants be permanently enjoined from engaging in any act or practice violating any provision of the Idaho Uniform Securities Act (2004) or any rule promulgated thereunder, pursuant to Idaho Code § 30-14-603(b)(1), and in particular, that they be permanently enjoined from:

a. Selling or offering for sale nonexempt securities in any form in the state of Idaho without first registering them with the Department in accordance with Title 30, Chapter 14, Idaho Code;

b. Selling or offering for sale nonexempt securities in any form in the state of Idaho without first becoming registered as a broker-dealer and/or broker-dealer agent with the Department in accordance with Title 30, Chapter 14, Idaho Code;

c. In connection with the offer, sale or purchase of any security, directly or indirectly:

i. Employing any device, scheme, or artifice to defraud;

ii. Making any untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading;

iii. Engaging in any act, practice or course of business that operates or would operate as a fraud or deceit upon another person.

3. That Defendants be ordered to pay a civil penalty of up to \$10,000 for each violation of the Act as the Court deems appropriate, pursuant to Idaho Code § 30-14-603(b)(2)(C), for total penalties of at least \$40,000, and that the Court award a money judgment

in favor of Plaintiff in such amount.

4. That Defendants be ordered to disgorge all money rightfully belonging to the investors, in amounts to be proven at trial, pursuant to Idaho Code § 30-14-603(b)(2)(C).

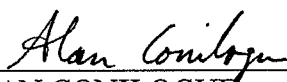
5. That Defendants be ordered to make restitution to investors, pursuant to Idaho Code § 30-14-603(b)(2)(C) in the amount of five million six hundred ninety seven thousand dollars (\$5,697,000). That Defendants pay the restitution amount to the plaintiff, to be delivered to the investors, and that the Court award a money judgment in favor of Plaintiff in such amount.

6. That Plaintiff be awarded attorney fees and costs incurred in the preparation and prosecution of this action, pursuant to Idaho Code § 12-121, and that the Court award a money judgment in favor of Plaintiff in such amount. Should judgment be taken by default herein, Plaintiff asserts that \$5,000 is a reasonable sum for the same.

7. For such further relief as this Court may deem just and equitable under the circumstances.

DATED this 11 day of February, 2008.

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL



ALAN CONILOGUE
Deputy Attorney General

