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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.

JEFFREY GRANT JEROME,

Defendant.

Case No. CV01-17-04212

VERIFIED COMPLAINT

Fee category: Exempt

COMES NOW the State of Idaho, Department of Finance, Securities Bureau, Mary E. Hughes, Acting Director, Plaintiff herein (Department), by and through its counsel, Alan Conilogue, Deputy Attorney General, and upon information and belief, complains and alleges as follows:

This action is brought pursuant to Idaho's 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.

The acts and practices described herein comprising violations of law by the above-named Defendant occurred in Ada County, Idaho and elsewhere. Defendant Jeffrey Grant Jerome (Jerome) resided or was located in Boise, Idaho when the alleged acts constituting violations of the Act were committed.

CASE SUMMARY

The statements in this Case Summary are not part of the allegations supporting the Department's causes of action, but are intended simply to provide a framework for understanding this regulatory enforcement lawsuit.

Beginning in January 2012, and possibly earlier, Jerome offered securities related to participation in a concert venue, the Powerhouse Building in Boise, Idaho, also known as just the Powerhouse. Jerome did not have one standard investment construct but instead tailored his pitch to each potential investor. Jerome promised part ownership of the building or equity in various businesses related to putting on concerts - such as booking events or food and drink catering - or both. Jerome also ostensibly offered a few of his investors a role in some of the businesses. All of these variations constituted investment contract securities.

Jerome raised approximately \$238,500 from at least 17 Idaho investors pursuant to this scheme.

Jerome defrauded investors by not using their money for the stated purposes. He misrepresented the investments, he omitted material information from the investor solicitations, and he ran what were essentially sham businesses. Jerome also spent investor money on

personal expenses, including for his own home mortgage payment, and did not invest it as he promised. Jerome used some money to repay prior investors.

The facts summarized above and set forth below describe an enterprise and scheme to defraud, which is referred to herein as “the Powerhouse scheme.”

DEFENDANT

1. Defendant Jeffrey Grant Jerome has been a resident of Idaho at all times material herein and currently lives in Boise, Ada County, Idaho.

2. Jerome has done business under many business names, most, though not all, related to the Powerhouse¹ scheme in some fashion. The Department is aware of the following:

a. Greystone Safari, LLC, formed on January 8, 2004, to develop intellectual properties. It was administratively dissolved on October 19, 2009.

b. Silverstone Capital Group, LLC, formed on October 19, 2007, to raise capital from investors for small businesses.

c. Sideways 8 Ventures, LLC, formed February 9, 2012, and administratively dissolved on May 5, 2010.

d. Powerhouse Ventures, LLC, formed June 29, 2012, and administratively dissolved on September 23, 2014, was formed by DW, an investor and putative partner of Jerome.

e. Studio J, LLC, formed on October 22, 2010, relating to being an event center in a Boise art gallery.

f. Triple Asset Group, LLC, formed on December 7, 2011, to be a holding company

¹ The Powerhouse building exists separately from Jerome, and others have used it as a concert venue, as well as other uses. References to the Powerhouse in this complaint involve only Jerome’s connection to it, and do not suggest or imply that the building itself or any other person’s use of or connection to the Powerhouse building are related to Jerome or the acts described herein.

for another venture that never came to fruition. It was administratively dissolved on March 7, 2016.

g. Powerhouse Holdings, LLC, formed on January 27, 2012, to hold the lease of the Powerhouse building. It was administratively dissolved on June 29, 2012.

h. 208 Property Management, LLC, formed on February 13, 2012, to purchase real estate.

i. Powerhouse Group, LLC, formed on June 29, 2012, and administratively dissolved on September 22, 2015.

j. Powerhouse Holding Company, LLC, formed on June 29, 2012.

k. Powerhouse Management Company, LLC, formed on July 5, 2012, to handle the operations management of the concert venue business.

l. Powerhouse Beverage Company, LLC, formed on July 13, 2012, to run the bar at the Powerhouse and hold the liquor license and conduct other bar related activities

m. JR Funding Group, LLC, formed on September 26, 2012.

n. Powerhouse Fight Club, LLC, formed on March 15, 2013, to promote Mixed Martial Arts events at the Powerhouse building.

o. PHD Properties, LLC, formed on July 30, 2014.

p. PHD Management, LLC, formed on August 11, 2014.

q. PHD Catering, LLC, formed on August 28, 2014, to conduct catering activities.

r. Powerhouse Media Group, LLC, was never registered, but Jerome conducted some business in this name.

s. House of Power was never registered, but Jerome conducted some business in this name.

FACTS

3. Beginning in January 2012, and possibly earlier, Jerome offered securities related to participation in a concert venue, the Powerhouse building in Boise, Idaho, also known as the Powerhouse. Jerome did not have one standard investment construct but instead tailored his pitch to each potential investor, although he did typically use a more or less standard investment document called an Investor or Investment Agreement². Jerome promised equity in ownership of the building, or he promised equity in various businesses related to putting on concerts - such as booking events or food and drink catering - or both. Because Jerome never issued shares or certificates of ownership, and because he promised ownership to any investor he thought would be enticed by equity, actual ownership was illusory.

4. Jerome found his victims in various ways. Several were Jerome's acquaintances or acquaintances of a Jerome acquaintance. Investor BT answered a Craigslist ad for employment, and Jerome required him to invest in the Powerhouse scheme to get the job. PC also applied for a job, and although Jerome did not require an investment from her, during her interview Jerome asked her to invest \$25,000. JL met Jerome through LinkedIn. DH worked as a performer at a Powerhouse event. MW responded to a Craigslist ad offering investments in property. OR met Jerome through Facebook and after they became friends, he asked OR to invest.

5. Jerome ostensibly offered some of his investors a role in one of the businesses.

6. Jerome touted the "Potential Real Estate income from the sale of building in 5 to 7 years," and "Being part of a Boise Historic Icon and the Community of Entertainment."

7. Jerome made his promises and representations to his investors verbally and in a

² The title of the agreement at the top of the page was Investor Agreement. The title at the bottom of the agreement, in the footer, was Investment Agreement. The body of the document simply refers to "this Agreement."

written tout sheet. He made these promises and representations usually a few days preceding the date of the investment.

8. Jerome used at least 39 different bank accounts at five different banks to facilitate his transactions.

9. In some instances Jerome appeared to use investor money for a legitimate business purpose, but typically the appearance of legitimacy was illusory. For example, Jerome used \$2,500 of investor JL's money as an earnest money payment on a \$165,000 liquor license purchase. Although Jerome used JL's money for the stated purpose, Jerome never had the means or ability to complete the purchase and forfeited the earnest money, thus wasting JL's money. Jerome either engaged in these unrealistic transactions as a gamble, perhaps thinking he could pull it off somehow, or he did them to give the illusion of a multi-faceted thriving business. Either way, he defrauded this class of investors by using their investment money in a way that could never have yielded a return, except to himself as a way to perpetuate his fraudulent enterprise.

10. Many of Jerome's investors became dissatisfied after Jerome failed to provide the expected returns, and they pressed him for a return of their investment. When the investor was finally able to pin Jerome down on the issue, Jerome typically signed a Capital Contribution Return Agreement or a Share Deposit Return Agreement promising to repay the money and establishing some payment plan. Jerome reneged on most of these agreements, but they did buy Jerome time during which he could continue to lure in and defraud other investors. Four of the most persistent investors were fully repaid.

11. On **January 27, 2012**, Jerome received \$80,000 from WR as an investment in the Powerhouse scheme. The investment was memorialized in an Operating Agreement dated July

6, 2012.

12. Jerome told WR his money would be used primarily to help buy the Powerhouse building, with the remainder going toward operations.

13. Jerome did not use WR's money as he promised. Jerome used it to pay some personal debt, took draws against it as his salary, "loaned" some of it to himself and others, and spent it on miscellaneous expenses.

14. Jerome represented to WR that he had the means and ability to accomplish the building purchase. Neither in January 2012 nor in July 2012, nor at any time between, did Jerome have the means or ability to buy the Powerhouse building.

15. On **July 2, 2012**, Jerome received \$10,000 from MJ as an investment in the Powerhouse scheme. The investment was memorialized in an Investor Agreement dated the same day.

16. Jerome used MJ's investment to make a rent payment to the Powerhouse Building owner and to make a loan to another Jerome-related company.

17. On **May 24, 2013**, Jerome received \$1,000 from LF as an investment in the Powerhouse scheme. The investment was memorialized in an Investor Agreement dated the same day.

18. On or about August 27, 2013, Jerome received an additional \$11,500 from LF as an investment in the Powerhouse scheme. The investment was memorialized in an Investor Agreement dated the same day.

19. Jerome told LF his money "was going toward an SBA loan to buy the [Powerhouse] building".

20. Jerome did not use LF's investment in any way related to buying the Powerhouse

building. After moving the money around through several of his 39 bank accounts, Jerome bundled most of LF's money with other money and then sent it to the owners of the Powerhouse building for back rent Jerome owed.

21. On **July 22, 2013**, Jerome received \$25,000 from MW as an investment in the Powerhouse scheme. The investment was memorialized in an Investor Agreement dated July 16, 2013.

22. Jerome told MW his money was going to be used as earnest money in connection with purchasing the Powerhouse building.

23. Jerome did not use MW's investment as earnest money. Jerome sent \$23,000 of it to the owners of the Powerhouse building for back rent Jerome owed on the building.

24. On **August 23, 2013**, Jerome received \$5,000 from DSH as an investment in the Powerhouse scheme. The investment was memorialized in an Investor or Investment Agreement dated the same day.

25. Jerome used DSH's investment to make a rent payment to the Powerhouse building owner.

26. On **May 1, 2014**, Jerome received \$5,000 from JL as an investment in the Powerhouse scheme. The investment was memorialized in an Operating Agreement dated the same day.

27. Jerome bundled JL's money with money from some other source and paid rent on the Powerhouse building.

28. JL gave Jerome an additional \$2,500 on November 3, 2014, which Jerome used either as earnest money toward the purchase of a liquor license or as part of a payment for the purchase. Jerome never completed the purchase and JL's investment was essentially squandered

and lost.

29. On **December 30, 2014**, Jerome received \$7,500 from GG as an investment in the Powerhouse scheme. The investment was memorialized in an Investor or Investment Agreement dated the same day. GG invested an additional \$2,500 on January 9, 2015, another \$2,500 on July 26, 2015, and a final \$2,500 on August 24, 2015.

30. Jerome used \$3,300 of GG's money to repay prior investor WR.

31. GG was promised part ownership of "the company(ies)" and was led to expect 10% of the profits from the sale of alcohol and food. GG never received the profit sharing. Jerome also persuaded GG to work at the Powerhouse in support of events, doing cleaning and setting up, for \$10 an hour. GG did supply that work but was not paid as agreed.

32. On **December 18, 2015**, Jerome received \$4,000 from OR as an investment in the Powerhouse scheme. The investment was memorialized in an Investor or Investment Agreement dated the same day.

33. On **April 1, 2016**, Jerome received \$2,500 from STC as an investment in the Powerhouse scheme. The investment was memorialized in an Investor or Investment Agreement dated the same day. STC gave Jerome an additional \$5,000 on April 11, 2016.

34. Jerome told STC his money would be placed into a bank account where it would sit untouched, and said that STC's money was going to be used to secure a line of credit. Jerome promised a return of the money after 30 days.

35. Jerome did not leave STC's money untouched nor did he return it after 30 days. Jerome withdrew some of it as cash and spent the rest on miscellaneous expenses.

36. On **March 30, 2016**, Jerome received \$500 from BD as an investment in the Powerhouse scheme. The investment was memorialized in an Investor or Investment Agreement

dated the same day.

37. Jerome returned a total of \$25,824 to the investors identified above. Total investor out-of-pocket losses amount to \$141,176.

38. Jerome did not tell any of his investors that the investment contracts were unregistered securities.

39. Jerome did not tell any of his investors that he was not registered to offer or sell securities in Idaho.

Misrepresentations

40. To induce his investors to invest, Jerome made material false representations, as follows. Without these misrepresentations, the investors would not have invested.

a. Jerome represented to his investors that he would invest their money in some facet of the Powerhouse scheme described above. These representations were false because Jerome mostly spent the money on personal desires and expenses. Although in some cases Jerome spent the money on what would normally be a legitimate business expense – for example, trash bags or a power bill – he was not running a legitimate business.

b. Jerome pretended to have a successful concert promotion business that included the purchase and eventual sale for profit of the Powerhouse building. Instead, Jerome used this chimera to lure investments, which he used to perpetuate the Powerhouse scheme, as a source of “income” for himself.

c. Jerome told some investors that he had purchased, or was buying, the Powerhouse building. These representations were false because he did not have the ability to buy the Powerhouse building.

d. Jerome told some investors they would have a role in operating or

managing “the business,” although he did not specify which of his many LLCs the investor would be involved with. These representations were false because he gave the investors no real role. He was able to get some free labor from some of them under the pretense that they were fulfilling their supposed role, but Jerome gave none of the investor/business partners any control over anything.

e. Jerome told some investors that he would return their investments, and in some cases signed new agreements to do so, but Jerome did not return the investments.

Material Omissions

41. Jerome did not tell his investors certain information that would be necessary to make other statements not misleading, and that a reasonable investor would likely consider as material to a decision to invest with Jerome. Jerome made the material omissions verbally and in writing. Had investors known this omitted information, they would not have invested.

42. Jerome failed to disclose the following material information:

- a. That he would not place investor money in a legitimate investment.
- b. That he would use investor money for his personal expenses or benefit.
- c. That he would use investor money to pay back earlier investors.
- d. That his securities were not registered as required by Idaho law.
- e. That he was not licensed or registered to sell securities in Idaho.
- f. That he was renting, not purchasing, the Powerhouse building.

COUNT ONE **(Device, Scheme or Artifice to Defraud)**

43. The allegations of paragraphs 1 through 42.f. above are realleged and incorporated herein as if set forth verbatim.

44. Idaho Code § 30-14-501(1) provides that it is unlawful for any person, directly or

indirectly, in connection with the offer, sale or purchase of a security, to employ a device, scheme, or artifice to defraud.

45. Jerome's acts as set forth in paragraphs 1 through 42.f. above were made in connection with the offer, sale or purchase of securities. His conduct described herein constituted a device, scheme or artifice to defraud investors or prospective investors, in violation of Idaho Code § 30-14-501(1) as to each investor.

46. Jerome's sales pitch about the purchase of the Powerhouse building and his positive statements about his fake businesses were designed to lure investors into the fraud. His pitch was intended to, and did, beguile investors into giving money to him that he used to perpetuate the fraud and that he converted for his personal use. This ongoing pattern of deception and conversion of investor funds constituted a scheme or artifice to defraud.

COUNT TWO
(Fraud - False and Misleading Statements)

47. The allegations of paragraphs 1 through 42.f. above are realleged and incorporated herein as if set forth verbatim.

48. 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 light of the circumstances under which they were made, not misleading.

49. Jerome's misrepresentations to prospective investors as set forth in paragraph 40 and subparagraphs 40a. through e. above were made in connection with the offer, sale or purchase of securities. Jerome's misrepresentations were material and were false and misleading, constituting violations of Idaho Code § 30-14-501(2) as to each misrepresentation.

50. Jerome's omissions of material facts and failures to disclose material information

to prospective investors, as set forth above, were made in connection with the offer, sale or purchase of securities. Jerome's omissions of material facts and failures to disclose material information, as specifically set forth in paragraph 41 and subparagraphs 42a. through f. above, constitute violations of Idaho Code § 30-14-501(2) as to each omission and failure to disclose to each investor.

COUNT THREE
(Fraudulent Course of Business)

51. The allegations of paragraphs 1 through 42.f. above are realleged and incorporated herein as if set forth verbatim.

52. 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.

53. Defendant's acts as set forth in paragraphs 1 through 42.f. above were made in connection with the offer, sale or purchase of securities. His conduct described herein 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 investor.

54. Jerome's sales pitch about the purchase of the Powerhouse building and his positive statements about his fake businesses were designed to lure investors into the fraud. His pitch was intended to, and did, beguile investors into giving him money that he used to perpetuate the fraud and that he converted for his personal use. This ongoing pattern of deception and conversion of investor funds constituted acts, practices, and course of business that operated as a fraud on his investors.

COUNT FOUR
(Unregistered Securities)

55. The allegations of paragraphs 1 through 42.f. above are realleged and incorporated herein as if set forth verbatim.

56. Jerome issued, sold or offered for sale in Idaho securities in the form of promissory notes and investment contracts. Such securities were not registered with the Department as required by Idaho Code § 30-14-301.

57. Jerome's failure to register such securities with the Department constitutes a violation of Idaho Code § 30-14-301.

COUNT FIVE
(Failure to Register)

58. The allegations of paragraphs 1 through 42.f. above are realleged and incorporated herein as if set forth verbatim.

59. Jerome transacted business in Idaho as a broker-dealer, or as an agent of a broker-dealer or of an issuer. Jerome never registered as a broker-dealer with the Department as required by Idaho Code § 30-14-401(a). Jerome also never registered as an agent with the Department as required by Idaho Code § 30-14-402(a).

60. Jerome's failure to register himself as a broker-dealer with the Department was a violation of Idaho Code § 30-14-401(a).

61. Jerome's failure to register as an agent with the Department was a violation of Idaho Code § 30-14-402(a).

COUNT SIX
(Unlawful Conversion)

62. The allegations of paragraphs 1 through 42.f. above are realleged and incorporated herein as if set forth verbatim.

63. Idaho Code § 30-14-501(4) provides that it is unlawful for any person, directly or indirectly, in connection with the offer, sale or purchase of a security, to divert investor money to the personal use of the issuer, offeror or seller, or to pay prior investors without specifically disclosing that use before receiving investor money.

64. Jerome diverted investor money to his personal use, such as paying his personal mortgage payment, without disclosing that to his investors. This was a violation of Idaho Code § 30-14-501(4).

65. Jerome used investor money to pay prior investors without disclosing this to his investors. This was a violation of Idaho Code § 30-14-501(4).

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays that the Court enter Judgment against Defendant as follows:

1. That Jerome be adjudged to have violated Idaho's 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 Six alleged above, as well as any additional counts proven at trial.

2. That Jerome be permanently enjoined from engaging in any act or practice that violates any provision of the Act, pursuant to Idaho Code § 30-14-603(b)(1), and in particular, that he be permanently enjoined from selling or offering for sale securities in any form in the state of Idaho.

3. That Jerome be enjoined for the period of ten years from working in any financial services industry or business in the State of Idaho.

4. That Jerome 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 \$60,000, and that the Court award a money judgment in favor of Plaintiff in such amount.


5. That Jerome be ordered to make restitution to investors, pursuant to Idaho Code § 30-14-603(b)(2)(C), in the amount of \$141,176, or such other amount as proven at trial. That Jerome pay the restitution amount to 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 6th day of March, 2017.

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL



ALAN CONILOGUE
Deputy Attorney General

VERIFICATION

STATE OF IDAHO)
)ss.
County of Ada)

KRISTEN BUTLER, Financial Examiner/Investigator 2 for the Securities Bureau of the Department of Finance, State of Idaho, being first duly sworn, deposes and says:

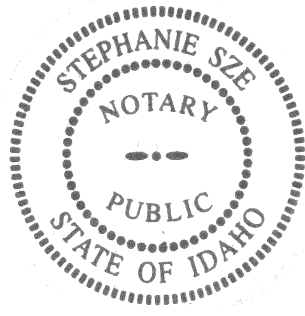
I have read the foregoing Verified Complaint, and know the contents thereof; and affirm that the same are true to the best of my knowledge and belief.

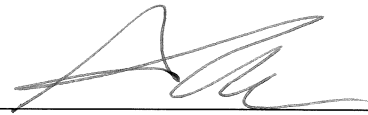
DATED this 6 day of March, 2017.



KRISTEN BUTLER

SUBSCRIBED AND SWORN to before me this 6th day of March, 2017.





Notary Public for Idaho
Residing at: Boise, ID
My Commission Expires: 11/30/2018