

1 ARIZONA CORPORATION COMMISSION
Wendy Coy, #013195
2 1300 West Washington, 3rd Floor
Phoenix, Arizona 85007
3 Attorney for Plaintiff
Telephone: (602) 542-0633
4 Fax: (602) 594-7418

COPY

APR 01 2005



MICHAEL K. JEANES, CLERK
J. CALHOON
DEPUTY CLERK

6 STATE OF ARIZONA

7 MARICOPA COUNTY SUPERIOR COURT

8 ARIZONA CORPORATION COMMISSION)

9 Plaintiff)

10 v.)

11 MATHON MANAGEMENT COMPANY,)
L.L.C., fka an Arizona limited liability company)
12 now dba a Delaware limited liability company,)
13 SLADE WILLIAMS AND ASSOCIATES,)
L.L.C., an Arizona limited liability company,)
14 MATHON FUND I, L.L.C., an Arizona limited)
liability company, MATHON FUND, L.L.C., fka)
15 an Arizona limited liability company now dba a)
Delaware limited liability company, INTEGRITY)
16 101, L.L.C., an Arizona limited liability company,)
17 INTEGRITY 201, L.L.C., an Arizona limited)
liability company, INTEGRITY 301, L.L.C., an)
18 Arizona limited liability company, INTEGRITY)
401, L.L.C., an Arizona limited liability company,)
19 INTEGRITY 501, L.L.C., an Arizona limited)
liability company, INTEGRITY 601, L.L.C., an)
20 Arizona limited liability company, INTEGRITY)
701, L.L.C., an Arizona limited liability company,)
21 INTEGRITY 801, L.L.C., an Arizona limited)
liability company, INTEGRITY 901, L.L.C., an)
22 Arizona limited liability company, ROUND)
23 VALLEY CAPITAL, L.L.C., an Arizona limited)
liability company, W.S.F. - WORLD SPORTS)
24 FANS L.L.C., an Arizona limited liability)
company, MILL CREEK L.L.C., an Arizona)
25 limited liability company, BELLEVUE)
26 HOLDINGS, L.L.C., an Arizona limited liability)

No. CV CV 2005-005484

VERIFIED COMPLAINT

1 company, OAK HARBOR FINANCIAL, L.L.C.,)
 an Arizona limited liability company, SW)
 2 STRATEGIC WEALTH ADVISORS, L.L.C., an)
 Arizona limited liability company, EVERETT)
 3 CAPITAL, L.L.C., an Arizona limited liability)
 company, CRE CAPITAL, L.L.C., an Arizona)
 4 limited liability company, MEZZANINE)
 MANAGEMENT, L.L.C., an Arizona limited)
 5 liability company, MEZZANINE FUND I,)
 L.L.C., an Arizona limited liability company,)
 6 JONAS FUND I, L.L.C., an Arizona limited)
 liability company, TEMPLAR FUND, L.L.C., fka)
 7 an Arizona limited liability company now dba a)
 Delaware limited liability company, MERCER)
 8 ISLAND, L.L.C., an Arizona limited liability)
 company, CONNECTICUT PROPERTIES,)
 9 L.L.C., an Arizona limited liability company,)
 10 FIRST ATLANTA INVESTMENTS, L.L.C., a)
 Georgia limited liability company, MM)
 11 COLONIAL FUND, L.L.C., a Delaware limited)
 liability company, SLADE CONSTRUCTION,)
 12 L.L.C., an Arizona limited liability company,)
 13 DUANE SLADE and JENNIFER SLADE,)
 14 husband and wife, GUY ANDREW WILLIAMS)
 and LISA WILLIAMS, husband and wife,)
 15)
 16 Defendants.

17 For its Complaint against Defendants, Plaintiff, the Arizona Corporation Commission,
 18 pleads as follows:

- 19 1. Plaintiff, the Arizona Corporation Commission (“ACC”), is a governmental entity
 20 charged with enforcing the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* (“Securities Act”).
- 21 2. Defendant ~~Mathon Management Company, L.L.C.~~ (“MMC”) was an Arizona
 22 limited liability company (“L.L.C.”) formed on or about February 25, 2002. On or about November
 23 23, 2003, MMC formed in Delaware. On or about March 2, 2004, MMC became a registered
 24 Investment Adviser with the Securities and Exchange Commission (“SEC”). The sole member of
 25 MMC is Slade Williams and Associates, L.L.C.

1 3. Defendant Slade Williams and Associates, L.L.C. ("Slade Williams") is an Arizona
2 limited liability company formed on or about May 17, 1999. The only members of Slade Williams
3 are Duane Slade and Guy Andrew Williams.

4 4. Defendant Mathon Fund I, L.L.C. ("Mathon Fund I") is an Arizona limited liability
5 company formed on or about February 25, 2002. MMC is the sole member of Mathon Fund I.

6 5. Defendant Mathon Fund, L.L.C. ("Mathon Fund") was an Arizona limited liability
7 company, formed on or about August 20, 2003. MMC was the sole member of Mathon Fund. MMC
8 is the manager of Mathon Fund. Mathon Fund then formed a Delaware limited liability company on
9 or about November 21, 2003.

10 6. Defendant Integrity 101, L.L.C. ("101") is an Arizona limited liability company
11 formed on or about April 10, 2003. MMC is the sole member of 101.

12 7. Defendant Integrity 201, L.L.C. ("201") is an Arizona limited liability company
13 formed on or about April 10, 2003. MMC is the sole member of 201.

14 8. Defendant Integrity 301, L.L.C. ("301") is an Arizona limited liability company
15 formed on or about April 10, 2003. MMC is the sole member of 301.

16 9. Defendant Integrity 401, L.L.C. ("401") is an Arizona limited liability company
17 formed on or about April 10, 2003. MMC is the sole member of 401.

18 10. Defendant Integrity 501, L.L.C. ("501") is an Arizona limited liability company
19 formed on or about June 5, 2003. MMC is the sole member of 501.

20 11. Defendant Integrity 601, L.L.C. ("601") is an Arizona limited liability company
21 formed on or about June 5, 2003. MMC is the sole member of 601.

22 12. Defendant Integrity 701, L.L.C. ("701") is an Arizona limited liability company
23 formed on or about June 5, 2003. MMC is the sole member of 701.

24 13. Defendant Integrity 801, L.L.C. ("801") is an Arizona limited liability company
25 formed on or about June 5, 2003. MMC is the sole member of 801.

26

1 14. Defendant Integrity 901, L.L.C. ("901") is an Arizona limited liability company
2 formed on or about June 5, 2003. MMC is the sole member of 901.

3 15. Defendant Round Valley Capital, L.L.C. ("Round Valley") is an Arizona limited
4 liability company formed on or about May 25, 2001. The only members of Round Valley are
5 Duane Slade and Guy Andrew Williams.

6 16. Defendant W.S.F. – World Sports Fans, L.L.C. ("WSF") is an Arizona limited
7 liability company formed on or about July 19, 1999. The only members of WSF are Duane Slade
8 and Guy Andrew Williams.

9 17. Defendant Mill Creek, L.L.C. ("Mill Creek") is an Arizona limited liability company
10 formed on or about May 25, 2001. Slade Williams is the sole member of Mill Creek.

11 18. Defendant Bellevue Holdings, L.L.C. ("Bellevue Holdings") is an Arizona limited
12 liability company formed on or about February 25, 2002. The only members of Bellevue Holdings
13 are Guy A. Williams and Duane H. Slade.

14 19. Defendant Oak Harbor Financial, L.L.C. ("Oak Harbor") is an Arizona limited
15 liability company formed on or about January 9, 2003. Slade Williams is the sole member of Oak
16 Harbor.

17 20. Defendant SW Strategic Wealth Advisors, L.L.C. ("SW Strategic") is an Arizona
18 limited liability company formed on or about May 10, 2002. Slade Williams is the sole member of
19 SW Strategic.

20 21. Defendant Everett Capital, L.L.C. ("Everett Capital") is an Arizona limited liability
21 company formed on or about October 29, 2003. Slade Williams is the sole member of Everett
22 Capital.

23 22. Defendant CRE Capital, L.L.C. ("CRE Capital") is an Arizona limited liability
24 company formed on or about January 30, 2004. Slade Williams is the sole member of CRE Capital.
25
26

1 23. Defendant Mezzanine Management, L.L.C. ("Mezzanine") is an Arizona limited
2 liability company formed on or about April 10, 2003. Slade Williams is the sole member of
3 Mezzanine.

4 24. Defendant Mezzanine Fund I, L.L.C. ("Mezzanine Fund") is an Arizona limited
5 liability company formed on or about April 10, 2003. Mezzanine is the sole member of Mezzanine
6 Fund.

7 25. Defendant Jonas Fund I, L.L.C. ("Jonas Fund") is an Arizona limited liability
8 company formed on or about May 13, 2004. The members of Jonas Fund are WSF and Terrance
9 Shanahan. Terrance Shanahan is the manager of Jonas Fund.

10 26. Defendant Templar Fund, L.L.C. ("Templar Fund") was an Arizona limited liability
11 company formed on or about November 13, 2003. Slade Williams was the sole member of Templar
12 Fund. Templar Fund then formed a Delaware limited liability company on or about November 21,
13 2003.

14 27. Defendant Mercer Island, L.L.C. ("Mercer Island") is an Arizona limited liability
15 company formed on or about March 7, 2003. The only members of Mercer Island are Duane Slade
16 and Guy Andrew Williams.

17 28. Defendant Connecticut Properties, L.L.C. ("Connecticut Properties") is an Arizona
18 limited liability company formed on or about September 12, 2003. MMC is the sole member of
19 Connecticut Properties.

20 29. Defendant First Atlanta Investments, L.L.C. ("First Atlanta") is a limited liability
21 company formed in Georgia. First Atlanta, CRD 119497, has a pending broker/dealer application
22 with the National Association of Securities Dealers ("NASD") and with the Arizona Corporation
23 Commission, Securities Division. Slade Williams is the majority owner of First Atlanta.

24 30. Defendant MM Colonial Fund, L.L.C. ("MM Colonial") is a limited liability
25 company formed in Delaware on or about October 29, 2003. The manager of the Fund for MM
26 Colonial is MMC.

1 31. Defendant Slade Construction, L.L.C. ("Slade Construction") is a limited liability
2 company formed in Arizona on or about February 22, 2001. The members of Slade Construction
3 are Carwin Slade, Linda Slade, and Slade Williams.

4 32. Defendant Duane Slade ("Slade") and Jennifer Slade are husband and wife. All
5 actions taken by Slade were on behalf of the marital community.

6 33. Slade at all relevant times owned and/or controlled MMC, Slade Williams, Mathon
7 Fund I, Mathon Fund, 101, 201, 301, 401, 501, 601, 701, 801, 901, Round Valley, WSF, Mill Creek,
8 Bellevue Holdings, Oak Harbor, SW Strategic, Everett Capital, CRE Capital, Mezzanine,
9 Mezzanine Fund, Jonas Fund, Templar Fund, Mercer Island, Connecticut Properties, First Atlanta,
10 MM Colonial and Slade Construction.

11 34. Upon information and belief, Slade was one of the signers on all MMC, Slade
12 Williams, Mathon Fund I, Mathon Fund, 101, 201, 301, 401, 501, 601, 701, 801, 901, Round
13 Valley, WSF, Mill Creek, Bellevue Holdings, Oak Harbor, SW Strategic, Everett Capital, CRE
14 Capital, Jonas Fund and MM Colonial bank accounts.

15 35. Upon information and belief, Slade solicited investors in investments offered by
16 MMC, Slade Williams, Mathon Fund I, Mathon Fund, 101, 201, 301, 401, 501, 601, 701, 801, 901,
17 Round Valley, WSF, Mill Creek, Bellevue Holdings, Oak Harbor, SW Strategic, Everett Capital,
18 CRE Capital, Mezzanine, Mezzanine Fund, Jonas Fund, Templar Fund, Mercer Island, Connecticut
19 Properties, First Atlanta and MM Colonial.

20 36. Defendant Guy Andrew Williams ("Williams") and Lisa Williams are husband and
21 wife. All actions taken by Williams were on behalf and for the benefit of the marital community.

22 37. Williams at all relevant times owned and/or controlled MMC, Slade Williams,
23 Mathon Fund I, Mathon Fund, 101, 201, 301, 401, 501, 601, 701, 801, 901, Round Valley, WSF,
24 Mill Creek, Bellevue Holdings, Oak Harbor, SW Strategic, Everett Capital, CRE Capital,
25 Mezzanine, Mezzanine Fund, Jonas Fund, Templar Fund, Mercer Island, Connecticut Properties,
26 First Atlanta, MM Colonial and Slade Construction.

1 38. Upon information and belief, Williams was one of the signers on all MMC, Slade
2 Williams, Mathon Fund I, Mathon Fund, 101, 201, 301, 401, 501, 601, 701, 801, 901, Round
3 Valley, WSF, Mill Creek, Bellevue Holdings, Oak Harbor, SW Strategic, Everett Capital, CRE
4 Capital, Jonas Fund and MM Colonial bank accounts.

5 39. Upon information and belief, Williams solicited investors in investments offered
6 by MMC, Slade Williams, Mathon Fund I, Mathon Fund, 101, 201, 301, 401, 501, 601, 701, 801,
7 901, Round Valley, WSF, Mill Creek, Bellevue Holdings, Oak Harbor, SW Strategic, Everett
8 Capital, CRE Capital, Mezzanine, Mezzanine Fund, Jonas Fund, Templar Fund, Mercer Island,
9 Connecticut Properties, First Atlanta and MM Colonial.

10 40. Defendants MMC, Slade Williams, Mathon Fund I, Mathon Fund, Round Valley,
11 WSF, Slade and Williams may be collectively referred to as "Defendants."

12 41. Defendants MMC, Slade Williams, Mathon Fund I, Mathon Fund, Round Valley
13 and WSF may be collectively referred to as "Defendant Entities."

14 42. Defendants Slade and Williams may be collectively referred to as "Defendant
15 Individuals."

16 43. Defendants 101, 201, 301, 401, 501, 601, 701, 801, 901, 101, 201, 301, 401, 501,
17 601, 701, 801, 901, Mill Creek, Bellevue Holdings, Oak Harbor, SW Strategic, Everett Capital,
18 CRE Capital, Mezzanine, Mezzanine Fund, Jonas Fund, Templar Fund, Mercer Island, Connecticut
19 Properties, First Atlanta, MM Colonial and Slade Construction may be collectively referred to as
20 "Relief Defendants."

21 44. Defendants resided in and/or conducted business within or from Maricopa
22 County, Arizona at all relevant times.

23 45. The ACC brings this action pursuant to A.R.S. § 44-2032.

24 46. Venue is proper in this County pursuant to A.R.S. §§ 44-2031(B) and 44-2032(4).

25 47. The investment programs offered and sold by the Defendants are securities as
26 defined under A.R.S. §44-1801(26).

1 48. Since at least 2002, the Defendants directly or indirectly through the Defendant
2 Entities, raised at least \$150 million through at least 516 investment units through two different
3 investment programs. A number of investors invested multiple times in both programs, therefore
4 each investment is counted as an investment unit.

5 49. Defendants Slade and Williams operated at least two investment programs through
6 Defendant Entities. Mathon Fund I was offered and sold from about April of 2002 through
7 November of 2003. Mathon Fund was offered and sold from about November of 2003 through the
8 present.

9 MATHON FUND I

10 50. From about April of 2002 through November of 2003, Defendants offered and sold
11 investment opportunities in Mathon Fund I to at least 114 investors who invested over
12 \$68,000,000. Mathon Fund I was an investment program that raised money from investors to fund
13 short-term notes with a high return to various Borrowers¹. The notes were represented to be no
14 longer than nine months. The Defendants represented to investors that there would be an
15 annualized rate of return on the investors' investments in excess of 36%. The Defendants further
16 represented to investors that in 2002, the annual rate of return was 75%.

17 51. Defendants represented to investors that they would complete "due diligence" of the
18 Borrowers' assets including Borrowers' ability to repay the loans.

19 52. Defendants represented to investors that investors' funds would be tied to a specific
20 loan with a specific Borrower. When the Borrower made its payments, the funds would be
21 provided to the investor.

22 53. The promissory note issued to investors was between Defendants and the investors.
23 The note was a "Non-Recourse & Unsecured Promissory Note" ("Note") signed by one of the
24

25 _____
26 ¹ The term "Borrowers" is defined as the entities or individuals who signed promissory notes with one of the Defendants and received funds. The funds provided to the Borrowers came from investor funds raised by the Defendants.

1 Defendants. Although the Defendants represented this investment was secured by Borrower assets,
2 the Note indicates that the Notes are unsecured and cannot be enforced against Defendants.

3 54. Defendants charged about ten points to the Borrowers plus an interest rate of
4 approximately 3% to 6% per month on the loans funded by Defendants plus due diligence fees.
5 Borrowers made payments to one of the Defendant Entities. Defendants were to then forward the
6 payments on to the investors.

7 55. Defendants represented that the loans were secured by Borrower assets at least **two**
8 **to three times** the value of the loan. The notes executed by the Borrowers were to be secured by
9 real property, UCC-1 filings, personal property and personal guarantees from the principals of the
10 Borrower. The security was to the benefit of one of the Defendants, not to the investors directly.

11 56. On at least one occasion, investors were not paid when Borrowers made a payment.
12 The funds were transferred to various Defendants and then, in some instances, on to other
13 investors.

14 57. In some instances, investors were told Defendants had no problem loans or if there
15 were problem loans they were very limited in number.

16 MATHON FUND

17 58. From about November of 2003 through the present, Defendants offered and sold
18 investment opportunities in Mathon Fund to at least 104 investors who invested over \$82,000,000.
19 According to the Private Placement Memorandum² ("PPM") provided to investors, the primary
20 business objective was to earn an above-average return for investors by making loans to and
21 investments in companies. Mathon Fund was established to originate and execute short-term loans.

22 59. According to the PPM, investors were to be passive investors. The investors' funds
23 would be pooled. The manager for the Mathon Fund was to make all investment decisions. The
24

25
26 ² There were at least two PPM's distributed to investors. The first one was dated November 25, 2003 while the second PPM was dated July 6, 2004.

1 PPM stated that the entire net proceeds from the sale of investment units would be invested for the
2 account of the fund.

3 60. The PPM represents that the interest will be "pre-earned"³ at an annualized rate
4 ranging between 8% and 120% and be paid at maturity of the loan unless some prepayment is
5 warranted.⁴

6 61. Defendants charge about ten points to the Borrowers plus an interest rate of
7 approximately 3% to 6% per month on the loans funded by Defendants plus due diligence fees.
8 Borrowers made payments to one of the Defendants. Defendants were to then forward the
9 payments on to the investors.

10 62. The PPM stated that Defendants were to obtain a security interest on the assets of
11 the Borrower and personal guarantees were to be obtained from the principals of the Borrower.
12 Defendants represented that the Borrower must collateralize the loan equal to or exceeding two
13 times the amount of the loan and pre-earned interest.

14 63. In a number of transactions, the loans were not collateralized as represented to
15 investors.

16 64. Investors were told that Mathon Fund was formed to lessen the risks that were
17 involved with Mathon Fund I. The PPM stated that the fund intends to mitigate an individuals' risk
18 of a loan default or nonperforming loan by pooling loans and collateral across the entire portfolio.

19 65. Defendants rolled defaulted Borrowers from the Mathon Fund I into the new fund
20 and gave credit to the rolling investor the full amount of their principal and return.

21 66. Upon information and belief, on a number of occasions, Defendants failed to record
22 valid security interests in the collateral provided by the Borrower.

23
24 ³ The promissory notes signed by the Borrowers include the principal amount borrowed plus the amount of interest
25 accrued on the due date. Defendants claim this is "pre-earned" interest.

26 ⁴ The November PPM states that the interest will be pre-earned at an annualized rate ranging between 48% and 120%
and be paid at maturity of the loan. The July PPM states that interest will be pre-earned at an annualized rate ranging
between 8% and 120% to be paid at maturity of the loan unless some prepayment is warranted.

1 67. Both PPMs distributed to investors indicated that “[n]either the fund nor the
2 manager is party to any litigation with respect to the fund, Mathon Fund I L.L.C. or any other claim
3 arising out of its activities in connection with the placement of loans or securities violations.”

4 68. On or about August 27, 2003, the Division of Securities of the Department of
5 Commerce of the State of Utah (“Utah Securities”) filed an Order to Show Cause and Notice of
6 Agency Action against Defendants Slade, Mathon Fund I, MMC, Round Valley, Slade Williams and
7 two unnamed parties involving violations of the Utah Securities Act. On or about September 24, 2004
8 Defendants Slade, Mathon Fund I, MMC, Round Valley, Slade Williams and two unnamed parties
9 reached a Stipulation with and an Order was entered by the Utah Securities Division. In addition, a
10 number of prior Borrowers were in bankruptcy and/or filed an action against some of the
11 Defendants.

12 69. The PPMs distributed by the Defendants to the investors included a provision for a
13 “Reserve Fund.” According to the PPMs, “[t]he fund manager will set aside, designate and
14 allocate certain fund assets as a reserve for the protection of the principal investment of its
15 members.”

16 70. Upon information and belief, the Reserve Fund outlined in the PPM was
17 nonexistent. In fact the Reserve Fund was not funded nor held in a separate account in any amount.
18 There was no cash Reserve Fund.

19 71. Defendants represented in the November PPM that they would obtain fund
20 insurance with a policy limit of \$20 million. The fund insurance was to be used to provide
21 additional security to the investors.

22 72. The Fund Insurance outlined in the PPM was nonexistent. In fact, Defendants did
23 not secure insurance on the Mathon Fund investment.

24 73. The PPMs outlined specific methods to modify or amend the Mathon Fund
25 documents. According to the PPMs, the PPM may be amended or modified only upon written
26 consent of the fund and the holders of at least 66 2/3% of the interests then outstanding.

1 74. Upon information and belief, the investors ~~did~~ not receive notification of any
2 modifications to the reserve fund nor the insurance nor did the investors provide written consent to
3 modify or amend the Mathon Fund documents related to the reserve account and the insurance.

4 75. The PPMs had provisions for the investors to withdraw their funds from Mathon
5 Fund.

6 76. The PPMs stated that there was little or no near-term cash flow available to the
7 investors.

8 77. Upon information and belief, the only way funds that would be available for
9 investors to withdraw would be from repayment by a Borrower or from new investments.

10 78. All investment funds were commingled among Defendants' bank accounts. All bank
11 accounts were controlled by Slade and Williams. Defendants transferred money among accounts.

12 79. Upon information and belief, the manner in which this business operated bears
13 characteristics similar to that of a classic "Ponzi" scheme. In a number of transactions, the funds
14 used to pay prior investors who requested to withdraw their funds came from new investors or
15 additional investments from prior investors. Borrowers were in default and the main source of
16 funds to Mathon Fund was new investments.

17 80. Upon information and belief, Slade and Williams have had control over and are
18 directing the business of Defendant Entities.

19 81. Upon information and belief, from January 1, 2003 through November 30, 2004, at
20 least 75% of the amounts funded to Borrowers appear to be in default.

21 82. Defendants continue to raise money from investors and fund loans with investor
22 funds.

23 ...

24 ...

25 ...

26 ...

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

COUNT ONE

VIOLATION OF A.R.S. § 44-1991

(Fraud in Connection with the Offer or Sale of Securities)

83. The ACC incorporates by reference all allegations set forth in paragraphs 1 through 82 of the Complaint.

84. In connection with the offer or sale of securities within or from Arizona, Defendants directly or indirectly: (i) employed a device, scheme or artifice to defraud; (ii) made untrue statements of material fact or omitted to state material facts which were necessary in order to make the statements made not misleading in light of the circumstances under which they were made; and (iii) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon offerees and investors. Defendants' conduct includes, but is not limited to, the following:

MATHON FUND I

- a. Defendants misrepresented to offerees and investors that when Borrowers made a payment the funds would be paid to the investor who funded the loan when, in fact, in at least one occasion, the investor did not receive the Borrower's payment.
- b. Defendants misrepresented to offerees and investors in both Mathon Fund I and Mathon Fund that their investments were secured when in fact, the investors were provided unsecured promissory notes. The security if any was to the benefit of the Defendants not the investors.
- c. Defendants misrepresented to offerees and investors that there were no or very limited amount of problem loans when, in fact, there were a number of loans that had defaulted and/or Borrowers had filed for protection under the United States Bankruptcy Code.

1 d. Defendants failed to disclose to offerees and investors that with at
2 least one investor MMC and Slade personally guaranteed the return
3 of an investors principal investment.

4 MATHON FUND

5 e. Defendants misrepresented to offerees and investors that neither the
6 fund nor the manager is party to any litigation when, in fact,
7 Defendants are plaintiffs and/or defendants in numerous lawsuits
8 throughout the United States in various state and federal courts,
9 involving the Borrowers from both Mathon Fund I and Mathon
10 Fund. In addition, a number of Defendants were subject of an action
11 for violations of the Utah Securities Act.

12 f. Defendants failed to disclose to offerees and investors that defaulted
13 loans would be rolled into the fund.

14 g. Defendants failed to disclose to offerees and investors that when a
15 prior investor rolled into the fund they would receive credit for the
16 principal and expected return whether or not the Borrower had paid
17 or was in default.

18 h. Defendants misrepresented to offerees and investors that they would
19 have a reserve fund to protect the investors' principal when, in fact,
20 no reserve fund has been funded nor held in a separate account.

21 i. Defendants misrepresented to offerees and investors prior to July of
22 2004, that they had or would obtain fund insurance to provide
23 additional security to investors when, in fact, no fund insurance was
24 obtained.

25 j. Defendants failed to disclose to offerees and investors that the main
26 source of capital in the Mathon Fund is from new subscribers. Very

1 few, if any, Borrowers are continuing to make payments on loans
2 and the majority of the amount funded to Borrowers is in default.

3 BOTH MATHON FUND I AND MATHON FUND

4 k. Defendants failed to disclose to investors that all funds would be
5 commingled among various accounts.

6 l. Defendants misrepresented to offerees and investors that the loans to
7 Borrowers would be secured by two or three times the investment
8 when, in fact, on a number of occasions, Defendants failed to record
9 their interests in the assets thereby causing the loan to be unsecured.

10 85. This conduct violates A.R.S. § 44-1991.

11 COUNT TWO

12 (Appointment of Receiver)

13 86. The ACC incorporates by reference all allegations set forth in paragraphs 1 through
14 82 of the Complaint.

15 87. Pursuant to A.R.S. §§ 44-2032(4) and 44-2011 *et seq.*, the ACC requests this Court
16 appoint a Receiver on an interim basis to take control of the assets of the Defendants and to marshal
17 and preserve its assets for the benefit of their defrauded investors.

18 88. Pursuant to A.R.S. §§ 44-2032(4) and 44-2011 *et seq.*, the ACC requests this Court
19 appoint a Receiver on an interim basis to take control of the assets of the Relief Defendants to the
20 extent that they have received or possess assets of the Defendants and to marshal and preserve
21 those assets for the benefit of the defrauded investors.

22 COUNT THREE

23 (Injunctive Relief)

24 89. The ACC incorporates by reference all allegations set forth in paragraphs 1 through
25 82 of the Complaint.

1 90. Upon information and belief, Defendants are currently in the process of selling
2 interests in Mathon Fund. Unless Defendants are enjoined and restrained from selling more
3 interests in Mathon Fund, further violations of the Securities Act will occur and additional
4 investors will be defrauded.

5 91. Pursuant to A.R.S. §§ 44-2032(2), the ACC requests this Court enter a temporary
6 restraining order **restraining Defendants, Defendant Entities and Relief Defendants from offering**
7 **or selling interests in Mathon Fund in or from the state of Arizona;** and after hearing on the order
8 to show cause on the temporary restraining order, to issue a preliminary injunction continuing the
9 temporary restraining order until completion of this action.

10 WHEREFORE, the ACC prays for judgment as follows:

11 1. Enter a Temporary Restraining Order restraining the Defendants, Defendant
12 Entities and Relief Defendants from continuing violations of A.R.S. § 44-1991;

13 2. Enter a Preliminary Injunction against the Defendants, Defendant Entities and
14 Relief Defendants enjoining them from further violations of A.R.S. §44-1991;

15 3. Order Defendants, Defendant Entities and Relief Defendants to be permanently
16 enjoined from violating the Securities Act, pursuant to A.R.S. § 44-2032;

17 4. Appoint a Receiver on an interim basis to take control of the assets of the
18 Defendants, Defendant Entities and Relief Defendants and to marshal and preserve their assets for
19 the benefit of Defendants' defrauded investors;

20 5. Order Defendants to take affirmative action to correct the conditions resulting from
21 their acts, practices or transactions, including a requirement to make restitution pursuant to A.R.S.
22 § 44-2032;

23 6. Order Defendants to **pay the state of Arizona civil penalties of up to five thousand**
24 **dollars (\$5,000) for each violation of the Securities Act, as the court considers to be just and**
25 **proper, pursuant to A.R.S. § 44-2037;**
26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

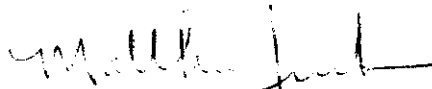
VERIFICATION

Matthew J. Neubert, being first duly sworn, does depose and say:

1. I am the Director of Securities. I make this Verification based upon behalf of the Arizona Corporation Commission

2. I have read the Complaint and to the best of my knowledge, and based upon the records and information gathered by the Securities Division, believe the allegations contained therein to be true and correct.

FURTHER AFFIANT SAITH NOT



Matthew J. Neubert
Director of Securities

STATE OF ARIZONA)
)
County of Maricopa)
_____)

SUBSCRIBED AND SWORN to before me on this 1 day of April, 2005.

My Commission Expires

