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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. ARIZONA IDAHO MINING, LLC, an administratively dissolved Idaho limited liability company, and DOUGLAS L. BAKER, as managing member and as an individual, Defendants.	CV OC 0406423D Case No. _____ **COMPLAINT**

COMES NOW the State of Idaho, Department of Finance, Securities Bureau, Gavin M. Gee, Director (Department), by and through its counsel, A. René Martin, Deputy Attorney General, and upon information and belief, complains and alleges as follows:

COPY

1.

This action is brought pursuant to the Idaho Securities Act, Idaho Code § 30-1401 *et seq.* (the Act), and in particular Idaho Code § 30-1442, 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.

The acts and practices alleged herein comprising violations of law by the above-named defendants occurred in the conduct of trade and commerce in Ada County, Idaho, and elsewhere in the state of Idaho.

DEFENDANTS

DOUGLAS L. BAKER

3.

Douglas L. Baker (Baker), Defendant herein, is an attorney formerly licensed in Idaho. During the time period relevant hereto, Baker apparently divided his time primarily between Kansas and Idaho, and maintained law practices in both states. Baker at all times relevant hereto was married to Cindy Baker. Baker now apparently resides at 300 Boulder Street, Lawrence, Kansas 66049.

ARIZONA IDAHO MINING, LLC

4.

On or about February 20, 2001, Baker formed and organized Arizona Idaho Mining, LLC (AZID) as an Idaho limited liability company. Baker was AZID's managing member. AZID

was purportedly formed for the purpose of engaging in the exploration, development and production of gold and other precious metals, primarily in the states of Arizona and Idaho, through its acquisition of ownership interests in two yet to be formed companies, Custer Mining, LLC, and Western Metallurgical Company, LLC. AZID was administratively dissolved on or about May 8, 2003.

FACTUAL ALLEGATIONS

5.

In approximately 1992, Baker acquired certain mining claims on Adair Creek in the Salmon-Challis National Forest in Custer County, Idaho. Baker's acquisition of such mining claims resulted in him being a co-owner of such claims with William and Marie Stricklan (the Stricklans), long-time Idaho residents. Baker later sold or otherwise transferred fractional portions of some of his interests in the Adair Creek mining claims to various limited liability companies, limited partnerships, and individuals.

6.

In 1996 and 1997, Baker sold a portion of his remaining Adair Creek mining claims to Daniel M. Carney (Carney), a prominent Kansas businessman and investor. Carney paid Baker a total of $250,000 for his interest in such claims. Unrelated to the Adair Creek mining claims, Carney later invested in another mining venture in Mohave County, Arizona where he acquired approximately 85 acres and the improvements on such property.

7.

On or about February 20, 2001, on the same date as AZID was formed and organized as an Idaho limited liability company (as referenced in paragraph 4 above), Baker formed and organized Custer Mining, LLC (Custer) as an Idaho limited liability company. Custer was purportedly formed to consolidate all then-existing interests in the Adair Creek mining claims.

8.

At the time Custer was formed and organized, a 50% ownership interest in the Adair Creek mining claims was held by Baker, the Stricklans, Richard Baker, and Daniel Carney, collectively.

9.

On or about February 20, 2001, Defendants prepared a private placement memorandum for dissemination to prospective investors setting forth their plan for purportedly capitalizing AZID. Pursuant to the terms set forth in such private placement memorandum, AZID was to be capitalized at between $2,200,000 and not more than $3,000,000 through the sale to investors of 60 "investment units" in the amount of $50,000 each. Such "investment units" constitute a security under the Idaho Securities Act. The private placement memorandum represented that AZID would acquire 50% of Custer Mining, LLC and would acquire 75% of Western.

10.

Beginning in at least March of 2001, the Defendants began soliciting investors, including numerous Idaho investors, to purchase interests in AZID purportedly for the purpose of capitalizing AZID. Such interests constituted securities under the Idaho Securities Act. The

Defendants provided prospective investors and investors with the private placement memorandum referenced in paragraph 9 above. In addition to the representations set forth in the private placement memorandum, the Defendants made numerous other representations in connection with the offer and sale of an investment in AZID.

11.

At least twenty-three (23) Idaho investors, including individuals and companies, invested in AZID, in the total amount of at least $1,730,000. In offering and selling securities in AZID, the Defendants misrepresented and omitted material facts necessary to fully disclose the terms of an investment in AZID.

12.

On May 10, 2001, Baker, as managing member for AZID, submitted to the Department a filing pursuant to § 30-1435(1)(b) of the Idaho Securities Act and Regulation D, Rule 505 of the Securities Exchange Act of 1933 (Regulation D filing). Through such filing, AZID sought an exemption from the registration requirements of the Idaho Securities Act. After review of the filing by a Department securities examiner, on May 18, 2001 the Department issued a letter specifying deficiencies in the disclosure documents concerning AZID's Regulation D filing.

13.

On or about June 28, 2001, AZID paid Carney $250,000 and extended a 5 % ownership interest in AZID in return for Carney's transfer to Custer of his ownership interest in the Adair Creek mining claims. On or about August 1, 2001, Carney entered into an installment sales contract with Western for the sale of Carney's ownership interest in the Mohave County,

Arizona 85 acres of land and improvements referenced in paragraph 6 above. Baker, the Stricklans, and Richard Baker also transferred their interests in the Adair Creek mining claims to Custer, giving Custer a 50% ownership interest in the Adair Creek mining claims. The Stricklans received no cash compensation for the transfer of their interests to Custer.

14.

On or about July 25, 2001, Western Metallurgical Company, LLC (Western) was formed and organized as a Nevada limited liability company. Western was formed to conduct a mining operation on the Mohave County, Arizona 85 acres that Carney had sold to Western. Western's initial members and the percentage of their ownership in that company were as follows: John P. Allison – 7.5%; Richard K. Baker – 5.0%; Richard L. Huff – 12.5%; and AZID – 75%. John P. Allison was Western's managing member.

15.

After the formation and organization of Custer and Western, as referenced above, AZID purportedly owned the 50% ownership interest in Custer held by Baker, the Stricklans, Richard Baker, and Daniel Carney. AZID also purportedly acquired a 75% ownership position in Western.

16.

On or about July 26, 2001, Baker and his wife Cindy purchased a home located at 300 Boulder Street in Lawrence Kansas, for $283,700. The source of funds for the Bakers' purchase of this home was AZID's operating account with Key Bank in Boise, Idaho. Baker was the direct beneficiary of additional funds from AZID in the amount of approximately $216,300.

COUNTS ONE THROUGH FOUR: VIOLATIONS OF THE ANTI-FRAUD PROVISIONS OF THE ACT / MISREPRESENTATIONS

17.

The allegations set forth in paragraphs 1 through 16 above are fully incorporated herein by this reference.

18.

The Defendants violated Idaho Code § 30-1403(2), an anti-fraud provision of the Act, in that they made untrue statements of material fact in connection with the offer and sale of securities in Idaho. The Defendants' misrepresentations included, but were not limited to, the following:

(A) The Defendants misrepresented the risk of an investment in AZID, in representing that the Idaho portion of the project would generate sufficient revenues to virtually eliminate any risk of loss to the investor, and that the Arizona mining project was the only project that involved significant risk, with no reasonable basis for such representations;

(B) The Defendants misrepresented to investors and prospective investors that units of AZID must be purchased by certain dates, when in reality the Defendants sold investments in AZID after such dates;

(C) The Defendants misrepresented to investors and prospective investors that to invest in AZID, they must purchase units of AZID only in $50,000 amounts, when in reality some investors with less that $50,000 available to invest were

allowed by Baker to pool their funds with other investors through the vehicle of a limited liability company or other entity, in order to meet the investment minimum;

(D) The Defendants misrepresented to investors that Western would be organized as a corporation, which in reality it was organized as a limited liability company; and

(E) Such other misrepresentations as are proved at trial.

COUNTS FIVE THROUGH TWELVE: VIOLATIONS OF THE ANTI-FRAUD PROVISIONS OF THE ACT / OMISSIONS

19.

The allegations set forth in paragraphs 1 through 18 above are fully incorporated herein by this reference.

20.

The Defendants violated Idaho Code § 30-1403(2), an anti-fraud provision of the Act, in that in connection with the offer, sale or purchase of a security, directly or indirectly, they omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. The Defendants' omissions included, but were not limited to the following:

(A) Failing to disclose to investors and prospective investors who were solicited and sold investments in AZID after May 18, 2001, that on May 18, 2001 the Department had issued a letter to the Defendants specifying deficiencies in their Regulation D disclosure documents;

(B) Failing to disclose to investors and prospective investors details concerning the assets and liabilities of Custer Mining, LLC, including the nature and value of such assets and liabilities;

(C) Failing to disclose to investors and prospective investors that significant portions of investor funds would be funneled through the business bank account of a woman named Kristen Allison, who was not a principal of Custer, Western or AZID;

(D) Failing to disclose to investors and prospective investors historical information concerning the operations of the Adair Creek mines;

(E) Failing to disclose to investors or prospective investors that Defendant Baker would receive compensation in the amount of at least $500,000 concerning his activities with AZID, Custer and Western;

(F) Failing to disclose to investors or prospective investors how their investment monies would be applied;

(G) Failing to disclosed to investors or prospective investors how the interests of the 50% owners in the Adair Creek mining operations not acquired by AZID might impact the operations of AZID;

(H) Failing to disclose to investors or prospective investors the details of AZID's acquisition of the ownership interests in the Adair Creek mine, including whose interests were purchased, and for what amount; and

(I) Such other omissions as are proved at trial.

COUNT THIRTEEN: VIOLATION OF THE ANTI-FRAUD PROVISIONS OF THE ACT / ACTS, PRACTICES, COURSES OF BUSINESS

21.

The allegations set forth in paragraphs 1 through 20 above are fully incorporated herein by this reference.

22.

The Defendants violated Idaho Code § 30-1403(3), an anti-fraud provision of the Act, in that in the course of offering and selling securities in Idaho, they engaged in acts, practices, and courses of business that operated as a fraud or deceit upon other persons. The Defendants' acts, practices, and course of business which operated as a fraud or deceit, include, but are not limited to, the omissions and misrepresentations referenced in Counts One through Twelve set forth above.

PRAYER FOR RELIEF

WHEREFORE, the Department prays that the Court enter Judgment against the Defendants as follows:

(1) That the Defendants be adjudged to have violated the Idaho Securities Act as alleged in Counts One through Thirteen set forth above;

(2) That the Defendants be permanently enjoined from engaging in any acts, practices or courses of business, omissions and misrepresentations that would constitute violations of the Act, and in particular, that they be permanently enjoined from:

(3) That the Defendants be prohibited from claiming the availability of, using, or offering or selling securities under any exemptions under the Act without receiving the prior written consent of the Director;

(4) That the Defendants be ordered to restore to each person in interest any consideration which may have been acquired or transferred in violation of the Idaho Securities Act, and that the Court award the Department a money judgment in the amount of at least $1,730,000, or such amount as proved at trial, as restitution for the victims of the Defendants' violations of the Act, pursuant to Idaho Code § 30-1442(3)(a);

(5) That the Defendants be ordered to pay a civil penalty to the Department in the amount of $10,000 for each violation of the Act, pursuant to Idaho Code § 30-1442(3)(b);

(6) That the Department be awarded attorney fees and costs incurred in the preparation and prosecution of this action and reimbursement of investigative efforts, pursuant to Idaho Code § 30-1442(3)(c). If judgment is taken by default herein, the Department asserts that $5,000 is a reasonable sum for the same;

(7) For the appointment of a receiver or conservator for the Defendants' assets, pursuant to Idaho Code § 30-1442(3); and

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

DATED this 12th day of August, 2004

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL

A. RENE MARTIN
Deputy Attorney General

(A) Selling or offering for sale nonexempt securities in any form in the state of Idaho until such time as the securities have been registered with the Department in accordance with the Act;

(B) Selling or offering for sale nonexempt securities in any form in the state of Idaho until such time as the Defendants have registered as broker-dealers or salesmen for a broker-dealer or issuer with the Department, in accordance with the Act;

(C) While engaged in or in connection with the offer, sale or purchase of any security:

(1) Employing any device, scheme or artifice to defraud any investors or prospective investors;

(2) 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 were made, not misleading;

(3) Engaging in any act, practice or course of business that operates or would operate as a fraud or deceit upon any person;

(4) Aiding, abetting, counseling, inducing or cause any other person to engage in any of the types of conduct described in paragraphs (C)(1), (C)(2), or (C)(3) above.