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IN THE DISTRICT COURT OF THE FIFTH JUDICIAL DISTRICT

OF THE STATE OF IDAHO, IN AND FOR TWIN FALLS COUNTY

STATE OF IDAHO, DEPARTMENT OF FINANCE, SECURITIES BUREAU, Plaintiff, vs. MONTY ARROSSA, Defendant.	Case No. CV 06 2036 **VERIFIED 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:

1.

This action is brought pursuant to the Idaho Securities Act, Idaho Code § 30-1401 *et seq.*, and its successor act, the Uniform Securities Act (2004), Idaho Code § 30-14-101 *et seq.*, effective September 1, 2004, (referred to collectively herein as the "Acts"). Under both Acts,

the Director is authorized to bring actions seeking injunctive and other relief against persons who have either violated or are about to violate provisions of the Acts or any rule promulgated thereunder.

2.

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

DEFENDANT

3.

Defendant Monty Arrossa (Arrossa) was an Idaho resident at all times pertinent hereto. Arrossa resides at 184 East 100 South, Jerome, Idaho 83338. Since 2004, Arrossa has been employed as Director of Human Resources for the College of Southern Idaho in Twin Falls, Idaho. Arrossa is experienced in horse training, chariot racing, and raising horses. Arrossa's mother is Linda Arrossa.

4.

Beginning in approximately February of 2000 and continuing through at least December of 2004, Arrossa solicited thousands of dollars from Idaho residents, often representing to them that he had identified a race horse for purchase that he could sell or had already pre-sold at a profit. Arrossa sought money to fund the horse transactions, promising a stated return or a split of the profits, typically a short-term return of approximately 10% per month. In several of such transactions, Arrossa used monies from parties to new transactions to repay monies owed to

parties to prior transactions. Such transactions constituted securities under the Idaho Securities Act and the Uniform Securities Act (2004).

FACTUAL ALLEGATIONS

K.S. and G.S.

5.

K.S. and G.S. are a married couple that at all times pertinent hereto have resided in Twin Falls, Idaho. K.S. became acquainted with Arrossa while they both worked for the State of Idaho, Department of Commerce and Labor. In or about February of 2000, Arrossa solicited money from K.S. and G.S. purportedly to purchase a race horse for resale. On or about February 24, 2000, K.S. and G.S. gave Arrossa the $17,000 he requested. On or about that same date, Arrossa gave K.S. and G.S. a promissory note, the terms of which included the return of K.S. and G.S.' $17,000 principal plus 30% interest, for a total of $22,100, payable on May 26, 2000. Arrossa was late in paying off the note, finally paying K.S. and G.S. $25,800 on July 28, 2000. Arrossa told K.S. and G.S. that he had made a significant profit on the race horse, even accounting for the profit he paid to K.S. and G.S.

6.

In or about August of 2000, Arrossa again solicited money from K.S. and G.S., stating that he was seeking $35,000 from them to purchase a 1/14th interest totaling $70,000 in a well-known thoroughbred horse named "Separatist." On or about September 14, 2000, K.S. and G.S. gave Arrossa $35,000 characterized as a loan; however, on or about September 28, 2000, K.S. and G.S. reached an agreement with Arrossa that they would invest with Arrossa in a 1/14th

interest in "Separatist." Arrossa represented to K.S. and G.S. that he would contribute $35,000 toward the investment in "Separatist" from funds derived from his profits from the horse purchase for which he had previously solicited $17,000 from K.S. and G.S. Arrossa told K.S. and G.S. that he would handle all necessary steps in the investment, and K.S. and G.S. only had to contribute $35,000. Arrossa informed K.S. and G.S. that part of the profit to be derived from the investment from an ownership interest in "Separatist" would be their receipt of "breeder fee income" in the amount of $16,500 per year for three (3) to five (5) years guaranteed, with the possibility of receiving such income for as long as 15 to 18 years. Around that time, K.S. and G.S. asked Arrossa to provide them with documentation showing their ownership interest in "Separatist."

7.

In July of 2001, Arrossa paid K.S. and G.S. $17,000, and an additional $18,150 in August of 2002. Arrossa represented to K.S. and G.S. that such sums constituted breeder fee income from the investment in "Separatist" for the years 2001 and 2002. The receipt of these payments led K.S. and G.S. to believe that the investment in "Separatist" was performing as Arrossa had represented to them.

8.

Sometime during the first quarter of 2002, K.S. and G.S. again requested from Arrossa documentation concerning their ownership in "Separatist." In approximately March of 2002, Arrossa provided K.S. and G.S. with a copy of a document labeled "Equine Lease Agreement." Such document was false and fabricated by Arrossa.

9.

In January of 2003, Arrossa told K.S. and G.S. that he knew of three (3) pregnant mares that he could purchase and resell, as well as their expected foals, at a profit. Arrossa told K.S. and G.S. that he needed $45,000 to fund the investment. Arrossa told K.S. and G.S. that they only had to contribute $45,000, and that Arrossa would take care of all the other steps necessary for the investment. On or about January 21, 2003, K.S. and G.S. gave Arrossa $45,000 to invest in the three (3) mares and their foals. Arrossa told K.S. and G.S. that they would receive the return of their $45,000 principal investment plus a 20% profit on May 28, 2003. On or about January 21, 2003, Arrossa gave K.S. and G.S. a promissory note reflecting those terms.

10.

Arrossa failed to pay K.S. and G.S. on May 28, 2003, as required under the terms of the promissory note referenced in paragraph 9 above. Around that time, Arrossa represented to K.S. and G.S. that the three (3) mares that were the subject of K.S. and G.S.' $45,000 investment had all miscarried, and thus the investment in the foals had failed. Arrossa also failed to pay to K.S. and G.S. any "breeder fees" on "Separatist" during the year 2003, representing to K.S. and G.S. that the prospective purchaser of the breeding rights to "Separatist" was experiencing financial difficulties. K.S. and G.S. again asked Arrossa for documentation concerning their ownership interest in "Separatist." To partially compensate K.S. and G.S. for his default on the promissory note related to the investment in the three (3) mares, Arrossa represented to K.S. and G.S. that he

would include them in an investment in three "weanlings" that held promise as future race horses.

11.

On or about September 14, 2004, Arrossa gave K.S. and G.S. two (2) documents, both dated September 14, 2004 and containing the heading "Chariot Horses & Racing with Monty Arrossa." One of such documents stated that K.S. and G.S. along with Arrossa were "50/50 partners" in three yearly breeding shares in "Separatist." The second document stated that "three weanlings" were owned by K.S. and G.S. and Arrossa. In reality, no interest in "Separatist" had been obtained by Arrossa for himself and K.S. and G.S., nor had Arrossa and K.S. and G.S. obtained any interest in the three (3) mares or in three (3) weanlings.

12.

Arrossa made the following payments to K.S. and G.S.: $30,000 on or about September 22, 2004; $15,000 on or about October 12, 2004; and $14,766.61 on or about October 26, 2004, for a total of $59,766.61 as a return on the $45,000 in investment monies K.S. and G.S. had given to Arrossa for the three (3) pregnant mares and their foals. Arrossa's primary sources for most or all of those funds were other Idaho residents from whom Arrossa had solicited monies to fund horse-related transactions.

13.

On or about December 3, 2004, Arrossa entered into a promissory note with K.S. and G.S. in the amount of $60,000, to compensate K.S. and G.S. for the fraudulent investment in "Separatist." Arrossa later defaulted on the terms of that promissory note. On or about April 20,

2005, Arrossa gave K.S. and G.S. a new promissory note in the amount of $63,350.35 to replace the one entered on December 3, 2004. Arrossa has made several $1,000 monthly payments on such promissory note, and currently owes K.S. and G.S. $54,687.10.

L.L. and T.L.

14.

L.L. and T.L. are a married couple that at all times pertinent hereto have lived in Aberdeen, Idaho. L.L. and T.L. have raised horses in the past. T.L. was previously acquainted with Arrossa from living in Jerome, Idaho. On or about July 20, 2001, Arrossa solicited money from L.L. and T.L. purportedly to purchase three (3) pregnant mares for resale at a profit. Arrossa told L.L. and T.L. that he could contribute $20,000 toward the purchase price of the mares, but needed another $20,000 from L.L. and T.L. to fully fund the purchase. Arrossa stated that the mares had been bred to well-known stud horses, and profits from the resale of the mares was certain, up to double or triple of the purchase price of $40,000. Arrossa told L.L. and T.L. that they only had to contribute approximately $20,000 to invest and that Arrossa would take care of all the other steps necessary for the investment. On July 20, 2001, L.L. and T.L. gave Arrossa $18,500 to purchase their portion of an interest in the three (3) mares. A short time later in 2001, L.L. and T.L. contacted the American Quarter Horse Association (AQHA) and learned that they and Arrossa held no ownership interest in the three (3) mares identified by Arrossa.

15.

In or around late 2002, L.L. and T.L. demanded their money back from Arrossa and contacted the Pocatello Police Department. On or about January 27, 2003, Arrossa paid L.L. and

T.L. $22,500, using funds obtained from other Idaho residents from whom Arrossa had solicited monies for a similar transaction.

R.W.

16.

R.W. is a retired businessman who at all times pertinent hereto resided in Pocatello, Idaho. R.W. was acquainted with Arrossa through horse racing. In approximately September of 2002, Arrossa solicited money from R.W. purportedly for the purchase of a race horse for resale at a profit. Arrossa told R.W. that R.W. only had to give him $25,000 and that Arrossa would take care of all the other steps necessary for the transaction. On or about September 23, 2002, R.W. gave Arrossa $25,000. On or about October 15, 2002, Arrossa paid R.W. $27,500 as a return on the $25,000 R.W. had given Arrossa.

17.

In approximately November of 2002, Arrossa again solicited money from R.W. purportedly for the purchase of a race horse for resale at a profit. Arrossa told R.W. that R.W. only had to give him $35,000 and that Arrossa would take care of all the other steps necessary for the transaction. On or about November 8, 2002, R.W. gave Arrossa $35,000. On or about January 23, 2003, Arrossa gave $20,000 to R.W. as a partial return. The source of the $20,000 Arrossa paid to R.W. was funds given to Arrossa by another Idaho resident from whom Arrossa has solicited money for a similar transaction. On approximately March 14, 2003, Arrossa gave R.W. an additional $16,000, for a total return of $36,000.

18.

In approximately May of 2003, Arrossa again solicited money from R.W. purportedly for the purchase of a race horse for resale at a profit. Arrossa told R.W. that R.W. only had to give him $22,000 and that Arrossa would take care of all the other steps necessary for the transaction. On or about May 20, 2003, R.W. gave Arrossa $22,000. On or about September 2, 2003, Arrossa gave $30,000 to R.W. The source of the $30,000 Arrossa paid to R.W. was funds given to Arrossa by another Idaho resident from whom Arrossa had solicited money for a similar transaction.

19.

In or about October of 2003, Arrossa again solicited money from R.W. purportedly for the purchase of a race horse for resale at a profit. Arrossa told R.W. that R.W. only had to give him $38,000 and that Arrossa would take care of all the other steps necessary for the transaction. On or about October 7, 2003, R.W. gave Arrossa $38,000. On or about September 8, 2004, Arrossa paid R.W. $5,000 as a partial return on the $38,000. Arrossa and Linda Arrossa, his mother, later gave R.W. a promissory note in the amount of $36,600 to settle the outstanding obligation. Arrossa and his mother have been making regular payments to R.W. on the note, but there is still a balance due.

R.L. and T.L.

20.

R.L. and T.L. are a married couple who at all times pertinent hereto have resided in Jerome, Idaho. R.L. has been acquainted with Arrossa since high school, when he and Arrossa

both competed in rodeo events. T.L. knew Arrossa from college. In or about October of 2004, Arrossa solicited money from R.L. and T.L. purportedly to join with him in buying a mare for $30,000 for resale at a profit. Arrossa stated that he needed only $15,000 from R.L. and T.L. to effect the purchase, and that he would split the expected profit with them. Arrossa told R.L. and T.L. that to participate in the investment they only had to contribute $15,000 and he would take care of all other necessary steps for the investment. On or about October 26, 2004, R.L. and T.L. gave Arrossa a check for $15,000 for the investment. R.L. and T.L. later changed their minds about the investment and stopped payment on the check.

H.W. and T.W.

21.

H.W. and T.W. are a married couple who at all times pertinent hereto resided in Gooding, Idaho. H.W. has been acquainted with Arrossa since childhood. In or about November of 2004, Arrossa solicited money from H.W. and T.W. purportedly to invest with him in the purchase of a pregnant mares for resale at a profit. Arrossa told H.W. and T.W. that he needed $46,000 from them to participate in such investment, and that he would repay that amount plus a profit of $5,000 in one week's time. Arrossa told H.W. and T.W. that to participate in the investment they only had to pay him $46,000, and Arrossa would take care of all other necessary steps for the investment. On or about November 8, 2004, H.W. and T.W. gave Arrossa a check for $46,000 for the investment, and Arrossa gave H.W. and T.W. a post-dated check for $54,000. H.W. and T.W. later changed their minds about the investment and stopped payment on the check.

COUNT ONE: FAILURE TO REGISTER SECURITIES

22.

The allegations set forth in paragraphs 1 through 21 above are fully incorporated herein by this reference.

23.

The transactions Arrossa offered and sold to the individuals and married couples referenced in paragraphs 1 through 21 above constituted securities under the Idaho Securities Act, Idaho Code § 30-1401 *et seq.*, and its successor act, the Uniform Securities Act (2004), Idaho Code § 30-14-101 *et seq.*

24.

The securities offered and sold by Arrossa were not registered with the Department, in violation of § 30-1416 of the Idaho Securities Act or § 30-14-301 of the Uniform Securities Act (2004). Each offer or sale by Arrossa constituted a separate violation of such statutes.

COUNT TWO: FAILURE TO REGISTER AS SECURITIES BROKER DEALER OR BROKER DEALER AGENT

25.

The allegations set forth in paragraphs 1 through 24 above are fully incorporated herein by this reference.

26.

At all times relevant hereto, Arrossa was not registered with the Department as a broker dealer or broker dealer agent to offer for sale securities, as required by § 30-1406 of the Idaho Securities Act, and § 30-14-401 of the Uniform Securities Act (2004).

27.

Arrossa's offer or sale of securities while he was not registered with the Department as a broker dealer or broker dealer agent constituted a violation of § 30-1406 of the Idaho Securities Act or § 30-14-401 of the Uniform Securities Act (2004). Each offer or sale of securities by Arrossa constituted a separate violation of such statutes.

COUNT THREE: VIOLATIONS OF THE ANTI-FRAUD PROVISIONS OF THE SECURITIES ACTS: OMISSIONS

28.

The allegations set forth in paragraphs 1 through 27 above are fully incorporated herein by this reference.

29.

Arrossa violated § 30-1403(2) of the Idaho Securities Act or § 30-14-501(2) of the Uniform Securities Act (2004), anti-fraud provisions of the Acts, in that, in connection with the offer, sale, or purchase of a security, directly or indirectly, he 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. Arrossa's omissions included, but were not limited to, the following:

(a) That investor proceeds would be used not for the purposes represented by Arrossa, but to pay off other investors;

(b) That no interest in "Separatist" was purchased with investor monies;

(c) That no interests in mares or their foals were purchased with investor monies;

(d) That the securities offered and sold by Arrossa were not registered with the Department, as required by law;

(e) That Arrossa was not registered with the Department as a broker-dealer or broker-dealer agent to sell securities in Idaho, as required by law;

(f) That the "Equine Lease Agreement" and other documents referenced in paragraphs 8 and 11 above were fraudulent.

COUNT FOUR: VIOLATIONS OF THE ANTI-FRAUD PROVISIONS OF THE SECURITIES ACTS: MISREPRESENTATIONS

30.

The allegations set forth in paragraphs 1 through 29 above are fully incorporated herein by this reference.

31.

Arrossa violated § 30-1403(2) of the Idaho Securities Act or § 30-14-301(2) of the Uniform Securities Act (2004), in that he made untrue statements of material fact in connection with the offer, sale or purchase of securities in Idaho. Arrossa's misrepresentations included, but were not limited to, the following:

(a) That he would use investor funds to purchase pregnant mares;

(b) That he would use investor funds to purchase an interest in "Separatist;"

(c) That the "Equine Lease Agreement" and other documents referenced in paragraphs 8 and 11 above were valid documents;

(d) That certain investors were entitled to "breeder fee" income through the investments Arrossa offered or sold to them;

(e) That Arrossa was investing his own monies in the investments he offered or sold to investors;

(f) That investor monies would be used to purchase interests in horses, while in reality they were used to pay back other investors.

COUNT FIVE: VIOLATIONS OF THE ANTI-FRAUD PROVISIONS OF THE ACTS: ACT, PRACTICE, OR COURSE OF BUSINESS

32.

The allegations set forth in paragraphs 1 through 31 above are fully incorporated herein by this reference.

33.

Arrossa violated § 30-1403(3) of the Idaho Securities Act or § 30-14-501(3) of the Uniform Securities Act (2004), in that in the course of offering or selling securities in Idaho, he engaged in acts, practices, and a course of business that operated as a fraud or deceit upon other persons. Arrossa's acts, practices, and course of business which operated as a fraud or deceit, include, but are not limited to, the registration violations, omissions and misrepresentations referenced in Counts One through Four above.

PRAYER FOR RELIEF

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

(1) That Arrossa be adjudged to have violated the Idaho Securities Act or the Uniform Securities Act (2004) as alleged in Counts One through Five above;

(2) That Arrossa be permanently enjoined from engaging in any acts, practices, courses of business, omissions and misrepresentations that would constitute violations of the Idaho Securities Act or the Uniform Securities Act (2004), and in particular that he be permanently be enjoined from:

(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 Uniform Securities Act (2004);

(B) Selling or offering for sale nonexempt securities in any form in the state of Idaho until such time as Arrossa has registered with the Department as a broker-dealer or a representative for a broker-dealer or issuer, in accordance with the Uniform Securities Act (2004);

(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 causing any other person to engage in any of the types of conduct described in paragraphs (C)(1), (C)(2), or (C)(3) above.

(3) That Arrossa 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 Arrossa 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 Uniform Securities Act (2004), and that the court award the Department a money judgment in the amount of at least $54,687.10, or such amount as is determined by the proof, as restitution for the victims of Arrossa's violations of the Acts, pursuant to § 30-1442(3)(a) of the Idaho Securities Act, and § 30-14-603(b)(2)(C) of the Uniform Securities Act (2004).

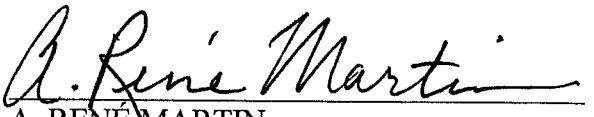
(5) That Arrossa be ordered to pay a civil penalty to the Department in the amount of $10,000 for each violation of the Acts, pursuant to § 30-1442(3)(b) of the Idaho Securities Act and § 30-14-603(b)(2)(C) of the Uniform Securities Act (2004).

(6) That the Department be awarded attorney fees and costs incurred in the preparation and prosecution of this action and reimbursement for its investigative efforts, pursuant to § 30-1442(3)(c) of the Idaho Securities Act, § 30-14-603(b)(3) of the Uniform Securities Act (2004), and Idaho Code § 12-121.

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

DATED this 24th day of April, 2006.

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL



A. RENÉ MARTIN
Deputy Attorney General

VERIFICATION

STATE OF IDAHO)
)ss.
County of Ada)

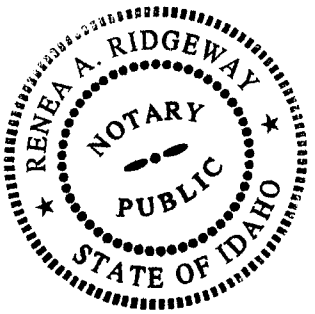
MARILYN T. CHASTAIN, Bureau Chief of the Securities Bureau of the Department of Finance, State of Idaho, being first duly sworn, deposes and says:

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

DATED this 24th day of April, 2006.

Marilyn T Chastain
MARILYN T. CHASTAIN

SUBSCRIBED AND SWORN to before me this 24 day of April, 2006.



Renea A. Ridgeway
Notary Public for Idaho
Residing at: Boise
My Commission Expires: 11-20-09