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IN THE DISTRICT COURT OF THE FOURTH JUDICIAL DISTRICT

OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF ADA

STATE OF IDAHO, DEPARTMENT OF FINANCE, SECURITIES BUREAU, Plaintiff, vs. LEADER CAPITAL CORPORATION, and JOHN E. LEKAS, Defendants.	Case No. CV OC 0402797D **VERIFIED COMPLAINT** Fee Category: Exempt

The State of Idaho, Department of Finance, Gavin M. Gee, Director, by and through its counsel, complains and alleges as follows, on its information and belief:

1

This action is brought pursuant to the Idaho Securities Act, Title 30, Chapter 14, Idaho Code (hereinafter referred to as the "Act"), and in particular, Idaho Code § 30-1442, wherein the Director is authorized to bring actions seeking injunctive and other relief against Defendants who

have either violated or are about to violate the provisions of the Act or any rule promulgated thereunder.

2

Defendant, Leader Capital Corporation (hereinafter referred to as Leader) is, and at all times relevant hereto was, a corporation registered to do business in the state of Oregon. Leader maintains its principal place of business in Portland, Oregon. Leader is registered in the state of Idaho as a Broker/Dealer under the Act.

3

Defendant , John E. Lekas (hereinafter referred to as Lekas) is, and at all times relevant hereto was, the president of Leader and the principal, owner, or primary shareholder of Leader. To the best of Plaintiff's knowledge and belief, Lekas is a resident of Portland, Oregon. Lekas is a registered representative in Idaho under the Act.

4

The investment clients or customers of Leader Capital, who are identified below, are all residents of the state of Idaho.

5

This court has jurisdiction in this matter, pursuant to Idaho Code §§30-1442(4) and 5-514(a).

6

Lekas was acquainted with Dale Mills. Dale Mills was a securities broker with investment accounts and clients in the state of Idaho. In January of 2002, Dale Mills was employed by First Allied Securities, Inc.

7

On or about January of 2002, Dale Mills asked a number of his investment clients, several of whom were Idaho residents, if they would agree to transfer their investment accounts to Leader. Several of Dale Mills' Idaho resident investment clients, including those discussed herein, did authorize the transfer of their accounts to Leader in January of 2002, and those accounts were in fact transferred to Leader at that time.

8

At no time prior to, at the time of, or subsequent to the transfer of their investment accounts to Leader did any of the investors referred to below authorize Defendants to sell or buy securities in their investment accounts without first obtaining the investors' consent to make the securities trades which occurred.

COUNT ONE

UNAUTHORIZED TRANSACTIONS

9

Plaintiff realleges and reincorporates by reference paragraphs 1 through 8 above.

10

L.B. is a resident of the state of Idaho. L.B. is 73 years old and retired. Prior to January of 2002, L.B. maintained her investment accounts with Dale Mills and First Allied Securities, Inc.

11

In January of 2002, L.B. agreed to transfer two investment accounts she held with Dale Mills and First Allied Securities, Inc. to Defendants.

12

In February of 2002, Defendants, with prior authorization from L.B., sold all of the securities in L.B.'s two investment accounts. Subsequent to these transactions, *without* prior authorization from L. B., Defendants applied the resulting proceeds from the sale of L.B.'s securities to purchase $76,126.74 in Qwest Corporation bonds for L. B.'s account.

13

Following the unauthorized transactions described above, in March of 2002, the Qwest Bonds Defendants purchased for L.B. comprised 67% of the value of her investments held by Defendants.

14

As described above, Defendants caused the execution of transactions which were unauthorized by L.B., within the meaning of Idaho Securities Act Rule 117.08 (IDAPA 12.01.08.117.08). These actions constituted deceptive and manipulative acts or practices, and operated as a fraud or deceit on L.B., in violation of Idaho Code § 30-1403(3).

15

Based on the foregoing, Defendants have violated the Act. Plaintiff requests that this court adjudge and decree that Defendants have violated the Act and further, as prayed for below, that this court enjoin Defendants from further violations of the Act and assess civil penalties against Defendants for these violations.

COUNT TWO

SUITABILITY

16

Plaintiff hereby realleges and reincorporates by reference paragraphs 1 through 15 above.

17

As stated above, L. B. is 73 years old and retired. In the account information form L. B. completed with First Allied Securities, Inc. on February 22, 2000, L. B. stated that her investment objective was income and growth. Defendants knew or should have known these facts when they caused trades to be made in L. B.'s accounts with Defendants.

18

Defendants' purchase of Qwest Corporation bonds, comprising 67% of the value of L. B.'s investment accounts, was contrary to L. B.'s stated investment objectives, as well as her financial situation and needs.

19

Defendants' purchase of Qwest Corporation bonds comprising 67% of the value of L. B.'s investment accounts violated Idaho Code §§ 30-1403, 30-1404, and IDAPA 12, Chapter 8, Rules 110, 111, and 118.

20

Based on the foregoing, Plaintiff requests that this court adjudge and decree that Defendants have violated the Act and further, as prayed for below, that this court enjoin Defendants from further violations of the Act and assess civil money penalties against Defendants for these violations.

COUNT THREE

UNAUTHORIZED TRANSACTIONS

21

Plaintiff realleges and reincorporates by reference paragraphs 1 through 20 above.

22

J. P. and B. P. are residents of Idaho. They are 83 and 81 years old, respectively. Prior to January of 2002, they maintained two IRA investment accounts and a trust investment account with Dale Mills and First Allied Securities, Inc.

23

In January of 2002, J. P. and B. P. agreed to transfer two IRA accounts and the trust investment account they had with Dale Mills and First Allied Securities, Inc., to Defendants.

24

In April of 2002, Defendants, without prior authorization from J. P. and B. P., liquidated the securities in the two IRA accounts J. P. and B. P. held. Some of the proceeds from the liquidation of J. P.'s IRA account were used to purchase Qwest Capital Funding bonds.

25

In April of 2002, without prior authorization from J. P. and B. P., Defendants sold a substantial portion of the securities in the P. trust account and purchased Qwest Capital Funding bonds with those proceeds.

26

Defendants caused the execution of transactions which were unauthorized by J. P. and B. P. within the meaning of Idaho Securities Act Rule 117.08 (IDAPA 12.01.08.117.08). These

actions constituted deceptive and manipulative acts or practices and operated as a fraud or deceit on J. P. and B. P. in violation of Idaho Code § 30-1403(3).

27

Based on the foregoing, Plaintiff requests that this court adjudge and decree that Defendants have violated the Act. Further, as prayed for below, Plaintiff requests that this court enjoin Defendants from future violations of the Act and that it assess civil penalties against Defendants for these violations.

COUNT FOUR

SUITABILITY

28

Plaintiff hereby realleges and reincorporates by reference paragraphs 1 through 27 above.

29

Based on their ages and retired status, J. P. and B. P. are conservative investors. In the account information J. P. and B. P. completed with First Allied Securities, they stated that their investment objectives were income and growth. Defendants knew or should have known these facts when they caused trades to be made in J. P.'s and B. P.'s investment accounts.

30

Defendants' sale of the majority of J. P.'s and B. P.'s investments, followed by the purchase of Qwest Capital Funding bonds comprising 74% of the P. Trust investment account and 30% of the investments in all of J. P.'s and B. P.'s investment accounts was contrary to J. P.'s and B. P.'s stated investment objectives, as well as their financial situation and needs.

31

Defendants' sale of the majority of J. P.'s and B. P.'s investments after their accounts were transferred to Defendants, followed by the unauthorized purchase of Qwest Capital Funding bonds comprising the above stated percentages of those accounts, violated Idaho Code §§ 30-1403, 30-1404, and IDAPA 12, Chapter 8, Rules 110, 111, and 118.

32

Based on the foregoing, Plaintiff requests that this court adjudge and decree that Defendants have violated the Act, and further, as prayed for below, that this court enjoin Defendants from further violations of the Act and that it assess civil money penalties against Defendants for these violations.

COUNT FIVE

UNAUTHORIZED TRANSACTIONS

33

Plaintiff hereby realleges and reincorporates by reference paragraphs 1 through 32 above.

34

R. G. and M. G. are residents of Idaho. Prior to January of 2002, they maintained an investment account with Dale Mills and First Allied Securities, Inc.

35

In January of 2002, R. G. and M. G. agreed to transfer the investment account they had with Dale Mills and First Allied Securities, Inc. to Defendants.

36

In February of 2002, without prior authorization from R. G. and M. G., Defendants liquidated and sold approximately 72% of R. G. and M. G.'s investment account.

37

Defendants caused the execution of transactions which were unauthorized by R. G. and M. G., within the meaning of Idaho Securities Act Rule 117.08 (IDAPA 12.01.08.117.08). These actions constituted deceptive or manipulative acts or practices and operated as a fraud or deceit on R. G. and M. G. in violation of Idaho Code § 30-1403(3).

38

Based on the foregoing, Plaintiff requests that this court adjudge and decree that Defendants have violated the Act. As set forth below, Plaintiff prays that this court enjoin the Defendants from future violations of the Act and that it assess civil money penalties against Defendants for these violations.

COUNT SIX

UNAUTHORIZED TRANSACTIONS

39

Plaintiff hereby realleges and reincorporates by reference paragraphs 1 through 38 above.

40

J. S. and C. S. are residents of the state of Idaho.

41

In January of 2002, J. S. and C. S. agreed to transfer investment accounts they had with Dale Mills and First Allied Securities, Inc. to Defendants.

42

On April 24, 2002, without authorization from J. S. or C. S., Defendants purchased $45,206.49 in Qwest Capital Funding Bonds for the S. Trust account, and $45,201.74 in Qwest Capital Funding Bonds for the J. S. IRA account. Defendant Leader Capital Corporation also

sold Bear Stearns, Fannie Mae, and 2002 bonds despite explicit instructions from J. S. and C. S. that those bonds were not to be sold.

43

Defendants caused the execution of transactions which were unauthorized by J. S. and C. S., within the meaning of Idaho Securities Act Rule 117.08 (IDAPA 12.01.08.117.08). These actions constituted deceptive or manipulative acts or practices and operated as a fraud or deceit on J. S. and C. S. in violation of Idaho Code § 30-1403(3).

44

Based on the foregoing, Plaintiff requests that this court adjudge and decree that Defendants have violated the Act. As set forth below, Plaintiff prays that this court enjoin Defendants from future violations of the Act and that it assess civil money penalties against Defendants for these violations.

COUNT SEVEN

RESTITUTION

45

Plaintiff hereby realleges and reincorporates by reference paragraphs 1 through 44 above.

46

J. P., B. P. and L. B. suffered losses in their investments accounts, totaling the sum of $19,222.26, as a direct and proximate result of Defendants' unlawful conduct, as described above.

47

Pursuant to Idaho Code § 30-1443(3)(a), Plaintiff is entitled to an order restoring to any person in interest any consideration which may have been acquired or transferred in violation of the Idaho Securities Act.

48

Based on the foregoing, Plaintiff is entitled to an award of the sum of $19,222.26, representing restitution to J. P., B.P., and L.B. for their losses suffered as a result of Defendants' conduct in violation of the Idaho Securities Act.

COUNT EIGHT

(RESERVED)

49

In the event Plaintiff determines through continuing investigation or discovery in this suit that Defendants have committed the same or similar violations of the Idaho Securities Act as to Idaho resident investors in addition to those discussed herein, Plaintiff reserves the right to amend this Complaint to add counts relating to such additional violations of the Idaho Securities Act as may be discovered.

WHEREFORE, Plaintiff prays for a Judgment against Defendants as follows:

(1) That Defendants be adjudged to have violated the Idaho Securities Act;

(2) That Defendants be permanently enjoined from engaging in any acts, practices, courses of business, omissions, and misrepresentations which would constitute violations of the Idaho Securities Act, Title 30, Chapter 14, Idaho Code.

(3) That Defendants be permanently enjoined from engaging in the following acts and conduct:

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

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

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

(c) Engaging in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person.

(4) That 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.

(5) That Defendants be ordered to pay a civil penalty to the Plaintiff in the amount of $10,000 for each violation of the Idaho Securities Act, as may be proved or established herein;

(6) For an award of the sum of $19,226.26, representing restitution to J. P., B. P., and L. B. for their losses incurred as a result of Defendants' unlawful conduct.

(7) For the appointment of a receiver for the Defendants or the Defendants' assets.

(8) For an award of Plaintiff's costs incurred herein, including Plaintiff's attorneys fees and the reasonable costs of the investigative efforts expended by Plaintiff.

(9) For such other and further relief as this Court may deem just and equitable.

Dated this 14 day of April, 2004.

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL

JOSEPH B. JONES
Deputy Attorney General

VERIFICATION

STATE OF IDAHO)
) ss.
County of Ada)

JAMES A. BURNS, Investigations Chief of the Securities Bureau of the Idaho Department of Finance, being first duly sworn, deposes and states:

That he has read the foregoing verified complaint, that she knows the contents thereof, and that the same are true and correct to the best of her knowledge and belief.

DATED this 14th day of April, 2004.

JAMES A. BURNS

SUBSCRIBED AND SWORN to before me this 14 day of April, 2004.

Notary Public for Idaho
Residing at: Meridian, Idaho
My Commission Expires: 2/20/08