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DISTRICT COURT
MAGISTRATE DIVISION
BONNEVILLE COUNTY
IDAHO

CASE ASSIGNED TO
JUDGE GREGORY S. ANDERSON

IN THE DISTRICT COURT OF THE SEVENTH JUDICIAL DISTRICT

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

STATE OF IDAHO, DEPARTMENT OF FINANCE, SECURITIES BUREAU, Plaintiff, vs. ROBERT O. MCCLUNG, SPENLEE, INC., a Nevada corporation, RRLM, L.P., a Nevada Limited Partnership, Defendants.	Case No. CV-02-7169 **VERIFIED COMPLAINT** Fee category: Exempt

COMES NOW the State of Idaho, Department of Finance, Gavin M. Gee, Director, by and through counsel, to complain and allege as follows on information and belief:

1.

This action is brought pursuant to the Idaho Securities Act, Title 30, Chapter 14, Idaho Code (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 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 Bonneville County, and elsewhere in the state of Idaho.

DEFENDANTS

3.

The defendant Spenlee, Inc. (Spenlee) is a Nevada corporation conducting business from 2107 E. 49th S., Idaho Falls, Idaho. Spenlee is the purported general partner of co-defendant RRLM, L.P. Spenlee has not registered any security with the Idaho Department of Finance (Department) for sale in or from Idaho. Spenlee has not registered, nor has it applied for registration, as an investment advisor with the Department.

4.

The defendant RRLM L.P. (RRLM) is a Nevada limited partnership conducting business from 2107 E. 49th S., Idaho Falls, Idaho. RRLM has not registered any security with the Department for sale in or from Idaho.

5.

Robert O. McClung (McClung) is the president of Spenlee. McClung manages the business of Spenlee and RRLM. McClung resides at, and manages RRLM and Spenlee from, 2107 E. 49th S., Idaho Falls, Idaho. McClung has never registered with the Department as a securities broker-dealer or securities salesman. McClung has never registered or sought

registration as an investment advisor or investment advisor representative in Idaho. McClung has never registered any security with the Department for sale in or from Idaho.

BACKGROUND

6.

Beginning on a date uncertain, but at least since January 2000, defendants offered, sold and accepted investor subscriptions for investment in RRLM. Generally, defendants informed investors and offerees that their (the investors or offerees) investment in RRLM would be managed and directed by McClung and that McClung would engage in the day trading of securities for profit on behalf of RRLM.

7.

As an inducement to attract investors, McClung represented to potential investors that his experience and trading methodologies would result in limited risk to RRLM and hence, to the investor.

8.

In return for his services in managing RRLM, McClung arranged with investors that he (McClung) would receive between 50-75% of the profits that RRLM would generate through the day trading of securities. The balance of the profits was to be retained by RRLM to be credited pro-rata to each RRLM investor account. The only document provided by defendants to investors at the inception of their investment in RRLM was a one-page document identifying the account owner, the amount invested, the profit split and a statement that, "Investment will be through day trading in the stock market."

9.

RRLM has engaged in the "trading" and "day trading" of securities since at least March 1999. In calendar year 1999, RRLM engaged in limited securities trading activities resulting in a net securities trading loss of $ 575.08.

10.

RRLM traded securities on only three (3) days in calendar year 2000. These trades resulted in a net trading loss of approximately $ 662.05.

11.

RRLM traded securities on only one (1) day in calendar year 2001. These trades resulted in a net trading profit of approximately $ 13.50.

12.

RRLM has engaged in limited securities trading in 2002. RRLM's 2002 securities trading activities to date have resulted in an approximate net trading loss of $ 3,630.32.

13.

RRLM experienced net securities trading losses during the time period of 1999 through September 2002. Despite these losses McClung regularly generated and disseminated to RRLM investors monthly client investor statements that falsely reported significant monthly securities trading profits.

14.

More than one hundred investors subscribed to invest more than $2 million in RRLM between January 2000 and September 30, 2002. Based on McClung's contrived client investor statements, which falsely represented positive investment returns, many RRLM investors

committed additional funds to RRLM and referred friends and family to McClung for consideration of an investment in RRLM.

15.

Beginning at least since April 2001, McClung caused more than $600,000 to be transferred from an RRLM bank account into an account in the name of Spenlee, Inc. and Robert McClung. Funds from this account were used for the personal benefit of McClung and his family.

COUNT ONE: FAILURE TO REGISTER SECURITIES

16.

The allegations contained in paragraphs 1 through 15 are hereby realleged as if fully set forth.

17.

Beginning on a date uncertain, but at least since January of 2000, the defendants offered for sale, either directly or indirectly, or aided and abetted in the offer or sale, to Idaho residents and others, an interest in RRLM, a pool of funds that would be used to profitably day trade in the securities markets.

18.

The RRLM investment medium offered through the defendants is a security that was not registered with the Department as required by Idaho Code § 30-1416.

19.

The defendants' failure to register the RRLM security constitutes a violation of Idaho Code § 30-1416.

COUNT TWO: FAILURE TO REGISTER AS BROKER-DEALERS OR SALESMEN

20.

The allegations contained in paragraphs 1 through 19 are hereby realleged as if fully set forth.

21.

At all times relevant to this verified complaint, the defendants were not registered by the Department as broker-dealers or salesmen to offer for sale securities, as required by Idaho Code § 30-1406. Therefore, the defendants have either transacted business in the state of Idaho as broker-dealers or salesmen without having been properly registered, or have acted as broker-dealers or issuers and employed salesmen who were not properly registered under the Act.

22.

The defendants' failure to register as broker-dealers or salesmen under the Act, or employing salesmen not registered with the Department under the Act, constitutes a violation of Idaho Code § 30-1406.

COUNT THREE: FAILURE TO REGISTER AS AN INVESTMENT ADVISOR

23.

The allegations contained in paragraphs 1 through 22 are hereby realleged as if fully set forth.

24.

At all times relevant to this verified complaint, defendants McClung and Spenlee, Inc. were not registered by the Department as investment advisers or investment advisor

representatives to transact business or otherwise provide investment advisory services as required by Idaho Code § 30-1406. Therefore, the defendants have either transacted business in the state of Idaho as investment advisors or investment advisor representatives without having been properly registered, or have acted as investment advisors and employed representatives who were not properly registered under the Act.

25.

The defendants have violated Idaho Code § 30-1406.

COUNT FOUR: VIOLATIONS OF THE ANTI-FRAUD PROVISIONS OF THE ACT / OMISSIONS

26.

The allegations contained in paragraphs 1 through 25 are hereby realleged as if fully set forth.

27.

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 include, but are not limited to, the following:

(A) Failing to disclose to offerees and/or investors that the securities offered and sold were not registered with the Department, as required by the Act;

(B) Failing to disclose to offerees and/or investors that the defendants were not registered with the Department as broker-dealers or salesmen, as required by the Act;

(C) Failing to adequately disclose to offerees and/or investors the risks associated with an investment in RRLM;

(D) Failing to disclose to offerees and/or investors the financial condition and operating history of RRLM;

(E) Failing to disclose to offerees and/or investors the actual trading results realized by RRLM during the time preceding each investors' investment;

(F) Failing to disclose to offerees and/or investors that the monthly statements being produced by McClung and RRLM were false;

(G) Failing to disclose to offerees and/or investors that McClung would convert RRLM assets into the names of Spenlee, Inc. and McClung and that McClung would use a portion of these funds for the personal benefit of McClung and his family;

(H) Failing to disclose to offerees and/or investors the nature of the relationship of Spenlee to RRLM and McClung.

(I) Failing to disclose to offerees and/or investors that neither McClung nor Spenlee were registered as investment advisors or investment advisor representatives to effect the investment management of RRLM as required by the Act.

(J) Failing to disclose to offerees and/or investors that any profits previously distributed to liquidating investors were illusory and not based on the actual investment results experienced by RRLM.

28.

The defendants have violated Idaho Code §30-1403(2)

COUNT FIVE: VIOLATIONS OF THE ANTI-FRAUD PROVISIONS OF THE ACT / MISREPRESENTATIONS

29.

The allegations contained in paragraphs 1 through 28 are hereby realleged as if fully set forth.

30.

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' untrue statements of material fact include, but are not limited to, the following:

(A) The defendants represented to investors and offerees that McClung had a history of profitably engaging in securities day trading;

(B) The defendants represented to investors and offerees that McClung's day trading methodology minimized the risk of investment loss;

(C) The defendants represented to investors and offerees that McClung would be compensated on the basis of trading profits when McClung effectively converted more than $600,000 to an account in the name of Spenlee, Inc. and Robert McClung although no net trading profits had been realized;

(D) The defendants represented to investors and offerees that their investment was increasing in value through the production and dissemination of false client statements that reported significant securities trading profits.

31.

The defendants have violated Idaho Code §30-1403(2).

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

32.

The allegations contained in paragraphs 1 through 31 are hereby realleged as if fully set forth.

33.

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 and from Idaho, they engaged in acts, practices, and courses of business which operated as a fraud or deceit upon other persons. The defendants' acts, practices, and courses of business which operated as a fraud or deceit include, but are not limited to, the omissions and misrepresentations referred to in Counts Four and Five above.

34.

The defendants have violated Idaho Code §30-1403(3).

COUNT SEVEN: VIOLATION OF THE ANTI-FRAUD PROVISIONS UNLAWFUL ACTS OF PERSON ADVISING ANOTHER

35.

The allegations contained in paragraphs 1 through 34 are hereby realleged as if fully set forth.

36.

Defendants McClung and Spenlee violated Idaho Code §30-1404(1), an anti-fraud provision of the Act, in that they received direct or indirect consideration from RRLM and RRLM investors for advising such persons as to the value of securities or the advisability of purchasing or selling securities while employing a device, scheme or artifice to defraud such persons. The defendants' devices, schemes or artifices to defraud include, but are not limited to the omissions and misrepresentations referred to in Counts Four and Five above.

37.

The defendants have violated Idaho Code §30-1404(1).

COUNT EIGHT: VIOLATION OF THE ANTI-FRAUD PROVISIONS UNLAWFUL ACTS OF PERSON ADVISING ANOTHER

38.

The allegations contained in paragraphs 1 through 37 are hereby realleged as if fully set forth.

39.

Defendants McClung and Spenlee violated Idaho Code §30-1404(2), an anti-fraud provision of the Act, in that they received direct or indirect consideration from RRLM and RRLM investors for advising such persons as to the value of securities or the advisability of purchasing or selling securities while engaging in an act, practice or course of business which

operated or would operate as a fraud or deceit upon such other person. The defendants' acts, practices or courses of business which operated or would operate as a fraud or deceit include, but are not limited to the omissions and misrepresentations referred to in Counts Four and Five above.

40.

The defendants have violated Idaho Code §30-1404(2).

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for a Judgment in favor of Plaintiff and against the defendants as follows:

(1) That the 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, and in particular, that they be permanently 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 Title 30, Chapter 14, Idaho Code;

(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 Title 30, Chapter 14, Idaho Code;

(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 are made, not misleading;

(3) Engaging in any act, practice or course of business which 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 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;

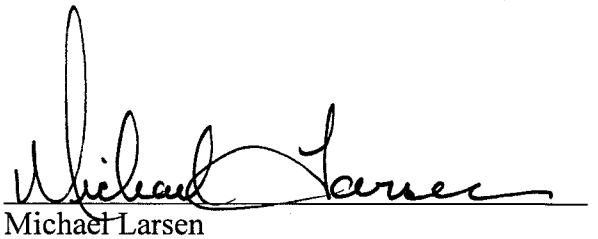
(4) That the defendants be ordered to restore to each person in interest any consideration which may have been acquired or transferred in violation of the Idaho Securities Act.;

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

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

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

Dated this 20th day of November, 2002.



Michael Larsen
Deputy Attorney General
Idaho Department of Finance

VERIFICATION

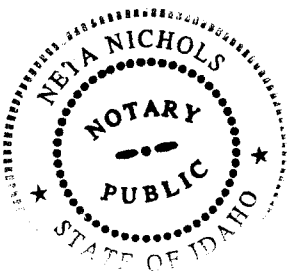
STATE OF IDAHO)
)ss.
County of Ada)

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

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

DATED this 20th day of November, 2002.

Marilyn T. Chastain
MARILYN T. CHASTAIN

SUBSCRIBED AND SWORN to before me this 20th day of November, 2002.

Neta Nichols
Notary Public for Idaho
Residing at: Boise
My Commission Expires: 10-25-2006