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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,	)
	) Civil No. CV OC 9702109D
Plaintiff,	)
	) **AMENDED COMPLAINT**
vs.	)
	)
Next Century, Inc., Reparata Mazzola,	)
Jay L. Wilcox, Marlis Kim Harris, Tony Sellers,	)
and The American Insurance Company,	)
	)
Defendants.	)
	)

Comes now the State of Idaho, Department of Finance, Gavin M. Gee, Director, by and through counsel, to complain and allege as follows:

JURISDICTION

1. This action is brought under the provisions of the Idaho Securities Act, Title 30, Chapter 14, Idaho Code, and in particular Idaho Code § 30-1442 wherein the Director of the Idaho

Department of Finance (Department) is empowered to bring actions seeking injunctive and other relief against defendants who have either violated or are about to violate provisions of the Idaho Securities Act or any rule or order thereunder.

VENUE

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, and elsewhere in the State of Idaho.

DEFENDANTS

In this Amended Complaint, when reference is made to any act of "Defendant" or "Defendants", such reference shall be deemed to mean that each Defendant acted individually, jointly and severally, and participated, engaged in, directed, and/or aided and abetted in a material way such act unless specifically indicated otherwise.

The initial Verified Complaint in this action named as additional defendants PCO, Inc., a.k.a. Personal Choice Opportunities (PCO), David W. Laing (Laing), and M.D. Smith & Co. (M.D. Smith). Default, Default Judgment and Permanent Injunction were entered against PCO, Laing, and M.D. Smith on June 4, 1997.

3. PCO, a Nevada corporation, was in the business of seeking loans from individual investors around the nation. The loan transactions solicited and entered into by PCO are securities under the Idaho Securities Act. PCO's last known address is 707 East Taquitz Canyon Way, Suite 219, Palm Springs, California 92262.

4. Laing was the president, treasurer, and a director of PCO. Laing executed escrow, and other investment related documents, completed by Idaho investors in PCO. These documents clearly identify the named investors as residing in Idaho. Laing's last known business address is

1900 Airport Road, Carson City, Nevada 89706.

5. Defendant Next Century, Inc. (Next Century), a Nevada corporation, served as a marketing agent for PCO from some time during 1996 through January 30, 1997. Next Century marketed PCO's loan transactions in Idaho, and received at least one commission for having marketed the transactions. Next Century also caused PCO's loan transactions to be promoted on the Internet, and accessible in Idaho. Next Century's last known address is 931 N. LaCienega Blvd., Los Angeles, California 90069.

6. Defendant Reparata Mazzola (Mazzola) is the president, treasurer, and a director of Next Century. Mazzola offered and sold PCO investments to Idaho residents. Mazzola's last known business address is 931 N. LaCienega Blvd., Los Angeles, California 90069.

7. M.D. Smith, a Colorado corporation, served as a marketing agent for PCO. M.D. Smith marketed PCO's loan transactions in Idaho, and recruited Idaho residents to serve as salespersons. M.D. Smith's last known address is 8400 Prentice Ave., Suite 850, Englewood, Colorado 80111.

8. Defendant Jay L. Wilcox (Wilcox) was a securities salesman licensed under the Idaho Securities Act beginning in approximately March, 1986. Wilcox most recently was affiliated with the securities firm Securities America, Inc., in its Twin Falls, Idaho office. Wilcox was terminated by Securities America, Inc., on March 24, 1997. Wilcox is currently licensed by the State of Idaho as an insurance agent. Wilcox, as an agent for M.D. Smith and PCO, solicited Idaho residents to become investors in PCO loan transactions. Wilcox's last known address is 230 Buckingham Drive, Twin Falls, Idaho 83301.

9. Defendant Marlis Kim Harris (Harris), was a securities salesman licensed under the Idaho Securities Act beginning in approximately February, 1982. Harris was most recently affiliated

with the securities firm Securities America, Inc., in its Idaho Falls, Idaho office. Harris was terminated by Securities America, Inc., in May, 1997. Harris is currently licensed by the State of Idaho as an insurance agent. Harris, as an agent for M.D. Smith and PCO, solicited Idaho residents to become investors in PCO loan transactions, and also recruited other persons to act as PCO salesmen. Harris's last known address is 3325 Circle S Drive, Idaho Falls, Idaho 83401.

10. Defendant Tony Sellers (Sellers) is a business and investment opportunity promoter who has operated under the assumed business name of Sellers Financial Services, Inc. Sellers has never been licensed in Idaho as a securities salesman. Sellers, as an agent for Next Century and PCO, solicited Idaho residents to become investors in PCO loan transactions. Sellers's last known address is 2733 Waterford Court, Idaho Falls, Idaho.

11. Defendant The American Insurance Company (American Insurance) is a surety company qualified to do business in Idaho. During the period relevant to the complaint, Securities America, Inc., the broker-dealer firm which employed Defendants Harris and Wilcox, was required to file with the Department a bond of a surety company in the amount of twenty-five thousand dollars ($25,000), conditioned upon compliance with the Idaho Securities Act by the firm and its salesmen. American Insurance provided the required bond for Securities America.

BACKGROUND

12. At least since June 1996, Defendants solicited Idaho residents to lend money to PCO in order for PCO to purchase the benefits of life insurance policies from terminally ill individuals ("viatical settlements"). Solicitations were made orally, through written materials, and on the Internet.

13. The loan transactions were allegedly to be collateralized by viatical settlements purchased by PCO. Investments were made by the execution and delivery of an "Escrow

Agreement", other documents evidencing the loan, and a deposit of funds by investors to Escrow Plus, Inc., a supposed escrow company located in Burbank, California.

14. Investors were given a loan agreement issued by PCO the term of which was twelve months from the deposit of funds, with a promised return of 21-25% per annum, with interest to be paid semi-annually.

15. The loan transactions offered and entered into by Defendants are securities in the form of notes, evidences of indebtedness, and/or investment contracts.

16. An investigation conducted by the State of California, Department of Corporations, has revealed that over $57.5 million was received from over 1000 investors nationwide by Escrow Plus, Inc., in connection with PCO, during the period July 1996 through March 20, 1997. The investigation further revealed that nearly $50 million had been disbursed from the escrow trust accounts of Escrow Plus, Inc., as of March 31, 1997. Of the funds released, Escrow Plus, Inc., received on average 5%, PCO and Laing received from 51.22% to 74.5%, and broker-dealers received from 15% to 25%. The Department of Corporations was unable to uncover evidence that any valid life insurance policies had been purchased by Defendants.

COUNT ONE

The allegations contained in paragraphs 1 through 16 are hereby realleged as if fully set forth.

17. Beginning on a date uncertain but at least since June 1996, Defendants Next Century, Mazzola, Wilcox, Harris, and Sellers sold or offered for sale, or caused to be sold, either directly or indirectly, or aided and abetted in the offer or sale of, notes, evidences of indebtedness, and/or investment contract securities.

18. The securities offered and sold by these Defendants were not registered with the

Department as required by Idaho Code § 30-1416.

19. Defendants Next Century, Mazzola, Wilcox, Harris, and Sellers have violated Idaho Code § 30-1416.

COUNT TWO

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

20. At no time have the Defendants Next Century, Mazzola, or Sellers been licensed by the Department of Finance as broker-dealers or salesmen to sell or offer for sale securities as required by Idaho Code § 30-1406.

21. Defendants Next Century, Mazzola, and Sellers have violated Idaho Code § 30-1406.

COUNT THREE

The allegations contained in paragraphs 1 through 21 are hereby realleged as if fully set forth.

22. Defendants Next Century, Mazzola, Wilcox, Harris, and Sellers offered and sold securities to individuals in violation of an antifraud provision of the Idaho Securities Act, Idaho Code § 30-1403(2), in that they made untrue statements of material fact and omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading. The untrue statements of material fact made by these Defendants include, but are not limited to, the following:

A. Misrepresenting to offerees and/or investors that money loaned to PCO would be used to purchase life insurance policies in accordance with the terms of the lending and escrow agreements.

B. Misrepresenting to offerees and/or investors that they would receive 21%-25% return on their money, as well as a return of their principal.

The omissions of Defendants Next Century, Mazzola, Wilcox, Harris, and Sellers include, but are not limited to, the following:

C. Failing to disclose to offerees and/or investors that nearly all of their investment would be paid out to Defendants and persons associated with the Defendants instead of being used to purchase life insurance policies.

D. Failing to disclose to offerees and/or investors that a Cease and Desist Order was entered by the State of South Dakota on January 14, 1997 against PCO, its officers, directors, brokers, and agents, ordering those parties to cease offering or selling securities in violation of the South Dakota securities act.

E. Failing to disclose to offerees and/or investors that Desist and Refrain Orders were entered by the State of California on February 28, 1997 and March 3, 1997, against PCO, Next Century, and M.D. Smith, among others, ordering those parties to cease various violations of the California Corporate Securities Law.

F. Failing to disclose to offerees and/or investors financial information regarding PCO and its officers.

G. Failing to disclose to offerees and/or investors PCO's history of raising, investing and repaying funds raised through previous or ongoing offerings.

H. Failing to disclose to offerees and/or investors the amount of commissions paid to the salesmen and broker-dealers involved in the offering and selling of the PCO investment.

I. Failing to disclose to offerees and/or investors that registration of the investment interests was required under the Idaho Securities Act, and that the interests were not so registered.

J. Failing to disclose to offerees and/or investors that the Defendants Next Century, Mazzola, and Sellers were not registered with the Idaho Department of Finance as broker-dealers or salesmen as required under the Idaho Securities Act.

23. Defendants Next Century, Mazzola, Wilcox, Harris, and Sellers have violated Idaho Code § 30-1403(2).

COUNT FOUR

The allegations contained in paragraphs 1 through 23 are hereby realleged as if fully set forth.

24. Defendants Wilcox and Harris engaged in private securities transactions ("selling away") without providing prior written notice to their employing broker-dealer firm.

25. Rule 124 of the rules pursuant to the Idaho Securities Act (IDAPA 12.01.08.124) provides that any substantial violation of NASD Conduct Rules shall also constitute a violation of the rules pursuant to the Idaho Securities Act. Selling away, without providing prior written notice to an employing broker-dealer firm, is a violation of Rule 3040 of the NASD Conduct Rules, and hence a violation of the rules pursuant to the Idaho Securities Act.

26. Defendants Wilcox and Harris have violated the rules pursuant to the Idaho Securities Act.

COUNT FIVE

The allegations contained in paragraphs 1 through 26 are hereby realleged as if fully set forth.

27. Defendants Next Century, Mazzola, Wilcox, Harris, and Sellers offered securities to persons in this state in violation of an antifraud provision of the Idaho Securities Act, Idaho Code § 30-1403(3), in that these Defendants engaged in acts, practices, and courses of business which operated as a fraud or deceit upon offerees and investors. The Defendants' acts, practices and

courses of business that operated as a fraud include, but are not limited to, the following:

A. The manner, timing, and means used in making the misrepresentations and omissions contained in paragraph 22, above.

B. Creating and carrying out a scheme whereby investors and/or offerees were led to believe that money invested would be used to purchase life insurance policies, and provide a substantial return, when in fact the investment program was not operated according to the terms as disclosed.

C. As to Defendants Wilcox and Harris, recommending to customers the purchase of securities without having reasonable grounds to believe that the recommendations were not unsuitable for such customers. Unsuitable recommendations are defined as deceptive or manipulative act by Rule 118 of the rules pursuant to the Securities Act (IDAPA 12.101.08.118), and are thus violations of Idaho Code § 30-1403(3).

28. Defendants Next Century, Mazzola, Wilcox, Harris, and Sellers have violated Idaho Code § 30-1403(3).

COUNT SIX

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

29. During the period relevant to the Amended Complaint, Idaho Code § 30-1407(2)(a) provided as follows:

> A registered broker-dealer or investment adviser shall file with the director a bond of a surety company duly authorized to transact business in this state, said bond to be in the sum of twenty-five thousand dollars ($25,000) and conditioned upon faithful compliance with the provisions of this act by the broker-dealer or investment adviser, its salesmen and agents, such that upon failure to so comply by the broker-dealer or investment adviser, its salesmen and agents, the surety company shall be liable to any and all persons who may suffer loss by reason thereof.

Securities America, Inc., the broker-dealer firm which employed Defendants Wilcox and Harris, pursuant to the above section, filed a bond of Defendant American Insurance with the Department in the amount of twenty-five thousand dollars.

30. Based upon the failure of Defendants Wilcox and Harris to comply with the Securities Act, American Insurance is liable to all Idaho residents who suffered loss by reason thereof, in the amount of twenty-five thousand dollars.

PRAYER FOR RELIEF

Wherefore, Plaintiff prays for a Judgment in favor of Plaintiff and against Defendants as follows:

A. That Defendants Next Century, Mazzola, Wilcox, Harris and Sellers be adjudged to have violated the Idaho Securities Act.

B. That Defendants Next Century, Mazzola, Wilcox, Harris and Sellers be permanently enjoined from engaging in any acts, practices or omissions which would constitute violations of the Idaho Securities Act, Title 30, Chapter 14, Idaho Code, or any rule or order thereunder, and in particular, that they be permanently enjoined from:

1. 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 Idaho Department of Finance in accordance with Title 30, Chapter 14, Idaho Code;
2. Selling or offering for sale nonexempt securities in any form in the State of Idaho until such time as Defendants have registered as broker-dealers or salesmen for a broker-dealer or issuer with the Idaho Department of Finance, in accordance with Title 30, Chapter 14, Idaho Code;
3. 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 in the securities;

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

C. That Defendants Next Century, Mazzola, Wilcox, Harris and Sellers be prohibited from claiming the availability of, using, or offering or selling securities under, any exemption under the Idaho Securities Act without receiving the prior written consent of the Director.

D. That Defendants Next Century, Mazzola, Wilcox, Harris and Sellers 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.

E. That the Department be awarded the proceeds of the American Insurance surety bond for distribution to all injured persons who were residents of Idaho at the time of the offer or sale of PCO investments.

F. That the Department be ordered to prepare a report for review by the Court setting forth the names and addresses of all eligible claimants of which it is aware after diligent inquiry. Diligent inquiry shall be satisfied by the Department's review of the available records of Defendants and victims, publication of a notice in the newspapers of major circulation in the State of Idaho that investors are being sought, and any other means which the Court shall direct the Department to undertake. The Department's report is to be completed within one hundred eighty

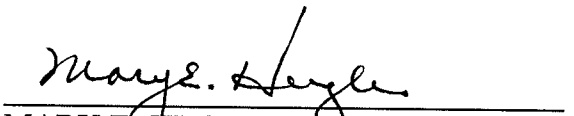
(180) days of the Court's order.

G. That upon submission of the Department's report to the Court, the proceeds of the bond shall be distributed to eligible claimants on a pro rata basis or upon any other equitable basis which the Court determines.

H. That Plaintiff be awarded attorney fees and costs incurred in the preparation and the prosecution of this action, and if judgment is taken by default herein, that $5,000 is a reasonable attorney's fee.

I. Such other and further relief as this Court may deem equitable and just.

DATED this 24th day of March, 1998.



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