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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. PARAMOUNT FINANCIAL GROUP, INC., a Colorado corporation; DOUGLAS G. GREGG, president and director, in his official and individual capacities; and J. L. "ROCKY" PFEFFER, JR., vice-president, in his official and individual capacities, and their agents and representatives, Defendants.	Case No. CV OC 0205937D **VERIFIED COMPLAINT** Fee category: Exempt

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, 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 Ada County, Idaho, and elsewhere in the state of Idaho.

DEFENDANTS

3.

Defendant Paramount Financial Group, Inc. (PFG) is a Colorado corporation conducting business from Stonegate Complex, 16025 Sequoia Drive, Parker, Colorado 80134. PFG purportedly engages in the business of structuring, developing and arranging debt and equity private placements, equipment leasing and other asset-based lending to small or mid-sized businesses.

4.

Douglas G. Gregg (Gregg) is the president of PFG and is known to use the address of Stonegate Complex, 16025 Sequoia Drive, Parker, Colorado 80134. J. L. "Rocky" Pfeffer, Jr., (Pfeffer) is the vice-president and investor relations representative of PFG and is known to use the address of P.O. Box 7956, The Woodlands, Texas 77387. Neither Gregg nor Pfeffer is

registered with the Department as a securities broker-dealer or securities salesman. PFG has not registered any security with the Department for sale to Idaho residents.

FACTS

5.

In or about late April of 2002, Mr. and Mrs. E.B., a married couple residing in Boise, Idaho, met Homer Holloway (Holloway) when he stopped to help them with their disabled vehicle on a highway in Oregon. At that time Mr. and Mrs. E.B. engaged in a conversation with Holloway regarding investments. Holloway said that he knew of a good investment whereby one could make 18%. After returning home, Mr. E.B. contacted Holloway, and inquired about the investment. Holloway gave Mr. E.B. the telephone number of Pfeffer.

6.

In or about May of 2002, Mr. E.B. telephoned Pfeffer about the investment Holloway had told him about. Pfeffer represented himself to Mr. E.B. as vice-president and investor relations representative for PFG, and discussed PFG 's investment program with Mr. E.B. Mr. E.B. requested that Pfeffer send him written information about the investment program, which Pfeffer did. On or about June 19, 2002, Gregg telephoned Mr. E.B. and the two discussed an investment in the PFG investment program.

7.

On or about June 27, 2002, a meeting was held in Boise, Idaho attended by Mr. E.B. and Pfeffer. Also in attendance were Mr. E.B.'s friend, Mr. E.L., and Jim Burns, investigator for the Department in undercover status. At that meeting, Pfeffer solicited or offered to sell to Mr. E.B., Mr. E.L. and Jim Burns, high yield secured convertible debentures in the form of "Series 'A'

Promissory Notes" (promissory notes) through PFG. Pfeffer represented that the investment was safe, would pay an 18% return, was available to any investor with $25,000 to invest, and that an investor did not have to meet any financial requirements to make such investment. Other representations about the PFG investment program made by Pfeffer at that meeting included representing that the promissory notes would be collateralized through EMB Corporation (EMB), and that PFG was in the process of merging into a publicly traded shell company called Arrow Communications. At the conclusion of that meeting, Jim Burns revealed to Pfeffer that he was an investigator for the Department and handed a letter from the Department to Pfeffer raising concerns about the legality of the transaction and requesting information about PFG's securities transactions in Idaho.

8.

Later in the day on June 27, 2002, Pfeffer again contacted Mr. E.B. and they met a second time to discuss the PFG debenture program. At that meeting Mr. E.B. gave Pfeffer a check for $50,000 to invest in the PFG debenture program. Mr. E.B. later stopped payment on that check. However, in or about the second week of July, 2002, Mr. E.B. sent another check for $50,000 to Gregg to invest in PFB's debenture program.

COUNT ONE: FAILURE TO REGISTER SECURITIES

9.

The allegations set forth in paragraphs 1 through 8 above are fully incorporated herein by this reference.

10.

Beginning on a date uncertain, but at least since June of 2002, the Defendants offered for sale, either directly or indirectly, or aided and abetted in the offer, to Idaho residents and others, through printed offering materials and oral solicitations, high yield debentures in the form of promissory notes, which constitute securities under the Act.

11.

The securities offered by the Defendants were not registered with the Department as required by Idaho Code § 30-1416.

12.

The Defendants' failure to register such securities constitutes a violation of Idaho Code § 30-1416.

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

13.

The allegations set forth in paragraphs 1 through 12 above are fully incorporated herein by this reference.

14.

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.

15.

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

16.

The allegations set forth in paragraphs 1 through 15 above are fully incorporated herein by this reference.

17.

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 PFG's high yield debenture program;

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

(E) Failing to adequately disclose to offerees and/or investors the financial condition, operating history and trading history of EMB, the publicly traded company whose shares the Defendants represented would collateralize the promissory notes;

(F) Failing to disclose to offerees and/or investors the numerous lawsuits filed or pending against EMB;

(G) While representing to investors that their principal could be returned in one year from warehouse lending profits and the sale of EMB shares, Defendants failed to disclose (1) what, if any, profits EMB has generated in the past from warehouse lending, and (2) that EMB shares are thinly-traded, low-priced securities, the sale of which may not be sufficient to generate a return of investor principal;

(H) Failing to disclose to offerees and/or investors of a securities-related judgment against Gregg issued by the U.S. District Court for the District of Utah on June 6, 2000.

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

18.

The allegations set forth in paragraphs 1 through 17 above are fully incorporated herein by this reference.

19.

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 include, but are not limited to, the following:

(A) The Defendants represented to Idaho investors and offerees that PFG was in the process of merging into a public traded shell company called Arrow Communications. The Defendants also represented that the merger would involve EMB. Records of the National Association of Securities Dealers (NASD) and the Securities and Exchange Commission (SEC) show no record of a publicly traded company called Arrow Communications. SEC filings by EMG do not reflect a merger with PFG.

(B) The Defendants represented to Idaho investors and offerees that PFG's merger with Arrow Communications was so imminent that the promissory notes offered by PFG would be collateralized by PFG preferred stock. No evidence of a merger was provided. Offering documents indicate that preferred convertible shares of EMB would secure the promissory notes.

(C) The Defendants represented to Idaho investors and offerees that PFG had a $100,000,000 to $500,000,000 credit line that could be accessed to fund mortgages and that PFG would be selling mortgage pools to institutional investors. The Defendants represented that these sales would generate profits to

PFG of 36% to 40% annually. No financial documents were provided to document the credit line and no basis was given to verify such profit claims.

(D) The Defendants represented to Idaho investors and offerees that investors in PFG's promissory notes did not need to meet any financial requirements to invest in the offering. However, the offering documents included a suitability questionnaire that required the investor to verify that he or she was an accredited investor.

(E) The Defendants represented to Idaho investors and offerees that all required filings and registrations had been made with the SEC in order to complete the shell company acquisition and for stock in PFG to be publicly traded. SEC files show no such filings by PFG.

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

20.

The allegations set forth in paragraphs 1 through 19 above are fully incorporated herein by this reference.

21.

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 which 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 referred to in Counts Three and Four above.

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, and that the court award a money judgment in the amount of at least $50,000, or such amount as determined by the proof, 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 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 31st day of July, 2002.

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL

A. René Martin
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:

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 31st day of July, 2002.

Marilyn T. Chastain
MARILYN T. CHASTAIN

SUBSCRIBED AND SWORN to before me this 31st day of July, 2002.

VIRGINIA L. SORENSEN NOTARY PUBLIC STATE OF IDAHO

Virginia L. Sor
Notary Public for Idaho
Residing at: Caldwell
My Commission Expires: 04-05-2006