

BRIANE NELSON MITCHELL, Cal. Bar No. 116037  
Email: mitchellbn@sec.gov  
VICTORIA A. LEVIN, Cal. Bar No. 166616  
Email: leviny@sec.gov  
JANET MOSER, Cal. Bar No. 199171  
Email: moserj@sec.gov

Attorneys for Plaintiff  
Securities and Exchange Commission  
Randall R. Lee, Regional Director  
Michele Wein Layne, Associate Regional Director  
5670 Wilshire Boulevard, 11th Floor  
Los Angeles, California 90036-3648  
Telephone: (323) 965-3998  
Facsimile: (323) 965-3908

**UNITED STATES DISTRICT COURT  
DISTRICT OF OREGON**

**SECURITIES AND EXCHANGE  
COMMISSION,**

Plaintiff,

vs.

**C. WESLEY RHODES, JR., RHODES  
ECONOMETRICS, INC., THE  
RHODES COMPANY, and  
RESOURCE TRANSACTIONS, INC.,**

Defendants.

Case No. CV06-01353-MO

**FIRST AMENDED COMPLAINT  
FOR VIOLATIONS OF THE  
FEDERAL SECURITIES LAWS**

Plaintiff United States Securities and Exchange Commission  
("Commission") alleges as follows:

**JURISDICTION AND VENUE**

1. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d)(1), and 22(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§ 77t(b), 77t(d)(1) & 77v(a), Sections 21(d)(1), 21(d)(3)(A), 21(e), and 27 of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§ 78u(d)(1), 78u(d)(3)(A), 78u(e), & 78aa, and Sections 209(d), 209(e)(1), and 214 of the Investment Advisers Act of 1940 ("Advisers Act"), 15 U.S.C. §§ 80b-9(d), 80b-9(e)(1), & 80b-14. Defendants have, directly or indirectly, made use of the means or instrumentalities of interstate commerce, or of the mails, or of the facilities of a national securities exchange, in connection with the transactions, acts, practices, and courses of business alleged in this complaint.

2. Venue is proper in this district pursuant to Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a), Section 27 of the Exchange Act, 15 U.S.C. § 78aa, Section 27 of the Exchange Act, 15 U.S.C. § 78aa, and Section 214 of the Advisers Act, 15 U.S.C. § 80b-14, because certain of the transactions, acts, practices, and courses of business constituting violations of the federal securities laws occurred within this district.

**SUMMARY**

3. This matter involves a fraudulent scheme perpetrated by C. Wesley Rhodes, Jr. and companies he controls, including Rhodes Econometrics, Inc., an investment adviser registered with the Commission; The Rhodes Company, an unregistered investment adviser; and Resource Transactions, Inc. ("RT, Inc."), another unregistered adviser. Starting as far back as the early 1990s, Rhodes raised millions of dollars from individual investors by representing that he would invest their money in stock or bond funds or portfolios or directly in stocks and bonds. In

July 2006, Rhodes sent account statements to these investors showing that their balances had an aggregate value of nearly \$40 million as of June 30, 2006. However, contrary to the representations made to investors, Rhodes had not been using the investors' money to invest in stocks and bonds. Instead, Rhodes was actually using their funds for other purposes, including the purchase of automobiles and sports memorabilia. Indeed, by the time that the Receiver was appointed for Rhodes' companies in September 2006, Rhodes had less than \$2 million invested in stocks and bonds as compared to almost \$40 million that he had claimed was invested as of June 30, 2006, in the statements that he had provided to his investors.

4. A review of Rhodes' use of funds during one time period (January 2004 to August 2006) when Rhodes raised more than \$16.2 million from approximately 50 investors illustrates Rhodes' misappropriation and misuse of investor funds:

- Rhodes withdrew almost \$1 million of investor funds in cash.
- Rhodes used almost \$4.7 million of investor funds to pay business and personal expenses, including the purchase of luxury and exotic cars, home improvements, jewelry, furs, and fine furnishings.
- Rhodes transferred almost \$1.3 million of investor funds to bank and credit card accounts that appear to be held in his name or for his benefit.
- Rhodes used more than \$6.3 million of investor funds to make payments back to some investors of their principal and purported profits.

5. Defendants Rhodes, Rhodes Company, and RT Inc., by engaging in the conduct described in this Complaint, have violated and are violating Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), and Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5. Defendants also have violated and are violating Sections 206(1) and (2) of the Advisers Act, 15 U.S.C. § 80b-6(1) & 80b-6(2).

## THE DEFENDANTS

6. **C. Wesley Rhodes, Jr.** (“Rhodes”), age 55, is a resident of West Linn, Oregon. Rhodes is the sole owner and president of Rhodes Econometrics and Rhodes Company, and the president of RT, Inc. Rhodes has been licensed with the State of Oregon as an investment adviser representative of Rhodes Econometrics and Rhodes Company. In 2000, The Oregon Department of Consumer and Business Services, Division of Finance and Corporate Securities (“Oregon”) issued a cease-and-desist order against Rhodes for providing investment advice without being registered with Oregon as an investment adviser representative, selling unregistered securities in an investment fund, and omitting to disclose material information regarding his commingling of client funds, the investment funds’ actual profit, and the source of purported profits paid to the fund investors. Rhodes was ordered to pay a \$12,500 civil penalty, \$5,000 of which was suspended indefinitely, contingent upon his continued compliance with Oregon securities laws. Since late 2005, Rhodes also has done business as “PPPS,” an unregistered assumed business name, or has managed or operated “PPPS,” an entity of unknown origin, as part of his fraudulent scheme.

7. **Rhodes Econometrics, Inc.** (“Rhodes Econometrics”) is an Oregon corporation formed in 1998 with its principal place of business in Lake Oswego, Oregon. Rhodes is the sole owner and president of Rhodes Econometrics. Rhodes Econometrics registered with the Commission as an investment adviser on May 5, 1999. As of September 15, 2005, Rhodes Econometrics managed on a discretionary basis approximately \$36 million in 246 client accounts. On September 21, 2006 the Court appointed Michael A. Grassmuck as temporary receiver of Rhodes Econometrics and, on October 30, 2006, the Court appointed him as permanent receiver with full powers of an equity receiver.

8. **The Rhodes Company** (“Rhodes Company”) (formerly known as Professional Practice Planning Services, Inc. (“Professional Practice Planning”)) is an Oregon corporation formed in 1985 with its principal place of business in Lake Oswego, Oregon. Rhodes is the sole owner and president of Rhodes Company. Rhodes Company is an investment adviser but is not registered with the Commission in any capacity. From 1988 to 1994 and from 1998 to 1999, Rhodes Company, under the Professional Practice Planning name, was licensed as an investment adviser with Oregon. In 2000, Oregon issued a cease-and-desist order against Rhodes Company for providing investment advice without being registered as an investment adviser in Oregon and for selling unregistered securities in an investment fund. Rhodes Company was ordered to pay jointly and severally with Rhodes the \$12,500 civil penalty, \$5,000 of which was suspended indefinitely, contingent upon its continued compliance with Oregon securities laws. On September 21, 2006 the Court appointed Michael A. Grassmueck as temporary receiver of Rhodes Company and, on October 30, 2006, the Court appointed him as permanent receiver with full powers of an equity receiver.

9. **Resource Transactions, Inc. (“RT, Inc.”)** is an Oregon corporation formed in April 2006. RT, Inc. lists its business address as a post office box in Tualatin, Oregon. Rhodes’ affiliation with RT, Inc. is not disclosed in any public records, but Rhodes has opened two bank accounts and one brokerage account in RT, Inc.’s name and has sole authority over those accounts. RT, Inc. is an investment adviser but is not registered with the Commission in any capacity. On September 21, 2006 the Court appointed Michael A. Grassmueck as temporary receiver of RT, Inc. and, on October 30, 2006, the Court appointed him as permanent receiver with full powers of an equity receiver.

## THE FRAUDULENT SCHEME

### **A. Rhodes' Advisory Business**

10. Rhodes Econometrics is registered with the Commission as an investment adviser. Rhodes is its sole owner, president, and chief compliance officer. Rhodes Econometrics' clients include individuals, pension and profit sharing plans, trusts, estates, and corporations.

11. As alleged further below, in addition to providing investment advisory services through Rhodes Econometrics, Rhodes, through the unregistered investment advisers Rhodes Company and RT, Inc., was also operating a fraud by offering investments in "separate accounts," which were also referred to as "side accounts" or "managed accounts." Rhodes used an outside secretarial service to prepare records for the separate, side, or managed accounts, including quarterly account statements and annual 1099s for the investors. Rhodes' use of the outside secretarial service was discovered by the Receiver after Rhodes failed to turn over records for the separate, side, or managed accounts.

### **B. Rhodes' Fraudulent Scheme**

12. Starting back in the 1990s, Rhodes, through his various entities raised millions of dollars from investors by representing that he would place their funds in separate, side, or managed accounts and invest them in a bond fund, a convertible stock fund, or some other type of pooled investment fund or portfolio and/or directly in stocks or bonds. Rhodes told the investors that he used proprietary investment strategies that involved the purchase of stocks and bonds in certain combinations or portfolios that were similar to mutual funds. Rhodes offered some of the investors a form of "discount" (or bonus) for investing in his separate, side, or managed accounts.

13. Rhodes and his companies provided one prospective investor with historical rates of return for the pooled investment funds and portfolios for the

years 1997 to 2002. In a schedule entitled “Unaudited Rates of Return,” Rhodes and his companies represented to the investor that the average annual “net” rate of return (after expenses and fees) for the years 1997 to 2002 for their Emerging Technology, Growth, Value, and Growth/Income portfolios was 11.48%, 12.60%, 8.06%, and 17.97%, respectively.

14. In a November 11, 2004 letter to one prospective investor, Rhodes and his companies compared their separate, side, or managed accounts to mutual funds. According to the letter, their accounts were like mutual funds in that they both provided portfolio diversification and liquidity, but their separate, side, or managed accounts were better than mutual funds because they had lower total fees and tax advantages, and could be individualized to meet each investor’s particular objectives and investment policy. In the letter, Rhodes and his companies also referenced specific pooled investments, such as the “Current Opportunities” portfolio, the “Current Income” portfolio, the “Diamond Portfolio,” the “Patents and Patents Citations Portfolio (PPC150),” the “Research and Development (R&D) 300 Portfolio,” and the “Diamond Fund Portfolio.” Finally, in the letter, Rhodes and his companies touted the performance of the net rates of return of the elements of their Diamond Portfolio—9.93% for the “Growth and Income” element, 6.98% for the “Value” element, 12.41% for the “Growth” element, and 13.67% for the “Emerging Technology” element.”

15. Rhodes repeated similar misrepresentations to numerous other investors with only variations on the theme. For example, Rhodes told one investor that his money would be invested in a “Balanced Portfolio,” which Rhodes described as a pooled investment fund that would, in turn, invest in convertible preferred stock. Rhodes told another investor that his retirement monies were invested in a managed or “master” account similar to a mutual fund. Rhodes told yet another investor that his funds were invested in Rhodes’ various

portfolios, including the “Emerging Technologies Portfolio,” the “Growth and Income Portfolio,” and the “Diamond Portfolio.”

16. Rhodes told one 74-year old investor that he would invest her money in a bond fund called “Investment Fund PPS 2002”; told another 65-year old investor that he would invest her retirement funds in stocks and bonds; and told one 67-year old widowed investor that he would invest her money in the stock market.

17. Rhodes also represented to investors, through the letters and account statements he sent to them, that their funds were invested in stock or bond funds or portfolios or directly in stocks and bonds. For example:

- a. One investor started investing in Rhodes’ separate, side, or managed accounts back in 1993. As of June 30, 2006, Rhodes was telling this investor that he had \$2.9 million invested in stocks (both “growth/risk” and “growth/income” stocks), bonds (both “liquid” and “investment” bonds), and convertible debentures.
- b. One investor started investing in Rhodes’ separate, side, or managed accounts back in 1994. As of June 30, 2006, Rhodes was telling this investor that he had \$439,061 invested in stocks (“Original Portfolio” and “2000 Investments”) and a “Balanced Portfolio.”
- c. One investor started investing in Rhodes’ separate, side, or managed accounts back in 1996. As of June 30, 2006, Rhodes was telling this investor that he had more than \$1.8 million invested in “Growth and Income” and “Balanced” portfolios.
- d. One investor started investing in Rhodes’ separate, side, or managed accounts back in 1997. As of June 30, 2006, Rhodes was telling this investor that he had \$657,364 invested in “Bonds,” “Convertibles,” and “Convertible Preferreds.”



- e. One investor started investing in Rhodes' separate, side, or managed accounts back in 1998. As of June 30, 2006, Rhodes was telling this investor that he had \$1,073,871 invested in "Current Income" and "Current Opportunities" portfolios.
- f. One investor started investing in Rhodes' separate, side, or managed accounts back in 1998 or 1999. As of June 30, 2006, Rhodes was telling this investor that he had more than \$2.4 million invested in "Bonds."
- g. One investor started investing in Rhodes' separate, side, or managed accounts back in 2000. As of June 30, 2006, Rhodes was telling this investor that he had more than \$2.5 million invested in an "ET Account," comprised of both a "Balanced Portfolio" and "Growth" stock, and another \$573,674 invested in a "Balanced Portfolio."
- h. One investor started investing in Rhodes' separate, side, or managed accounts back in 2000. As of March 31, 2006, Rhodes was telling this investor that he had \$830,975 invested in a "Diamond Portfolio," and that this represented a 17.8% portfolio interest.
- i. One investor started investing in Rhodes' separate, side, or managed accounts back in 2000. As of June 30, 2006, Rhodes was telling this investor that she had more than \$455,735 invested in "Bonds."
- j. One investor started investing in Rhodes' separate, side, or managed accounts back in 2001. As of June 30, 2006, Rhodes was telling this investor that he had more than \$190,000 invested in two stock portfolios ("Growth & Income" and "Technology") and a "Balanced Portfolio."
- k. One investor started investing in Rhodes' separate, side, or managed accounts back in 2002. As of June 30, 2006, Rhodes was telling this

investor that he had \$272,710 invested in a “Diamond Portfolio” or “Master Portfolio,” and that this represented a 5.36% portfolio interest.

- l. One investor started investing in Rhodes’ separate, side, or managed accounts back in 2002. As of June 30, 2006, Rhodes was telling this investor that he had more than \$410,000 invested in a “Stock Portfolio” and a “Balanced Portfolio.”
- m. One investor started investing in Rhodes’ separate, side, or managed accounts back in 2002. As of June 30, 2006, Rhodes was telling this investor that he had almost \$490,000 invested in “Common Stock, Growth & Income,” and “Balanced Stock.”
- n. One investor started investing in Rhodes’ separate, side, or managed accounts back in 2003. As of June 30, 2006, Rhodes was telling this investor that he had \$891,966 invested in the “Growth/Income Portfolio” and the “Balanced Portfolio.”

18. In checks written to investors, Rhodes further represented to investors that their funds were invested in bond or stock funds or directly in stocks and bonds. On many checks written by Rhodes to investors, Rhodes wrote notations stating that the money was either a return of principal or earnings on an investment, such as “Dividend Withdrawal from Invest. Acct,” “Account withdrawal,” “Acct. withdrawal; dividends,” “Sales Proceeds, Acct. Withdrawal,” “account withdrawal-corporate,” and “Acct. close – Bonds.”

19. Rhodes provided 1099 forms to the investors from at least 2001 to 2005 reporting the amount of taxable interest and dividend income they had earned on their “side” or “managed” accounts. Rhodes’ records have not shown whether there was any factual basis for the statements that he made in the 1099 forms that he sent to the investors.

### **Rhodes' Receipt of Investor Funds**

20. Starting back in the 1990s, Rhodes, through Rhodes Company, RT, Inc., and the other entities that he controlled, raised millions of dollars from investors by representing that he would place their funds in separate, side, or managed accounts and invest them in a bond fund, a convertible stock fund, or some other type of pooled investment fund or portfolio and/or directly in stocks or bonds. During the 2004 to 2006 time period alone, Rhodes, through Rhodes Company, RT, Inc., and the other entities that he controlled, raised more than \$16.2 million from approximately 50 investors, many of whom were Rhodes Econometrics clients, through these separate, side, or managed accounts. By July 2006, Rhodes was sending statements telling his investors that there was almost \$40 million in the side accounts.

21. As part of the fraudulent scheme in 2004 to 2005, Rhodes deposited \$10.7 million in an account called the Investment Administration Account held in the name of Rhodes Company's prior name, Professional Practice Planning. On many of the checks deposited into that account, the payor specifically included on the memo line notations such as "Wes Rhodes Bond Fund," "Rhodes Econometrics Bond Fund," "Rhodes Inv," "Conv. Pref. Stock," and "bond fund." In addition, with almost all of the funds deposited in 2004 to 2005, the payor stated on the memo line that the funds were "FBO," i.e. for the benefit of, the payor or a family member. Rhodes further endorsed the checks with the notation "TTEE," i.e. trustee, following his signature.

22. In late September 2005, after securities regulators learned of the Investment Administration Account, Rhodes stopped using that account and began operating his separate, side, or managed accounts through other accounts, including two accounts in the name of RT, Inc. Even though Rhodes opened the RT, Inc.

accounts and controlled all deposits and withdrawals from the accounts, Rhodes was not disclosed as having any affiliation to RT, Inc. in any of its public filings.

23. Since late October 2005, Rhodes has deposited more than \$5.2 million from 21 investors into the RT, Inc. accounts.

24. Rhodes Company and RT, Inc. also received investment advisory fees from the investors in the separate, side, or managed accounts. Since January 1, 2004, Rhodes Company has received at least \$85,471 and RT, Inc. has received \$9,700 in such fees from investors.

#### **Rhodes' Misappropriation and Misuse of Investor Funds**

25. It appears that Rhodes misappropriated and misused most of the investor funds. Rhodes sent quarterly account statements to more than 60 investors in July 2006, showing that their investments in Rhodes' various stock and bond funds or portfolios (e.g., "Balanced Portfolio," "Diamond Portfolio," "Growth/Income Portfolio," "Stock Portfolio," or "Master Portfolio") were valued at nearly \$40 million at June 30, 2006. However, as of September 2006, Rhodes and the companies he controlled had less than \$2 million invested in stocks and bonds.

26. Rhodes misappropriated and misused the investor funds that were entrusted to him. For example, a review of Rhodes' accounts reveals that Rhodes did not use the vast majority of the investor funds he raised during the 2004 to 2006 time period to invest in securities. Instead, Rhodes misappropriated and misused most of the investor funds in the following manner:

- Cash withdrawals of almost \$1 million;
- Direct payments of Rhodes' personal and business expenses of nearly \$210,000;
- Auto expenses of more than \$1.7 million;
- Transfers to other Rhodes accounts of almost \$2.7 million;

- Transfers to bank and credit card accounts that appear to be in the name of, or for the benefit, Rhodes of almost \$1.3 million;
- Return of funds to some investors of more than \$6.3 million; and
- Unknown/small checks of approximately \$50,000.

### **FIRST CLAIM FOR RELIEF**

#### **Fraud in the Offer or Sale of Securities**

#### **Violations of Section 17(a) of the Securities Act**

#### **(Against Rhodes, Rhodes Company, and RT, Inc.)**

27. The Commission realleges and incorporates by reference paragraphs 1 through 26 above.

28. Defendants Rhodes, Rhodes Company, and RT, Inc., and each of them, by engaging in the conduct described above, directly or indirectly, in the offer or sale of securities by the use of means or instruments of transportation or communication in interstate commerce or by use of them mails:

- a. with scienter, employed devices, schemes, or artifices to defraud;
- b. obtained money or property by means of untrue statements of a material fact or by omitting to state a material fact necessary in order to make the statement made, in light of the circumstances under which they were made, not misleading; or
- c. engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon the purchaser.

29. By engaging in the conduct described above, defendants Rhodes, Rhodes Company, and RT, Inc., and each of them, violated, and unless restrained and enjoined will continue to violate, Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

## **SECOND CLAIM FOR RELIEF**

### **Fraud in Connection with the Purchase or Sale of Securities**

#### **Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder (Against Rhodes, Rhodes Company, and RT, Inc.)**

30. The Commission realleges and incorporates by reference paragraphs 1 through 26 above.

31. Defendants Rhodes, Rhodes Company, and RT, Inc., by engaging in the conduct described above, directly or indirectly, in connection with the purchase or sale of a security, by the use of means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange, with scienter:

- a. employed devices, schemes, or artifices to defraud;
- b. made untrue statements of a material fact or omitted 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; or
- c. engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons.

32. By engaging in the conduct described above, defendants Rhodes, Rhodes Company, and RT, Inc., and each of them, violated, and unless restrained and enjoined will continue to violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

## **THIRD CLAIM FOR RELIEF**

### **Investment Advisory Fraud**

#### **Violations of Sections 206(1) and 206(2) of the Advisers Act (Against All Defendants)**

33. The Commission realleges and incorporates by reference paragraphs 1 through 26 above.

34. The defendants, by engaging in the conduct described above, directly or indirectly, by use of the mails or any means or instrumentalities of interstate commerce:

- a. with scienter, employed devices, schemes, or artifices to defraud any client or prospective client; or
- b. engaged in transactions, practices, or courses of business which operated as a fraud or deceit upon any client or prospective client.

35. By engaging in the conduct described above, the defendants, and each of them, violated, and unless restrained and enjoined will continue to violate, Sections 206(1) and 206(2) of the Advisers Act, 15 U.S.C. §§ 80b-6(1) & 80b-6(2).

#### **PRAYER FOR RELIEF**

WHEREFORE, the Commission respectfully requests that the Court:

##### **I.**

Issue findings of fact and conclusions of law that the defendants committed the alleged violations.

##### **II.**

Issue orders, in a form consistent with Fed. R. Civ. P. 65(d), temporarily, preliminarily, and permanently enjoining defendants Rhodes, Rhodes Company, and RT, Inc. and their officers, agents, servants, employees, and attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from violating Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder, and temporarily, preliminarily, and permanently enjoining each defendant and their officers, agents, servants, employees, and attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from violating Sections 206(1) and 206(2) of the Advisers Act.

**III.**

Issue, in a form consistent with Fed. R. Civ. P. 65, a temporary restraining order and a preliminary injunction freezing the assets of each of the defendants and prohibiting each of the defendants from destroying documents; appointing a receiver over defendants Rhodes Econometrics, Rhodes Company, and RT, Inc., as well as all other entities directly or indirectly controlled by Rhodes, and ordering accountings.

**IV.**

Order each defendant to disgorge all ill-gotten gains from his or its illegal conduct, together with prejudgment interest thereon.

**V.**

Order each of the defendants to pay civil penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. §77t(d), Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u-(d)(3), and Section 209(e) of the Advisers Act, 15 U.S.C. § 80b-9.

**VI.**

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

**VII.**

Grant such other and further relief as this Court may determine to be just and necessary.

DATED: December 29, 2006

/s/ Briane Nelson Mitchell  
BRIANE NELSON MITCHELL  
VICTORIA A. LEVIN  
JANET E. MOSER  
Attorneys for Plaintiff  
Securities and Exchange Commission