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CLERK U.S. DISTRICT COURT  
CENTRAL DISTRICT OF CALIF.  
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10 UNITED STATES DISTRICT COURT  
11 CENTRAL DISTRICT OF CALIFORNIA

13 SECURITIES AND EXCHANGE  
14 COMMISSION,

14 Plaintiff,

15 vs.

16 ROBERT LOUIS CARVER; ROBERT  
17 LOUIS CARVER, II; JAMES LOWELL  
18 DEMERS; LINCOLN FUNDS  
19 INTERNATIONAL, INC., a Nevada  
20 corporation; and PAROPES  
CORPORATION, f/k/a BROOKSTONE  
CAPITAL, INC., a Nevada corporation,

20 Defendants,

21 LINCOLN BIOTECH VENTURES, L.P.;  
22 LINCOLN BIOTECH VENTURES II, L.P.;  
23 LINCOLN BIOTECH VENTURES III,  
L.P., and MacAUSLAN CAPITAL  
PARTNERS, LLC,

24 Relief Defendants.

Case No. SACV08-627 CJC (RNBx)

COMPLAINT FOR VIOLATIONS  
OF THE FEDERAL SECURITIES  
LAWS

1 Plaintiff Securities and Exchange Commission (“Commission”) alleges as  
2 follows:

3 **JURISDICTION AND VENUE**

4 1. This Court has jurisdiction over this action pursuant to Sections 20(b),  
5 20(d)(1) and 22(a) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C. §§  
6 77t(b), 77t(d)(1) & 77v(a); Sections 21(d)(1), 21(d)(3)(A), 21(e) and 27 of the  
7 Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78u(d)(1),  
8 78u(d)(3)(A), 78u(e) & 78aa; and Section 214 of the Investment Advisers Act of  
9 1940 (“Advisers Act”), 15 U.S.C. § 80b-14. Defendants have, directly or  
10 indirectly, made use of the means or instrumentalities of interstate commerce, of  
11 the mails, or of the facilities of a national securities exchange in connection with  
12 the transactions, acts, practices, and courses of business alleged in this Complaint.

13 2. Venue is proper in this district pursuant to Section 22(a) of the  
14 Securities Act, 15 U.S.C. § 77v(a), Section 27 of the Exchange Act, 15 U.S.C. §  
15 78aa, and Section 214 of the Advisers Act, 15 U.S.C. § 80b-14, because certain of  
16 the transactions, acts, practices, and courses of conduct constituting violations of  
17 the federal securities laws occurred within this district. Defendants Robert Louis  
18 Carver (“Carver”), Robert Louis Carver, II (“Carver II”), and James Lowell  
19 DeMers (“DeMers”) reside and transact business in this district. Defendants  
20 Lincoln Funds International, Inc. (“Lincoln Funds”); and Paropes Corporation,  
21 formerly known as Brookstone Capital, Inc. (“Brookstone”); and relief defendants  
22 Lincoln Biotech Ventures, L.P. (“LBV I”); Lincoln Biotech Ventures II, L.P.  
23 (“LBV II”); Lincoln Biotech Ventures III, L.P. (“LBV III”); and MacAuslan  
24 Capital Partners LLC (“MacAuslan Capital”) are also located in this district.

25 **INTRODUCTION**

26 3. From at least April 2004 continuing to the present, defendants have  
27 been engaged in a fraudulent scheme that raised over \$21.8 million from about 400  
28 investors, who are located throughout the United States, through the sale of

1 common stock and limited partnership interests in a series of five unregistered  
2 offerings. In the course of two common stock offerings in Brookstone and Lincoln  
3 Funds, defendants made several misrepresentations and omissions, including  
4 failing to disclose the criminal history of defendant Carver, misrepresenting the  
5 timing of a potential initial public offering (“IPO”), and making baseless  
6 projections about the future price of the common stock. In the course of three  
7 limited partnership offerings, defendants defrauded the partnerships by misusing  
8 and misappropriating at least \$2.5 million of the investors’ funds. Defendants  
9 Brookstone and Lincoln Funds were the general partners of the partnerships and  
10 the investment advisers for the partnerships, and defendants breached their  
11 fiduciary duties to the partnerships through their misuse of the funds’ assets.

12 4. In an effort to conceal Carver’s association with the offerings as  
13 various state regulatory agencies uncovered the fraudulent activity, defendants  
14 concocted a sham sale of Brookstone’s assets to Lincoln Funds in late 2006 and  
15 early 2007. In the Lincoln Funds offering which commenced in January 2008,  
16 defendants failed to disclose that Lincoln Funds is the successor to Brookstone,  
17 that Carver was and is associated with both Lincoln Funds and Brookstone, and  
18 that defendants have otherwise have attempted to “bury” any relationship between  
19 Brookstone and Lincoln Funds, in an effort to deceive investors and raise  
20 additional funds.

21 5. Defendants have engaged in numerous activities to perpetrate and  
22 continue the fraud. Most recently, on June 3, 2008, defendant DeMers  
23 misappropriated \$2.9 million of investors’ funds by transferring that amount from  
24 accounts controlled by defendant Lincoln Funds to an account in the name of relief  
25 defendant MacAuslan Capital. On the evening of June 4, 2008, defendant DeMers  
26 directed a moving van to go to Lincoln Funds’ offices in Costa Mesa, California,  
27 and apparently removed an unknown number of documents from Lincoln Funds’  
28 offices. In May 2008, Carver was appointed sole director of Lincoln Funds by his

1 son, Carver II, and thus is currently controlling Lincoln Funds. It is unclear what  
2 role, if any, Carver has played in DeMers' recent actions. Earlier this year, Carver  
3 II removed several computers from the offices of Lincoln Funds that may have  
4 been used by Carver in connection with the offerings.

5 6. The defendants have violated and continue to violate the securities  
6 registration provisions of the Securities Act and the antifraud provisions of the  
7 Securities Act and the Exchange Act. Defendants have violated the antifraud  
8 provisions of the Advisers Act. Carver, Carver II, and DeMers violated the broker-  
9 dealer registration provisions of the Exchange Act. The Commission requests a  
10 temporary restraining order and preliminary and permanent injunctions prohibiting  
11 defendants from future violations of the federal securities laws; appointment of a  
12 receiver over Lincoln Funds, Brookstone, LBV I, LBV II, LBV III, and their  
13 subsidiaries; an order freezing the assets of the defendants Lincoln Funds,  
14 Brookstone, Carver, Carver II, and DeMers and relief defendants LVB I, LBV II,  
15 LBV III, MacAuslan Capital, and any entities under their control; disgorgement of  
16 the defendants' ill-gotten gains; and civil penalties.

17 **THE DEFENDANTS**

18 7. **Robert Louis Carver ("Carver")** is a resident of Irvine, California.  
19 He was the sole director, majority shareholder, Chairman, CEO, President,  
20 Secretary and Treasurer of Brookstone from its founding until June 2006, when  
21 Carver resigned his positions and transferred his holdings in Brookstone to his son,  
22 Carver II. After his resignation, Carver was a consultant to Brookstone, and  
23 continued to exercise control over the company. Recently, in May 2008, Carver II,  
24 as the controlling shareholder of Lincoln Funds, appointed Carver as sole director  
25 of the company. In 1994, Carver pled guilty to one felony count of  
26 making/passing fictitious checks, and in a separate incident, pled *nolo contendere*  
27 to two felony counts of grand theft. In July 2007, after much of the conduct at  
28 issue, Carver succeeded in expunging from his record the two felony counts of

1 grand theft. Carver has been the subject of the following state regulatory orders:

2 • On March 21, 1996, the California Department of Corporations (“CA  
3 DOC”) issued a Desist and Refrain Order against Carver, a company named World  
4 Wide Web Casinos, Inc., and others, for the unregistered sale of securities in  
5 California (“1996 CA D&R”).

6 • On April 21, 1999, the Pennsylvania Securities Commission issued a  
7 Summary Order to Cease and Desist against Carver, a company named Xirtrix  
8 Gaming Technologies, Inc. (of which Carver was Chairman, CEO, Secretary, and  
9 Treasurer), and others (“1999 PSC C&D”), for the unregistered sale of securities in  
10 Pennsylvania.

11 • On August 2, 2001, the Missouri Secretary of State issued an Order to  
12 Cease and Desist against Carver and a company named World Gaming  
13 Corporation (of which Carver was Chairman of the Board of Directors and a  
14 principal shareholder) (“2001 MO C&D”), for the unregistered sale of securities in  
15 Missouri, and failure to inform prospective investors of material information,  
16 specifically the 1999 PSC C&D.

17 • On September 26, 2005, the CA DOC issued an Order Barring Robert  
18 L. Carver From Any Position of Employment, Management or Control of Any  
19 Investment Adviser, Broker-Dealer or Commodity Adviser Pursuant to  
20 Corporations Code Section 25232.1 (“2005 CA Bar Order”).

21 • On October 31, 2006, the CA DOC issued a Desist and Refrain Order  
22 against Carver, Brookstone, LBV I, and LBV II (“2006 CA D&R”), for the  
23 unregistered sale of securities in California, and failure to disclose material facts  
24 about Carver’s prior felony convictions, the 1996 CA D&R, the 2005 CA Bar  
25 Order, and a 2005 CA DOC Order denying Brookstone’s application for an  
26 investment adviser certificate.

27 • On January 30, 2007, the Alabama Securities Commission (“ASC”)  
28 issued a Cease and Desist Order against Carver, DeMers, Brookstone, LBV I, and

1 LBV II (“2007 ASC C&D”), for the unregistered sale of securities in Alabama, and  
2 Carver’s failure to disclose material facts to investors about his prior felony  
3 convictions, the 2005 CA Bar Order, and the 1996 CA D&R.

4       8.     **Robert Louis Carver, II (“Carver II”)** is a resident of Irvine,  
5 California. Carver II worked at Brookstone beginning in 2004 as a salesman and  
6 IT consultant. In June 2006, Carver II was named Secretary, Treasurer, CFO, and  
7 sole Director of Brookstone, and became its majority shareholder. In September  
8 2006, Carver was named CFO, Secretary, Treasurer, and sole Director of Lincoln  
9 Funds, and was the company’s majority shareholder. In March 2008, Carver II  
10 resigned as an officer of Lincoln Funds and Brookstone. From June 2006 through  
11 at least March 2008, Carver II was the signatory on the bank and brokerage  
12 accounts of Brookstone, Lincoln Funds, LBV I, LBV II, LBV III, and related  
13 entities.

14       9.     **James Lowell DeMers (“DeMers”)** is a resident of Cerritos,  
15 California. DeMers joined Brookstone in 2004 as a salesman. In June 2006,  
16 DeMers was named President of Brookstone. In September 2006, DeMers was  
17 named President of Lincoln Funds. In 2007, DeMers became a signatory on the  
18 various bank and brokerage accounts of Lincoln Funds, Brookstone, LBV I, LBV  
19 II, LBV III, and related entities.

20       10.    **Lincoln Funds International, Inc. (“Lincoln Funds”)** is a Nevada  
21 corporation with its principal place of business in Costa Mesa, California.  
22 Although the corporation was organized in 1996, its name was changed to Lincoln  
23 Funds in 2006 and it became operational as Lincoln Funds in late 2006 or early  
24 2007. Shortly after assuming the name Lincoln Funds, the corporation received all  
25 of Brookstone’s assets in return for shares of Lincoln Funds common stock. In  
26 2007, Lincoln Funds succeeded Brookstone as the general partner of LBV I, LBV  
27 II, and LBV III. Lincoln Funds occupied the offices that were used by Brookstone,  
28 shared officers with Brookstone, and was owned by Carver II who purportedly

1 owned Brookstone. Lincoln Funds has never registered with the Commission any  
2 offering of securities under the Securities Act or a class of securities under the  
3 Exchange Act. To date, Lincoln Funds has raised anywhere from \$463,000 to \$1.5  
4 million from investors.

5 **11. Paropes Corporation, formerly known as Brookstone**

6 (“**Brookstone**”), is a Nevada corporation with its principal place of business in  
7 Costa Mesa, California. The corporation was formed by Carver in 1999 as Virtual  
8 Casinos, Inc., and renamed Brookstone in 2004. In October 2006, Brookstone  
9 transferred all its assets to Lincoln Funds, and defendants subsequently changed  
10 the name of the corporate shell to Paropes Corporation. Brookstone was the  
11 general partner of LBV I and LBV II until it was replaced in April 2007 by Lincoln  
12 Funds. Brookstone has never registered with the Commission any offering of  
13 securities under the Securities Act or a class of securities under the Exchange Act.  
14 In September 2005, the CA DOC denied Brookstone’s application for an  
15 investment adviser certificate. Brookstone was also named as a respondent in the  
16 2006 CA D&C and 2007 ASC C&D. To date, Brookstone has raised  
17 approximately \$6.4 million from investors.

18 **THE RELIEF DEFENDANTS**

19 **12. Lincoln Biotech Ventures, L.P. (“LBV I”),** formerly known as

20 Brookstone Biotech Ventures, L.P., is a Delaware limited partnership with its  
21 principal place of business in Costa Mesa, California. Brookstone was the general  
22 partner of LBV I until 2007, when it was replaced by Lincoln Funds. Under its  
23 former name, LBV I was named as a respondent in the 2006 CA D&C and the  
24 2007 ASC C&D. DeMers is currently a signatory on LBV I’s bank accounts.  
25 Neither LBV I nor its securities are registered with the Commission. To date, LBV  
26 I has raised approximately \$7.4 million from investors.

27 **13. Lincoln Biotech Ventures II, L.P. (“LBV II”),** formerly known as

28 Brookstone Biotech Ventures II, L.P., is a Delaware limited partnership with its

1 principal place of business in Costa Mesa, California. Brookstone was the general  
2 partner of LBV II until 2007 when it was replaced by Lincoln Funds. Under its  
3 former name, LBV II was named as a respondent in the 2006 CA D&C and the  
4 2007 ASC C&D. DeMers is currently a signatory on LBV II's bank accounts.  
5 Neither LBV II nor its securities are registered with the Commission. To date,  
6 LBV II has raised approximately \$6 million from investors.

7 14. **Lincoln Biotech Ventures III, L.P. ("LBV III")**, is a Delaware  
8 limited partnership with its principal place of business in Costa Mesa, California.  
9 Lincoln Funds is the general partner of LBV III. DeMers is currently a signatory  
10 on LBV III's bank accounts. Neither LBV III nor its securities are registered with  
11 the Commission. To date, LBV III has raised approximately \$1.6 million.

12 15. **MacAuslan Capital Partners, LLC ("MacAuslan Capital")**, is a  
13 California limited liability company which filed its papers with the Secretary of  
14 State on June 3, 2008. DeMers is a manager of MacAuslan Capital and signatory  
15 on its bank account.

## 16 THE FRAUDULENT SCHEME

### 17 A. THE BROOKSTONE OFFERING

#### 18 a. CARVER CREATES BROOKSTONE AND PREPARES FOR THE OFFERING

19 16. Carver created Brookstone in early 2004 by renaming an existing  
20 corporation he controlled, and setting up offices in Costa Mesa, California. Carver  
21 named himself Chairman of the Board of Directors, President, and CEO of the  
22 company. Carver controlled Brookstone as its principal shareholder. Carver also  
23 employed his son, Carver II, as an IT consultant for Brookstone.

24 17. In or about April 2004, shortly after he created Brookstone, Carver  
25 began offering its stock to the public via a nationwide, general solicitation. In  
26 connection with the offering, Carver wrote a confidential Private Placement  
27 Memorandum ("PPM") which described Brookstone's operations, management,  
28 and the terms of the offering. On the front cover, the PPM stated that Brookstone



1 was formed in 1999, and was raising \$5 million through the offer of 5 million  
2 shares of its common stock. In the PPM, Carver described Brookstone as “a  
3 consulting and investment advisory firm that provides clients with management  
4 consultation in the area of alternative investments,” and as “an investment  
5 management company” which “provides investment management services to  
6 affluent individuals, family trusts, retirement plans, and institutional clients.”  
7 Carver represented in the PPM that Brookstone’s “immediate goal is to obtain  
8 consistent rates of return in all market environments – rate of return is, however,  
9 carefully balanced with the larger goals of reduction of risk and preservation of  
10 capital.” The PPM stated that Brookstone “maintains strict policies pertaining to  
11 the use of leverage, liquidity and diversification.” In the PPM, Carver claimed that  
12 Brookstone’s “research team is second to none, both in pedigree and performance.”

13 18. The PPM stated that the offering was not registered with the  
14 Commission as required by the Securities Act of 1933, “in reliance upon  
15 exemptions under Section 4(2), 4(6), 18(b)4(d), 18(b)(3) and (CE) and under  
16 Section 506 of Regulation D of the Act.” However, defendants engaged in a  
17 general solicitation for potential investors, using magazine ad inserts, advertising  
18 on the Internet, and cold calling individuals using lead lists provided by Carver. At  
19 some point in 2005, defendants began using a computerized autodialer to contact  
20 individuals and solicit investors. The offering was not registered, and the  
21 exemptions identified in the PPM do not apply to offerings made through a general  
22 solicitation of investors.

23 19. The PPM included a page titled “Statements of Financial Condition,”  
24 which contained an unaudited, undated statement of assets and liabilities, or a form  
25 of a balance sheet. The PPM represented that this information was presented  
26 pursuant to “section 502(b) of Regulation D.” In fact, Regulation 502(b) requires  
27 that the balance sheet shall be dated within 120 days of the start of an offering, and  
28 “must be audited.”

1           20. Defendants Carver II and DeMers worked as sales agents for the  
2 Brookstone offering, and cold called investors using lead lists provided by Carver.  
3 Sales agents employed by Brookstone, including Carver II and DeMers, used sales  
4 scripts written and approved by Carver, to solicit investors that they contacted.

5           **b. DEFENDANTS' MISREPRESENTATIONS AND OMISSIONS IN THE**  
6           **BROOKSTONE OFFERING**

7           21. Using the sales scripts created by Carver, sales agents told investors  
8 that Brookstone would conduct an IPO in 18-24 months and thereafter trade at \$8-  
9 10 per share, and eventually reach a price of \$31 per share. Prospective investors  
10 typically received a packet of written promotional materials via overnight mail,  
11 which included, among other things, the PPM and financial projections prepared  
12 by Carver. The financial projections set forth financial projections for Brookstone  
13 which showed Brookstone's stock price increasing from \$3 per share in 2005 to  
14 \$31 per share in 2007.

15           22. In fact, defendants had no reasonable basis for projections concerning  
16 the future price of Brookstone's stock, and such representations were materially  
17 misleading to investors.

18           23. Nor did defendants have any reasonable basis to represent that  
19 Brookstone would conduct an IPO within 18 to 24 months. Carver controlled  
20 Brookstone, and did not maintain proper books and records. Brookstone did not  
21 have a CFO, did not have any audited financial statements, and Carver was not  
22 taking other steps necessary to commence an IPO.

23           24. The PPM described Carver as having "over 20 years experience in  
24 various business ventures" and "considerable expertise as a corporate executive."  
25 The PPM stated that prior to founding Intervest Ventures, Carver served as "VP  
26 Corporate Development for an Internet Firm." The PPM also described Carver's  
27 experience as follows: "[f]rom 1990-1993, Mr. Carver served as Senior Vice  
28 President of Allied Corporate Investments, a Mergers & Acquisitions Firm.

1 During the preceding 10+ years . . .” the PPM then proceeded to describe various  
2 other high level positions held by Carver. The PPM omitted material information  
3 about Carver’s background, including his prior criminal convictions and the 1996  
4 CA D&R, and was materially misleading to investors.

5 **B. DEFENDANTS DEFRAUDED INVESTORS AND MISUSED PROCEEDS FROM**  
6 **THREE UNREGISTERED LIMITED PARTNERSHIP OFFERINGS**

7 25. In early 2005, as the Brookstone common stock offering was coming  
8 to a close, Carver devised a new offering to continue to raise money from potential  
9 investors through limited partnership offerings. Beginning in February 2005  
10 through at least December 2007, defendants made back-to-back offerings of LBV  
11 I, LBV II, and LBV III. For each offering, defendants solicited investors using the  
12 same general solicitation methods defendants had used for the Brookstone offering,  
13 such as advertising on the Internet, using lead lists supplied by Carver or others,  
14 cold calling, and using an automated dialer. Defendants raised at least \$15 million  
15 from approximately 185 investors, located nationwide, in the three partnership  
16 offerings.

17 26. Defendants were the general manager of each of the partnerships. As  
18 the control person of Brookstone through at least June 2006, Carver made the  
19 investment decisions for LBV I. At some point in 2006, Carver II provided advice  
20 and made recommendations for the investments to be made by the limited  
21 partnerships. By late 2007 or early 2008, DeMers, as President of Lincoln Funds,  
22 took over making investment decisions for the partnerships.

23 27. As the general manager of the partnerships, defendants Brookstone  
24 and Lincoln Funds owed a fiduciary duty to the funds to act in their best interests  
25 at all times. Carver, Carver II, and DeMers, because they made investment  
26 decisions for the funds, also had a fiduciary duty to the funds. The defendants  
27 were the investment advisers for the funds, and made the investment decisions for  
28 the partnerships.

1           28. Carver wrote the PPM for the first partnership offering, and the PPMs  
2 for the subsequent two offerings are virtually identical, except for the percentages  
3 of funds to be used for investment. According to the PPMs, the investors' money  
4 was to be pooled and invested by defendants in emerging biotech companies.  
5 Defendants were going to select companies based upon their knowledge and  
6 expertise in the industry. The PPMs stated that the "primary objective" of each  
7 fund was to "achieve significant, long-term capital appreciation for its partners  
8 through investments in the biotechnology and life science industry sectors."

9           29. Carver controlled the bank accounts for the partnerships at least  
10 through 2006, and apparently continued to write checks and draw funds from the  
11 partnership accounts into 2007. Beginning at least in 2006, Carver II had signatory  
12 authority over the bank accounts for the partnerships through at least March 2008.  
13 DeMers became a signatory on the various partnership accounts at some point in  
14 2007. DeMers continues to have authority over the partnership accounts. Carver,  
15 Carver II, and DeMers extensively commingled monies held in the various  
16 partnership accounts with those of Brookstone and Lincoln Funds, as well as other  
17 entities they controlled.

18           30. Defendants misused and misappropriated at least \$2.5 million of  
19 partnership funds that they represented would be invested in emerging biotech  
20 companies. Carver and Carver II used some of the partnership funds to finance  
21 losses sustained by Carver in a brokerage account he controlled and where he  
22 traded on margin. Carver II knew that partnership funds were being used to pay  
23 for Carver's trading losses because Carver II initiated transfers from the LBV II  
24 account to Carver's brokerage account. DeMers later learned that partnership  
25 assets were used to pay for Carver's trading losses, but he took no action. Instead,  
26 in June 2008, DeMers looted the remaining amounts from the partnership accounts  
27 and transferred them to relief defendant MacAuslan Capital.

28           31. The limited partnership interests in LBV I, LBV II, and LBV III were

1 securities under federal securities law, and as stated in each of the PPMs, the  
2 offerings were not registered with the Commission. Because defendants engaged  
3 in a general solicitation, the offerings were not exempt from the securities  
4 registration provisions of the federal securities laws.

5 **a. LBV I OFFERING**

6 32. The LBV I offering commenced in February 2005 and closed in  
7 February 2006. Carver wrote sales scripts to be used to induce investors to  
8 participate in the offering, and wrote the PPM for the offering. DeMers was the  
9 sales manager for the LBV I offering and Carver II was a sales agent for the  
10 offering, and each of them actively solicited investors.

11 33. The LBV I PPM represented that “75% of the gross proceeds of the  
12 Offering is to be applied to the intended investments of the Limited Partnership;  
13 and up to approximately 25% of the gross proceeds of the Offering is to be applied  
14 to syndication, marketing, organizational, professional, commissions, consultation  
15 and other front costs.” Defendants raised gross proceeds from investors of  
16 approximately \$7.4 million during the LBV I offering. However, in breach of their  
17 fiduciary duty, only about \$3.9 million of the proceeds, or about 53% of the  
18 proceeds, were invested in biotech companies, and defendants misused the  
19 remaining proceeds that were to be invested for other, improper purposes.

20 **b. LBV II OFFERING**

21 34. The LBV II offering began in February 2006 and closed in February  
22 2007. Again, Carver wrote the PPM and sales script for the offering. DeMers was  
23 sales manager for the offering through at least June 2006, when Carver appointed  
24 him President of Brookstone, and DeMers and Carver II actively solicited investors  
25 for the offering.

26 35. The LBV II PPM represented that 65% of the gross proceeds of the  
27 offering would be applied to the intended investments. Defendants raised gross  
28 proceeds of \$6 million. However, only \$1.8 million of the proceeds, or 30% of the

1 investors' funds, were invested in biotech companies, and defendants misused the  
2 remaining proceeds that were to be invested for other, improper purposes. DeMers  
3 selected some of the investments for the LBV II partnership.

4 36. In 2007, Carver II transferred approximately \$1.8 million from an  
5 LBV II partnership account to make a loan, for working capital, to either Lincoln  
6 Funds or Brookstone. There is no documentation for this so-called loan, which  
7 remains unpaid. This loan was made in breach of defendants' fiduciary duty to the  
8 investors.

9 c. **LBV III OFFERING**

10 37. The LBV III offering commenced in February 2007 and closed in  
11 December 2007. Carver II reviewed and revised the PPM for the LBV III offering.  
12 DeMers reviewed the PPM and made at least one change to it, which was to delete  
13 financial statements that Carver II had included in the PPM. The LBV III PPM  
14 represented that "up to approximately 85% of the gross proceeds of the Offering is  
15 to be applied to the intended investments of the Limited Partnership; and up to  
16 approximately 15%" was to be used for other costs.

17 38. Defendants raised gross proceeds in the LBV III offering of  
18 approximately \$1.6 million. Contrary to the representation in the PPM that upfront  
19 fees were going to be limited to 15%, defendants Lincoln Funds and DeMers have  
20 taken 35% of the gross proceeds as upfront fees, or over \$500,000. The remaining  
21 proceeds of the offering were put in a bank account by defendant DeMers, where  
22 they remained until June 3, 2008, when defendant DeMers apparently looted all of  
23 the various partnership and Lincoln Funds' accounts.

24 C. **THE LINCOLN FUNDS OFFERING**

25 a. **LINCOLN FUNDS WAS CREATED TO DECEIVE INVESTORS**

26 39. As a result of the various regulatory orders issued by California, in  
27 2006 Carver publicly resigned as an officer of Brookstone and transferred his  
28 ownership interest to Carver II. Carver remained an undisclosed consultant to

1 Brookstone, remained a signatory on Brookstone's bank accounts, and continued  
2 to control the proceeds of the various offerings. Carver named DeMers the new  
3 President of Brookstone. DeMers consulted regularly with Carver about the  
4 direction of the business and relied on Carver to manage the financial affairs of  
5 Brookstone.

6 40. Carver's association with Brookstone was making it difficult for  
7 defendants to raise money from investors. Specifically, the negative regulatory  
8 orders issued by California named Brookstone and the partnerships while also  
9 citing Carver's prior criminal and regulatory history. In an effort to "bury" any  
10 connection between Carver and the ongoing offerings, defendants decided at some  
11 point in mid to late 2006 to create a new company that would continue to manage  
12 the partnerships and be able to make new offerings, without the stigma of any  
13 association with Carver. To accomplish this, defendants acquired an existing  
14 Nevada shell company and renamed it Lincoln Funds. Defendants then transferred  
15 Brookstone's assets to Lincoln Funds, changed the names of the various  
16 partnerships to reflect the new name, and exchanged shares of Brookstone  
17 common stock for Lincoln Funds common stock.

18 41. In fact, Lincoln Funds was a continuation of Brookstone, merely  
19 operating under another name. The company continued to operate as an  
20 "investment management company," which specialized in alternative investments.  
21 It operated out of the same location as Brookstone, with many of the same  
22 employees. Carver continued to participate in the operations of the company after  
23 the company morphed from Brookstone to Lincoln Funds.

24 b. FRAUDULENT REPRESENTATIONS AND OMISSIONS IN THE LINCOLN  
25 FUNDS OFFERING

26 42. From at least January 2008 continuing to at least May 29, 2008,  
27 Lincoln Funds' sales agents, at the direction of Carver, Carver II and/or DeMers,  
28 have been offering and selling Lincoln Funds common stock at \$2.50 per share in a

1 “secondary offering” that is virtually identical to the Brookstone offering. Carver  
2 II drafted the PPM for this offering, and DeMers reviewed it. The PPM represents  
3 on the front cover that Lincoln Funds was established in 1996. Various materials  
4 made available to investors show that Lincoln Funds has offices in Singapore,  
5 Dubai, London, Geneva, Los Angeles, Hong Kong, and New York.

6 43. To date, Lincoln Funds has raised anywhere from \$463,000 to \$1.5  
7 million, from approximately four to ten investors located in several states.

8 44. The Lincoln Funds PPM and the methods used to solicit investors are  
9 similar to that used in the Brookstone offering. In January, DeMers believed that  
10 sales agents were contacting approximately 100 potential investors each day.

11 45. The sales agents, at the direction of Carver, DeMers and/or Carver II,  
12 have been telling investors that Lincoln Funds is going public and that upon its  
13 IPO, Lincoln Funds’ shares will trade at \$8-10 per share and possibly as high as  
14 \$12 per share. Some investors have been told that Lincoln Funds will go public as  
15 early as September 2008 while others have been told that Lincoln Funds will go  
16 public in 12-18 months.

17 46. In fact, the defendants have made false and misleading representations  
18 to investors. While representing that an IPO was in the near future, in fact Lincoln  
19 Funds books and records are in “shambles” and a “total mess.” An auditor hired  
20 by Lincoln Funds found the state of its records to be the most “shocking” thing he  
21 has ever seen, especially from a company that purports to manage investments.  
22 The auditor has been unable to provide an estimated completion date for the audit.

23 47. Defendants have failed to disclose the relationship between Lincoln  
24 Funds and Brookstone and Carver, and omitted the material facts of the regulatory  
25 orders that have been issued against Brookstone, LBV I, LBV II, and Carver. The  
26 PPM is materially misleading by stating that Lincoln Funds was incorporated in  
27 1996, which refers to the date the shell company was formed and has no  
28 relationship to the length of time Lincoln Funds has been in existence. The PPM



1 and other materials that show Lincoln Funds as having offices in various overseas  
2 financial centers are false and misleading, because in fact Lincoln Funds' sole  
3 office is in Costa Mesa, California.

4 **D. DEFENDANTS CARVER, CARVER II, AND DEMERS WERE UNREGISTERED**  
5 **BROKER DEALERS IN VIOLATION OF FEDERAL LAW**

6 48. Carver, Carver II, and DeMers participated in the solicitation of and  
7 actual sale of common stock of Brookstone and Lincoln Funds, and shares in LBV  
8 I, LBV II, LBV III, without registering as broker-dealers or associating with a  
9 registered broker-dealer. Carver, Carver II, and DeMers do not qualify for  
10 exemptions from registration.

11 49. Carver led the sales effort by establishing the sales force that sold  
12 securities. Sales agents were initially hired as purported vice presidents of  
13 Brookstone, and were paid a weekly salary and commissions on the amount of  
14 shares sold. In an effort to conceal that improper commission payments were  
15 being made in an unregistered, so-called private offering, Carver instructed the  
16 sales agents to form fictitious businesses that were paid the commissions, to make  
17 it appear that payments to them were not commissions.

18 50. More recently, under DeMers, Lincoln Funds does not call the sales  
19 agents vice presidents, and the sales agents are paid a weekly salary and a "bonus"  
20 or "salary adjustment" based in part on their "productivity," which is related in part  
21 to sales of shares to investors.

22 51. Carver II solicited investors in the Brookstone and partnership  
23 offerings and reviewed and approved the sales scripts for at least one of the  
24 partnership offerings.

25 52. Likewise, first as a sales agent and later a sales manager, DeMers  
26 solicited investors in the Brookstone and partnership offerings. DeMers also  
27 procured lead lists used by sales agents for the Lincoln Funds offering.



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

10 59. By engaging in the conduct described above, Carver, Carver II,  
11 DeMers, Lincoln Funds, Brookstone, and each of them, violated, and unless  
12 restrained and enjoined will continue to violate, Section 17(a) of the Securities Act,  
13 15 U.S.C. § 77q(a).

14 **THIRD CLAIM FOR RELIEF**

15 **FRAUD IN CONNECTION WITH THE PURCHASE OR SALE OF SECURITIES**

16 **Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder**

17 **(Against All Defendants)**

18 60. The Commission realleges and incorporates by reference paragraphs 1  
19 through 52 above.

20 61. Carver, Carver II, DeMers, Lincoln Funds, Brookstone, and each of  
21 them, by engaging in the conduct described above, directly or indirectly, in  
22 connection with the purchase or sale of a security, by the use of means or  
23 instrumentalities of interstate commerce, of the mails, or of the facilities of a  
24 national securities exchange, with scienter:

- 25 a. employed devices, schemes, or artifices to defraud;
- 26 b. made untrue statements of a material fact or omitted to state a  
27 material fact necessary in order to make the statements made,  
28 in light of the circumstances under which they were made, not

1 misleading; or

2 c. engaged in acts, practices, or courses of business which  
3 operated or would operate as a fraud or deceit upon other  
4 persons.

5 62. By engaging in the conduct described above, defendants Carver,  
6 Carver II, DeMers, Lincoln Funds, Brookstone, and each of them, violated, and  
7 unless restrained and enjoined will continue to violate, Section 10(b) of the  
8 Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. §  
9 240.10b-5.

10 **FOURTH CLAIM FOR RELIEF**

11 **FRAUD BY AN INVESTMENT ADVISER**

12 **Violations of Sections 206(1) and 206(2) of the Advisers Act**

13 **(Against All Defendants)**

14 63. The Commission realleges and incorporates by reference paragraphs 1  
15 through 52 above.

16 64. At all times relevant to this Complaint, and as more fully described  
17 above, defendants Carver, Carver II, DeMers, Lincoln Funds, and Brookstone  
18 acted as investment advisers to the partnerships LBV I, LBV II, LBV III, and their  
19 investors.

20 65. Defendants Brookstone, Lincoln Funds, Carver, Carver II, and  
21 DeMers, while acting as investment advisers, by use of the mails, and the means  
22 and instrumentalities of interstate commerce, directly or indirectly, knowingly,  
23 willfully or recklessly: (i) employed devices, schemes or artifices to defraud its  
24 clients or prospective clients; and (ii) engaged in transactions, practices and  
25 courses of business which have operated as a fraud or deceit upon its clients or  
26 prospective clients.

27 66. By engaging in the conduct described above, defendants Brookstone  
28 Lincoln Funds, Carver, Carver II, and DeMers violated, and unless restrained and

1 enjoined will continue to violate, Sections 206(1) and 206(2) of the Advisers Act,  
2 15 U.S.C. § 80b-6(1) and 80b-6(2).

3 **FIFTH CLAIM FOR RELIEF**

4 **FRAUD BY AN INVESTMENT ADVISER**

5 **Violations of Section 206(4) of the Advisers Act and Rule 206(4)-8 Thereunder**  
6 **(Against Lincoln Funds and DeMers)**

7 67. The Commission realleges and incorporates by reference paragraphs 1  
8 through 52 above.

9 68. At all times relevant to this Complaint, and as more fully described  
10 above, defendants Lincoln Funds and DeMers acted as investment advisers to LBV  
11 III and its investors.

12 69. Lincoln Funds and DeMers, while acting as investment advisers to a  
13 pooled investment vehicle, by the use of the means and instrumentalities of  
14 interstate commerce and of the mails, directly and indirectly, have engaged in  
15 transactions, practices, and courses of business which operate as a fraud or deceit  
16 upon investors in LBV III. Lincoln Funds and DeMers made untrue statements of  
17 a material fact or omitted to state a material fact necessary to make the statements  
18 made, in the light of the circumstances under which they were made, not  
19 misleading, to any investor or prospective investor in LBV III, and otherwise  
20 engaged in acts, practices or courses of business that were fraudulent, deceptive, or  
21 manipulative with respect to any investor or prospective investor in LBV III.

22 70. By reason of the activities described herein, Lincoln Funds and  
23 DeMers violated Section 206(4) of the Advisers Act, 15 U.S.C. § 80b-6(4) and  
24 Rule 206(4)-8 thereunder, 17 C.F.R. § 275.206(4)-8.

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1 **SIXTH CLAIM FOR RELIEF**

2 **FAILURE TO REGISTER AS A BROKER-DEALER**  
3 **Violation of Section 15(a) of the Exchange Act**  
4 **(Against Carver, Carver II, and DeMers)**

5 71. The Commission realleges and incorporates by reference paragraphs 1  
6 through 52 above.

7 72. Defendants Carver, Carver II, DeMers, and each of them, by engaging  
8 in the conduct described above, made use of the mails or means or  
9 instrumentalities of interstate commerce to effect transactions in, or to induce or  
10 attempt to induce the purchase or sale of securities, without being registered as  
11 brokers or dealers in accordance with Section 15(b) of the Exchange Act, 15  
12 U.S.C. § 78o(b).

13 73. By engaging in the conduct described above, defendants Carver,  
14 Carver II, and DeMers violated, and unless restrained and enjoined will continue to  
15 violate, Section 15(a) of the Exchange Act, 15 U.S.C. § 78o(a).

16 **PRAYER FOR RELIEF**

17 WHEREFORE, the Commission respectfully requests that the Court:

18 **I.**

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

21 **II.**

22 Issue orders, in a form consistent with Fed. R. Civ. P. 65(d), temporarily,  
23 preliminarily, and permanently enjoining the defendants as follows: (i) Carver,  
24 Carver II, DeMers, Lincoln Funds, Brookstone, and their officers, agents, servants,  
25 employees, and attorneys, and those persons in active concert or participation with  
26 any of them, who receive actual notice of the judgment by personal service or  
27 otherwise, and each of them, from violating Sections 5(a), 5(c) and 17(a) of the  
28 Securities Act, 15 U.S.C. §§ 77e(a), 77e(c), & 77q(a), and Section 10(b) of the

1 Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. §  
2 240.10b-5, Sections 206(1) and 206(2) of the Advisers Act, 15 U.S.C. §§ 80b-6(1)  
3 and 80b-6(2); (ii) Lincoln Funds, DeMers, and their officers, agents, servants,  
4 employees, and attorneys, and those persons in active concert or participation with  
5 any of them, who receive actual notice of the judgment by personal service or  
6 otherwise, from violating Section 206(4) of the Advisers Act, 15 U.S.C. § 80b-  
7 6(4), and Rule 206(4)-8 thereunder, 17 C.F.R. § 275.206(4)-8; and (iii) Carver,  
8 Carver II, DeMers, and their officers, agents, servants, employees, and attorneys,  
9 and those persons in active concert or participation with any of them, who receive  
10 actual notice of the judgment by personal service or otherwise, and each of them,  
11 from violating Section 15(a) of the Exchange Act, 15 U.S.C. § 78o(a).

### 12 III.

13 Issue in a form consistent with Fed. R. Civ. P. 65, a temporary restraining  
14 order and a preliminary injunction freezing the assets of defendants Carver, Carver  
15 II, DeMers, Lincoln Funds, Brookstone, and relief defendants LBV I, LBV II,  
16 LBV III, MacAuslan Capital, and their related and affiliated entities; appointing a  
17 receiver over Lincoln Funds, Brookstone, LBV I, LBV II, LBV III, and their  
18 related and affiliated entities; prohibiting each of the defendants and relief  
19 defendants from destroying documents; and ordering accountings from each of the  
20 defendants.

### 21 IV.

22 Order defendants Carver, Carver II, DeMers, Lincoln Funds, Brookstone,  
23 and relief defendants LBV I, LBV II, LBV III, and MacAuslan Capital to disgorge  
24 all ill-gotten gains from their illegal conduct, together with prejudgment interest  
25 thereon.

### 26 V.

27 Order defendants Carver, Carver II, DeMers, Lincoln Funds, and Brookstone  
28 to pay civil penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. §

1 77t(d) and Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3), and  
2 further order defendants Carver, Carver II, DeMers, Lincoln Funds, and  
3 Brookstone to pay civil penalties pursuant Section 209(e) of the Advisers Act, 15  
4 U.S.C. § 80b-9(e).

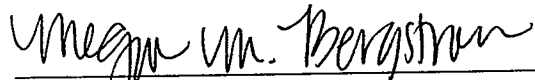
5 **VI.**

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

10 **VII.**

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

13  
14 DATED: June 6, 2008

  
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Megan M. Bergstrom  
Attorneys for Plaintiff  
Securities and Exchange Commission

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