

<p>DISTRICT COURT, DENVER COUNTY, COLORADO</p> <p>1437 Bannock Street Denver, CO 80202</p> <hr/> <p>GERALD ROME, Securities Commissioner for the State of Colorado,</p> <p>Plaintiff,</p> <p>v.</p> <p>WILLIAM BRONCHICK individually and d/b/a LEGALWIZ, BRONCHICK &amp; ASSOCIATES, P.C., and BRONCHICK CONSULTING GROUP, LLC,</p> <p>Defendants.</p>	<p>DATE FILED: June 2, 2017 10:18 AM FILING ID: 4FAE9EB3DBFB2 CASE NUMBER: 2017CV32034</p> <p style="text-align: center;">▲ COURT USE ONLY ▲</p>
<p>CYNTHIA H. COFFMAN, Attorney General CATHERN H. SMITH, 39715* MATTHEW J. BOUILLON, 46684* Assistant Attorneys General Ralph L. Carr Judicial Building 1300 Broadway, 8<sup>th</sup> Floor Denver, CO 80203 Smith Tel: (720) 508-6425 Bouillon Tel: (720) 508-6401 Fax: (720) 508-6037 Cathern.Smith@coag.gov Matthew.Bouillon@coag.gov *Counsel of Record</p>	<p>Case No.:</p> <p>Courtroom:</p>
<p><b>COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF</b></p>	

Plaintiff Gerald Rome, Securities Commissioner for the State of Colorado, by and through his counsel, the Colorado Attorney General and undersigned counsel, alleges as follows for his Complaint for Injunctive and Other Relief against the Defendants:

**JURISDICTION**

1. Plaintiff Gerald Rome is the Securities Commissioner for the State of Colorado. The Commissioner is authorized to bring this action in which he may seek temporary, preliminary, and permanent injunctive relief, along with

other equitable relief, against the Defendants upon sufficient evidence that the Defendants have engaged in or are about to engage in any act or practice constituting a violation of any provision of the Colorado Securities Act (“Act”). § 11-51-602, C.R.S. The Act expressly provides that any violation of the Act is deemed to constitute the transaction of business within this state providing jurisdiction pursuant to § 13-1-124, C.R.S. § 11-51-706(4), C.R.S.

2. Venue is proper in the district court for the City and County of Denver, Colorado. § 11-51-602(1), C.R.S.

### **SUMMARY OF THE ACTION**

3. William Bronchick is a Colorado licensed attorney and a self-proclaimed expert in real estate investing. Bronchick conducts his real estate investment consulting business with an air of authority and knowledge thereby gaining the trust of his students. Many Valois Dynasty investors paid Bronchick to mentor them in real estate investing.

4. In violation of the anti-fraud provisions of § 11-51-501, C.R.S., Bronchick omitted material facts and materially misrepresented other facts when offering and selling Valois Dynasty securities to investors. The offering documents fail to accurately describe the investment in that they are replete with references to the purchase of three apartment buildings - when in truth - Valois Dynasty only acquired 24.99% interest in Little Rock Group, LLC and never acquired title to any properties. Bronchick touted Valois Dynasty securities, telling investors the “returns are amazing” when in truth the venture had little to no chance of success.

5. Material information was withheld from first-round investors including, but not limited to the fact that rental income did not cover debt service and operating expenses, many units were occupied by tenants who were not paying their rent, and that investor funds would be used to pay hundreds of thousands of dollars of overdue bills. The overdue bills included, but were not limited to, a \$105,000 forbearance payment due to City National Bank, an estimated \$169,080 in back real estate taxes for 2008-2009, and water bills. Further, to the extent that Bronchick’s disclosures relied on an average vacancy rate of 10% or “Bronchick’s ½ rule” they were false and misleading because they materially understated vacancy rates, and expenses far exceeded one-half of the gross effective income.

6. In December 2010 and January 2011, Defendants raised approximately \$585,000 from six, outside, first-round investors. When these

funds were depleted, Bronchick raised an additional \$200,000 from two more outside investors.

7. The offering materials given to second-round investors also violated the anti-fraud provisions of the Colorado Securities Act in that investors were not told that Valois Dynasty owned a 24.99% interest in L.R. Group, LLC and offering materials presented the investment opportunity as if it were a direct investment in real estate. Like the first-round investors, second-round investors were not given historical collected rent rolls, historical occupancy trends, or given details about the ongoing history of unpaid mortgage loans, utilities, and insurance premiums. Also, Bronchick was counsel to investor P.L. and failed to disclose (i) his resulting conflicts of interest to her, or (ii) that with regard to the Valois Dynasty investment, he was not acting as her personal attorney.

8. Bronchick targeted investors in retirement or close to retirement, encouraging them to take money from their IRA accounts and invest in Valois Dynasty. Bronchick sold off his interest long before City National Bank foreclosed upon the apartment buildings. But the investors - who were not insiders - lost everything.

## **DEFENDANT**

9. William Bronchick (“Bronchick”) is an adult male whose last known address is 22080 E. Arbor Drive, Aurora, CO 80016.

## **NON-PARTIES**

10. Little Rock Group, LLC (“L.R. Group”) is an Arkansas limited liability company which appears to share office space with Valois Dynasty. Its last known principal place of business is 75-15 Geyer Springs Road, Main Office, Little Rock, AR 72209. At all times relevant, the Little Rock Group held title to the three properties which the Valois Dynasty investors thought they were purchasing. Steven T. St. Clair, a non-party, was its managing member.

11. Valois Dynasty is the issuer of the securities that are the subject of this litigation. Investor disclosures refer to the following entities - all named Valois Dynasty:

a. Valois Dynasty, LLC of Arkansas (“Valois Dynasty – AR” or together with Valois Dynasty – TX and Valois Dynasty – CO “Valois Dynasty”), is an Arkansas limited liability company formed on January 11, 2011 with a principal place of business at 75-15 Geyer Springs Rd.,

Main Office, Little Rock, Arkansas 72209. At all times relevant, Bronchick was a managing member and control person of Valois Dynasty;

b. Valois Dynasty, LLC of Texas (“Valois Dynasty - TX” or together with Valois Dynasty – AR “Valois Dynasty”), is a Texas limited liability company formed on June 25, 2008 with a principal place of business at 3538 Oak Forest Drive, Suite #B, Houston, TX 77018; and

c. Pursuant to the Offering Memorandum given to at least second-round investor D.W., “Valois Dynasty, LLC (the “Limited Liability Company”) is a partnership formed pursuant to the laws of the State of Colorado” (together with Valois Dynasty – AR and Valois Dynasty – CO “Valois Dynasty”). However, a search of the Secretary of State’s website on the term “Valois Dynasty” only turns up the foreign entity registration of Valois Dynasty – AR.

## **GENERAL ALLEGATIONS**

12. Bronchick is a licensed Colorado attorney who touts his real estate expertise on Facebook, Twitter, and on the radio. He also hosts a website called “Legalwiz” where he sells “Business Breakthrough Coaching,” seminars, and publications related to asset protection and real estate investing. Titles available for purchase at the Legalwiz.com Store include Self Directed IRA Investing, Small Apartment Investing, Fix and Flips, and the Complete Bulletproof Asset Protection Library (4 volumes). Investors in Valois Dynasty spent tens of thousands of dollars on Bronchick’s publications and “mentoring” services and lost hundreds of thousands on the Valois opportunity.

13. Bronchick solicited clients of his law practice and former real estate mentoring students to invest in Valois Dynasty. He solicited and sold Valois Dynasty securities to investors in Colorado and at least one other state by telephone, through the internet, and by email.

14. Bronchick conducted his business without clearly separating his real estate mentoring, investment advisory, and investment manager roles from the legal services he provided to investors. He advised mentoring students to form LLCs to hold their real estate investments. Many investors retained Bronchick’s law firm, Bronchick & Associates, P.C., f/k/a Bronchick Consulting Group, P.C., to implement strategies Bronchick recommended, including the establishment of a special purpose or single-asset LLC to hold their investment in Valois Dynasty.

15. Some of the investors, who received legal services from Bronchick, were given a separate, one-page, supplemental disclosure related to the conflicts of interest that may arise when a client goes into business with his attorney. At least second-round investor P.L., who received legal services from Bronchick, did not receive this conflict of interest disclosure. No investor received specific disclosures concerning conflicts of interest arising from other real estate ventures and real estate related activities of Bronchick or Phuongvi An Nguyen, the co-manager of Valois Dynasty.

16. Bronchick performed due diligence on behalf of investors, participated directly or indirectly in the structuring of the investment and negotiations with the L.R. Group, and supervised the closing. Through these activities and other activities he conducted in his capacity as a control person of Valois Dynasty, Bronchick learned of material information which he did not disclose to investors. The offering materials that Bronchick prepared and then used to solicit investors omitted material information – which Bronchick knew or should have known - about the actual structure of and risks associated with an investment in Valois Dynasty, the financial condition of the Little Rock Group, and the condition of The Properties.

17. The Valois Dynasty, LLC opportunity offered to investors was convoluted. Investors purchased a membership interest in the limited liability company, Valois Dynasty. Valois Dynasty, in turn, used investor monies to purchase a 24.99% interest in the L.R. Group. Valois Dynasty did not directly acquire the real estate owned by L.R. Group or formally assume its outstanding bank loans. Instead, the transaction was structured to circumvent the lenders' due on sale clauses. The business plan was for Valois Dynasty to receive the rental revenue from the properties and use these funds to service the L.R. Group debt. Valois Dynasty never acquired title to the properties. Due to the materially misleading disclosures, investors mistakenly thought they were purchasing a direct investment in real estate.

18. The assets of the L.R. Group included three properties, described to investors as class C properties located within three miles of each other in Little Rock, Arkansas. Prior to the Valois Dynasty's acceptance of investor funds, the L.R. Group financed the purchase of the properties by taking out three loans totaling \$4,550,000 from Imperial Capital Bank.<sup>1</sup>

19. The properties were identified to investors as the McCormick Apartments, Mablevale Pike Apartments, and Willow Creek (together "The

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<sup>1</sup> When Imperial Capital Bank failed, City National Bank acquired all three loans from the Federal Deposit Insurance Corporation.

Properties”) located at 8501 Dreher Lane, 4815 Mabelvale Pike, and 7515 Geyer Springs Road respectively. Title to these properties remained with L.R. Group and was never transferred to Valois Dynasty.

20. First-round investors were told that Valois Dynasty would “have an irrevocable option to purchase the [remaining] 75.01% membership for \$1 upon demand.” In truth, Valois Dynasty could only acquire the remaining 74.01% of L.R. Group stock by paying an additional \$400,000.

21. The business plan of Valois Dynasty was to pay investors the profits from operations of the three properties owned by the Little Rock Group during a holding period (ranging from 3-7 years in the disclosures) and then sell the property for a large gain.

22. All of the investors were falsely led to believe that they could rely upon the December 15, 2010 appraisals of The Properties performed by Charles S. Buckner, III to determine the price at which The Properties would be sold. Oddly, Buckner’s appraisals are attached to offering materials, even though each appraisal expressly limits the distribution of the appraisal reports and requires prior written approval for use by investors. Bronchick did not seek or obtain Buckner’s approval to share the appraisals of The Properties with investors.

23. Additionally, the offering documents do not contain disclosures explaining why the appraisals can be used to determine the sale value of the properties given (i) the significant difference between the 5% vacancy rate used in the appraisals and the actual, higher vacancy rates; (ii) the fact that the appraisals were solely based upon inspection of the exterior of The Properties and that apartment units themselves had not been inspected, and (iii) for second-round investors, later damage to pipes and sewers is not reflected in the appraisals.

24. When soliciting prospective investors, Bronchick made outlandish and misleading claims about the prospects for Valois Dynasty including (i) “30% cash on cash return annually and total return should be 400%+++” and (ii) “5x. We are walking in with 2.4m in equity for a \$600k investment.” These statements were misleading in that they failed to reflect the fact that the cash flows from the properties were insufficient to service the debt and pay operating expenses much less pay an annual return to investors; the L.R. Group had financed the acquisition of The Properties through bank loans secured by liens; and at the time these statements were made all three of the mortgage loans were in default.

25. Bronchick led investors to believe that he was a skilled and successful real estate investor; he created the impression that investors were lucky to have the opportunity to participate in a real estate venture with him. The Valois offering documents tout Bronchick's professional qualifications and abilities. For example, the Executive Summary given to investors in all phases of the investment state: "Also involved in the investment and management of the Company will be William Bronchick, who is a best-selling real estate author and attorney with 20 years of experience." Without disclosing that Bronchick is the founder of the College of American Real Estate Investors, the Executive Summary goes on to state that "He is the President of the College of American Real Estate Investors ([www.carei.org](http://www.carei.org))." As a result of Bronchick's self-aggrandizement, investors believed that he possessed the right skillset and knowledge base to put a profitable real estate venture together, had carefully applied his knowledge and skills to the Valois Dynasty opportunity, and that as a result Valois Dynasty would succeed.

26. To further boost the first-round investors' confidence in the Valois Dynasty opportunity, Bronchick falsely and repeatedly told investors that he was "personally" investing \$100,000 in Valois Dynasty. Bronchick now claims that two payments totaling \$60,000 made by Universal Realty Investments, LLC are evidence of his personal investment.

27. Additionally, Bronchick failed to disclose to first-round investors either that (i) he would have the power to selectively cash out investors who were insiders; or (ii) that he would exercise this power. On August 11, 2011, investors J.S. and C.S. each wire transferred \$37,500 to the FirstBank bank account ending in 9930 of another Bronchick entity, Universal Realty Investments, LLC. The next day, August 12, 2011, Bronchick issued check no. 0079 for \$75,000 payable to his sister Eileen Bronchick from the same Universal Realty bank account.

28. All of the offering documents are fundamentally misleading about the nature of the investment. They are replete with references to the acquisition of real estate when in truth investors were purchasing an interest in the Little Rock Group, LLC, not real estate. For example, the disclosures of risks include "General Risks Prior to Closing on Real Property" and "General Risks of Owning Real Property ..." Significantly, the disclosure of risks does not include risks associated with acquiring a minority interest in a limited liability company – which will hold title to The Properties. The undisclosed risks include the failure to disclose the consequences of events of default or foreclosures.

29. The offering documents are misleading about the financial condition of The Properties. For example, the cover page for the December 21, 2010

Investment Summary begins “Little Rock Apartments Investment 169 *Cash Flowing* Units” (emphasis added). In addition to the fact that this was not a direct investment in real estate, The Properties were not actually generating sufficient cash flow to service the debt and pay operating expenses.

30. Prior to investing, Investors were not given specific and accurate information about economic occupancy rates (i.e., the number of units occupied by tenants who paid rent when due), rent money collected, overdue rent, uninhabitable units, the cost of necessary or desirable repairs to units and The Properties, and other similar information. The Actual occupancy rates never reached the initial projected rate of 90% or the later, reduced, projected occupancy rate of 80%. All of these omissions are material.

31. Closing documents reveal that the L.R. Group had significant undisclosed debt and expenses, including City National Bank mortgage loans, a Sunwest Bank loan, and overdue forbearance payments, real estate taxes, utility bills, pest control expenses, debts due to Willow Creek Management Co., and tenant deposits for all of The Properties.

32. Prior to investing, first-round investors were not told (i) about negotiations related to or the existence of the February 18, 2011 Forbearance and Release Agreement (“Forbearance Agreement”) between City National and L.R. Group; or (ii) that all three of the City National mortgage loans, which had financed L.R. Group’s acquisition of The Properties, were in default due to the following:

- a. Failure to Pay monthly principal and interest on the Notes financing L.R. Group’s purchase of The Properties;
- b. Failure to maintain proper insurance on The Properties as required by the loan agreements;
- c. Failure to reimburse the lender for forced place insurance;
- d. Failure to pay personal and real property taxes of approximately \$168,000 on The Properties; and
- e. Allowing a judgment lien and/or a mortgage lien in favor of a third-party to attach to one of The Properties.

33. Nor were investors told of the outstanding Sunwest Bank debt or the negotiations that resulted in the related February 8, 2011 letter from Sunwest Bank’s Chief Credit Officer agreeing to release all encumbrances it



held on The Properties “upon Sunwest Bank’s receipt of the amount of \$400,000 consisting of the net proceeds of the second tranche payment under the Agreement between Valois Dynasty, LLC and the Little Rock Group, LLC dated December 6, 2010, as amended January 12, 2011.” This second tranche payment was never made.

34. Bronchick provided first-round investors with financial statements of the L.R. Group that were materially altered, incomplete, and misleading. For example, Exhibit K to the December 21, 2010 Investment Summary (i) included an incomplete Balance Sheet from February 28, 2010 presenting assets, but omitting all liabilities – when at the time estimated liabilities were at least \$3.7 million; (ii) failed to disclose how or if depreciation was calculated and also failed to disclose accumulated depreciation – even though the Balance Sheet indicates that the L.R. Group capitalized assets and kept its accounting records on an accrual basis ; and (iii) falsely and materially inflated net income in the Profit and Loss Statement covering January through September 2010 by eliminating expenses incurred, such as interest and depreciation.

35. Prior to the offering, Defendant possessed two Profit and Loss Statements both covering the same time period of January through September 2010. Defendant elected to provide only the Statement that excluded interest expense to investors. As a result, the net income disclosed to investors nearly doubled - increasing from \$232,603.24 to \$408,884.75.

36. Bronchick touted cash-on-cash returns of 29.74% and his forecasted cash flows and analysis, but failed to include any historical cash flow statements in the investor disclosures. With this information investors would have been able to assess (i) the relationship between actual historical cash flows and projected cash flows; (ii) whether the projected cash-on-cash returns were inflated; and (iii) whether the actual cash flow from the properties was sufficient to cover expenses or provide a return to investors.

37. Additionally, standard notes to the financial statements were omitted, including notes discussing the method of accounting being used, how assets were being capitalized and depreciated, and the ability of the company to continue as a going concern. Such information was necessary for investors to interpret the financial statements presented to them.

38. Disclosures given to first-round investors state that there would be a monthly audit by an independent accounting firm and that the books and records of Valois Dynasty would be kept in accordance with Generally Accepted Accounting Principles (“G.A.A.P.”). In truth, an independent auditor was never retained and, the books for Valois were not kept in accordance with G.A.A.P. as represented.

**First-Round Investors:  
Misrepresentations and Omissions of Material Fact**

39. In connection with the offer, purchase, and sale of securities of Valois Dynasty to the first-round investors as described herein, Defendants either directly or indirectly, made untrue statements of material fact and failed to disclose to investors material facts, which were necessary to make the statements Defendants made to investors, under the circumstances in which they were made, not misleading. The omitted and untrue statements of material fact included, but were not limited to, the following:

a. Failure to accurately describe the investment and the terms of the agreement between L.R. Group and Valois Dynasty by (i) representing that Valois Dynasty would acquire The Properties from investors’ collective investment of \$600,000 when in truth Valois Dynasty acquired only 24.99% interest in L.R. Group and never acquired title to The Properties; (ii) omitting any discussion of the risk factors derived from the structure of the investment (i.e., investment in an LLC and the indirect ownership of The Properties through a 24.99% minority interest in that LLC, the L.R. Group); and (iii) misrepresenting that Valois Dynasty had an irrevocable option which would enable it to acquire 100% of the L.R. Group for \$1, when in truth it would cost an additional \$400,00 to acquire the remaining 75.01% interest in the L.R. Group.

b. Failure to disclose the prior performance of the managers of Valois Dynasty, Defendant Bronchick and Phuongvi Nguyen, as well conflicts arising from their investment in and management of other properties;

c. Making false and misleading financial disclosures through (i) the February 28, 2010 L.R. Group, LLC Balance Sheet that omitted all liabilities for the company, including but not limited to, the estimated \$3.7 million outstanding loan balances on mortgage loans issued by Sunwest

Bank and City National Bank, thereby significantly understating the legal obligations of the L.R. Group; and (ii) the January through September 2010 Profit & Loss Statement for the L.R. Group, LLC which omitted all interest expenses and depreciation, thereby significantly overstating the reported net income on the statements presented to investors;

d. Including Buckner's appraisals of The Properties while failing to disclose the underlying economic reality of the investment by omitting factual information which would enable investors to independently assess projected income, earnings, and cash flow, including but not limited to the failure to disclose: (i) actual historical vacancy rates and the trend in vacancy rates; (ii) the number of units occupied by tenants whose rent was one or more month overdue; (iii) the dollar amount of the rent actually collected and the amount of overdue, uncollected rent, (iv) the number of units which were uninhabitable; (v) detailed information about the cost to make those units habitable; and (vi) the omission of any historical cash flow statements for L.R. Group. All of this information was omitted even though the L.R. group had been operating The Properties since 2007. In addition to these material omissions, Bronchick materially misled investors by emphasizing his projected cash flow, applying Bronchick's ½ rule to calculate net operating income, and projecting a cash-on-cash return of 29.74% in lieu of actual historical information and results;

e. Misrepresenting that Bronchick was personally investing \$100,000 in the transaction, and, upon information and belief, that in truth Defendant Bronchick indirectly invested no more than \$60,000. Further, Bronchick failed to disclose that he would sell his interest in August 2011 to investors J.S. and C.S. and transmit the proceeds, \$75,000, to his sister Eileen Bronchick.

f. Omitting and understating the financial obligations of the L.R. Group that Valois Dynasty was assuming and presenting incomplete financial information to investors by failing to disclose specific information about the ongoing history of late mortgage payments and the consequences of the late payments including, but not limited to (i) L.R. Group's February 18, 2011 Forbearance and Release Agreement with City National Bank stemming from the L.R. Group's failure to make mortgage payments when due; (ii) the use of \$105,000 of investor monies to make a forbearance payment; and (iii) omitting that the L.R. Group had allowed a lien in favor of a third-party to attach to one of The Properties;

g. In addition to failing to disclose unpaid mortgage obligations, Defendant failed to disclose other unpaid debts and unmet obligations that investor funds would be used to meet, including but not limited to (i) L.R. Group's failure to timely pay insurance premiums, maintain proper insurance on The Properties, and to reimburse the lender for force-placed insurance; (ii) L.R. Group's failure to pay an estimated \$169,080 in back real estate property taxes; and (iii) late payment of utility bills including water bills;

h. Misrepresenting and omitting information in the "Summary of Transaction" section in the 12/21/2010 Investment Summary that there is no factual basis for the assumptions contained therein, including the vacancy rate of 10%, the amount of gross income, operating income and cash flows as well as no basis to "apply Bronchick's ½ rule"; and

i. Misrepresenting that an independent accountant would be retained and that the books and records would be kept in accordance with G.A.A.P.

### **Second-Round Financing**

40. Less than one year after the first-round financing was completed, the \$580,000 invested by first-round investors was gone and The Properties were still not producing sufficient rental income to service the outstanding debt and pay expenses. In November 2012, a special meeting of the members was convened where it was agreed that each member would relinquish shares proportionate to the amount they had contributed so that additional funds could be raised.

41. Among other things, the Minutes of this meeting specify that capital investments of new members would be used to "First cure the three first mortgage loans with City National Bank ...," "Second to hire a professional management company ...," "Third to correct all code violations ...," "Fourth to provide operating capital" and "Fifth for capital improvements on the property."

42. The second-round investors, D.W., J.Y., and P.L., were never given detailed information about the history of delinquent payments, defaults, and amounts due and owing on the mortgage loans, utility bills, and overdue insurance payments. The second-round investors were also never given detailed information about how the operating capital they provided would be used. Further, second-round investors were told that there were no code violations, when in truth there were code violations.

43. Bronchick had performed due diligence on behalf of the first-round investors and had been a managing member of Valois Dynasty since at least January 2011. By the time the second-round investors were solicited, he was unquestionably fully aware of the condition of The Properties, the struggles to keep utilities turned on and the mortgage loans current, and the other significant challenges facing Valois Dynasty and the L.R. Group. Yet, Bronchick did not provide this information to investors. Instead, he falsely described Valois Dynasty as a “lucrative” opportunity when soliciting investors.

44. On December 3, 2014, City National Bank foreclosed upon The Properties (still owned by L.R. Group), and later sold them to pay off the defaulted mortgage loans. With the exception of Bronchick and other insiders, all of the investors lost everything. Bronchick has threatened to sue investors and their representatives if they share their experience with others.

**Second-Round Investors:  
Misrepresentations and Omissions of Material Fact**

45. In connection with the offer, purchase, and sale of securities of Valois Dynasty to the second-round investors as described in the Complaint, Defendants either directly or indirectly, made untrue statements of material fact and failed to disclose to investors material facts, which were necessary to make the statements Defendants made to investors, under the circumstances in which they were made, not misleading. The omitted and untrue statements of material fact included, but were not limited to, the following:

- a. Failure to accurately describe the investment by failing to (i) inform investors that Valois Dynasty had acquired only a 24.99% interest in L.R. Group; (ii) discuss risk factors deriving from the indirect ownership of The Properties through a 24.99% interest in the L.R. Group and other risk factors derived from the structure of the investment; and (iii) provide a copy of the agreement between Valois Dynasty and L.R. Group or to adequately describe it;
- b. Failure to disclose conflicts of interest to at least investor P.L. arising from Bronchick’s provision of investment guidance and legal services to P.L.;
- c. Failure to disclose the prior performance of the managers of Valois Dynasty, Defendant Bronchick and Phuongvi Nguyen, as well conflicts of interest arising from their investment in and management of other properties;

d. Failure to disclose the underlying economic reality of the investment by omitting factual information which would enable investors to independently assess projected income, earnings, and cash flow, including but not limited to the failure to disclose (i) actual historical vacancy rates and trends; (ii) the number of units occupied by tenants whose rent was one or more months overdue; (iii) the dollar amount of rent actually collected as well as the dollar amount of overdue, uncollected rent; (iv) the number of units which were uninhabitable; and (v) detailed information about the cost to make those units habitable;

e. Failure to disclose specific information about the ongoing history of late mortgage payments, the possibility that one of both banks would foreclose on The Properties, late payment of utility bills including water bills, late payment of insurance premiums for The Properties as well as the L.R. Group's 2011 Forbearance and Release Agreement with City National Bank.

f. Omitting information about why the December 15, 2010 appraisals were sufficiently reliable to form the basis of an investment decision and failing to disclose that the "Recent Appraisals for the Properties" (i) did not take into account damage to The Properties occurring after the December 15, 2010 appraisals had been issued; and that (ii) the 5% vacancy rate used in the appraisal was much lower than the actual vacancy rate which had increased "dramatically since March 2012";

g. Falsely representing in the December 1, 2012 offering memorandum given to investor P.L. that (i) "Unless contributions aggregating at least \$700,000 (the "Minimum Proceeds") are received prior to the expiration date [February 29, 2013] or any extension thereof, all Contributions received from Offerees will be returned promptly, with interest as actually earned," and that (ii) "As of December 31, 2013 (sic), \$700,000 had been contributed by Members." In truth, including P.L.'s contribution, only \$200,000 was raised in the second round and Bronchick refused to return P.L.'s \$100,000 investment.

46. The following sub-paragraphs detail the known scheme to defraud investors, and the acts, practices and course of business engaged in by the Defendants to defraud investors, and are typical examples of the conduct engaged in by the Defendants with other investors:

a. First-round investors, J.H. and C.H. are sisters residing in Colorado. J.H. first met Bronchick through the Colorado Association of Real Estate Investors about 6 years before the sisters invested in Valois Dynasty. Over the years, J.H. paid Bronchick approximately \$21,000 for his real estate investing and asset protecting seminars and mentoring. J.H. also retained Bronchick to provide legal services to her.

Bronchick solicited J.H. by email in December 2010 touting Valois. An early email says “30% cash on cash return annually and total return should be 400%++++ ... I am putting up \$100k, too ... I’ve personally visited the properties and did all the due diligence.” A later email presents even higher returns, stating “5x. We are walking in with 2.4m in equity for a \$600k investment. That’s \$4x going in, plus 30% per year for 3 years.”

J.H. forwarded emails from Bronchick to her sister C.H. and invited her to participate in the deal. Both sisters trusted Bronchick because he ostensibly had skin in the game, was an experienced attorney, a recognized real estate investing expert, and because he told them he would oversee the management of The Properties.

At the time that she invested and encouraged her sister to invest J.H. did not know that:

- Bronchick would not actually make up any shortfalls from his personal funds. Instead, he would solicit new investors;
- Interest on the bank loans and other expenses had been omitted from the profit and loss statements;
- City National Bank and L.R. Group had entered into a forbearance agreement and that \$105,000 of investor monies would be used to satisfy that agreement;
- Outstanding bank loans had been omitted from the balance sheet in the offering documents and the profit and loss statement did not report the interest expense on the bank loans or depreciation;
- Bronchick would not provide them with access to the financial records and tax records as stated in the offering documents; and
- Bronchick and Valois Dynasty did not actually acquire title to The Properties – even though Bronchick had taught his students to be sure to acquire the title.

Through LLC’s established with Bronchick’s assistance, each of the sisters invested money inherited from their deceased parents. J.H. lost

her entire \$100,000 investment and C.H. lost her entire \$50,000 investment.

b. Second-round investor P.L. is a 73 year old retired school teacher, former small business owner, and a resident of Arizona. P.L. purchased at least two soft-covered books, 12 three-ring binders, and numerous CDs from Bronchick. She also attended several of his presentations.

P.L. initially retained Bronchick as her legal counsel to help her establish limited liability companies to hold some properties she already owned. P.L. is not a sophisticated investor. By the time Bronchick offered the Valois Dynasty opportunity to her, she knew him as her legal counsel, a friend, and trusted adviser – especially with regard to real estate investing.

By August 2012, Bronchick was soliciting P.L. by email from [bronchick@legalwiz.com](mailto:bronchick@legalwiz.com) (while indicating that his street address was 2821 S Parker Road, Suite 505, Aurora, Colorado). Bronchick's August 30, 2012, email solicitation begins "Since we've done business before, I wanted to let you in on a lucrative apartment deal in Little Rock, AR." The email describes the investment as "three buildings totaling 188 units, C class, purchased about 2.4M below appraisal." The email does not explain that Bronchick is really offering an opportunity to invest in an LLC that would own 24.99% interest of another LLC.

The email further explains that "[t]he game plan is to take it up to 90% occupancy, then sell in about 3-4 years for a big back-end number. We already have financing in place." The deal is presented as if it were an exclusive opportunity, stating "This is for accredited investors only and we are looking for a maximum of 4 people." An Offering Memorandum and Executive Summary are not included in the August 2012 email.

After P.L. expressed interest, she received access to an electronic copy of the Valois Dynasty, LLC Executive Summary and an Offering Memorandum through a drop-box with limited time access. The first page of the Executive Summary represented that "[t]he business will generate profits from both the ongoing rental income paid to the Company while generating capital appreciation from the long term holding of these properties," and falsely states that the individual units are "free from code violations."



A document described as “Recent Appraisals for the Properties” is attached to P.L.’s Executive Summary. But they are actually copies of Buckner’s December 15, 2010 Appraisals, which falsely assumes a 95% occupancy rate, do not take into account later damage to The Property, and are not intended for use by investors. There is no business plan, no historical balance sheets or cash flow statements. Nor is there any specific and accurate information about rent rolls, occupancy rates, costs of repairs, or the history of delinquent mortgage loan payments, utility bills, real estate taxes, insurance premiums, and other expenses.

The information provided to P.L. is false and misleading in that Bronchick failed to accurately describe the investment to P.L. and to provide her with information that accurately portrayed the true physical and financial condition of The Properties, the risks of investing in a minority interest in an LLC, the risks associated with investing in real estate titled in the name of another person, the risks of participating in a venture managed by Bronchick and Nguyen, and other salient information, including the risks related to the company’s ability to continue as a going concern.

At the time that P.L. invested, Valois Dynasty was suffering from severe financial difficulty. On January 8, 2013, the first-round investors circulated emails – copied to Bronchick – discussing current pressing issues including, but not limited to, City National Bank’s request for an “update on the code progress, a stabilization plan, a renovation plan, and capitalization plan”; the need to immediately repair heaters in two occupied units; past due insurance and water due bills; and numerous code violations to be fixed. On January 9, 2013, Bronchick replied telling the first-round investors “I have two investors I am negotiating with, plus doing a webinar tomorrow night again to renew more interest.” The disclosures that P.L. received paint a rosy, not a desperate, picture. At the time that she made her investment P.L. did not understand that her money would be used to attempt to bail out a failing real estate project.

On January 24, 2013, P.L. instructed Wells Fargo to withdraw funds from her savings account at Wells Fargo and wire transfer \$100,000 to FirstBank of Colorado for the benefit of Valois Dynasty LLC account # XXXXXX9561. Valois Dynasty issued a membership certificate to P.L. on February 14, 2013.

**FIRST CLAIM FOR RELIEF  
(Securities Fraud)**

47. Paragraphs 1 through 46 above are incorporated herein by reference.

48. An investment in Valois Dynasty LLC is a “security” as that term is defined in § 11-51-201(17), C.R.S. in that it is at least a “certificate of interest or participation in any profit-sharing agreement,” “investment contract,” or “in general, any interest or instrument commonly known as a ‘security.’”

49. In connection with the offer, sale, or purchase of securities in Colorado, the Defendant, directly or indirectly, in violation of § 11-51-501(1), C.R.S.:

- a. employed a device, scheme, or artifice to defraud;
- b. made written and oral untrue statements of material fact or omitted to state material facts necessary 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 and deceit on investors.

50. The Commissioner is entitled to a preliminary and permanent injunction against Defendant Bronchick, his officers, directors, agents, servants, employees, successors and attorneys-in-fact, as may be; any person who, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the Defendant; and all those in active concert or participation with the Defendant, enjoining violation of § 11-51-501(1), C.R.S., by virtue of § 11-51-602(1), C.R.S.

51. The Commissioner is also entitled to an award of restitution, disgorgement, and other equitable relief on behalf of persons injured by the conduct of the Defendant pursuant to § 11-51-602(2), C.R.S.

**WHEREFORE**, the Commissioner requests relief as follows:

1. For permanent injunctive relief against Defendant Bronchick, his agents, servants, employees, and successors; any person who, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with; and all those in active concert or participation with

the Defendant, enjoining the violations of all the Defendant of the Colorado Securities Act or successor statute pursuant to § 11-51-602(1), C.R.S.

2. For judgment in an amount to be determined at trial against Defendant Bronchick for damages, interest, costs and attorneys' fees, restitution, disgorgement and other legal and equitable relief on behalf of persons injured by the conduct of the Defendants pursuant to § 11-51-602(2), C.R.S., as the Court deems appropriate. This relief is sought on behalf of the persons injured by the acts and practices of Defendant Bronchick that constitute violations of the Act and for the Commissioner to recover attorney fees and costs.

3. For such other and further relief as the court deems proper.

Dated this 2<sup>nd</sup> day of June, 2017.

CYNTHIA H. COFFMAN  
Attorney General

*/s/ Cathern H. Smith*

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