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**UNITED STATES DISTRICT COURT
DISTRICT OF UTAH, CENTRAL DIVISION**

SECURITIES AND EXCHANGE COMMISSION,

PLAINTIFF,

Civil No. 2:10-cv-00602-CW

Judge Clark Waddoups

v.

TRAVIS L. WRIGHT,

DEFENDANT.

COMPLAINT

Plaintiff, Securities and Exchange Commission (the “Commission”), for its
Complaint against Travis L. Wright alleges as follows:

INTRODUCTION

1. This matter involves the fraudulent offer and sale of unregistered securities in the Waterford Loan Fund, LLC (the “Fund”) by its member, Travis L. Wright (“Wright” or the “Defendant”).
2. From the fall of 2001 through the spring of 2009, Wright, directly and through several sales agents, sold securities in the form of secured promissory notes issued by the Fund to approximately 175 investors in unregistered, non-exempt transactions, raising approximately \$145 million.

3. During the offer and sale of these securities, Wright made a number of misrepresentations to investors and omitted to disclose other material facts. For example, Wright represented to investors that their funds would be used only to make “hard money” loans secured by first liens on commercial real estate and that all the assets belonging to the Fund would be placed into a trust and held for their collective benefit. However, less than 10% of the funds raised from investors were used in this manner, and no such trust existed. In addition, Wright failed to disclose to investors that he was using a significant amount of their funds for his personal benefit.
4. Of the total amount raised, only approximately \$6 million was used in a manner consistent with Wright’s representations. The remainder—and vast majority—of investor funds were used for other purposes.

JURISDICTION AND VENUE

5. This Court has subject matter jurisdiction by authority of Sections 20 and 22 of the Securities Act of 1933 (the “Securities Act”) [15 U.S.C. §§ 77t and 77v] and Sections 21 and Section 27 of the Securities Exchange Act of 1934 (the “Exchange Act”) [15 U.S.C. §§ 78u and 78aa].
6. Defendant, directly and indirectly, has made use of the means and instrumentalities of interstate commerce and the mails in connection with the transactions, acts, and courses of business alleged herein, certain of which have occurred within the District of Utah.
7. Venue for this action is proper in the District of Utah under Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and under Section 27 of the Exchange Act [15 U.S.C. § 78aa] because certain of the transactions, acts, practices, and courses of business alleged in this Complaint took place in this district and because the Defendant resides in and transacts business in this district.

8. Defendant, unless restrained and enjoined by this Court, will continue to engage in the transactions, acts, practices, and course of business alleged herein and in transactions, acts, practices, and courses of business of similar purport and object.
9. Defendant's conduct took place in connection with the offer, purchase and/or sale of securities in the form of secured promissory notes.

DEFENDANT

10. **Travis L. Wright** ("Wright"), age 47, resides in Draper, Utah. Wright controlled the Waterford entities listed below. Wright has never been registered with the Commission in any capacity and has never been licensed to sell securities.

RELATED ENTITIES

11. Wright formed a number of entities under the Waterford name. These entities (collectively, the "Waterford Entities") include:
 - a. **Waterford Funding, LLC** ("Waterford Funding") is a Utah limited liability company formed in 1999 under the name Wrightway Investments. Wright used Waterford Funding as a parent company for the other Waterford Entities. Waterford Funding filed for Chapter 11 bankruptcy protection in the District of Utah on March 20, 2009.¹ At the same time, Waterford Loan Fund, LLC made a parallel bankruptcy filing.² The two petitions have been consolidated.
 - b. **Waterford Loan Fund, LLC** ("the Fund") is a Utah limited liability company formed in 2001 as a subsidiary of Waterford Funding. The Fund was controlled solely by Wright. The Fund issued the secured promissory notes that were fraudulently sold to investors from 2001 until March 2009.
 - c. **Waterford Services, LLC** ("Waterford Services") is a Utah limited liability company formed by Wright in 2001. Wright was its only member. Waterford

¹ In re Waterford Funding, LLC, Docket No. 2:09-bk-22584 (Bankr. D. Utah filed Mar. 20, 2009).

² In re Waterford Loan Fund, LLC, Docket No. 2:09-bk-22583 (Bankr. D. Utah filed Mar. 20, 2009).

Services was an operating entity that Wright used to make loans, pay operating expenses of the business, and disburse funds to investors.

- d. **Waterford 1031 Exchange Services, LLC** (“Waterford 1031”) is a Utah limited liability company formed in 2007. Waterford 1031 served as a Qualified Intermediary for tax-free exchanges of real property under USC Title 26, § 1031.

FACTS

The Offering

12. In the fall of 2001, Wright began using an offering summary (collectively with later versions, the “Offering Summary”) that he provided to prospective investors. The Offering Summary made reference to an “Offering of \$20,000,000 of Secured Notes” issued by the Fund, and the offering was registered with the Utah Division of Securities as a private placement under Regulation D of the Securities Act, Rule 506 [17 C.F.R. § 230.506].
13. This 2001 version of the Offering Summary stated that investor funds would only be used to make loans secured by commercial real estate and that the Fund would never lend more than 50% of the value of the property. The Offering Summary also stated that all loans would have terms not longer than 180 days and would be secured by first-position trust deeds and mortgages.
14. After September 2001, Wright employed three subsequent versions of the Offering Summary. The October 2005 version stated that the Fund could now lend up to 70% of the value of the property and no longer represented that the loans would be secured by first liens. All other representations, however, remained the same as in the first version of the Offering Summary.
15. From the fall of 2001 until the spring of 2009, Wright raised approximately \$145 million through the sale of unregistered securities in the form of secured promissory notes to approximately 175 investors.

16. Wright solicited the majority of the offerees himself through continuous and frequent sales activities.
17. By the second year of the Fund's operation, Wright also began employing sales agents to bring in additional investors.
18. At the time the Fund filed for bankruptcy, Wright was paying commissions to five sales agents. The agents were paid commissions at rates ranging from 5% to nearly 11% of the newly invested money. If an existing investor elected to roll his investment over into a new note at maturity, the agent would receive an additional commission of approximately 2% of the amount rolled over.
19. Although these sales agents were provided with a current version of the Offering Summary for distribution to offerees, some investors never received a prospectus or offering document of any kind.
20. No financial information was ever included in any version of the Offering Summary or provided to investors in any other form.
21. Before investing, investors signed a "Funding Agreement" which included a description of the accreditation requirements of Regulation D, Rule 501 [17 C.F.R. § 230.501] and stated, among other things, that by signing the Funding Agreement they certified that they were accredited investors.
22. Wright took no steps to verify whether investors were actually accredited.
23. Some of the investors who were offered or sold securities by Wright and his sales agents were not accredited investors as defined by Regulation D, Rule 501 [17 C.F.R. § 230.501].
24. Each investor in the Fund received a "Secured Promissory Note." These notes bore interest at varying rates, from a rate of 2% up to a rate of 24% per annum.
25. In all cases, Wright determined the interest rates and terms of the various notes. He did so with reference to current market conditions and after negotiation with the particular investor.

26. At maturity, each investor was sent a letter giving him or her several options with regard to his or her investment. For example, investors could (a) receive a payout of principal and interest, (b) reinvest the principal and receive a payout of interest only, or (c) roll over the entire amount of principal and interest.
27. Wright's office staff consisted only of a CPA, Scott Christensen, who maintained bank account records for the Fund and the core Waterford entities; an administrative assistant; and, a staff person who worked for Waterford 1031.
28. Wright was the only person who could accept a new investor for Waterford or who could deal with investor inquiries (except as to purely administrative matters).
29. Wright made any and all substantive decisions concerning investors or company business.

The Scheme Falls Apart

30. In late 2008, a large number of Wright's investors found that they were no longer receiving interest payments when their notes matured.
31. When they contacted Wright, he explained that he was waiting for a large investment to mature and would be able to pay them shortly.
32. When Wright failed to make the late interest payments, several investors who had placed large amounts with Wright decided to confront him as a group.
33. In February or March of 2009, Wright admitted to these investors that he had not adhered to the representations in the Offering Summary and that he had committed fraud.
34. Ultimately, the investor group persuaded Wright to transfer to them all the assets of the Fund and Waterford Funding, as well as most of his personal assets.
35. These investors caused the Fund and Waterford Funding to declare bankruptcy on March 21, 2009.

Wright's Misrepresentations and Omissions

36. Wright deliberately violated representations he made to investors regarding the use of their funds, and knowingly failed to disclose other material facts.
37. In the period between fall of 2001 and spring of 2009 when the creditors took over the Fund and Waterford Funding, Wright made approximately 20 investments. Of these 20 investments, approximately five fell within the parameters set forth in the Offering Summary.
38. Wright's fraudulent uses of investor funds include:
 - a. a loan made to Candwich Corporation for development of a sandwich in a can to be sold in vending machines;
 - b. an equity investment in The Time Zone, a company that sold watches over the internet;
 - c. an investment in a company, owned by Wright and his brother, that possessed the distribution rights to a film about a boy scout pinewood derby car race;
 - d. an equity investment in Speaking Roses, a company that sold rose petals with sentiments printed on them;
 - e. numerous unsecured loans to acquaintances and friends; and
 - f. an investment of funds in a UBS brokerage account.
39. Wright knowingly used investor money for purposes not within the parameters of the Offering Summary.
40. Wright never informed investors that he was using their funds primarily for purposes that had nothing to do with hard money loans on commercial real estate.
41. The Offering Summary stated that the Fund would place "all invested cash, promissory notes, trust deeds, mortgages, personal and corporate guarantees, security agreements and other documents and payments and proceeds of each loan into a trust established for the benefit of the Investors holding Secured Notes."
42. Wright never established such a trust for the benefit of investors.

43. The Offering Summary also stated that the Fund would never lend more than 50% of the value of the commercial real estate in question (revised to 70% in the October 2005 version of the Offering Summary).
44. Wright never obtained an appraisal before making a loan and relied solely on his own judgment in determining how much to lend.
45. Wright never informed investors that the 50% (later 70%) loan-to-collateral ratio was based solely on Wright's subjective judgment.
46. Notes given to investors were captioned "Secured Promissory Note" even though they were unsecured.
47. From fall of 2001 through spring of 2009, Wright used over \$15 million of investor funds for his personal use.
48. Using investor funds, Wright purchased a house formerly owned by a NBA basketball player in an exclusive suburb of Salt Lake City. He also renovated the house extensively, spending approximately \$133,000 on landscaping alone and importing cobblestones for the driveway from France.
49. Wright also used investor funds to take large groups of family and friends on various trips multiple times a year. His destinations outside the U.S. alone include Argentina, Costa Rica, Egypt, England, France, Germany, Hungary, Japan, Portugal, Spain, Tahiti, and Turkey.
50. Furthermore, Wright used investor funds to purchase other luxury items such as Mercedes automobiles, motorcycles, guns, and jewelry.
51. Wright also gave his wife between \$5,000 and \$20,000 of discretionary spending money almost every month from approximately 2002 to 2008.
52. The only disclosure given to investors regarding the amount of money Wright was permitted to withdraw from the Fund for himself was set forth in the Offering Summary:

The Fund may compensate the Fund Manager as reasonable in the Fund's discretion, but only within the guidelines for disbursement of funds described briefly above and in the Offering Summary . . . The Fund may only withdraw funds from the Trust to pay its managers and owners to the extent that the withdrawal does not reduce below 90% the ratio of the Fund's outstanding debts to the cash equivalent value of the Trust's assets (including cash, promissory notes, trust deeds and other documents).

The Fund Manager was Waterford Funding, which Wright controlled.

53. Wright violated this provision of the Offering Summary.
54. Since 2002, Wright has had no sources of income other than through the Fund. Wright's wife did not work outside the home or earn any income during that same time.
55. The loans and investments made by the Fund produced very little income during the approximately eight years that the Fund was raising money from investors.
56. Wright also deliberately misused investor funds through Waterford 1031, an entity Wright formed in 2007 to act as a qualified intermediary to facilitate 1031 exchanges of real property.
57. On several occasions, Wright withdrew escrowed funds from the bank account of Waterford 1031 without the knowledge or consent of the exchanger, planning to replace them in time for the purchase of the replacement property.
58. Wright often replaced the withdrawn funds with money invested with the Fund.
59. On every occasion except the last, Wright was able to restore withdrawn funds to the escrow account in time. On the last occasion, however, Wright never replaced the exchanger's funds, because creditors intervened and caused the Fund and Waterford Funding to file for bankruptcy before he could do so.
60. In sum, between the fall of 2001 and the spring of 2009, after raising approximately \$145 million from investors, Wright made only a few loans, totaling approximately \$6 million, which actually fell within the parameters of the Offering Summary.

61. During this same period, Wright spent approximately \$15.2 million of investor funds on himself.

FIRST CAUSE OF ACTION
EMPLOYMENT OF A DEVICE, SCHEME OR ARTIFICE TO DEFRAUD
Violation of Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)]

62. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 61, above.
63. Defendant, by engaging in conduct described in Paragraphs 1 through 61, above, directly or indirectly, in the offer or sale of securities, by the use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, with scienter, employed devices, schemes, or artifices to defraud.
64. By reason of the foregoing, Defendant, directly or indirectly, violated, and unless restrained and enjoined by this Court, will continue to violate Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

SECOND CAUSE OF ACTION
FRAUD IN THE OFFER AND SALE OF SECURITIES
Violations of Section 17(a)(2) and (3) of the Securities Act
[15 U.S.C. § 77q(a)(2) and (3)]

65. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 61, above.
66. Defendant, by engaging in the conduct described in Paragraphs 1 through 61, above, directly and indirectly, in the offer and sale of securities, by the use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, obtained money or property by means of untrue statements of material fact or by omitting 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, and engaged in transactions, practices, or courses of business which operate or would operate as a fraud or deceit upon the purchaser.

67. By reason of the foregoing, Defendant, directly or indirectly, violated, and unless restrained and enjoined will continue to violate, Section 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and 77q(a)(3)].

**THIRD CAUSE OF ACTION
FRAUD IN CONNECTION WITH THE PURCHASE AND
SALE OF SECURITIES**

**Violations of 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]**

68. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 61, above.
69. Defendant, by engaging in the conduct described in Paragraphs 1 through 61, above, directly or indirectly, by the use of means or instrumentalities of interstate commerce or use of the mails, in connection with the purchase or sale of securities, with scienter, (1) employed devices, schemes, or artifices to defraud; (2) made untrue statements of material fact or omitted to state a material fact necessary in order to make statements made, in light of the circumstances under which they were made not misleading; or (3) engaged in acts, practices, or courses of business that operated or would operate as a fraud and deceit upon other persons.
70. By reason of the foregoing, Defendant, 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].

**FOURTH CAUSE OF ACTION
OFFER AND SALE OF UNREGISTERED SECURITIES**

Violation of Sections 5(a) and (c) of the Securities Act [15 U.S.C. § 77e(a) and (c)]

71. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 61, above.

72. Defendant, by engaging in the conduct described in paragraphs 1 through 61, above, directly or indirectly, through use of the means or instruments of transportation or communication in interstate commerce or the mails, offered to sell or sold securities or, directly or indirectly, or carried such securities through the mails or in interstate commerce, for the purpose of sale or delivery after sale.
73. No registration statement has been filed with the Commission or has been in effect with respect to these securities, nor has an exemption to registration been satisfied.
74. By reason of the foregoing, Defendants, directly or indirectly violated, and unless enjoined will continue to violate Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

**FIFTH CAUSE OF ACTION
OFFER AND SALE OF SECURITIES BY AN
UNREGISTERED BROKER OR DEALER
Violation of Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)]**

75. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 61, above.
76. Defendant, directly or indirectly, made use of the mails or the means or instrumentalities of interstate commerce to effect transactions in, or to induce or attempt to induce the purchase and sale of, securities without being registered as a broker or dealer with the Commission or associated with a broker-dealer registered with the Commission.
77. By reason of the foregoing, Defendant violated, and unless restrained and enjoined will continue to violate, Section 15(a) of the Exchange Act [15 U.S.C. 78o(a)].

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that this Court:

I.

Issue findings of fact and conclusions of law that the Defendant committed the violations charged herein.

II.

Issue, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, orders that preliminarily and permanently enjoin Defendant and his officers, agents, servants, employees, attorneys, and accountants, 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 engaging in transactions, acts, practices, and courses of business described herein, and from engaging in conduct of similar purport and object in violation of Sections 5(a), 5(c) and 17(a) of the Securities Act, and Sections 10(b) and 15(a) of the Exchange Act and Rule 10b-5 thereunder.

III.

Enter an order prohibiting Defendant from offering, selling or soliciting the sale of securities in a public or private offering, except for purchases or sales of securities by Defendant for a personal account maintained at a broker or dealer registered with the Commission.

IV.

Enter an order directing Defendant to pay civil money penalties pursuant to Section 20(d) of the Securities Act and Section 21(d)(3) of the Exchange Act.

V.

Enter an order directing Defendant to disgorge all ill-gotten gains received during the period of violative conduct and pay prejudgment interest on such ill-gotten gains.

VI.

Grant such further equitable relief as this Court deems just, appropriate, and necessary, including, but not limited to, a freeze of assets and the acceleration of discovery, including the forthwith production of documents.

VII.

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.

Dated this 1st day of July 2010.

Respectfully submitted,

/s/ Thomas M. Melton _____

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CIVIL COVER SHEET

JS 44 (Rev. 12/07)

The JS 44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON THE REVERSE OF THE FORM.)

I. (a) PLAINTIFFS

United States Securities and Exchange Commission

(b) County of Residence of First Listed Plaintiff (EXCEPT IN U.S. PLAINTIFF CASES)

(c) Attorney's (Firm Name, Address, and Telephone Number) Thomas M. Melton 15 West South Temple Street, Suite 1800, Salt Lake City, Utah 84101 (801) 524-5796

DEFENDANTS

Travis L. Wright

County of Residence of First Listed Defendant Salt Lake (IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE LAND INVOLVED.

Attorneys (If Known)

II. BASIS OF JURISDICTION (Place an "X" in One Box Only)

- 1 U.S. Government Plaintiff, 2 U.S. Government Defendant, 3 Federal Question (U.S. Government Not a Party), 4 Diversity (Indicate Citizenship of Parties in Item III)

III. CITIZENSHIP OF PRINCIPAL PARTIES (Place an "X" in One Box for Plaintiff and One Box for Defendant)

- Citizen of This State, Citizen of Another State, Citizen or Subject of a Foreign Country, PTF DEF, Incorporated or Principal Place of Business In This State, Incorporated and Principal Place of Business In Another State, Foreign Nation

IV. NATURE OF SUIT (Place an "X" in One Box Only)

Table with columns: CONTRACT, REAL PROPERTY, TORTS, CIVIL RIGHTS, PRISONER PETITIONS, FORFEITURE/PENALTY, LABOR, IMMIGRATION, BANKRUPTCY, SOCIAL SECURITY, FEDERAL TAX SUITS, OTHER STATUTES. Includes various legal categories like Insurance, Personal Injury, Real Property, etc.

V. ORIGIN

- 1 Original Proceeding, 2 Removed from State Court, 3 Remanded from Appellate Court, 4 Reinstated or Reopened, 5 Transferred from another district (specify), 6 Multidistrict Litigation, 7 Appeal to District Judge from Magistrate Judgment

VI. CAUSE OF ACTION

Cite the U.S. Civil Statute under which you are filing (Do not cite jurisdictional statutes unless diversity): 15 U.S.C. 77e(a)(1), (2) and (3); 15 U.S.C. 78j(b); 17 C.F.R. 240.10b-5; 15 U.S.C. 77e(a) and (c); 15 U.S.C 78o(a) Brief description of cause: Fraud and unregistered offering

VII. REQUESTED IN COMPLAINT:

CHECK IF THIS IS A CLASS ACTION UNDER F.R.C.P. 23 DEMAND \$ CHECK YES only if demanded in complaint: JURY DEMAND: Yes No

VIII. RELATED CASE(S) IF ANY

(See instructions): JUDGE DOCKET NUMBER

DATE 07/01/2010 SIGNATURE OF ATTORNEY OF RECORD [Signature]

FOR OFFICE USE ONLY

RECEIPT # AMOUNT APPLYING IFP JUDGE MAG. JUDGE