PETER C. HARVEY
ATTORNEY GENERAL OF NEW JERSEY
Division of Law
124 Halsey Street, Second Floor
Newark, NJ 07101
Attorney for Plaintiffs

By: Jonathan D. Rudolph
Deputy Attorney General
Tel. (973) 648-3730

Office of the Superior Court Clerk
By Deputy Clerk of the Superior Court
JUL - 3 2003
Received and Filed
ESSEX

SUPERIOR COURT OF NEW JERSEY
ESSEX COUNTY
CHANCERY DIVISION
DOCKET NO. ESX-C-225-03

PETER C. HARVEY,
ATTORNEY GENERAL OF
NEW JERSEY, and
FRANKLIN L. WIDMANN,
Chief, New Jersey Bureau of Securities,

Plaintiffs,

v.

WILLIAM SCHLOTH,
NICHOLAS THOMPSON and
DOUGLAS TOTH, individually and as
successors in interest of Somerset Financial
Partners, Inc.,
SOMERSET FINANCIAL GROUP, INC.,
SOMERSET INVESTMENT
MANAGEMENT, LLC,
SOMERSET VENTURE PARTNERS, LLC
and
SOMERSET VENTURE PARTNERS I, LLC.

Defendants

Civil Action

COMPLAINT

Plaintiffs, Peter C. Harvey, Attorney General of the State of New Jersey, with offices located at 124 Halsey Street, Fifth Floor, Newark, New Jersey, and Franklin L. Widmann, Chief of the New Jersey Bureau of Securities, with offices located at 153 Halsey Street, Sixth Floor, Newark, New Jersey, say by way of Complaint:

1. Somerset Financial Partners, Inc., was formed as a Connecticut corporation in March, 1998. In February, 2002, it became a Delaware corporation. At all times herein it maintained its headquarters at 10 Wright Street, Suite 220, Westport, Connecticut. It also maintained offices at 349 Wall Street, Princeton, New Jersey, 08540.

2. Somerset Financial Group, Inc. is a Delaware corporation, formed in April, 1998. It is a wholly owned subsidiary of Somerset Financial Partners, Inc., and was a registered broker-dealer, maintaining offices at 349 Wall Street, Princeton, New Jersey, 08540 and 10 Wright Street, Westport, Connecticut, 06880. During the course of its active business existence it had additional offices in Manahawkin, Toms River and Saddle Brook, New Jersey; Garden City, New York; Boca Raton, Florida and Plymouth, Minnesota. On October 30, 2002, it filed a Broker-Dealer Withdrawal with the Bureau. On that same date, its registration with the NASD lapsed due to a failure to pay any required fees.

3. Somerset Investment Management, LLC, is a Connecticut limited liability company, a wholly-owned subsidiary of Somerset Financial Partners, Inc., with offices at 349 Wall Street, Princeton, New Jersey, 08540.

4. Somerset Venture Partners, LLC, is a Delaware limited liability company and a wholly-owned subsidiary of Somerset Financial Partners, Inc., with offices at 349 Wall Street, Princeton New Jersey, 08540. Somerset Venture Partners, LLC was the manager of Somerset Venture Partners, I, LLC.

5. Somerset Venture Partners, I, LLC, a Venture Fund, is a Delaware limited liability company and a wholly-owned subsidiary of Somerset Financial Partners, Inc., with offices at 349 Wall Street, Princeton New Jersey, 08540.

6. William Schloth resides at
He was a shareholder and officer of Somerset Financial Partners, Inc.

7. Nicholas Thompson resides at
08844. He was a shareholder and officer of Somerset Financial Partners, Inc. He is also the Manager of Somerset Venture Partners, LLC, which in turn managed the Venture Fund, Somerset Venture Partners, I, LLC.

8. Douglas Toth resides at He was
a shareholder and officer of Somerset Financial Partners, Inc.

9. MFC Bancorp Ltd. is a Canadian corporation formed in 1996. It operates as a financial services business, specializing in private and investment banking, asset management, securities trading, underwriting security issuances, brokerage and insurance services internationally. The company is listed in the Nasdaq National Market System under the symbol MXBIF and on the Frankfurt Stock Exchange under the symbol MFC GR.

10. When Somerset Financial Partners, Inc. was incorporated in 1998, Toth owned 4,000 shares, Thompson owned 4,000 shares, and Schloth owned 2,000 shares. MFC Bancorp Ltd. held a registered and beneficial ownership interest of 5,000 shares and had provided the entity with approximately $699,500 as loans and advances.

11. On June 20, 2000, MFC Bancorp Ltd. sold its shares of Somerset Financial Partners, Inc. to Toth and to Somerset Financial Partners, Inc. The agreement executed on that date provided a purchase price of $1,100,000, which included the shares and reimbursement to MFC of the $699,500. The purchase agreement required payments by Toth and Somerset Partners, Inc. over a three year period, with interest on the unpaid principal of 6%. In addition, they pledged as collateral the 5,000 shares to be acquired in this transaction, to be held by MFC until at least 50% of the total of principal and interest had been paid. Toth and Somerset Partners, Inc. currently owe approximately $232,275 of the original price of $1,100,000.

12. The June 20, 2000 purchase agreement required Somerset Financial Partners to "use all proceeds raised by way of any issue of debt, including any such issue evidenced by any bond, debenture, debt instrument or other security, or by way of any equity issue to repay, in whole or in part, the Balance or outstanding portion hereof . . .."

13. Between on or about April 26, 2001, and on or about August 8, 2001, the defendants and agents of Somerset Financial Group, Inc. sold to investors units of Somerset Venture Partners, I, LLC. A unit consisted of Somerset Venture Partners, I, LLC's 12% Note and a Warrant to purchase a membership interest in the Somerset Venture Partners, I, LLC Venture Fund. The units are securities, as defined by N.J.S.A. 49:3-47 et seq.

14. The units were marketed to investors as a "Bridge Loan" for the creation of a Venture Fund by Somerset Venture Partners, I, LLC. Initially the units were sold for $50,000 each. Of that amount, $49,950 was allocated by the defendants to the Note and $50 was allocated by the defendants to the purchase of the Warrant.

15. That part of each unit allocated to the 12% Note was to be repaid upon maturity, which was described in the Note and Warrant Purchase Agreement as "...the earlier of six months or the receipt by the Company of a minimum of $5,000,000 of proceeds from the sale of Membership Interests in its private offering."

16. Between on or about April 26, 2001 and on or about August 8, 2001, the defendants and agents of Somerset Financial Group, Inc., sold 27 units of the "Bridge Loan" to 18 investors, for a total of $1,317,000. Of the18 investors, 13 resided in New Jersey.

17. In effecting the sale of the "Bridge Loans", the defendants and agents of Somerset Financial Group, Inc.,failed to disclose, misstated, falsely represented, or omitted to state material facts. Among those facts were the following:

a. The prior relationship and current debt owed by Toth and Somerset Partners, Inc. to MFC Bancorp Ltd.;

b. The obligation imposed on Toth and Somerset Partners, Inc. to use all proceeds raised by way of any issue of debt, etc., to repay MFC Bancorp Ltd.;

c. The degree of risk associated with the investment;

d. The intended investment aim of the defendants, which was not, as represented, to create a Venture Fund, but to use the proceeds of the Bridge Loans to increase the number of sales offices of Somerset Financial Group, Inc., and thereby further develop its retail sales of securities;

e. The suitability of the investment for these 18 investors.

18. Between on or about April 26, 2001, and on or about November 1, 2001, the defendants transferred at least $700,000 of the "Bridge Loan" proceeds from Somerset Venture Partners, I, LLC, Venture Fund to Somerset Financial Partners, Inc., and then to Somerset Financial

Group, Inc., where it was used to pay routine business expenses, and for the creation of a branch office on Long Island, New York.

19. The defendants failed to create an escrow account for the proceeds of the "Bridge Loan" investments, and they commingled funds from various sources, including the "Bridge Loans". As a result of this conduct, the corporate records do not accurately reflect how the defendants spent the balance of approximately $600,000 they had acquired from the 18 investors.

20. Beginning on or about October 26, 2001, the "Bridge Loans" started to become due. However, the defendants did not have funds with which to repay the investors.

21. On or about November 1, 2001, the defendants sent each of the 18 investors a document entitled "CONSENT TO EXTENSION OF NOTE AND AMENDMENT TO NOTE AND WARRANT PURCHASE AGREEMENT". This document extended the "Bridge Loan" for several months or until the defendants had sold a minimum of $3,000,000 of units in its private offering.

22. The "CONSENT TO EXTENSION OF NOTE . . ." was accompanied by a cover letter in which the defendants made false and misleading representations designed to induce the 18 investors to agree to the extension. The false and misleading representations included the following:

a. "Because of that event [the World Trade Center disaster] and other market conditions, of which we are sure you are aware, we have not yet met the minimum funding for the Fund."

However, in truth and in fact, as the defendants well knew, they had not raised <u>any</u> money for the fund, and had no expectation of doing so.

b. "In November, we plan on paying out the 12% per annum interest on your note from its inception through October 31, 2001."

However, in truth and in fact, as the defendants well knew, none of the defendants had the funds on hand with which to reimburse the investors, and had no realistic prospect of obtaining such funds.

c. "Through the events noted below we feel confident that we will reach the minimum funding by the end of December or early January and thereby repay in full the principal and any remaining accrued interest on your Note."

However, in truth and in fact, as the defendants well knew, the defendants did not intend to repay the Notes. As stated by defendant Thompson, during the course of a deposition on April 1, 2003:

Q. I don't think I understand. The bridge loans were loans, weren't they?
A. Yes.
Q. And who do you believe was obligated to repay those loans?
A. The venture partnership.
Q. And the venture partnership never raised the fund or created the fund that it was planning on creating.
A. Right.
Q. And does that mean that the people who loaned the money were not entitled to be paid back?
A. The essence of a bridge loan is to bridge to a financing.
Q. Yes.
A. If there's no financing, the bridge doesn't get paid back.

d. "We are in final negotiations with an experienced lead Fund Manager whose most recent-six year portfolio performance track record has averaged compounded returns which exceed 30% . . ."

However, in truth and in fact, as the defendants well knew, no negotiations for a fund manager had taken place, and defendant Thompson, who had no previous experience with the operation of a venture fund, operated as the Fund Manager.

COUNT ONE
FRAUD IN CONNECTION WITH THE OFFER, SALE OR PURCHASE OF SECURITIES IN VIOLATION OF N.J.S.A 49:3-52(b)

23. The allegations of the preceding paragraphs are incorporated in this count as though fully set forth herein.

24. In connection with the offer and sale of securities, defendants made materially false and misleading statements and omitted material facts necessary in order to make the statements

made, in the light of the circumstances under which they were made, not misleading. Among the materially false and misleading statements and omissions the defendants made are:

a. The prior relationship and current debt owed by Toth and Somerset Partners, Inc. to MFC Bancorp Ltd;

b. The obligation imposed on Toth and Somerset Partners, Inc. to use all proceeds raised by way of any issue of debt, etc., to repay MFC Bancorp Ltd;.

c. The degree of risk associated with the investment;

d. The intended investment aims of the defendants, which was not, as represented, to create a Venture Fund but was to use the proceeds of the Bridge Loans to increase the number of sales offices of Somerset Financial Group, Inc., and thereby further develop its retail sales of securities;

e. The suitability of the investment for these 18 investors.

25. Each materially false and misleading statement or omission to state a material fact by defendants constitutes a separate violation of N.J.S.A. 49:3-52(b) and is cause for the imposition of a civil monetary penalty for each such violation pursuant to N.J.S.A. 49:3-70.1.

DEMAND FOR RELIEF

WHEREFORE, Plaintiffs petition this Court for an Order:

(a) Finding that defendants engaged in the acts and practices alleged above;

(b) Finding that such acts and practices constitute violations of the Securities Law;

(c) Permanently enjoining all defendants from violations of the Securities Law in any manner;

(d) Permanently enjoining the issuance, sale, offer for sale, purchase, offer to purchase, promotion, negotiation, advertisement or distribution from or within New Jersey of any securities by the defendants, including their agents and anyone acting on their behalf;

(e) Enjoining the defendants and any of their employees, agents, attorneys, successors, subsidiaries or affiliates, and all persons who receive actual or constructive notice of this order, from

destroying or concealing any books, records and documents relating in any way to the business, financial and personal affairs of defendants, their successors, subsidiaries or affiliates;

(f) Affording each purchaser of securities the option of receiving restitution of losses incurred plus interest and expenses incident to effecting the purchase and restitution, to the extent that they have not already received restitution from third party sources;

(g) Assessing defendants civil monetary penalties for each violation of the Securities Law in accordance with N.J.S.A. 49:3-70.1;

(h) Requiring defendants to pay said restitution, and to disgorge all profits and/or funds gained through violations of the Securities Law; and

(i) Affording plaintiffs and affected third parties any additional relief the Court may deem just and equitable.

PETER C. HARVEY
ATTORNEY GENERAL OF NEW JERSEY
On behalf of Franklin L. Widmann
Chief of the New Jersey Bureau of Securities

By: _____
Jonathan D. Rudolph
Deputy Attorney General

Dated: 7/3/03

R. 4:5-1 CERTIFICATION

I certify that, to the best of my knowledge, this matter is not the subject of any other contemplated civil action or arbitration proceeding and that there is no other party who should be joined in this action at the present time.

I certify that the foregoing statements made by me are true. I am aware that if any of those statements are willfully false, I am subject to punishment.

PETER C. HARVEY
ATTORNEY GENERAL OF NEW JERSEY
On behalf of Franklin L. Widmann
Chief of the New Jersey Bureau of Securities

By: _____
Jonathan D. Rudolph
Deputy Attorney General

Dated: 7/3/03