



STATE OF WASHINGTON
PUBLIC DISCLOSURE COMMISSION

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BEFORE THE PUBLIC DISCLOSURE COMMISSION
OF THE STATE OF WASHINGTON

IN RE COMPLIANCE)	PDC CASE NO: 13-018
WITH RCW 42.17/42.17A)	
)	
James Watkins)	
)	REPORT OF INVESTIGATION
)	
Respondent.)	
_____)	

I.

BACKGROUND

- 1.1 James Watkins was a candidate for Washington State Auditor in the November 6, 2012 General Election. He filed a C-1 Candidate Registration with the Public Disclosure Commission (PDC) on March 13, 2012, and a Personal Financial Affairs Statement (Form F-1) the following day, March 14, 2012.
- 1.2 Previously, James Watkins ran for U.S. Representative in Washington's 1st Congressional District in the November 2, 2010 General Election. He was unsuccessful in that campaign. Before 2012, Mr. Watkins had never campaigned for state or local office, and had no prior filing history with the PDC.
- 1.3 Mr. Watkins was defeated by Troy Kelley in the November 6, 2012 General Election for Washington State Auditor, receiving approximately 47 percent of votes cast.
- 1.4 On October 11, 2012, the Washington Attorney General received a 45-day Citizen Action Letter of complaint from Bob Bennett, alleging violations of RCW 42.17A.710 by James Watkins. **(Exhibit 1.)** The attorney general's

office referred the 45-day letter to PDC staff on October 16, 2012. On October 12, 2012, the King County Prosecuting Attorney's Office received Mr. Bennett's Citizen Action Letter, and acknowledged receipt of the letter in a letter to Mr. Bennett dated October 19, 2012. In his Citizen Action Letter, Mr. Bennett gave notice that he would bring legal action against James Watkins if the attorney general and the King County Prosecutor failed to take action on his allegations within 45 days of the date of receipt of his notice, as provided by RCW 42.17A.765(4).

II.

ALLEGATIONS IN COMPLAINT

2.1 In his Citizen Action Letter, Bob Bennett alleged that James Watkins violated RCW 42.17A.710 by failing to file a complete and accurate Personal Financial Affairs Statement (Form F-1) as follows:

1. Mr. Bennett alleged that Mr. Watkins told the *Vancouver Columbian* and the *Seattle Times* that he was going to take a "huge pay cut to serve as state auditor because he makes over three times what the state auditor" makes (i.e., three times approximately \$116,000). However, Mr. Watkins' March 14, 2012 F-1 statement disclosed personal income totaling no more than \$139,998.
2. Mr. Bennett alleged that \$20,000 to \$39,000 in income disclosed on Mr. Watkins' F-1 statement could not be accurate, because the listed source, Redmond Strategy Group, LLC, was incorporated only fourteen days before the date that Mr. Watkins filed the F-1 report.
3. Mr. Bennett alleged that in section 3c of his F-1 report, Mr. Watkins failed to itemize investments contained in a 401(k) account and mutual funds held through Fidelity Investments, and 401(k) accounts held through USAA and Thomson Reuters.
4. Finally, Mr. Bennett alleged that Mr. Watkins had a loan with a lender that he failed to disclose on his F-1 report.

III.

FINDINGS

- 3.1 **Content of James Watkins' F-1 Report:** On his F-1 report filed on March 14, 2012 (**Exhibit 2**), James Watkins provided information regarding his income, real estate assets, mortgage, auto loan, and intangible assets and investments held during the reporting period of March 12, 2011 to March 12, 2012.
- 3.2 Section 1 of Mr. Watkins' F-1 form disclosed income in the range of \$20,000 to \$39,000 (value code "C") received from the Redmond Strategy Group, LLC. With his F-1 report, Mr. Watkins filed an F-1 Supplement form for Redmond Strategy Group, LLC; the supplement listed the company Intellectual Ventures as a business customer making payments of \$10,000 or more to the LLC during the F-1 reporting period. (**Exhibit 2, p 6.**) The purpose of the payments was listed as "payment for consulting."
- 3.3 Intellectual Ventures (IV) is a company located in Bellevue, Washington. The IV website, www.intellectualventures.com, describes the company as the world's largest buyer of individual patents for invention rights. (**Exhibit 3**) The website states that IV licenses and markets the patents it buys to global technology companies, and inventors receive a share of the profits.
- 3.4 **Request to Complainant for Evidence:** Mr. Bennett's 45-day Citizen Action Letter did not include copies of the *Vancouver Columbian* and the *Seattle Times* news reports discussed in the allegations, in which Mr. Watkins allegedly claimed income that exceeded the state auditor's by a factor of three. Similarly, the Citizen Action Letter did not include any additional information about the alleged undisclosed loan owed by Mr. Watkins, or any evidence to document the existence of such a loan.
- 3.5 PDC staff reviewed news reporting on the 2012 Washington State Auditor's race appearing in the *Columbian* and *Seattle Times*, and reporting in other media outlets. Staff found no evidence of any statement by James Watkins, or attributed to him, that his income exceeded that of the State Auditor by a factor of three, or any similar statement.
- 3.6 Accordingly, on November 5, 2012, PDC staff asked Mr. Bennett to provide copies of any evidence supporting his allegations about Mr. Watkins' claimed income and his alleged undisclosed loan. (**Exhibit 4.**) Mr. Bennett did not respond to staff's request.

- 3.7 Response by James Watkins to Citizen Action Letter:** On October 26, 2012, a response to the Citizen Action Letter was received from James Watkins. **(Exhibit 5.)** In his response, Mr. Watkins stated that he was unaware of any news article containing the alleged statements by him concerning his income, as described in the complaint. He stated that his income during the reporting period was accurate as disclosed on his March 14, 2012 F-1 report.
- 3.8 Similarly, Mr. Watkins stated that on his F-1 report he correctly listed the only two loans he had outstanding during the reporting period: his home mortgage, and a loan for a recreational vehicle. He stated that he had no other debt.
- 3.9 Finally, Mr. Watkins stated that in section 3c of the F-1 report, he had disclosed his intangible assets and investments assets correctly as he and his treasurer understood the reporting requirements.
- 3.10 Additional Inquiry to James Watkins:** On November 8, 2012, PDC staff contacted Mr. Watkins to seek additional information concerning his disclosure of his mutual funds and 401(k) accounts. **(Exhibit 6.)** Staff asked Mr. Watkins whether, during the period covered by the F-1 report (March 12, 2011 through March 12, 2012), all of his investments were managed by professional investment managers. Staff informed Mr. Watkins that unless his investments were broker-managed pursuant to a written, signed contract through which he delegated all buying and selling authority, he was required to list the funds and accounts that he owned or invested in during the reporting period, in section 3c of the F-1 report.
- 3.11 On November 9, 2012, Mr. Watkins contacted PDC staff by telephone. **(Exhibit 7.)** Mr. Watkins stated that he previously believed that because the managers of his mutual funds and his 401(k) plan administrators were responsible for buying and selling individual stocks held in the accounts, he was not required to provide more detail on those investments. He said that while he does not make those granular-level decisions, he *does* choose which funds he invests in and, several years ago chose the mutual funds and other investments that would make up his 401[k]. He stated that he now understood that he is required to supply this information in section 3c of his F-1 report. He stated that he would provide the missing information.

- 3.12 **Addendum to Section 3c of James Watkins' F-1 Report:** On November 21, 2012, Mr. Watkins transmitted an electronic copy of a letter to PDC staff. **(Exhibit 8.)** Mr. Watkins stated that a signed copy of the letter had been mailed to the PDC. In the letter, Mr. Watkins listed the name and value of three mutual funds held through Fidelity Investments, and the name and value of nine funds making up three 401(k) accounts held through Fidelity Investments, USAA, and Thomson Reuters.

IV.

SCOPE

4.1 PDC staff reviewed the following documents:

1. A 45-day Citizen Action Letter of complaint from Bob Bennett, received by the Washington Attorney General on October 11, 2012, and referred to PDC staff on October 16, 2012;
2. A letter from the King County Prosecuting Attorney's Office dated October 19, 2012, acknowledging receipt of Mr. Bennett's Citizen Action Letter;
3. James Watkins' F-1 and F-1 Supplement reports filed on March 14, 2012 for the reporting period of March 12, 2011 to March 12, 2012;
4. The website of Intellectual Ventures, www.intellectualventures.com, visited on November 19, 2012;
5. James Watkins' response to the Citizen Action Letter, received on October 26, 2012;
6. A November 15, 2012 email to PDC staff from James Watkins, with attachment; and
7. A fax received from James Watkins on November 21, 2012.

V.

LAW

RCW 42.17A.700 requires candidates for office in jurisdictions of over 1,000 registered voters to file a report of personal financial affairs (PDC form F-1) within two weeks of becoming a candidate.

RCW 42.17A.710 specifies the content of the F-1 report, including compensation received for real or personal property or services, Washington real estate in which the filer, the filer's spouse or registered domestic partner held a financial interest, property purchased or sold, intangible assets and investments, and creditor information.

Respectfully submitted this 27th day of November, 2012.

T.G.W.

Tony Perkins
Lead Political Finance Specialist
Public Disclosure Commission

EXHIBIT LIST

- Exhibit 1** A 45-day Citizen Action Letter of complaint from Bob Bennett, received by the Washington Attorney General on October 11, 2012, and referred to the PDC on October 16, 2012.
- Exhibit 2** James Watkins' F-1 and F-1 Supplement reports filed on March 14, 2012 for the reporting period of March 12, 2011 to March 12, 2012.
- Exhibit 3** A selection from the website of the company Intellectual Ventures, www.intellectualventures.com, printed on November 19, 2012.
- Exhibit 4** PDC staff's email of November 5, 2012 to Bob Bennett.
- Exhibit 5** James Watkins' response to the Citizen Action Letter, received on October 26, 2012.
- Exhibit 6** PDC staff's email of November 8, 2012 to James Watkins.
- Exhibit 7** Record of PDC staff's telephone conversation with James Watkins on November 9, 2012.
- Exhibit 8** Letter to PDC staff from James Watkins, received on November 21, 2012.