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U.S. DISTRICT COURT  
CENTRAL DIST. OF CALIF.  
SANTA ANA

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UNITED STATES DISTRICT COURT CV05-8741-DSF(PJWx)  
CENTRAL DISTRICT OF CALIFORNIA

CV05-8741-DSF(PJWx)

SECURITIES AND EXCHANGE  
COMMISSION,

Plaintiff,

vs.

CREDIT FIRST FUND, LP, a California  
limited partnership, CREDIT FIRST, LLC,  
a California limited liability company,  
CREDIT FIRST INCOME PLUS, LLC, a  
California limited liability company,  
INVESTORS FIRST FINANCIAL  
SERVICES, INC., a California corporation,  
and INVESTORS GUILD, INC., a  
California corporation, and DAVID R.  
LUND.

Defendants.

Case No.

COMPLAINT FOR  
VIOLATIONS OF THE  
FEDERAL SECURITIES  
LAWS

Plaintiff Securities and Exchange Commission ("Commission") alleges as  
follows:

**JURISDICTION AND VENUE**

1. This Court has jurisdiction over this action pursuant to Sections 20(b),  
20(d)(1), and 22(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§

1 77t(b), 77t(d)(1), and 77v(a) and Sections 21(d)(1), 21(d)(3)(A), 21(e), and 27 of  
2 the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§ 78(u)(d)(1),  
3 78u(d)(3)(A), 78u(e), and 78aa. Defendants have, directly or indirectly, made use  
4 of the means or instrumentalities of interstate commerce, of the mails, or of the  
5 facilities of a national securities exchange in connection with the transactions, acts,  
6 practices and courses of business alleged in this complaint.

7 2. Venue is proper in this district pursuant to Section 22(a) of the  
8 Securities Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15 U.S.C.  
9 § 78aa, because certain of the transactions, acts, practices and courses of conduct  
10 constituting violations of the federal securities laws occurred within this district.

### 11 SUMMARY

12 3. This case involves an ongoing Ponzi scheme by defendant David R.  
13 Lund through entities he controls – defendants Credit First Fund, LP ("Fund I"),  
14 Credit First, LLC ("Fund II"), Credit First Income Plus, LLC ("Fund III"),  
15 Investors First Financial Services, Inc. ("Investors First"), and Investors Guild, Inc.  
16 Defendants have been engaged in the fraudulent and unregistered offering of  
17 securities issued by Fund I, Fund II, and Fund III (the "Funds") since April 2001  
18 and have raised at least \$10.7 million from more than 200 investors nationwide.

19 4. From April 2001 to the present, defendant Lund, through Investors  
20 First and Investors Guild, the Funds' managers (the "Managers"), offered and sold  
21 securities in the form of ownership units in the Funds. The defendants then  
22 purportedly used the offering proceeds to invest in distressed debt, which the  
23 defendants would collect on or resell purportedly for a profit.

24 5. Defendant Lund and his salespersons cold-called prospective  
25 investors nationwide, targeting elderly investors in particular, and soliciting them  
26 to invest in the Funds. Defendant Lund and his salespersons also sent offering  
27 materials and other documents pertaining to the Funds through the United States  
28 mail to prospective investors.

6. Defendants misrepresent and conceal material facts to lure investors into the Funds. Defendants represent that the debt collection business is profitable and that investors will be paid 1%-3% on their investment with proceeds from the Funds' operations. In fact, the Funds have consistently been losing money, and the cash generated from the business is insufficient to make the promised returns. As a result, the defendants are using new investor funds to pay the 1%-3% monthly returns to earlier investors. Simply put, defendants are operating the Funds as a Ponzi scheme.

7. Defendant Lund and Investors Guild, Inc. are continuing to offer and sell Fund III securities. In addition, the defendants are continuing to misuse investor funds to pay purported returns to earlier investors.

## DEFENDANTS

8. **Credit First Fund, LP** (“Fund I”) is a California limited partnership. Fund I is located in Anaheim Hills, California. Neither Fund I nor its securities are registered with the Commission.

9. **Credit First, LLC** (“Fund II”) is a California limited liability company. Fund II is located in Anaheim Hills, California. Neither Fund II nor its securities are registered with the Commission.

10. **Credit First Income Plus, LLC** (“Fund III”) is a California limited liability company. Fund III is located in Anaheim Hills, California. Neither Fund III nor its securities are registered with the Commission.

11. **Investors First Financial Services, Inc.** (“Investors First”) is a California corporation. Investors First is located in Anaheim Hills, California. Investors First is the manager of Fund I and is wholly owned and operated by Lund.

12. **Investors Guild, Inc.** is a California corporation. Investors Guild is located in Anaheim Hills, California. Investors Guild is the manager of Fund II and Fund III and is wholly owned and operated by Lund.

1           13.    **David R. Lund**, age 32, resides in Huntington Beach, California.

2 Defendant Lund is the sole owner and controlling person of the Funds' Managers,  
3 Investors First and Investors Guild, Inc., and, through them, he controls the Funds.  
4 From 1999 through late 2003, defendant Lund was associated with various broker-  
5 dealers and held Series 7, 22, and 63 securities licenses.

6                           **THE FRAUDULENT SCHEME**

7                   **Defendants Offer And Sell Securities In The Fraudulent Scheme**

8           14.    Since April 2001, defendants have been offering and selling securities  
9 in the Funds, and have raised at least \$10.7 million from over 200 investors  
10 nationwide. Fund I raised nearly \$4.3 million from April 2001 through early 2004  
11 from 120 investors nationwide. Fund II raised \$5.8 million from April 2003  
12 through early 2005 from 97 investors nationwide. Starting in early 2005, Fund III  
13 has raised \$600,000 from 16 investors. The defendants' offer and sale of Fund  
14 III's securities is continuing.

15           15.    Defendant Lund and his salespersons have engaged in general  
16 solicitations of investors in the Funds, including nationwide cold-calling of  
17 potential investors.

18           16.    Defendant Lund controls the Funds through his wholly owned  
19 companies, Investors First and Investor Guild, which manage the operations of the  
20 Funds. Lund makes all management decisions regarding the Funds' operations,  
21 including decisions relating to the Funds' purchase and collection of debts,  
22 distributions to the Funds' investors, maintenance of the Funds' books and records,  
23 and administration of the Funds' bank accounts. Defendant Lund is also the sole  
24 signatory on all of the Funds' bank accounts.

25           17.    Defendant Lund profits through the compensation to the Managers by  
26 way of syndication fees, annual management fees, and sharing in the proceeds  
27 from the Funds' operations. Defendant Lund has received, directly and indirectly  
28 through the Managers, a total of approximately \$1.5 million from the Funds.

**The Investment As Represented To Investors**

18. Defendants have made and are continuing to make oral and written representations to lure investors into their fraudulent scheme.

19. Defendant Lund and other salespersons orally told, and continue to tell, prospective investors in the Funds that (1) the Funds would use the offering proceeds to purchase distressed debt, which they would collect on or resell; (2) the Funds' business of buying and collecting on or reselling of the distressed debt yielded substantial profits; and (3) the investors would receive 1%-3% returns of income per month from the Funds' operations.

20. Thereafter, defendant Lund and other salespersons mailed written offering materials to investors in the Funds along with subscription agreements. They mailed copies of the private placement memoranda (the "PPMs") for Fund I, Fund II, or Fund III to potential investors in the respective Fund.

21. The PPM for each Fund states that the offering proceeds, less 15% for selling expenses, would be used to purchase distressed debt to further the objectives of the business.

22. The PPM for each Fund also states that it "anticipate(s)" distributing to investors monthly an amount equal to 1% of the investors' capital contribution. The PPMs further state that the Funds will pay those distributions out of "Cash Available for Distribution," which the PPMs define as the Funds' operating profit.

23. Additionally, defendant Lund and the salespersons gave to certain investors a distribution history of Fund I, which stated that Fund I was paying monthly returns of 1%-4% on investors' principal. defendant Lund and the salespersons represented to investors that the distribution history showed monthly returns of income.

24. Based on the defendants' representations, the Funds' investors understood that they would earn substantial monthly income generated from the Funds' flourishing debt collection business.

1                    **Defendants' Operation Of The Funds As A Ponzi Scheme**

2            25.    Through the PPMs, the distribution history for Fund I, and direct oral  
3 representations, defendants misled investors. Despite defendants' representations  
4 that the Funds' business was substantially profitable, the Funds yielded net losses  
5 year after year. In addition, unbeknownst to investors, defendants were using new  
6 investor funds to pay earlier investors their promised monthly returns.  
7 Accordingly, as demonstrated below, defendants are operating the Funds as a  
8 Ponzi scheme.

9            26.    **Fund I.** Fund I began purchasing debt portfolios in July 2001. Over  
10 its four-year history, Fund I has consistently collected less than it paid for its debt  
11 portfolios. From July 2001 through October 31, 2005, Fund I paid \$3.5 million to  
12 purchase debt portfolios but has collected only \$3.2 million (i.e., a 91% collection  
13 rate), resulting in a \$300,000 loss. Accordingly, Fund I not only failed to generate  
14 a profit on its collections, it actually lost money. After paying operating expenses,  
15 Fund I's cumulative net loss as of October 31, 2005 was \$2.1 million. The chart  
16 below shows Fund I's annual offering proceeds, operating profit (loss), and  
17 distributions.

18

19 <b>Period</b>	20 <b>Investor Funds          Raised</b>	21 <b>Operating Profits          (Loss)</b>	22 <b>Distributions</b>
23    2001	\$68,000	(\$71,000)	\$5,000
24    2002	\$2,664,000	(\$2,165,000)	\$367,000
25    2003	\$1,471,000	(\$355,000)	\$1,285,000
26    2004	\$25,000	\$537,000	\$580,000
27    2005	-	\$43,000	\$75,000
28 <b>Total</b>	<b>\$4,228,000</b>	<b>(\$2,010,000)</b>	<b>\$2,312,000</b>

26            27.    Despite these net losses of more than \$2 million, Fund I has  
27 distributed more than \$2.3 million to investors. Because Fund I always operated at  
28

1 a loss and had no source of cash for distributions other than operations or new  
2 investor money, Fund I has used new investor funds to pay the distributions.

3       **28. Fund II.** Fund II began purchasing debt portfolios in mid-2003.  
4 Over its two-and-a-half year history, Fund II has consistently collected less than it  
5 paid for its debt portfolios. From July 2003 through October 31, 2005, Fund II  
6 paid \$7.5 million to purchase debt portfolios but has collected only \$6.4 million  
7 (i.e. an average collection ratio of 85%), resulting in a \$1.1 million loss.  
8 Accordingly, Fund I not only failed to generate a profit on its collections, it  
9 actually lost money. After paying operating expenses, Fund II's cumulative net  
10 loss as of October 31, 2005 was \$3.2 million. The chart below shows Fund II's  
11 annual offering proceeds, operating profit (loss), and distributions.

Period	Investor Funds Raised	Operating Profits (Loss)	Distributions
2003	\$2,505,000	(\$1,563,000)	\$335,000
2004	\$2,298,000	(\$1,299,000)	\$880,000
2005	\$1,073,000	(\$365,000)	\$971,000
<b>Total</b>	<b>\$5,875,000</b>	<b>(\$3,227,000)</b>	<b>\$2,186,000</b>

18  
19       **29.** Despite these losses of more than \$3.2 million, Fund II has distributed  
20 \$2.1 million to investors from April 2003 to October 2005. Because Fund II has  
21 operated at a loss and had no source of cash for distributions other than operations  
22 or new investor money, Fund II has used new investor funds to pay the  
23 distributions.

24       **30. Fund III.** During 2005, Fund III paid \$194,000 for debt portfolios,  
25 against which it has no collections. Nevertheless, Fund III has distributed \$11,000  
26 to investors in August and September 2005. Because Fund III had no collections  
27 in 2005 and no other source of cash, the distributions to Fund III investors were  
28 necessarily made from new investor moneys.

1                   **Defendants Know Or Are Reckless In Not Knowing**

2                   **The Falsity Of Their Representations**

3           31.    In his role as the sole owner and controlling person of the Managers,  
4 through which he controls the Funds, defendant Lund is responsible for the Funds'  
5 operations and representations to investors. Defendant Lund explains the Funds'  
6 business to investors and is responsible for providing information to and training  
7 the Funds' salespersons.

8           32.    Lund also controls all aspects of the Funds' business, including its  
9 banking activities, and has sole signatory authority over all of the Funds' bank  
10 accounts. Additionally, defendant Lund is aware of the past performance of Fund I  
11 and Fund II and knows or is reckless in not knowing that the operations are losing  
12 money.

13           33.    Defendant Lund knows or is reckless in not knowing that the  
14 defendants have misrepresented, and are continuing to misrepresent, to investors  
15 the profitability of the Funds and the Funds' expected returns to investors.  
16 Defendants know or are reckless in not knowing that defendants have been using  
17 investor funds to pay investors, and that they are operating the Funds as a Ponzi  
18 scheme.

19                   **FIRST CLAIM FOR RELIEF**

20                   **FRAUD IN THE OFFER OR SALE OF SECURITIES**

21                   **Violations Of Section 17(a) Of The Securities Act**

22           34.    The Commission realleges and incorporates by reference paragraphs 1  
23 through 33 above.

24           35.    Defendants, and each of them, by engaging in the conduct described  
25 above, directly or indirectly, in the offer or sale of securities by the use of means or  
26 instruments of transportation or communication in interstate commerce or by use  
27 of the mails:

28               a.    with scienter, employed devices, schemes, or artifices to



defraud;

- b. obtained money or property by means of untrue statements of a 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; or
- c. engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon the purchaser.

36. By engaging in the conduct described above, each of the defendants violated, and unless restrained and enjoined will continue to violate, Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

**SECOND CLAIM FOR RELIEF**

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

**Violations Of Section 10(b) Of The Exchange Act And Rule 10b-5 Thereunder  
(Against All Defendants)**

37. The Commission realleges and incorporates by reference paragraphs 1 through 33 above.

38. Defendants, and each of them, by engaging in the conduct described above, directly or indirectly, in connection with the purchase or sale of a security, by the use of means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange, with scienter:

- a. employed devices, schemes, or artifices to defraud;
- b. made untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or
- c. engaged in acts, practices, or courses of business which

1                   operated or would operate as a fraud or deceit upon other  
2                   persons.

3           39. By engaging in the conduct described above, each of the defendants  
4 violated, and unless restrained and enjoined will continue to violate, Section 10(b)  
5 of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R.  
6 § 240.10b-5.

7                   **THIRD CLAIM FOR RELIEF**

8                   **UNREGISTERED OFFER AND SALE OF SECURITIES**

9                   **Violations Of Sections 5(a) And 5(c) Of The Securities Act**

10          40. The Commission realleges and incorporates by reference paragraphs 1  
11 through 33 above.

12          41. Defendants, and each of them, by engaging in the conduct described  
13 above, directly or indirectly, made use of means or instruments of transportation or  
14 communication in interstate commerce or of the mails, to offer to sell or to sell  
15 securities, or to carry or cause such securities to be carried through the mails or in  
16 interstate commerce for the purpose of sale or for delivery after sale.

17          42. No registration statement has been filed with the Commission or has  
18 been in effect with respect to the offerings alleged herein.

19          43. By engaging in the conduct described above, each of the defendants  
20 violated, and unless restrained and enjoined will continue to violate, Sections 5(a)  
21 and 5(c) of the Securities Act, 15 U.S.C. §§ 77e(a) and 77e(c).

22                   **PRAYER FOR RELIEF**

23           WHEREFORE, the Commission respectfully requests that the Court:

24                   **I.**

25           Issue findings of fact and conclusions of law that defendants committed the  
26 alleged violations.

27                   **II.**

28           Issue judgments, in a form consistent with Fed. R. Civ. P. 65(d),

1 temporarily, preliminarily and permanently enjoining the defendants and their  
2 officers, agents, servants, employees, and attorneys, and those persons in active  
3 concert or participation with any of them, who receive actual notice of the  
4 judgment by personal service or otherwise, and each of them, from violating  
5 Sections 5(a), 5(c), and 17(a) of the Securities Act, 15 U.S.C. §§ 77e(a), 77e(c) &  
6 77q(a), and Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5  
7 thereunder, 17 C.F.R. § 240.10b-5.

### 8 III.

9 Issue, in a form consistent with Fed. R. Civ. P. 65, a temporary restraining  
10 order and a preliminary injunction freezing the assets of the defendants, requiring  
11 accountings from each of the Defendants, prohibiting each of the defendants from  
12 destroying documents, ordering expedited discovery, and appointing a temporary  
13 receiver over the Funds and the Managers

### 14 IV.

15 Order each defendant to disgorge all ill-gotten gains from their illegal  
16 conduct, together with prejudgment interest thereon.

### 17 V.

18 Order defendants Lund, Investors First and Investors Guild to pay civil  
19 penalties under Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section  
20 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3).


### 21 VI.

22 Retain jurisdiction of this action in accordance with the principles of equity  
23 and the Federal Rules of Civil Procedure in order to implement and carry out the  
24 terms of all orders and decrees that may be entered, or to entertain any suitable  
25 application or motion for additional relief within the jurisdiction of this Court.  
26  
27  
28

VII.

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

DATED: December 14, 2005

  
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