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8 UNITED STATES DISTRICT COURT
9 FOR THE CENTRAL DISTRICT OF CALIFORNIA
10 WESTERN DIVISION

11 SECURITIES AND EXCHANGE COMMISSION,

Case No.

12 Plaintiff,

13 vs.

COMPLAINT FOR VIOLATIONS OF THE
FEDERAL SECURITIES LAWS

14 RYNELL & ASSOCIATES, INC.,
LENGURNAL, INC., FIRST PARAGON,
15 INC., MOVIE MANAGEMENT SERVICES,
INC., DAVID L. BURNELL, J. ERIC
16 RYMLAND and DANIEL B. RUNG,

17 Defendants.
18

19 Plaintiff Securities and Exchange Commission (the "Commission")
20 alleges:

21 I. JURISDICTION

22 1. This Court has jurisdiction over this action pursuant to
23 Sections 20(b), 20(d)(1) and 22(a) of the Securities Act of 1933
24 ("Securities Act") [15 U.S.C. §§ 77t(b), 77t(d)(1) and 77v(a)] and
25 Sections 21(d)(3)(A), 21(e) and 27 of the Securities Exchange Act of
26 1934 ("Exchange Act") [15 U.S.C. §§ 78u(d)(3)(a), 78u(e) and 78aa].
27 The defendants have, directly or indirectly, made use of the means
28 or instrumentalities of interstate commerce and/or of the mails in

1 connection with the securities transactions described in this
2 Complaint.

3 **II. SUMMARY**

4 2. This is an action for fraud in the offer and sale of
5 unregistered securities in Desert Gold Partners ("Desert Gold"), a
6 California general partnership. The offering was conducted by Movie
7 Management Services, Inc., Rynell & Associates, Inc., Lengurnal,
8 Inc., First Paragon, Inc. (collectively, the "Entities"), and Daniel
9 B. Rung ("Rung"), David L. Burnell ("Burnell") and J. Eric Rymland
10 ("Rymland"), the owners of these companies (collectively, with the
11 Entities, the "Defendants").

12 3. Between November 1995 and December 1997, the Defendants
13 raised approximately \$8 million from the sale of Desert Gold's
14 general partnership units to about 600 investors.

15 4. The Defendants represented to investors that they would
16 use investor funds to produce and distribute a motion picture
17 entitled "Operation: Desert Gold." However, they misused most of
18 the investor funds received. To date, no movie has been produced
19 and all of the investors' funds have been spent.

20 5. As a result of their conduct, Rynell & Associates, Inc.,
21 Lengurnal, Inc., First Paragon, Inc., Rung, Burnell and Rymland, and
22 each of them, violated Sections 5(a), 5(c) and 17(a) of the
23 Securities Act [15 U.S.C. §§ 77e(a), 77e(c) and 77q(a)] and Section
24 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5
25 thereunder [17 C.F.R. § 240.10b-5], and unless enjoined, will
26 continue to commit such violations.

27 6. As a result of its conduct, Movie Management Services,
28 Inc. violated Section 17(a) of the Securities Act and Section 10(b)

1 of the Exchange Act and Rule 10b-5 thereunder, and unless enjoined,
2 will continue to commit such violations.

3 7. As a result of their conduct, Rynell & Associates, Inc.,
4 Lengurnal, Inc., First Paragon, Inc., Burnell and Rymland, and each
5 of them, violated Section 15(a) of the Exchange Act [15 U.S.C. §
6 78o(a)(1)], and unless enjoined, will continue to commit such
7 violations.

8 8. The Commission requests that this Court permanently enjoin
9 the Defendants from any further violations of the securities laws
10 and order the Defendants to disgorge all benefits obtained by virtue
11 of their illegal conduct, together with prejudgment interest and
12 civil penalties.

13 III. THE DEFENDANTS

14 9. Rynell & Associates, Inc. ("Rynell") is a Nevada
15 corporation which was incorporated in 1994 and has offices in
16 Riverside and San Francisco, California. Rynell is the executive
17 producer of "Operation: Desert Gold" and purportedly was to oversee
18 the production of the motion picture. Additionally, Rynell sold
19 units of Desert Gold in 1996.

20 10. Prior to December 24, 1996, the sole officers, directors
21 and shareholders of Rynell were Rung, Burnell and Rymland. Since
22 December 24, 1996, Rung has been the sole officer, director and
23 shareholder of Rynell.

24 11. In October 1996, in connection with the Desert Gold
25 offering, the State of Kansas entered a Cease and Desist Order (the
26 "Kansas Order") against Rynell prohibiting it from offering and
27 selling unregistered securities and prohibiting it and its
28 affiliates from acting as unlicensed agents.

1 12. In July 1997, in connection with the Desert Gold offering,
2 the State of Wisconsin entered an Order of Prohibition and
3 Revocation (the "Wisconsin Order") against Rynell prohibiting it
4 from offering and selling unregistered securities and prohibiting it
5 and its affiliates from acting as unlicensed agents.

6 13. In November 1997, in connection with the Desert Gold
7 offering, the State of California issued a Desist and Refrain Order
8 (the "California Order") against Rynell prohibiting it from offering
9 and selling unregistered securities.

10 14. Rynell has never been registered with the Commission as a
11 broker or dealer.

12 15. Lengurnal, Inc. ("Lengurnal") is a California corporation
13 which was incorporated in 1995 and is located in Riverside,
14 California. Lengurnal sold Desert Gold partnership units in 1996.

15 16. Prior to December 24, 1996, the sole officers, directors
16 and shareholders of Lengurnal were Rung, Burnell and Rymland. As of
17 December 24, 1996, Rung has been the sole officer, director and
18 shareholder of Lengurnal.

19 17. Lengurnal was named in the Wisconsin Order and the
20 California Order, and has never been registered with the Commission
21 as a broker or dealer.

22 18. First Paragon, Inc. ("First Paragon") is a California
23 corporation which was incorporated in 1996 and is located in San
24 Francisco, California. First Paragon sold almost all of the Desert
25 Gold partnership units in 1997.

26 19. Rymland is the sole officer, director and shareholder of
27 First Paragon.

28 20. First Paragon was named in the California Order, and has

1 never been registered with the Commission as a broker or dealer.

2 21. Movie Management Services, Inc. ("Movie Management") is a
3 Nevada corporation incorporated in 1995 and located in Hollywood,
4 California. Movie Management is the managing partner of Desert
5 Gold.

6 22. Prior to December 24, 1996, Rung, Burnell and Rymland were
7 the sole officers, directors and shareholders of Movie Management.
8 Since December 24, 1996, Burnell has been the President of Movie
9 Management and Rung has been the Secretary and sole shareholder of
10 Movie Management.

11 23. In October 1996, in connection with the Desert Gold
12 offering, the State of Iowa entered a Cease and Desist Order against
13 Movie Management prohibiting it from offering and selling
14 unregistered securities and prohibiting it and its affiliates from
15 acting as unlicensed agents.

16 24. Movie Management was also named in the Kansas Order,
17 Wisconsin Order and California Order.

18 25. David L. Burnell ("Burnell") resides in Lafayette,
19 California. Prior to December 24, 1996, he was an officer,
20 director and shareholder of Movie Management, Rynell and Lengurnal.
21 Since December 24, 1996, he has been the President of Movie
22 Management.

23 26. Burnell was named in the Kansas Order, Wisconsin Order and
24 California Order.

25 27. Since 1990, Burnell has not been registered with the
26 Commission as a broker or dealer or been associated with a
27 registered broker or dealer.

28 28. J. Eric Rymland ("Rymland") resides in San Francisco,

1 California. Prior to December 24, 1996, he was an officer, director
2 and shareholder of Movie Management, Rynell and Lengurnal. He is
3 currently the sole officer, director and shareholder of First
4 Paragon.

5 29. Rymland was named in the Kansas Order, Wisconsin Order and
6 California Order, and has never been registered with the Commission
7 as a broker or dealer or been associated with a registered broker or
8 dealer.

9 30. Daniel B. Rung ("Rung") resides in Riverside, California.
10 He is currently the sole director and shareholder of Movie
11 Management, Rynell and Lengurnal.

12 31. Rung was named in the Kansas Order, Wisconsin Order and
13 California Order.

14 **IV. THE FRAUDULENT SCHEME**

15 **A. The Investment**

16 32. From November 1995 to December 1997, the Defendants
17 offered and sold Desert Gold general partnership units for the
18 purported purpose of producing and distributing a motion picture
19 entitled "Operation: Desert Gold" (the "Desert Gold Offering").

20 33. Rung, Burnell and Rymland devised the structure of Desert
21 Gold and its offering.

22 34. Initially, the Defendants offered 500 Desert Gold general
23 partnership units at \$10,000 per unit for an aggregate offering
24 price of \$5 million. In approximately March 1997, the offering was
25 increased to \$10 million. During the course of the offering, the
26 Defendants raised approximately \$8 million from about 600 investors
27 nationwide. Each unit is entitled to one vote and the partnership
28 was to be operated by decisions made by a majority of the units.

1 35. The Desert Gold partnership units were not registered with
2 the Commission.

3 36. Investors in the Desert Gold Offering were promised that
4 80% of revenues from the produced motion picture would be paid to
5 Desert Gold with the investors receiving their pro rata share of
6 such revenues until all investors received a 120% return on their
7 investments. The other 20% of the revenues from the film were to be
8 paid to Alpine Pictures, Inc. ("Alpine"), the production company for
9 the film, and Script Management Limited, Inc. ("Script Management"),
10 the owner of the script for "Operation: Desert Gold" and an
11 affiliate of the Defendants. Once the investors of Desert Gold
12 received a 120% return on their investments, Desert Gold would
13 receive 50% of the revenues from the motion picture and Alpine and
14 Script Management would receive the other 50%.

15 **B. The Offer And Sale Of The Investment**

16 37. Investors for the Desert Gold Offering were solicited on a
17 nationwide basis. Rynell, Lengurnal and First Paragon purchased
18 lead lists and employed sales agents to call and solicit persons on
19 these lists.

20 38. Independent sales offices were also employed by Lengurnal
21 and First Paragon to solicit investors.

22 39. Burnell and Rymland personally spoke to potential
23 investors and discussed the offering materials with and answered
24 questions from these investors.

25 40. Additionally, Burnell and Rymland trained the sales agents
26 employed by Rynell, Lengurnal and First Paragon and prepared scripts
27 that were used by these sales agents in their solicitation efforts.

28 41. Desert Gold's offering materials included a budget showing

1 that \$2.35 million of the initial \$5 million to be raised would be
2 used on film production, and projections indicating that an investor
3 could potentially earn a 160-445% return. Rung, Burnell and Rymland
4 prepared these materials.

5 42. When the budget was increased to \$10 million, the
6 Defendants sent investors materials showing that \$5.05 million of
7 the \$10 million to be raised would be used on film production, and
8 projections indicating possible returns of 207-470%. Rung and
9 Burnell prepared these materials and Rymland included these
10 materials in offering packages distributed to potential investors by
11 First Paragon. Rymland also trained the sales agents at First
12 Paragon to discuss these materials with potential investors.

13 43. Although the investors in Desert Gold were general
14 partners who purportedly had the ability to actively manage the
15 partnership, the investors in fact, were passive. Given that there
16 are approximately 600 general partners of Desert Gold throughout the
17 United States, the partners of Desert Gold cannot manage the
18 partnership as a general partnership.

19 44. Indeed, many partners were told when they were solicited
20 that their only responsibility would be to vote at meetings, and
21 some investors were even told that they could remain completely
22 passive.

23 45. Additionally, the principals of Movie Management
24 determined what issues would be presented for partnership
25 consideration and would even make major partnership decisions
26 without partnership knowledge or approval.

27 46. Furthermore, many decisions made by the partners at
28 partnership meetings were completely ignored by Movie Management and

1 | its principals.

2 | 47. Finally, none of the partners of Desert Gold had access to
3 | the books, records or list of partners of Desert Gold and therefore
4 | could not exercise any meaningful partnership powers.

5 | 48. Burnell and Rymland knew that the general partnership
6 | structure was used merely as a funding vehicle in order to raise
7 | funds more quickly.

8 | **V. MISREPRESENTATIONS AND OMISSIONS OF MATERIAL FACTS**

9 | **A. The Defendants Misused Investor Funds**

10 | 49. Desert Gold's offering materials stated that \$2.35 million
11 | would be used on film production under the \$5 million budget and
12 | \$5.05 million would be used on film production under the \$10 million
13 | budget. Under both budgets, Rynell and Lengurnal were each to
14 | receive 15% of the offering proceeds as fees and Movie Management
15 | was to receive no more than \$690,000 as fees.

16 | 50. However, from December 1995 through January 1998, the
17 | Defendants misused most of the investor funds by paying more
18 | offering expenses than discussed in Desert Gold's offering materials
19 | and by transferring more to affiliates of Rung, Burnell and Rymland
20 | than discussed in the offering materials.

21 | 51. Only \$1.27 million of investor funds were used on film
22 | production expenses and no funds remain to complete the film or for
23 | distribution and marketing of the film.

24 | 52. From November 1995 through December 1997, Desert Gold
25 | received approximately \$8 million from investors. Rung, Burnell and
26 | Rymland controlled the disposition of all investor funds. From
27 | December 1995 through January 1998, the funds were used
28 | approximately as follows:

- 1 a) \$1,653,000 or 21% of the offering proceeds to
2 Lengurnal;
- 3 b) \$1,425,000 or 19% of the offering proceeds to Rynell;
- 4 c) \$1,048,000 or 13% of the offering proceeds to First
5 Paragon;
- 6 d) \$1,269,000 or 16% of the offering proceeds for film
7 production and the motion picture trailer;
- 8 e) \$1,329,000 or 16.5% of the offering proceeds for
9 offering costs and other miscellaneous expenses;
- 10 f) \$624,000 or 8% of the offering proceeds to Movie
11 Management;
- 12 g) \$528,000 or 7% of the offering proceeds to other
13 affiliates of the proposed defendants (including
14 \$160,000 or 2% of the offering proceeds to Script
15 Management); and
- 16 h) \$100,000 or 1% of the offering proceeds to the Bank
17 of Nevis.

18 **B. The Defendants Did Not Produce A Movie And Misrepresented**
19 **Their Efforts Regarding Movie Production**

20 53. The purpose of Desert Gold's offering was to raise funds
21 to produce and distribute a motion picture. However, the Defendants
22 did not produce a motion picture and no funds remain to do so.

23 54. All of the Defendants made false representations to
24 investors about how much would be spent on film production,
25 distribution and marketing. Under the \$5 million budget, \$2.35
26 million was to be spent on film production with an additional
27 \$380,000 to be used for the distribution and marketing of the film.
28 The budget was then increased in March 1997 to \$10 million so that

1 \$5.05 million could be used on film production with an additional
2 \$600,000 to be used for the distribution and marketing of the film.
3 By December 1996, however, the Defendants had already raised and
4 spent \$4 million with only \$500,000 being spent on film production.
5 Given that only \$500,000 had been spent on film production by the
6 end of 1996, and given the fact that the Defendants continued to pay
7 themselves and their affiliates fees ranging from 8-20% of the
8 offering proceeds raised, it was impossible for the Defendants to
9 spend \$5.05 million on film production and have \$600,000 left for
10 distribution and marketing of the film. In connection with the
11 increased offering, the Defendants had only \$6 million remaining to
12 be raised, which would not have been sufficient to pay all of their
13 own and their affiliates' fees and the represented amount on film
14 production. Yet, Rung and Burnell prepared and used the new budget
15 and Rymland trained his sales agents to discuss the new budget with
16 investors.

17 55. Furthermore, between May and July 1997, Rung and Burnell
18 sent out financial statements to Desert Gold partners falsely
19 stating that \$1.7-2.65 million had been spent on film production as
20 of the dates of the financial statements even though the Defendants
21 spent only \$1.27 million in total on the film.

22 **FIRST CLAIM**

23 **OFFER AND SALE OF UNREGISTERED SECURITIES**

24 **Sections 5(a) and 5(c)**

25 **of the Securities Act [15 U.S.C. §§ 77e(a) & 77e(c)]**

26 **(Against Defendants Rynell, Lengurnal, First Paragon, Rung, Burnell**
27 **and Rymland)**

28 56. Paragraphs 1 through 55 are realleged and incorporated

1 herein by reference.

2 57. Defendants Rynell, Lengurnal, First Paragon, Rung, Burnell
3 and Rymland, and each of them, by engaging in the conduct described
4 in paragraphs 2 through 55 above, directly or indirectly, through
5 use of the means or instruments of transportation or communication
6 in interstate commerce or the mails, offered to sell or sold
7 securities, namely investment contracts in the form of general
8 partnership units, or, directly or indirectly, carried or caused
9 such securities to be carried through the mails or in interstate
10 commerce, for the purpose of sale or delivery after sale.

11 58. No registration statement has been filed with the
12 Commission or is in effect with respect to these securities.

13 59. By reason of the foregoing, Defendants Rynell, Lengurnal,
14 First Paragon, Rung, Burnell and Rymland, and each of them, violated
15 Sections 5(a) and 5(c) of the Securities Act.

16 SECOND CLAIM

17 FRAUD IN THE OFFER OR SALE OF SECURITIES

18 Section 17(a) of the Securities Act

19 [15 U.S.C. §77q(a)]

20 (Against All Defendants)

21 60. Paragraphs 1 through 55 of this Complaint are realleged
22 and incorporated herein by reference.

23 61. The Defendants, and each of them, by engaging in the
24 conduct described in Paragraphs 2 through 55 above, directly or
25 indirectly, in the offer or sale of securities, by the use of means
26 or instruments of transportation or communication in interstate
27 commerce or by the use of the mails:

28 a) with scienter, employed devices, schemes, or

1 artifices to defraud;

2 b) obtained money or property by means of untrue
3 statements of material fact or by omitting to state
4 material facts necessary in order to make the
5 statements made, in the light of the circumstances
6 under which they were made, not misleading; or

7 c) engaged in transactions, practices, or courses of
8 business which operated or would operate as a fraud
9 or deceit upon the purchasers of such securities.

10 62. By reason of the foregoing, the Defendants, and each of
11 them, violated Section 17(a) of the Securities Act.

12 THIRD CLAIM

13 FRAUD IN CONNECTION WITH THE PURCHASE OR SALE OF SECURITIES

14 Section 10(b) of the Exchange Act

15 [15 U.S.C. §78j(b)] and Rule 10b-5 promulgated thereunder

16 [17 C.F.R. §240.10b-5]

17 (Against All Defendants)

18 63. Paragraphs 1 through 55 of this Complaint are realleged
19 and incorporated herein by reference.

20 64. The Defendants, and each of them, by engaging in the
21 conduct described in Paragraphs 2 through 55 above, directly or
22 indirectly, in connection with the purchase or sale of securities,
23 by the use of means or instrumentalities of interstate commerce, or
24 of the mails, or of a facility of a national securities exchange,
25 with scienter:

26 a) employed devices, schemes, or artifices to defraud;

27 b) made untrue statements of material facts or omitted
28 to state material facts necessary in order to make

1 the statements made, in the light of the
2 circumstances under which they were made, not
3 misleading; or

4 c) engaged in acts, practices, or courses of business
5 which operated or would operate as a fraud or deceit
6 upon other persons.

7 65. By reason of the foregoing, the Defendants, and each of
8 them, violated Section 10(b) of the Exchange Act and Rule 10b-5
9 thereunder.

10 **FOURTH CLAIM**

11 **VIOLATIONS OF THE BROKER-DEALER REGISTRATION PROVISIONS**

12 **Section 15(a)(1) of the Exchange Act [15 U.S.C. §78o(a)(1)]**
13 **(Against Defendants Rynell, Lengurnal, First Paragon, Burnell, and**
14 **Rymland)**

15 66. Paragraphs 1 through 55 of this Complaint are realleged
16 and incorporated herein by reference.

17 67. Defendants Rynell, Lengurnal, First Paragon, Burnell and
18 Rymland, and each of them, from November 1995 to December 1997, by
19 engaging in the conduct described in paragraphs 2 through 55 above,
20 directly or indirectly, made use of the mails or means or
21 instrumentalities of interstate commerce to effect transactions in
22 securities, without being registered as a broker or dealer in
23 accordance with Section 15(b) of the Exchange Act [15 U.S.C.
24 §78o(b)], in violation of Section 15(a)(1) of the Exchange Act.

25 68. By reason of the foregoing, Defendants Rynell, Lengurnal,
26 First Paragon, Burnell and Rymland, and each of them, violated
27 Section 15(a)(1) of the Exchange Act.

28 *

1 PRAYER FOR RELIEF

2 WHEREFORE, the Commission respectfully requests that this
3 Court:

4 I.

5 Issue findings of fact and conclusions of law that the
6 Defendants committed the violations charged and alleged herein.

7 II.

8 Issue an Order permanently enjoining:

9 A. Rynell, Lengurnal, First Paragon, Rung, Burnell and
10 Rymland from violating Sections 5(a), 5(c) and 17(a) of the
11 Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5
12 thereunder.

13 B. Movie Management from violating Section 17(a) of the
14 Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5
15 thereunder.

16 C. Rynell, Lengurnal, First Paragon, Burnell and Rymland from
17 violating Section 15(a) of the Exchange Act.

18 III.

19 Order the Defendants to disgorge all benefits derived from the
20 activities complained of herein and to pay prejudgment interest
21 thereon.

22 IV.

23 Enter Orders requiring the Defendants to pay civil penalties.

24 V.

25 Retain jurisdiction of this action in accordance with the
26 principles of equity and the Federal Rules of Civil Procedure in
27 order to implement and carry out the terms of all orders and decrees
28 that may be entered, or to entertain any suitable application or

1 motion for additional relief within the jurisdiction of this Court.

2 VI.

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

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7 DATED: August 10, 1998

Renee M. Lee
Attorney for Plaintiff
Securities and Exchange Commission

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