

**UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

SECURITIES AND EXCHANGE COMMISSION,)	
)	
Plaintiff,)	
)	
v.)	Case No.
)	
THE NUTMEG GROUP, LLC, RANDALL)	
GOULDING, and DAVID GOULDING,)	
)	
Defendants,)	
)	
DAVID GOULDING, INC., DAVID SAMUEL, LLC,)	
FINANCIAL ALCHEMY, LLC, PHLLY)	
FINANCIAL, LLC, SAMUEL WAYNE, and)	
ERIC IRRGANG,)	
)	
Relief Defendants.)	

COMPLAINT

Plaintiff United States Securities and Exchange Commission (the “Commission”) alleges as follows:

NATURE OF THE ACTION

1. This case involves the ongoing misappropriation of client assets, misrepresentations to investors, and failure to maintain required books and records by The Nutmeg Group, LLC (“Nutmeg”), by Randall Goulding, Nutmeg’s owner and managing member, and by David Goulding, Nutmeg’s Chief Compliance Officer. Nutmeg acts as an investment adviser to 15 unregistered investment vehicles (“the Funds”), and has invested fund assets almost exclusively in private investments in public equity (“PIPE”) transactions. As the general partner and/or investment adviser for each of the Funds, Nutmeg claims to have assets under management of at least \$32 million.

2. However, over the past ten months, the Commission's compliance examiners and fraud investigators have determined that Nutmeg has improperly commingled investor and fund assets, and is holding some of the Funds' investments in its own name. Nutmeg also has misappropriated over \$4 million in fund assets by transferring them to third parties, and has used the Funds' assets to make undisclosed payments to these individuals and entities.

3. In addition, Nutmeg has failed to appropriately document the Funds' investments and cannot accurately value the Funds' holdings. Nutmeg also has failed to maintain the required books and records for itself and the Funds. Consequently, Nutmeg has overstated the performances of its Funds to investors, and provided false information about the investors' cash holdings, during every single quarter of 2008.

4. Nutmeg's and the Gouldings' violations of the Investment Advisers Act of 1940 ("the Advisers Act"), and the rules promulgated thereunder, are ongoing and will continue to place the Funds and investors at risk. Nutmeg has failed to remedy the violations and problems identified by the Commission's compliance examiners and investigators. Nutmeg still has not corrected its prior misrepresentations to investors, and has failed to advise its investors of its inability to properly account for and value their investments. Nutmeg also has misrepresented the status of its remedial efforts, and continues to allow fund assets to be held in the names of third parties. Finally, Nutmeg continues to accept new investments and make redemptions at incorrect asset values, and plans to accept investments in a new fund in early 2009.

JURISDICTION AND VENUE

5. This Court has subject matter jurisdiction over this action pursuant to Sections 209(d) and 214 of the Advisers Act [15 U.S.C. §§ 80b-9(d) and 80b-14], and 28 U.S.C. § 1331. This Court has personal jurisdiction over the Defendants, and venue is proper in this Court, because all of the Defendants reside in this District and the acts, transactions, practices and course of conduct giving rise to the violations alleged in this Complaint occurred in this District. In addition, this Court may order disgorgement from the Relief Defendants because they possess illegally-obtained assets and have no legitimate claim to them.

DEFENDANTS

6. The Nutmeg Group, LLC is a Minnesota limited liability company with offices located in Northbrook, Illinois. Randall Goulding has been Nutmeg's owner and managing member since 2006. Nutmeg became registered with the Commission as an investment adviser in June 2007. Nutmeg provides discretionary portfolio management services to 15 unregistered investment pools ("the Funds"), structured as either limited liability partnerships or limited liability limited partnerships, and acts as their investment adviser. Nutmeg also serves as the general partner for 13 of these funds.

7. Randall Goulding, 58, is the owner and managing member of Nutmeg. He also is an attorney licensed and practicing in the State of Illinois. In 1992, Randall Goulding was convicted of conspiracy to defraud the United States, mail fraud, and illegal transportation of currency in connection with a tax evasion and money laundering scheme. He served six months in prison, received five years of probation, and was suspended from the practice of law for four years.

8. David Goulding, 36, is Randall Goulding's son and acts as Nutmeg's Chief Compliance Officer. He is also the owner of David Goulding, Inc. and David Samuel, LLC, both of which share office space with Nutmeg.

RELIEF DEFENDANTS

9. David Goulding, Inc. is a Minnesota corporation with its principal office in Northbrook, Illinois. The company was founded in 2006 by Randall Goulding for the sole purpose of holding the assets of investment partnerships created by Nutmeg. David Goulding is the company's owner.

10. David Samuel, LLC is a Minnesota limited liability corporation with its principal office in Northbrook, Illinois. The company was founded in 2006 by Randall Goulding for the sole purpose of holding the assets of investment partnerships created by Nutmeg. David Goulding is the company's owner.

11. Financial Alchemy, LLC ("Financial Alchemy") is a Minnesota limited liability corporation with its principal office in Northbrook, Illinois. The company was founded by Randall Goulding for the sole purpose of holding the assets of investment partnerships created by Nutmeg. Randall Goulding's son, Ryan Goulding, is the company's owner.

12. Philly Financial, LLC ("Philly Financial") is a Minnesota limited liability corporation with its principal office in Northbrook, Illinois. Randall Goulding's son, Brandon Goulding, is the company's owner. Philly Financial was created to hold the assets of investment partnerships advised by Nutmeg.

13. Eric Irrgang, 30, is a nephew of Randall Goulding and lives in Austin, Texas. Eric Irrgang has entered into PIPE transactions, purportedly on behalf of Nutmeg's funds, using fund assets.

14. Samuel Wayne, 25, is a friend of the son of Nutmeg's office assistant and lives in San Antonio, Texas. Samuel Wayne has entered into PIPE transactions, purportedly on behalf of Nutmeg's funds, using fund assets.

RELATED PARTIES

15. Law Offices of Randall S. Goulding & Associates, P.C. ("Goulding & Associates") is a law firm located in Northbrook, Illinois and shares office space with Nutmeg. Randall Goulding is the owner of Goulding & Associates. The law firm provides legal services to Nutmeg and the Funds.

16. Nutmeg/AdZone, LP ("AdZone") is an unregistered investment pool and an Illinois limited partnership. Nutmeg serves as AdZone's general partner and investment adviser. AdZone opened in November 2004 and invested in the common stock of AdZone Research, a nanocap company.

17. Nutmeg/Tropical, LP ("Tropical") is an unregistered investment pool and an Illinois limited partnership. Nutmeg serves as Tropical's general partner and investment adviser. Tropical opened in November 2004 and invested in the common stock of Tropical Beverage, Inc., a nanocap company.

18. Nutmeg/Startech II, LP ("Startech") is an unregistered investment pool and an Illinois limited partnership. Nutmeg serves as Startech's general partner and investment adviser. Startech opened in November 2004 and invested in the common stock of Startech Environmental Corporation, a nanocap company.

19. Nutmeg/Image Globe, LP (“Image Globe”) is an unregistered investment pool and purportedly is an Illinois limited partnership. Nutmeg serves as Image Globe’s general partner and investment adviser. Image Globe opened in November 2004 and invested in the common stock of Image Globe Solutions, a nanocap company.

20. Nutmeg/Nanobac, LP (“Nanobac”) is an unregistered investment pool and an Illinois limited partnership. Nutmeg serves as Nanobac’s general partner and investment adviser. Nanobac opened in November 2004 and invested in the common stock of Nanobac Pharmaceuticals, Inc., a nanocap company.

21. Nutmeg/MiniFund LLLP (“MiniFund”) is an unregistered investment pool and purportedly an Illinois limited liability limited partnership. Nutmeg serves as MiniFund’s general partner and investment adviser. MiniFund opened in February 2005 and invested in the common stock of five nanocap companies.

22. Nutmeg/MiniFund II LLLP (“MiniFund II”) is an unregistered investment pool and a Minnesota limited liability limited partnership. Nutmeg serves as MiniFund II’s general partner and investment adviser. MiniFund II opened in May 2005 and invested in the common stock of seven nanocap companies.

23. Nutmeg Lightning Fund I, LLLP (“Lightning”) is an unregistered investment pool and purportedly an Illinois limited liability limited partnership. Nutmeg serves as Lightning’s general partner and investment adviser. Lightning opened in August 2005 and invested in the common stock of numerous nanocap companies.

24. Nutmeg October 2005, LLLP (“October”) is an unregistered investment pool and purportedly an Illinois limited partnership. Nutmeg serves as October’s general

partner and investment adviser. October opened in December 2005 and invested in the common stock of numerous nanocap companies.

25. Nutmeg/Michael Fund, LP (“Michael”) is an unregistered investment pool and an Illinois limited partnership. Nutmeg serves as Michael’s general partner and investment adviser. Michael opened in April 2006 and invested in the common stock of numerous nanocap companies.

26. Nutmeg Fortuna Fund, LLLP (“Fortuna”) is an unregistered investment pool and an Illinois limited liability limited partnership. Nutmeg serves as Fortuna’s general partner and investment adviser. Fortuna opened in June 2006 and invested in the common stock of numerous nanocap companies.

27. Nutmeg/Patriot Fund, LLLP (“Patriot”) is an unregistered investment pool and an Illinois limited liability limited partnership. Nutmeg serves as Patriot’s general partner and investment adviser. Patriot opened in September 2006 and invested in the common stock of numerous nanocap companies.

28. Nutmeg/Mercury Fund, LLLP (“Mercury”) is an unregistered investment pool and a Minnesota limited liability limited partnership. Nutmeg serves as Mercury’s general partner and investment adviser. Mercury opened in January 2007 and invests in the common stock of numerous nanocap companies.

29. Micro Pipe Fund I, LLC (“Micro Pipe”) is an unregistered investment pool and a Minnesota limited liability corporation. Nutmeg serves as Micro Pipe’s investment adviser and Micro PIPE Capital Management, LLC, a Wyoming limited liability company, is the general partner. Micro Pipe opened in August 2007 and invests in the common stock of numerous nanocap companies.

30. The Stealth Fund, LLLP (“Stealth”) is an unregistered investment pool and a Minnesota limited liability limited partnership. Nutmeg has served as Stealth’s investment adviser and Wealth Strategy Partners LLP (“Wealth Strategy”), a Florida limited liability partnership located in Sarasota, Florida, is the general partner. As of September 30, 2008, Nutmeg purportedly ceased to act as Stealth’s investment adviser. However, Nutmeg has continued to perform administrative work, make investment decisions, and prepare and disseminate quarterly investor account statements for the fund through at least December 2008. Stealth opened in December 2007 and invests in the common stock of numerous nanocap companies.

FACTS

A. Nutmeg and Its Funds

31. As a general partner, Nutmeg is responsible for providing potential investors with offering documents (such as Private Placement Memoranda), sending investors their quarterly account statements, maintaining “full and accurate records and books of account” for all of its transactions, and executing portfolio transactions on behalf of the Funds. Nutmeg, as investment adviser, also directs the Funds’ investment strategy.

32. As of April 1, 2008, Nutmeg claimed to have assets under management of approximately \$32.3 million. As of the same date, the Funds had a total of 328 investors, all of whom were limited partners. Four of the Funds – Stealth, Mercury, Michael, and Fortuna – held the majority of assets under management. As of April 1, 2008, Stealth had 19 investors and purportedly had assets worth \$10,376,294; Mercury had 100 investors and had assets purportedly worth \$8,074,009; Michael had 86 investors and had

assets purportedly worth \$2,439,985; and Fortuna had 89 investors and had assets purportedly worth \$1,982,435.

33. All the Funds have invested in relatively small companies, usually nanocaps, through PIPE transactions. Randall Goulding oversees these investments and drafts and negotiates the supporting documentation. The Funds' PIPE investments acquire convertible equity, convertible debt, and/or warrants of nanocap companies at a discount. These investments typically permit Nutmeg to convert the equity or debt into common stock and exercise the warrants. The resulting securities (known as "entitled shares") typically have a six to nine month restriction period, after which the issuers must register the shares.

34. At first, Nutmeg used PIPE transactions to invest fund assets in a single nanocap company. Investors in Adzone, Tropical, Startech, Image Globe, and Nanobac only received distributions when the underlying securities were sold, and investors could not withdraw their capital contributions until liquidation.

35. However, beginning in 2005, Nutmeg opened funds that invested in numerous nanocap companies through PIPEs. These funds include MiniFund, MiniFund II, Lightning, October, Patriot, Michael, and Fortuna. As with Nutmeg's initial funds, investors only receive distributions upon the sale of the Fund's holdings and investors cannot withdraw their initial investment until liquidation. Nutmeg describes all of the foregoing funds as "non-perpetual" funds.

36. In 2007, Nutmeg created additional private investment companies: Mercury, Stealth, and Micro Pipe. These funds also invested in numerous nanocap companies through PIPEs. However, unlike Nutmeg's earlier funds, Nutmeg has the

discretion to make quarterly distributions and investors can withdraw their capital contributions with two months notice.

37. Adzone, Tropical, Startech, Image Globe, Nanobac, MiniFund, MiniFund II, Lightning, October, Michael, and Fortuna share one bank account and several brokerage accounts. Assets of these funds are commingled and Nutmeg holds their assets in its own name and not in the name of a specific fund. There are separate bank and brokerage accounts for Mercury and Stealth, but they also are in Nutmeg's name.

38. Under written agreements with the Funds, Nutmeg is entitled to administrative and performance fees. For Adzone, Tropical, Startech, Image Globe, Nanobac, MiniFund, MiniFund II, Lightning, October, Michael, Fortuna, and Patriot, Nutmeg may collect a one-time four percent administrative fee deducted from the investor's original investment. Performance fees also are assessed for these funds and range from 20% to 30% of profits.

39. For Mercury, Nutmeg collects an annual administrative fee of 2.5%, paid monthly, of the fund's net asset value. The performance fee for Mercury is 25% of profits.

40. For Stealth, Nutmeg charges an annual administrative fee of 2.5%, paid monthly, based on Stealth's net asset value. Nutmeg's performance fee for Stealth is 15% of profits; however, in the event Stealth's annualized profits exceed 50%, Nutmeg collects an additional 25%.

41. Both Randall Goulding and David Goulding received compensation from Nutmeg. During the first four months of 2008, David Goulding received at least \$13,864 in salary payments. During the same period, Nutmeg made at least \$140,000 in payments

to Randall Goulding's law firm, Goulding & Associates. Randall Goulding has acknowledged that these payments included his "salary" from Nutmeg.

42. Nutmeg sends quarterly account statements by email or U.S. Mail to all of its investors. These statements are prepared by David Goulding based on information provided by Randall Goulding.

43. Nutmeg uses two different formats for its quarterly statements. The statements for AdZone, Tropical, Startech, Image Globe, Nanobac, MiniFund, Lightning, October, Patriot, Michael, and Fortuna all are combined in one statement. For these funds, Nutmeg reports, among other things, an investor's proceeds from the sale of securities ("Sales Proceeds Earned") and the value of their portion of unsold securities ("Value of Remaining Securities"). Nutmeg also reports the performance fee paid by an investor ("Carried Interest to Nutmeg") and a "Current Cash Position" for all funds.

44. The statements for Mercury, MiniFund II, and Stealth provide an investor's "Previous NAV," which is the net asset value of the investment from the previous quarter, and "Current NAV," which is the investment's current net asset value. Both figures already include deductions for Nutmeg's administrative fee. Nutmeg's performance fee ("Carried Interest") and the value of an investor's interest in the fund net all fees ("Total NAV") are also reported.

B. Nutmeg Has Failed to Keep Required Books and Records and Safeguard Investments.

45. From May through September 2008, the Commission conducted a compliance examination of Nutmeg. Through the examination, the Commission staff learned that Nutmeg had not prepared financial statements for its own operations and did not maintain supporting financial documentation. More specifically, Nutmeg had no

general or auxiliary ledgers, trial balances, or income and expense statements. Nutmeg also did not maintain complete records of the Funds' investments or their purchase and sale of entitled shares. Besides some receipts and copies of disbursements, the only financial records maintained by Nutmeg was an electronic check registry which purportedly recorded money received from and distributed to investors.

46. The books and records of the Funds were also in disarray. The only financial records maintained for the Funds were bank and brokerage statements and Excel spreadsheets which supposedly tracked the assets and balances of the Funds. These spreadsheets were prepared by David Goulding based on information received from Randall Goulding.

47. Many of the notes and other documents reflecting the Funds' investments in PIPEs are not signed or are missing. Some are signed by Nutmeg but not in the name of a specific fund. For example, an August 2007 \$600,000 convertible note is payable to "The Nutmeg Group, LLC" from Physicians Healthcare Management Group, Inc. No fund is identified.

48. Randall Goulding told the staff that at least one PIPE investment is oral and undocumented. He also admitted that PIPEs are frequently renegotiated, and that he sometimes forgot to update a fund's balance sheet to reflect revised terms.

49. The Commission's exam staff also discovered that Nutmeg had no internal administrative controls to prevent investment adviser violations. Nutmeg had no code of ethics and had not disseminated any policies or procedures to ensure compliance with the securities laws.

50. Nutmeg also maintained custody of Fund assets and securities, and did not adequately segregate those assets or hold them all through a “qualified custodian” such as a broker-dealer or bank. Of the \$32.3 million Nutmeg claimed to hold in purported Fund assets, approximately \$1 million was held in the custody of a broker-dealer. The remaining Fund assets consist of PIPEs, convertible notes, warrants, and stock certificates – all of which are kept at Nutmeg’s offices.

51. No audits, independent or otherwise, have ever been conducted of the Funds and there are no internal audit papers.

52. Because the majority of the Funds’ holdings are illiquid, and their ownership of assets is not properly documented, it is impossible to determine whether Nutmeg actually holds and manages the remaining \$31.3 million in Fund assets as it claims.

C. Nutmeg Has Transferred Control of Fund Assets to Third Parties.

53. Nutmeg, Randall Goulding, and David Goulding allowed third parties to hold, own, and control some of the Funds’ assets. Beginning in at least October 2005, Defendants placed PIPEs, convertible notes, warrants, and stock certificates, purportedly owned by or made on behalf of the Funds, in the names of Relief Defendants Financial Alchemy, David Goulding Inc., David Samuel, Philly Financial, Samuel Wayne, and Eric Irrgang.

54. The Relief Defendants entered into at least 30 PIPE transactions, purportedly on the Funds’ behalf, using Fund assets. For example, in October 2005, Financial Alchemy loaned \$225,000 in fund assets to RMD Entertainment Group, Inc.

(“RMD”) and received a \$225,000 convertible note. The note does not refer to any fund; however, Randall Goulding claims that the investment was for Michael.

55. Randall Goulding created Relief Defendants Financial Alchemy, David Goulding Inc., David Samuel, and Philly Financial for the sole purpose of obtaining freely tradable shares through “Rule 504 transactions.” According to Goulding, in order for the Funds to receive freely tradable shares from certain nanocap companies, the Funds had to be domiciled in the same state as where the shares are registered. Since the Funds were, in fact, not domiciled in the state where the shares were registered, Goulding used the Relief Defendants to avoid this restriction.

56. The value of the investments owned by Relief Defendants Financial Alchemy, David Goulding Inc., David Samuel, Philly Financial, Sam Wayne, and Eric Irrgang are unknown. However since 2005, the Relief Defendants have received over \$4 million from the Funds to invest in PIPEs in their own name, and hold in their own names approximately 125,000,000 shares of securities that belong to the Funds. Defendants never advised Nutmeg’s investors that Fund assets had been transferred to the Relief Defendants.

57. Moreover, Relief Defendants Financial Alchemy, David Goulding Inc., David Samuel, Philly Financial, Sam Wayne, and Eric Irrgang each have received compensation for participating in these PIPE transactions on behalf of the Funds. During the Commission’s compliance examination, Randall Goulding advised the Commission staff that, per an oral agreement, the Relief Defendants received either 1% or 3% of the *fees* Nutmeg earned from each of the Rule 504 transactions. Randall Goulding further assured the Commission staff that none of these payments came from the Funds’ assets.

However, Nutmeg recently provided the Commission with so called “Cancellation Agreements” purporting to return the Funds’ assets to Nutmeg’s custody, which indicate that the Relief Defendants were paid either 1% or 3% of the *proceeds* from the sale of shares owned by the Funds.

58. Moreover, during the examination, Randall Goulding advised the Commission’s compliance examiners that the Relief Defendants had no right to sell the Funds’ assets. The Cancellation Agreements, however, indicate that, at least until June 2008, the Relief Defendants had the sole discretion to sell all of the Fund assets in their possession.

59. Nutmeg transferred Fund assets to the Relief Defendants without any written agreement creating legal obligations between the Relief Defendants and the Funds, or indicating that the Funds were the beneficial owners of transferred assets. Nutmeg has never disclosed the payments made to the Relief Defendants, nor the discretionary authority it gave the Relief Defendants over Fund assets, to its investors.

D. Nutmeg Made Undisclosed Loans of Fund Assets to Members of the Goulding Family.

60. In 2007, Randall Goulding apparently gave \$13,862.55 of the Funds’ money to Financial Alchemy, his son’s company, who then gave the money to GIG Investments (“GIG”). GIG is a real estate partnership owned by Randall Goulding and his sons, Brandon, David, and Ryan Goulding. That same year, Nutmeg transferred \$200,000 through Financial Alchemy to Russell O’Conner (“O’Connor”), Randall Goulding’s son-in-law, apparently for use by O’Connor’s construction company.

61. Although Randall Goulding has described these payments as “loans,” neither transfer is documented as a loan. There is no interest rate, the length of the loan is

not fixed, and there is no payment schedule. Randall Goulding claims that O'Connor paid back Nutmeg \$10,000. However, there is no evidence of this payment. Both "loans" to family members are still outstanding and have not been disclosed to investors.

E. Nutmeg Has Made Errors in the Valuation of the Funds.

62. The fact that Nutmeg and the Funds lack complete and accurate financial records makes it impossible to verify the performance and value of the Funds. The Commission's examination staff asked Nutmeg to substantiate its reported first quarter 2008 performance for its four largest funds – Michael, Fortuna, Mercury and Stealth. After numerous attempts over the course of several weeks, Nutmeg finally provided the Commission staff with documentation listing the purported holdings and valuations of these funds.

63. However, Randall and David Goulding admitted that this documentation differed from the information on Nutmeg's internal records, as well as the information reported to investors during the first quarter 2008. Randall and David Goulding further admitted that the information provided to the Commission was likely flawed due to incomplete documentation and the commingling of customer assets. Nutmeg still has not disclosed any of these problems to its investors.

64. In fact, Nutmeg's valuation of Mercury in the first quarter 2008 was overstated. Nutmeg made several methodological errors in valuing the fund. First, Randall Goulding and David Goulding recorded incorrect stock prices for Mercury's investments in Nutmeg's internal records – by failing to record decreases in the stock prices of at least 10 companies. Second, Randall Goulding and David Goulding overstated the proceeds from the sale of shares in at least three companies. Lastly,

Randall Goulding and David Goulding inflated the number of shares Mercury would receive from the fund's investments in at least four companies. Nutmeg has advised the Commission that these errors caused the value of Mercury's holdings in the first quarter of 2008 to be overstated by \$485,479, or nearly 6%.

65. Nutmeg also overstated the values for Stealth's holdings in the first quarter 2008, by nearly \$578,000 or 5 ½ %, because the Gouldings improperly valued the fund's investments in four different companies.

66. Nutmeg's also incorrectly valued the holdings of Michael and Fortuna during the first quarter 2008. However, Nutmeg cannot correct its errors because the assets of Michael and Fortuna have been commingled with the assets of AdZone, Tropical, Startech, Image Globe, Nanobac, MiniFund, MiniFund II, Lightning, October and Patriot. These funds have paid out distributions, and a number of investors apparently asked that their returns be rolled over into a future Nutmeg offering.

67. Instead of allocating these rolled-over distributions to a new fund, Nutmeg simply purchased securities in its own name. Some of these rolled-over investments have been allocated to another fund, but others have not. Consequently, Nutmeg cannot determine how to allocate from \$400,000 to \$1 million among the Funds or their investors.

F. Nutmeg Has Provided Investors with False Quarterly Reports.

68. The performance figures which Nutmeg reported to investors in the first quarter 2008 were false. Nutmeg's failure to allocate between \$400,000 and \$1 million in rolled-over investments to a particular fund makes it impossible to value its non-

perpetual funds. Likewise, the performance figures reported to Mercury and Stealth investors in the first quarter were false as they were based on the methodological errors.

69. Nutmeg's first quarter investor account statements also contained false information about an investor's cash position. Although Nutmeg regularly advises its investors that a portion of their investment is held in cash ("Current Cash Position"), this representation is false.

70. In fact, Randall Goulding and David Goulding advised the Commission's examination staff that an investor's Current Cash Position includes investments in securities that have been commingled and are not allocated to a specific fund. Apparently, only 30% of an investor's "cash holdings" is actually cash -- and the remainder is illiquid securities.

71. Nutmeg's second, third, and fourth quarter statements to investors during 2008 are also wrong. Despite the problems discovered during the Commission's compliance examination, Nutmeg has still not allocated rolled-over investments and cannot value its non-perpetual funds. In addition, the partnership unit values for investors in the Mercury fund are not the same. They vary among investors by several thousand dollars per unit.

72. In addition, there are other mistakes in investor statements which cannot be reconciled. For example, a couple which invested in \$2,000 in MiniFund II on July 7, 2005, and made no additional investments or redemptions, saw their number of partnership units change from quarter to quarter during 2008. These same investors received a statement in which the reported value of their investment was nearly three times greater than the value shown in Nutmeg's internal records for the same date.

Finally, these same investors received statements showing that the ending value of their investment for the second quarter 2008 was greater than the starting value of their investment for the third quarter 2008.

G. Nutmeg Cannot Substantiate Its Management or Performance Fees, Its Fund Purchases, and Its Redemptions.

73. Nutmeg's inability to accurately value its Funds' assets and investor holdings has created a number of other problems. Among other things, the administrative and performance fees which Nutmeg collects from the Funds are based on assets under management, and performance fees based upon a percentage of a fund's return. Any error in the valuation of a fund's performance or assets under management necessarily affects fees. Because the performance of the Funds reported by Nutmeg is demonstrably false, Nutmeg is unable to justify the fees to which it was entitled or substantiate the amounts that it actually took.

74. In addition, owing to Nutmeg's inability to accurately value its Funds' assets and investor holdings, the purchases and redemptions of partnership units by Nutmeg investors necessarily have been made at incorrect values. In the first quarter 2008, Nutmeg's investors made investments of \$67,871 in Mercury, and invested \$8,752,594 was invested in Stealth. During this same period of time, Nutmeg's investors withdrew \$104,865 from Mercury. Nutmeg's inability to accurately value these Funds necessarily means that these purchases and redemptions were made at the wrong price.

H. Nutmeg Has Not Remedied the Problems Identified During the Commission's Examination.

75. The Commission's compliance examiners sent a letter to Nutmeg on September 30, 2008, documenting the deficiencies discovered as of that date and

requesting immediate corrective action. On November 25, 2008 Randall Goulding responded on Nutmeg's behalf. In Goulding's letter, he claimed that until the Commission's examination he had been unaware of the existence of the Investment Advisers Act of 1940, or the duties it imposed upon him and his firm. He advised the Commission that Nutmeg was correcting the Funds' numerous problems. However, some of his claims were false.

76. First, Randall Goulding claimed that Nutmeg had "engaged an outside accounting firm" to perform surprise exams and audits of the Funds. As of January 2009, Nutmeg had not done so and no audits had been conducted on the Funds.

77. Second, Randall Goulding reported that Nutmeg is resolving the problem of holding investors' rolled-over securities in the firm's own name. However, instead of determining which securities belonged to each investor, Nutmeg's response was to allocate the securities purchased by Nutmeg to the funds from which they came. Goulding has admitted that the commingling of Fund assets and accounting shortcomings make "it is impossible to know which specific dollars in an investors' held monies account came from which fund." As a consequence, Nutmeg will never be able to determine which investor's money was used to purchase the securities held in the firm's name, and therefore Nutmeg's investors will never receive an accurate record of their investments.

78. Third, Randall Goulding claims that Nutmeg sent "revised statements" for the first quarter 2008 to Stealth investors. However, Nutmeg never created new first quarter statements. Instead, Nutmeg simply revised the first quarter balances of Stealth investors on their second quarter statements without an explanation. Randall Goulding

claimed that Nutmeg distributed “revised valuations, along with an explanation” to Stealth investors. But Nutmeg merely advised Stealth investors that its first quarter NAV (net asset value) calculations “were incorrect.”

79. Finally, Randall Goulding assured the Commission’s staff that Nutmeg has transferred all assets out of the name of the Relief Defendants and back to each fund. However, documents Nutmeg provided to the Commission on February 2, 2009, do not correspond to the amounts previously invested by the Relief Defendants, nor do they properly transfer all of these holdings back to the Funds.

80. For example, in early 2006, Financial Alchemy, David Goulding Inc., David Samuel, Philly Financial, Sam Wayne, and Eric Irrgang invested a total of \$837,194.27 in Accesskey, Inc. (“Accesskey”) on behalf of Fortuna, Lightning, Michael, and October. In December, 2008 Accesskey issued four “substitute convertible notes” to Fortuna, Lightning, Michael, and October, which supposedly transfer these investments to each fund.

81. However, these new notes do not match up to the original investments. Not only has the Funds’ overall investment increased by nearly \$100,000, But Nutmeg has reduced Lightning’s, Michael’s, and October’s investments in Accesskey and increased Fortuna’s investment without any explanation. Further, the “Cancellation Agreements” between Nutmeg and the Relief Defendants merely require them to execute whatever documents are necessary to re-title investments into the name of the Fund. There are no agreements showing that the Fund investments actually have been returned.

82. There are similar discrepancies for the Relief Defendants’ investments in Physicians Healthcare Management Group, Inc and Pine Ridge, Inc.

I. Nutmeg's Actions Create the Risk of Ongoing Harm to Investors.

83. Despite months of forbearance by the Commission, Nutmeg's investors have never been told the nature, extent or significance of Nutmeg's and the Funds' problems. It does not appear that any of Nutmeg's investors, with the exception of the investors in Stealth, have been advised that their quarterly statements are inaccurate. Accordingly, investors have not been advised that their reported cash holdings and asset values have been misstated, that their rolled-over investments cannot be properly accounted for, or that their monies have been given to third parties with no written contractual obligations to the Funds or to Nutmeg and been paid a percentage of the Funds' profits. Certain Fund assets which were transferred still have not been restored to the Funds, and those which have, have not been properly documented.

84. Notwithstanding all of its problems, Nutmeg continues to accept investments and make redemptions in its open Funds. Moreover, Nutmeg intends to start a new fund – the Nutmeg Emerging Market Fund – in early 2009.

COUNT I

**Violations of the Advisers Act Sections 206(1) and 206(2)
(Against The Nutmeg Group, LLC and Randall Goulding)**

85. Paragraphs 1 through 84 are realleged and incorporated by reference as if fully set forth herein.

86. Defendants Nutmeg and Randall Goulding, while acting as investment advisers, by the use of the means and instrumentalities of interstate commerce and of the mails, directly and indirectly, have employed and are employing devices, schemes and artifices to defraud its clients and prospective clients; and have engaged and are engaging

in transactions, practices and courses of business which operate as a fraud or deceit upon their clients and prospective clients.

87. By reason of the foregoing, Defendants Nutmeg and Randall Goulding have violated Sections 206(1) and (2) of the Advisers Act [15 U.S.C. § 80b-6(1) and 80b-6(2)].

COUNT II

Violations of the Advisers Act Sections 206(4) and Rule 206(4)-8 Thereunder (Against The Nutmeg Group, LLC and Randall Goulding)

88. Paragraphs 1 through 84 are realleged and incorporated by reference as if fully set forth herein.

89. Defendants Nutmeg and Randall Goulding, while acting as investment advisers to a pooled investment vehicle, have made untrue statements of material fact or omitted to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, to an investor or prospective investor in the pooled investment vehicle or otherwise engaged in acts, practices, or courses of business that are fraudulent, deceptive or manipulative with respect to an investor or prospective investor in the pooled investment vehicle.

90. By reason of the foregoing, Defendants Nutmeg and Randall Goulding have violated Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rules 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

COUNT III

Violations of the Advisers Act Section 206(4) and Rule 206(4)-2 Thereunder (Against the Nutmeg Group, LLC)

91. Paragraphs 1 through 84 are realleged and reincorporated by reference as if fully set forth herein.

92. Defendant Nutmeg, while acting as an investment adviser to a pooled investment vehicle, has engaged in acts, practices or courses of business which are fraudulent, deceptive or manipulative with respect to an investor or prospective investor in the pooled investment vehicle, in that Nutmeg maintained custody of client funds or securities without either, engaging a qualified custodian to maintain and segregate those funds or securities; or verifying all of the funds or securities within its custody through an annual, unannounced audit by an independent public accountant.

93. By reason of the foregoing, Defendant Nutmeg has violated Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-2 thereunder [17 C.F.R. § 275.206(4)-2].

COUNT IV

Aiding and Abetting Violations of the Advisers Act Sections 206(1) and 206(2) (Against Randall Goulding and David Goulding)

94. Paragraphs 1 through 84 are realleged and incorporated by reference as if fully set forth herein.

95. Defendants Randall Goulding and David Goulding have knowingly provided substantial assistance to a person who, while acting as an investment adviser, by the use of the means and instrumentalities of interstate commerce and of the mails, directly or indirectly, employs devices, schemes, and artifices to defraud its clients and

prospective clients, or engages in transactions, practices, and courses of business which operate as a fraud or deceit upon its clients and prospective clients.

96. By reason of the foregoing, Defendants Randall Goulding and David Goulding have aided and abetted Nutmeg's violations of Sections 206(1) and (2) of the Advisers Act [15 U.S.C. § 80b-6(1) and (2)].

COUNT V

Aiding and Abetting Violations of the Advisers Act Section 206(4) and Rule 206(4)-8 Thereunder (Against Randall Goulding and David Goulding)

97. Paragraphs 1 through 84 are realleged and incorporated by reference as if fully set forth herein.

98. Defendants Randall Goulding and David Goulding have knowingly provided substantial assistance to a person who, while acting as an investment adviser to a pooled investment vehicle, by the use of the means and instrumentalities of interstate commerce and of the mails, made untrue statements of material fact or omitted to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, to an investor or prospective investor in the pooled investment vehicle or otherwise engaged in acts, practices, or courses of business that are fraudulent, deceptive or manipulative with respect to an investor or prospective investor in the pooled investment vehicle.

99. By reason of the foregoing, Defendants Randall Goulding and David Goulding have aided and abetted Nutmeg's violations of Sections 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

COUNT VI

Aiding and Abetting Violations of the Advisers Act Section 206(4) and Rule 206(4)-2 Thereunder (Against Randall Goulding and David Goulding)

100. Paragraphs 1 through 84 are realleged and incorporated by reference as if fully set forth herein.

101. Defendants Randall Goulding and David Goulding have knowingly provided substantial assistance to a person who, while acting as an investment adviser to a pooled investment vehicle, has engaged in acts, practices or courses of business which are fraudulent, deceptive or manipulative with respect to an investor or prospective investor in the pooled investment vehicle, by maintaining custody of client funds or securities without either, engaging a qualified custodian to maintain and segregate those funds or securities; or verifying all of the funds or securities within its custody through an annual, unannounced audit by an independent public accountant.

102. By reason of the foregoing, Defendant Randall Goulding and David Goulding have aided and abetted Nutmeg's violations of Sections 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-2 thereunder [17 C.F.R. § 275.206(4)-2].

COUNT VII

Violations of Section 204 of the Advisers Act and Rule 204-2 Thereunder (Against The Nutmeg Group, LLC)

103. Paragraphs 1 through 84 are realleged and incorporated by reference as if fully set forth herein.

104. Defendant Nutmeg, while acting as an investment adviser who makes use of the mails or any instrumentality of interstate commerce, failed to make and keep true, accurate and current records including, but not limited to, the general ledger and financial

statements relating to its business as an investment adviser, the agreements and historical records of PIPE transactions and the purchase and sale of entitled shares, and accurate records of each investor's investment and documenting each fund's performance.

105. By reason of the foregoing, Defendant Nutmeg violated Section 204 of the Advisers Act [15 U.S.C. § 80b-4] and Rule 204-2 thereunder [17 C.F.R. § 275.204-2].

COUNT VIII

Aiding and Abetting Violations of Advisers Act Section 204 and Rule 204-2 Thereunder (Against Randall Goulding and David Goulding)

106. Paragraphs 1 through 84 are realleged and incorporated by reference as if fully set forth herein.

107. Defendants Randall Goulding and David Goulding have knowingly failed to ensure that Nutmeg made and kept true, accurate and current records including, but not limited to, the general ledger and financial statements relating to its business as an investment adviser, the agreements and historical records of PIPE transactions and the purchase and sale of entitled shares, and accurate records of each investor's investment and documenting each fund's performance.

108. By reason of the foregoing, Defendants Randall Goulding and David Goulding have aided and abetted Nutmeg's violations of Section 204 of the Advisers Act [15 U.S.C. § 80b-4] and Rule 204-2 thereunder [17 C.F.R. § 275.204-2].

COUNT IX

**(Against Financial Alchemy, LLC, David Goulding, Inc.,
David Samuel, LLC, Philly Financial, LLC,
Samuel Wayne, and Eric Irrgang)**

109. Paragraphs 1 through 84 are realleged and incorporated by reference as if fully set forth herein.

110. Relief Defendants Financial Alchemy, LLC, David Goulding, Inc., David Samuel, LLC, Philly Financial, LLC, Samuel Wayne, and Eric Irrgang knowingly received an improper and illegal transfer of property from Nutmeg of assets belonging to the Funds, even though they held no legitimate ownership interest in those assets, and accepted compensation from Nutmeg and/or the Funds for their willingness to accept such a transfer.

111. By reason of the foregoing, Relief Defendants Financial Alchemy, LLC, David Goulding, Inc., David Samuel, LLC, Philly Financial, LLC, Samuel Wayne, and Eric Irrgang have been unjustly enriched and may be compelled to return to the Funds any of the Funds' property they still hold, as well as any compensation they received from Nutmeg and/or the Funds for accepting these transfers.

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that this Court:

I.

Find that Defendants Nutmeg, Randall Goulding and David Goulding have committed the violations charged and alleged herein;

II.

Permanently enjoin Nutmeg and Randall Goulding, and their officers, agents, servants, employees, attorneys and those persons in active concert or participation with them, from violating Sections 206(1), (2) and (4) of the Advisers Act [15 U.S.C. § 80b-6(1)-(2) and (4)], and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8];

III.

Permanently enjoin Nutmeg, and its officers agents, servants, employees, attorneys, and those persons in active concert or participation with it, and each of them, from violating Sections 204 and 206(4) of the Advisers Act [15 U.S.C. §§ 80b-4, 80b-6(4)] and Rules 204-2 and 206(4)-2 thereunder [17 C.F.R. § 275.206(4)-2];

IV.

Permanently enjoin Randall Goulding and David Goulding, and their agents, servants, employees, attorneys, and those persons in active concert or participation with them, from aiding and abetting the violation of Sections 204 and 206(1), (2) and (4) of the Advisers Act [15 U.S.C. §§ 80b-4 and 80b-6(1)-(2), (4)] and Rules 204-2, 206(4)-2 and 206(4)-8 thereunder [17 C.F.R. §§ 275.204-2, 275.206(4)-2, (4)-8];

V.

Issue an Order requiring Defendants Nutmeg, Randall Goulding and David Goulding, and Relief Defendants David Goulding, Inc., David Samuel, LLC, Financial Alchemy, LLC, Philly Financial, LLC, Samuel Wang and Eric Irrgang, to disgorge all profits or ill-gotten gains that they have received as a result of the wrongful acts, practices and courses of conduct alleged herein, with prejudgment interest.

VI.

Issue an Order requiring Defendants Nutmeg and Randall Goulding to pay civil penalties pursuant to Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)].

VII.

Retain jurisdiction over this action, in accordance with the principals 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.

VIII.

Grant such other and further relief as this Court deems necessary and appropriate.

By: /s/ Robert M. Moye

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