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12 **UNITED STATES DISTRICT COURT**  
13 **CENTRAL DISTRICT OF CALIFORNIA**

14 SECURITIES AND EXCHANGE  
15 COMMISSION,

16 Plaintiff,

17 vs.

18 DAVID A. WILLIAMS; SHERWOOD  
19 SECURED INCOME FUND, LLC;  
20 WFG HOLDINGS, INC.; and  
WILLIAMS FINANCIAL GROUP,  
LLC,

21 Defendants.  
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Case No. **CV09-2709 FMC (JCx)**  
**COMPLAINT FOR VIOLATIONS  
OF THE FEDERAL SECURITIES  
LAWS**

1 Plaintiff Securities and Exchange Commission (“Commission”) alleges as  
2 follows:

3 **JURISDICTION AND VENUE**

4 1. This Court has jurisdiction over this action pursuant to Sections 20(b),  
5 20(d)(1), and 22(a) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C. §§  
6 77t(b), 77t(d)(1), and 77v(a), and Sections 21(d)(1), 21(d)(3)(A), 21(e), and 27 of  
7 the Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78u(d)(1),  
8 78u(d)(3)(A), 78u(e), and 78aa. Defendants have, directly or indirectly, made use  
9 of the means or instrumentalities of interstate commerce, of the mails, or of the  
10 facilities of a national securities exchange in connection with the transactions, acts,  
11 practices and courses of business alleged in this Complaint.

12 2. Venue is proper in this district pursuant to Section 22(a) of the  
13 Securities Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15 U.S.C.  
14 § 78aa, because certain of the transactions, acts, practices and courses of conduct  
15 constituting violations of the federal securities laws occurred within this district,  
16 and all of the defendants reside and/or are located in this district.

17 **SUMMARY**

18 3. This matter involves three fraudulent securities offerings and the  
19 misappropriation of millions of dollars of the proceeds raised in those offerings by  
20 David A. Williams, former president and chief executive officer of Morgan  
21 Peabody, Inc. (“Morgan Peabody”), a broker-dealer formerly registered with the  
22 Commission. Williams is also the sole owner of the two issuers of the offerings –  
23 WFG Holdings, Inc. (“WFG Holdings”) and Sherwood Secured Income Fund,  
24 LLC (“Sherwood”).

25 4. From January 2007 through September 2008, registered representatives  
26 of Morgan Peabody sold approximately \$9 million in debentures and promissory  
27 notes issued by WFG Holdings and Sherwood. The WFG Holdings securities were  
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1 sold in two debenture offerings, while the Sherwood securities were sold in a  
2 single offering of promissory notes.

3 5. WFG Holdings investors were told that funds raised in the two  
4 debenture offerings would be used to develop Morgan Peabody's broker-dealer  
5 business and expand Morgan Peabody's operations. Sherwood investors were told  
6 that at least 90% of funds raised in the Sherwood offering would be used for direct  
7 or indirect investment in real estate and that no more than 10% of the proceeds  
8 would be used for non-real estate related investments.

9 6. Contrary to what was disclosed to investors, Williams misappropriated  
10 millions of dollars raised in the three offerings to fund his lavish lifestyle.  
11 Williams transferred the funds to his personal accounts both directly from the bank  
12 accounts of WFG Holdings as well as through the accounts of Morgan Peabody  
13 and Williams Financial Group, LLC ("Williams Financial Group"), a limited  
14 liability company in which Williams is the sole member. Moreover, well in excess  
15 of 10% of the funds raised in the Sherwood offering were used for non-real estate  
16 related investments. In 2008, Morgan Peabody's broker-dealer business, which  
17 was to be funded by the WFG Holdings offering, ceased operations.

18 7. In misappropriating investor funds, Williams, WFG Holdings,  
19 Sherwood, and Williams Financial Group violated the antifraud and provisions of  
20 the federal securities laws. By this action, the Commission seeks permanent  
21 injunctions, disgorgement of the defendants' ill-gotten gains, and civil penalties.

### 22 DEFENDANTS

23 8. **David A. Williams**, of Studio City, California, is the former president  
24 and chief executive officer of Morgan Peabody. He is the sole owner of WFG  
25 Holdings, Inc., Sherwood Secured Income Fund, LLC, and Williams Financial  
26 Group, LLC. Williams holds Series 7, 24, and 66 securities licenses.

27 9. **Sherwood Secured Income Fund, LLC** is a California limited liability  
28 company with its principal place of business in Studio City, California. Sherwood

1 was created in June 2007 for the purported purpose of making direct and indirect  
2 investments in real estate. Sherwood is wholly owned by Williams.

3 10. **WFG Holdings, Inc.** is a California corporation with its principal place  
4 of business in Studio City, California. WFG Holdings is the sole owner of Morgan  
5 Peabody. WFG Holdings is wholly owned by Williams.

6 11. **Williams Financial Group, LLC** is a California limited liability  
7 company with its principal place of business in Studio City, California. Williams  
8 Financial Group is wholly owned by Williams and was established in July 1999  
9 purportedly as a vehicle for Williams to acquire and sell real estate.

### 10 **THE FRAUDULENT CONDUCT**

11 12. From January 2007 through September 2008, approximately \$9 million  
12 was raised from investors in two offerings of debentures issued by WFG Holdings  
13 and an offering of notes issued by Sherwood. Williams had a Private Placement  
14 Memorandum (“PPM”) prepared for each of the three offerings. Williams  
15 provided the information included in the PPMs and reviewed and approved them  
16 before providing the PPMs to registered representatives of Morgan Peabody with  
17 the instruction to sell the securities offered. All investor funds raised in the  
18 offerings were deposited into bank accounts controlled by Williams.

#### 19 **The Two WFG Holdings Offerings**

20 13. Between January and June 2007, at Williams’ direction, registered  
21 representatives of Morgan Peabody sold approximately \$3,646,000 of WFG  
22 Holdings debentures to approximately 80 investors in six states. The debentures  
23 paid 10% annual interest (paid to investors on a monthly basis) with a maturity  
24 date two years after the date of issuance.

25 14. Prior to purchasing the notes, investors were provided a PPM, reviewed  
26 and approved by Williams, that stated that the anticipated use of proceeds for the  
27 offering was to invest in the operations of Morgan Peabody. No other specific use  
28 of proceeds was disclosed to investors.

1           15. Between April and September 2008, at Williams' direction, registered  
2 representatives of Morgan Peabody sold approximately \$1,739,000 of a second  
3 offering of WFG Holdings debentures to approximately 40 investors in five states.  
4 The debentures sold in this second WFG Holdings offering paid 9.5% annual  
5 interest (paid to investors on a monthly basis) with a maturity date three years from  
6 the date of issuance.

7           16. According to the PPM for the second WFG Holdings offering, reviewed  
8 and approved by Williams, the anticipated use of proceeds disclosed to investors  
9 was similar to that disclosed in connection with the first WFG Holdings offering –  
10 to continue expansion of Morgan Peabody's operations and to satisfy short term  
11 working capital needs. No other specific use of investor funds was disclosed to  
12 investors.

13           17. Upon receipt, WFG Holdings investor funds were deposited into a  
14 WFG Holdings bank account, controlled by Williams. Subsequently,  
15 approximately \$825,000 was transferred into a separate interest account from  
16 which timely monthly interest payments were made to investors. The remaining  
17 approximately \$4,560,000 was transferred into an operating account in the name of  
18 WFG Holdings.

19           18. Of the approximately \$4,560,000 of investor funds deposited into the  
20 WFG Holdings operating account, Williams transferred only about \$2.5 million to  
21 Morgan Peabody's account and then misappropriated approximately \$1 million for  
22 his personal expenses. Williams transferred more than \$1.6 million of the  
23 proceeds of the WFG Holdings offerings to Williams Financial Group, his real  
24 estate investment company, and approximately \$40,000 directly into his personal  
25 bank account.

### 26           **The Sherwood Offering**

27           19. From July 2007 to March 2008, at Williams' direction, registered  
28 representatives of Morgan Peabody sold approximately \$3,752,000 of Sherwood

1 promissory notes. The notes were sold to approximately 60 investors in five states.  
2 The notes paid 9% annual interest (paid to investors on a monthly basis) with a  
3 maturity date two years after the date of issuance, although Sherwood retained  
4 discretion to extend the maturity date for up to two additional six month terms.

5 20. According to the Sherwood PPM provided to investors, reviewed and  
6 approved by Williams, the funds raised were primarily to be used for “direct and  
7 indirect investments in real estate or real estate companies.” The PPM disclosed  
8 that up to 10% of the funds raised could be invested in “non-real estate related  
9 asset backed business and commercial loans.” No other use of proceeds was  
10 disclosed to investors.

11 21. Upon receipt, Sherwood investor funds were deposited into a Sherwood  
12 bank account, controlled by Williams. Subsequently, approximately \$650,000 was  
13 transferred into a separate interest account from which timely monthly interest  
14 payments were made to investors. The remaining approximately \$3.1 million was  
15 transferred into an operating account in the name of Sherwood.

16 22. Of the approximately \$3.1 million of investor funds deposited into the  
17 Sherwood operating account, Williams transferred nearly \$2.4 million to Williams  
18 Financial Group’s bank account and approximately \$150,000 to Morgan Peabody’s  
19 bank account. Williams also transferred approximately \$10,000 directly into his  
20 personal bank account.

### 21 **The Misappropriation of Investor Funds**

22 23. Contrary to what was disclosed to WFG Holdings and Sherwood  
23 investors, Williams misappropriated millions of dollars of the approximately \$9  
24 million raised from the three offerings.

25 24. Williams comingled investor funds by transferring the funds into bank  
26 accounts that he controlled for Williams Financial Group, Morgan Peabody, and  
27 his personal account. From early 2007 through mid-2008, nearly all deposits made  
28 into the Williams Financial Group bank account and Williams’ personal bank

1 account consisted of investor funds. Williams then misappropriated millions of  
2 dollars from these accounts.

3 25. Williams used the millions in investor funds that he misappropriated to  
4 fund his extravagant personal expenditures. For example, Williams used investor  
5 funds to pay at least \$1.6 million of personal credit card charges, including (1) at  
6 least \$175,000 on personal travel; (2) approximately \$300,000 on Los Angeles  
7 Dodgers tickets; (3) more than \$200,000 on meals and entertainment; (4)  
8 approximately \$90,000 on clothing; and (5) more than \$50,000 for his children's  
9 private school tuition.

10 26. From September 2007 to August 2008, Williams used nearly \$600,000  
11 of investor money to pay rent on his personal residence in Toluca Lake, California.  
12 He also spent over \$1.5 million of investor money on real property in Studio City,  
13 California and Beverly Hills, California where he either resided or intended for his  
14 personal use.

15 27. Williams used approximately \$250,000 in investor funds directly from  
16 the WFG Holdings operating account as an earnest money deposit on a property in  
17 Martha's Vineyard, Massachusetts that was intended for his personal use. This is  
18 directly inconsistent with the use of proceeds disclosed to investors in the WFG  
19 Holdings PPM, which was to provide funds for Morgan Peabody's operations.

20 28. WFG Holdings and Sherwood investors were never told that their  
21 money would be used to pay for Williams' personal expenses. Williams also  
22 concealed from other Morgan Peabody employees that he was using millions of  
23 dollars of investor money for his personal expenses.

24 29. In addition, contrary to what was disclosed to investors, well in excess  
25 of 10% of the approximately \$3.6 million raised in Sherwood offering was used for  
26 non-real estate related purposes. Not only did Williams misappropriate more than  
27 a million dollars of the monies raised in the Sherwood offering for his personal  
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1 use, he also transferred more than \$500,000 to WFG Holdings, a company not  
2 involved in real estate investments.

3 30. Williams acted with scienter in misleading investors and  
4 misappropriating investor funds. Williams' scienter is imputed to defendants WFG  
5 Holdings, Sherwood, and Williams Financial Group.

6 **FIRST CLAIM FOR RELIEF**

7 **Fraud In The Offer Or Sale Of Securities**

8 **Violations of Section 17(a) of the Securities Act**

9 **(Against All Defendants)**

10 31. The Commission realleges and incorporates by reference paragraphs 1  
11 through 30 above.

12 32. The defendants, and each of them, by engaging in the conduct described  
13 above, in the offer or sale of securities by the use of means or instruments of  
14 transportation or communication in interstate commerce or by use of the mails  
15 directly or indirectly:

- 16 a. with scienter, employed devices, schemes, or artifices to  
17 defraud;
- 18 b. obtained money or property by means of untrue statements of a  
19 material fact or by omitting to state a material fact necessary in  
20 order to make the statements made, in light of the  
21 circumstances under which they were made, not misleading; or
- 22 c. engaged in transactions, practices, or courses of business which  
23 operated or would operate as a fraud or deceit upon the  
24 purchaser.

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



1 **SECOND CLAIM FOR RELIEF**

2 **Fraud In Connection With The Purchase Or Sale Of Securities**

3 **Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder**

4 **(Against All Defendants)**

5 34. The Commission realleges and incorporates by reference paragraphs 1  
6 through 30 above.

7 35. The defendants, and each of them, by engaging in the conduct  
8 described above, directly or indirectly, in connection with the purchase or sale of a  
9 security, by the use of means or instrumentalities of interstate commerce, of the  
10 mails, or of the facilities of a national securities exchange, with scienter:

- 11 a. employed devices, schemes, or artifices to defraud;
- 12 b. made untrue statements of a material fact or omitted to state a  
13 material fact necessary in order to make the statements made, in  
14 the light of the circumstances under which they were made, not  
15 misleading; or
- 16 c. engaged in acts, practices, or courses of business which  
17 operated or would operate as a fraud or deceit upon other  
18 persons.

19 36. By engaging in the conduct described above, the defendants violated,  
20 and unless restrained and enjoined will continue to violate, Section 10(b) of the  
21 Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R.  
22 § 240.10b-5.

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1 **PRAYER FOR RELIEF**

2 WHEREFORE, the Commission respectfully requests that the Court:

3 **I.**

4 Issue findings of fact and conclusions of law that the defendants committed  
5 the alleged violations.

6 **II.**

7 Issue judgments, in a form consistent with Fed. R. Civ. P. 65(d),  
8 permanently enjoining defendants and their officers, agents, servants, employees,  
9 and attorneys, and those persons in active concert or participation with any of  
10 them, who receive actual notice of the judgment by personal service or otherwise,  
11 and each of them, from violating Section 17(a) of the Securities Act, 15 U.S.C. §  
12 77q(a); and Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5  
13 thereunder, 17 C.F.R. § 240.10b-5

14 **III.**

15 Order the defendants, jointly and severally, to disgorge all ill-gotten gains  
16 from the illegal conduct alleged herein, together with prejudgment interest thereon.

17 **IV.**

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

21 **V.**

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.  
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VI.

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

DATED: April 20, 2009



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Securities and Exchange Commission