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10 **UNITED STATES DISTRICT COURT**  
11 **CENTRAL DISTRICT OF CALIFORNIA**

12  
13 **SECURITIES AND EXCHANGE**  
14 **COMMISSION,**

15 **Plaintiff,**

16 **vs.**

17 **CAROL ANN PEDERSEN,**

18 **Defendant.**  
19

Case No. 19-cv-2069

**COMPLAINT**

20 Plaintiff Securities and Exchange Commission (“SEC”) alleges:

21 **JURISDICTION AND VENUE**

22 1. The Court has jurisdiction over this action pursuant to Sections 20(b),  
23 20(d)(1) and 22(a) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C.  
24 §§ 77t(b), 77t(d)(1) & 77v(a)], Sections 21(d)(1), 21(d)(3)(A), 21(e) and 27(a) of the  
25 Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d)(1),  
26 78u(d)(3)(A), 78u(e) & 78aa(a)], and Sections 209(d), 209(e)(1) and 214(a) of the  
27 Investment Advisers Act of 1940 (“Advisers Act”) [15 U.S.C. §§ 80b-9(d),  
28 80b-9(e)(1) & 90b-14(a)].





1 specific rates of return on their behalf, and those who believed they were contributing  
2 to an investment pool with an extensive stock portfolio, managed by Pedersen.

3 10. First, between 1991 and 2017, Pedersen represented that she would  
4 invest in securities that would earn specific rates of return, typically greater than 8%,  
5 on behalf of certain of her accountancy clients (“Fixed Return Investors”). When  
6 Fixed Rate Investors gave Pedersen money to invest, or when their existing  
7 investments purportedly “matured,” Pedersen regularly advised the Fixed Rate  
8 Investors in written communications as to the comparative merits of the various  
9 securities in which they might invest next.

10 11. Separately, in 2008, Pedersen created the CA Pedersen Client  
11 Investment Pool and sold limited partnership interests in CAPCIP to investors  
12 (“CAPCIP Investors”) (collectively with the Fixed Return Investors, “Investors”).  
13 Only some of the CAPCIP Investors were accountancy clients. Pursuant to a limited  
14 partnership agreement (“LPA”) signed by each CAPCIP Investor, Pedersen, as  
15 CAPCIP’s general partner, had sole authority to “invest the assets of the partnership  
16 in securities and other financial instruments.” In oral communications, Pedersen  
17 advised prospective CAPCIP Investors that she would invest CAPCIP’s assets and  
18 represented that CAPCIP Investors could expect to receive a significant return.

19 12. In total, from September 2010 through July 2017, Pedersen received  
20 approximately \$29.3 million from 25 Investors.

21 **B. Pedersen Made Ponzi-Type Payments to Investors**

22 13. With one known exception, discussed below, Pedersen did not invest  
23 any of the funds that she received from Investors. Rather, Pedersen deposited and  
24 commingled nearly all Investor funds in a single bank account. She then used new  
25 Investor funds to make distributions to Investors – almost from the moment of  
26 inception.

27 14. In sum, from September 2010 through July 2017, Pedersen made  
28 approximately \$25.6 million in Ponzi payments to Investors.

1 **C. Pedersen Misappropriated Investor Funds**

2 15. While conducting her scheme, Pedersen misappropriated for personal  
3 use a significant portion of the funds raised. From September 2010 through July  
4 2017, Pedersen made net payments of over \$1.9 million to herself, via wire transfers  
5 to her personal bank account. Additionally, Pedersen used Investor funds to directly  
6 pay for a variety of personal expenses, including car payments, insurance payments,  
7 electric bills, medical expenses, and home renovation costs.

8 16. Under the LPA, Pedersen was supposed to receive 0.5% of CAPCIP's  
9 average investment balance, computed on an annual basis, for her advisory services.  
10 Of course, the LPA did not contemplate that, instead of investing, Pedersen would  
11 use CAPCIP's assets to perpetrate a Ponzi scheme.

12 **D. Pedersen Made Misrepresentations to Investors**

13 17. To entice investors, Pedersen made numerous misrepresentations to both  
14 the Fixed Rate Investors and the CAPCIP Investors. Her misrepresentations varied  
15 over time and among Investors.

16 18. With respect to the Fixed Rate Investors, Pedersen consistently promised  
17 that she would invest their money in instruments with specific rates of return,  
18 typically greater than 8%. Pedersen made other misrepresentations about the  
19 investments including that the money was in safe investments that were "federally  
20 guaranteed" or "federally insured" or in bank-issued certificates of deposit or  
21 "secondary market Preferred Executive Paper." Beginning in at least 2005 and  
22 continuing until July 2017, Pedersen falsely advised several Fixed Rate Investors that  
23 they held certain publicly available asset-backed securities.

24 19. With respect to the CAPCIP Investors, Pedersen represented that she  
25 would invest CAPCIP's assets in securities and other financial instruments and that  
26 they would earn a significant return.

1           20. To conceal her misappropriation and misuse of funds, Pedersen  
2 personally prepared and sent periodic account statements to the Fixed Rate Investors  
3 and the CAPCIP Investors that included purported investments that she never made.

4           21. The periodic account statements to the CAPCIP Investors falsely  
5 represented CAPCIP's holdings and each CAPCIP Investor's supposed share of the  
6 same. According to those statements, CAPCIP owned a large and diverse stock  
7 portfolio, which was purportedly worth more than \$350 million by May 2017. In  
8 reality, Pedersen had completely fabricated CAPCIP's holdings; Pedersen's total  
9 assets under management from all Investors never exceeded \$12.9 million.

10           22. In 2014, a CAPCIP Investor requested a copy of the CAPCIP limited  
11 partnership agreement and other documents related to CAPCIP. By way of response,  
12 in June 2015, Pedersen opened a brokerage account, purchased a portfolio of  
13 securities that resembled the CAPCIP Investor's supposed "share" of the CAPCIP  
14 portfolio (as represented in CAPCIP account statements), and advised the CAPCIP  
15 Investor that she had segregated the Investor's assets and would transfer the assets  
16 upon request. Ultimately, Pedersen liquidated the account's holdings shortly  
17 thereafter to make distributions to other Investors. In reality, this was the first and  
18 only occasion that Pedersen made actual investments on behalf of CAPCIP.

19 **E. The Scheme Falls Apart**

20           23. In 2017, Pedersen began to experience chronic cash-flow shortages and  
21 could no longer make regular or requested distributions to Investors. Between July  
22 2017 and January 2018, four Investors filed suit against Pedersen. On or about July  
23 14, 2017, Pedersen's primary account for Investor funds was frozen pursuant to a  
24 temporary restraining order issued by the Los Angeles Superior Court. In October  
25 2017, the court appointed a receiver, which took possession of Pedersen's accounts  
26 and other assets.

**FIRST CLAIM FOR RELIEF**

**Fraud in Connection with the Purchase or Sale of Securities**

**Violations of Section 10(b) of the Exchange Act and Rules 10b-5(a) and (c)**

**(Against Pedersen)**

24. The SEC realleges and incorporates by reference paragraphs 1 through 23 above.

25. As alleged above, Pedersen engaged in a scheme to defraud the Investors, and engaged in acts, practices, or courses of business that operated as a fraud upon the Investors. In carrying out this fraud, Pedersen engaged in a number of deceptive acts in furtherance of the scheme. Pedersen used Investor funds to make regular and/or requested distributions to Investors (up to the levels of their purported principal balances), which reinforced the false appearance that the Investors' funds were profitably invested and available to withdraw, and which enabled Pedersen to convince Investors to keep their money invested and/or re-invest when their existing investments purportedly "matured." At all relevant times, Pedersen acted knowingly or recklessly in carrying out this fraud.

26. By engaging in the conduct described above, Pedersen, directly or indirectly, in connection with the purchase or sale of a security, and by the use of means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange: (a) employed devices, schemes, or artifices to defraud; and (b) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons.

27. Pedersen knew, or was reckless in not knowing, that she employed devices, schemes or artifices to defraud and engaged in acts, practices, or courses of business that operated as a fraud upon other persons by the conduct described above.

28. By engaging in the conduct described above, Pedersen violated, and unless enjoined will continue to violate, Section 10(b) of the Exchange Act

1 [15 U.S.C. § 78j(b)], and Rules 10b-5(a) and 10b-5(c) thereunder [17 C.F.R. §§  
2 240.10b-5(a) & 240.10b-5(c)].

3 **SECOND CLAIM FOR RELIEF**

4 **Fraud in Connection with the Purchase or Sale of Securities**

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

6 **(Against Pedersen)**

7 29. The SEC realleges and incorporates by reference paragraphs 1 through  
8 28 above.

9 30. By engaging in the conduct described above, Pedersen, directly or  
10 indirectly, in connection with the purchase or sale of a security, and by the use of  
11 means or instrumentalities of interstate commerce, of the mails, or of the facilities of  
12 a national securities exchange, made untrue statements of material fact or omitted to  
13 state a material fact necessary in order to make the statements made, in light of the  
14 circumstances under which they were made, not misleading.

15 31. Pedersen knew, or was reckless in not knowing, that she made untrue  
16 statements of material fact or omitted to state a material fact necessary in order to  
17 make the statements made, in light of the circumstances under which they were made,  
18 not misleading.

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

22 **THIRD CLAIM FOR RELIEF**

23 **Fraud in the Offer or Sale of Securities**

24 **Violations of Sections 17(a)(1) and 17(a)(3) of the Securities Act**

25 **(Against Pedersen)**

26 33. The SEC realleges and incorporates by reference paragraphs 1 through  
27 32 above.



1 34. By engaging in the conduct described above, Pedersen, directly or  
2 indirectly, in the offer or sale of securities, and by the use of means or instruments of  
3 transportation or communication in interstate commerce or by use of the mails: (a)  
4 employed devices, schemes, or artifices to defraud; and (b) engaged in transactions,  
5 practices, or courses of business which operated or would operate as a fraud or deceit  
6 upon the purchasers.

7 35. Pedersen knew, or was reckless in not knowing, that she employed  
8 devices, schemes, or artifices to defraud and engaged in transactions, practices, or  
9 courses of business that operated as a fraud or deceit upon the purchasers.

10 36. By engaging in the conduct described above, Pedersen violated, and  
11 unless enjoined will continue to violate, Sections 17(a)(1) and 17(a)(3) of the  
12 Securities Act [15 U.S.C. §§ 77q(a)(1) and § 77q(a)(3)].

13 **FOURTH CLAIM FOR RELIEF**

14 **Fraud in the Offer or Sale of Securities**

15 **Violations of Sections 17(a)(2) of the Securities Act**

16 **(Against Pedersen)**

17 37. The SEC realleges and incorporates by reference paragraphs 1 through  
18 36 above.

19 38. By engaging in the conduct described above, Pedersen, directly or  
20 indirectly, in the offer or sale of securities, and by the use of means or instruments of  
21 transportation or communication in interstate commerce or by use of the mails,  
22 obtained money or property by means of untrue statements of a material fact or by  
23 omitting to state a material fact necessary in order to make the statements made, in  
24 light of the circumstances under which they were made, not misleading.

25 39. Pedersen knew, or was reckless in not knowing, that she obtained money  
26 or property by means of untrue statements of a material fact or by omitting to state a  
27 material fact necessary in order to make the statements made, in light of the  
28 circumstances under which they were made, not misleading.

1 40. By engaging in the conduct described above, Pedersen violated, and  
2 unless enjoined will continue to violate, Section 17(a)(2) of the Securities Act [15  
3 U.S.C. § 77q(a)(2)].

4 **FIFTH CLAIM FOR RELIEF**

5 **Fraud by an Investment Adviser**

6 **Violations of Sections 206(1) and 206(2) of the Advisers Act**

7 **(Against Pedersen)**

8 41. The SEC realleges and incorporates by reference paragraphs 1 through  
9 40 above.

10 42. As alleged above, Pedersen had an adviser-client relationship with, and  
11 therefore owed a fiduciary duty to, each of the Fixed Rate Investors and CAPCIP.

12 43. By engaging in the conduct described above, Pedersen, directly or  
13 indirectly, by use of the mails or means or instrumentalities of interstate commerce:  
14 (a) employed devices, schemes or artifices to defraud clients or prospective clients;  
15 and (b) engaged in transactions, practices, or courses of business which operated as a  
16 fraud or deceit upon clients or prospective clients.

17 44. Pedersen knew, or was reckless in not knowing, that she employed  
18 devices, schemes or artifices to defraud clients or prospective clients and engaged in  
19 transactions, practices, or courses of business which operated as a fraud or deceit  
20 upon clients or prospective clients.

21 45. By engaging in the conduct described above, Pedersen violated, and  
22 unless enjoined will continue to violate, Sections 206(1) and (2) of the Advisers Act  
23 [15 U.S.C. §§ 80b-6(1) & 80b-6(2)].

**SIXTH CLAIM FOR RELIEF**

**Fraud by an Investment Adviser**

**Violations of Section 206(4) of the Advisers Act and Rule 206(4)-8**

**(Against Pedersen)**

46. The SEC realleges and incorporates by reference paragraphs 1 through 45 above.

47. Pedersen operated CAPCIP as a pooled investment vehicle under Rule 206(4)-8 of the Advisers Act.

48. By engaging in the conduct described above, Pedersen, directly or indirectly, by use of the mails or means or instrumentalities of interstate commerce: (a) engaged in transactions, practices, or courses of business which operated as a fraud or deceit upon investors in a pooled investment vehicle; (b) made untrue statements of a material fact or omitted to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to investors or prospective investors in a pooled investment vehicle; and (c) otherwise engaged in acts, practices, or courses of business that were fraudulent, deceptive, or manipulative with respect to investors or prospective investors in a pooled investment vehicle.

49. Pedersen knew, or was reckless in not knowing, that she engaged in transactions, practices, or courses of business which operated as a fraud or deceit upon investors in a pooled investment vehicle, made untrue statements of a material fact or omitted to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to investors or prospective investors in a pooled investment vehicle, and otherwise engaged in acts, practices, or courses of business that were fraudulent, deceptive, or manipulative with respect to investors or prospective investors in a pooled investment vehicle.

1 50. By engaging in the conduct described above, Pedersen violated, and  
2 unless enjoined will continue to violate, Section 206(4) of the Advisers Act [15  
3 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 CFR § 275.206(4)-8].

4 **PRAYER FOR RELIEF**

5 WHEREFORE, the SEC respectfully requests that the Court:

6 **I.**

7 Issue findings of fact and conclusions of law that Pedersen committed the  
8 alleged violations.

9 **II.**

10 Issue a judgment, in a form consistent with Fed. R. Civ. P. 65(d), permanently  
11 enjoining Pedersen and her officers, agents, servants, employees, and attorneys, and  
12 those persons in active concert or participation with any of them, who receive actual  
13 notice of the judgment by personal service or otherwise, from violating Section 17(a)  
14 of the Securities Act of 1933 [15 U.S.C. §§ 77q(a)], Section 10(b) of the Securities  
15 Exchange Act of 1934 [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R.  
16 § 240.10b-5], and Sections 206(1), 206(2) and 206(4) of the Investment Advisers Act  
17 of 1940 [15 U.S.C. §§ 80b-6(1), 80b-6(2), & 80b-6(4)] and Rule 206(4)-8 thereunder  
18 [17 CFR § 275.206(4)-8].

19 **III.**

20 Order Pedersen to disgorge all ill-gotten gains from her illegal conduct,  
21 together with prejudgment interest thereon.

22 **IV.**

23 Order Pedersen to pay a civil penalty under Section 20(d) of the Securities Act  
24 [15 U.S.C. § 77t(d)], Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)],  
25 and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)].

26 **V.**

27 Retain jurisdiction of this action in accordance with the principles of equity and  
28 the Federal Rules of Civil Procedure in order to implement and carry out the terms of

1 all orders and decrees that may be entered, or to entertain any suitable application or  
2 motion for additional relief within the jurisdiction of this Court.

3 **VI.**

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

6 Dated: March 20, 2019

7 */s/ Robert C. Stillwell*

8 Amy J. Longo  
9 Robert C. Stillwell  
10 Attorneys for Plaintiff  
11 Securities and Exchange Commission  
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