ADMINISTRATIVE PROCEEDING

BEFORE THE

SECURITIES COMMISSIONER OF SOUTH CAROLINA

IN THE MATTER OF:

Capital Investment Funding,
L.L.C.,

Respondent.

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NOTICE OF INTENT TO SEEK THE ISSUANCE OF A STOP ORDER DENYING EFFECTIVENESS TO
A REGISTRATION STATEMENT
AND TO SEEK THE ISSUANCE
OF AN ORDER REVOKING
AVAILABLE EXEMPTIONS

File Number 06042

The Securities Division of the Office of the Attorney General (the "Division"), under the

authority of the South Carolina Uniform Securities Act of 2005 (the "Act"), S.C. Code Ann. §§

35-I -101 to 35-1-703, upon due consideration of the subject matter herein and having reason to

believe that the registration statement submitted by Capital Investment Funding, L.L.C.

("Respondent" or "CIF"), is incomplete, false, misleading, and tends to work a fraud upon

purchasers and that Respondent should not offer securities pursuant to an exemption to existing

note holders or to other South Carolina investors, does hereby notify Respondent that the

Division intends (1) to seek the issuance of a stop order, pursuant to S.C. Code Ann. § 35-1-

306(a), denying effectiveness of the registration statement filed by Respondent with the Division

on or about March 7, 2007, and the amended prospectus received from the Respondent by the

Division on or about April 4, 2007, and (2) to seek the issuance of an order, pursuant to S.C.

Code Ann. § 35-1-204, revoking as to Respondent any exemption in S.C. Code Ann.§ 35-1-202

under which Respondent without registration is offering or may offer securities to existing note

holders or to other South Carolina investors.

In accordance with Sections 35-1-204 and 35-1-306 of the Act, the Division hereby

alleges the following:

FACTUAL HISTORY

I. Respondent, at all times material hereto, listed one of its business addresses as 808
Powdersville Road, # 15, Easley, South Carolina, 29642, and has other offices in Greer, South Carolina; Mt. Pleasant, South Carolina; and Myrtle Beach, South Carolina.
2. Respondent is a limited liability corporation that was incorporated in South Carolina on
January 13, 1999.
3. Respondent's registered agent is Arthur M. Field ("Field") of 808 Powdersville Road,
#15, Easley, South Carolina, 29642.
4. Respondent identifies Field as its Manager and as a Member who owns 90% of CIF.
5. Respondent was a subsidiary of Lancaster Resources, Inc., a New Jersey corporation.
6. On November 18, 2003, Field, who then owned 4% of CIF, acquired the 91% of CIF
owned by Lancaster Resources, Inc.
7. Respondent is engaged in the business of raising funds by the issuance of securities to
investors and then lending those funds to borrowers.
8. Prior to December 31, 2001, Respondent lent principally to Lancaster Resources, Inc.
Delinquent Loans and Investigation
9. On March 3, 2006, a certified public accounting firm in Greenville, South Carolina (the
"2005 Firm"), substantially completed its audit of Respondent's balance sheet as of December 31, 2005, and Respondent's statements of income and members' equity and cash flows for the year then ended. The 2005 Firm's opinion on these financial statements, which was addressed to the Respondent's Board of Directors, was that Respondent's 2005 financial statements were presented in accordance with generally accepted accounting principles ("GAAP").
I 0. Various entities owned or controlled by Tommy Moore (the "Tiger entities") received
loans through one or more re-lenders from Respondent.
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11. Respondent disclosed in its 2005 audited financial statements that the Tiger entities had
defaulted in their loans from CIF.
12. Respondent also disclosed in its 2005 audited financial statements infonnation about
other problem loans.
13. On August 16, 2006, Field made an inquiry to the Division about filing a registration
statement in connection with certain income tax credits.

14. These income tax credits related to the workout of the Tiger entities' defaults on their
loans from Respondent.
15. On August 21, 2006, the Division spoke to Field about the workout of the loans to the
Tiger entities and about the loan on certain property in Sumter County.
16. On September 12, 2006, the Division's concerns about loan defaults mentioned in
Respondent's 2006 prospectus and in the 2005 audited financial statements caused the Division to write a letter to Respondent. In this letter the Division asked various questions about Respondent's notes receivable "[b]ecause of the possible adverse impact on CIF if the security for the loans is inadequate to repay the debts due" to CIF.
17. On September 14, 2006, Respondent wrote a letter to the Division providing to the
Division information on the three loans disclosed in Respondent's 2006 prospectus.
18. On or about September 14, 2006, the Division opened an investigation concerning
Respondent's notes receivable and the related security.
19. On December 1, 2006, the Division wrote a letter to Respondent asking questions about
new issues that arose from Respondent's September 14, 2006, letter to the Division.
20. On December 5, 2006, Respondent wrote a letter replying to the Division's December I,
2006, Jetter.

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2007 Registration Statement and Continuing Investigation
21. On February 9, 2007, Respondent submitted its ''first version of the 2007 prospectus" to
the Division.
22. On February 12, 2007, another certified public accounting firm in Greenville, South
Carolina (the "2006 Firm"), substantially completed its audit of Respondent's balance sheet as of December 31, 2006, and Respondent's statements of income and members' equity and cash flows for the year then ended. The 2006 Firm's opinion on these financial statements, which was addressed to the Respondent's "Board of Directors," was that Respondent's 2006 financial statements were presented in accordance with GAAP.
23. In February and March of 2007, the Division received and reviewed Respondent's 2006
audited financial statements.
24. On March 6, 2007, based on the Division's determination that Respondent's 2006
audited financial statements did not appear to be presented in accordance with GAAP, the Division sent a letter to the 2006 Firm asking eleven (ll) questions about those audited financial statements.
25. On March 7, 2007, Respondent filed a registration statement with the Division seeking to
register by qualification $50,000,000 of Series 2007 Senior Notes.
26. Respondent has represented that the sale of these notes is restricted to residents of South
Carolina.

27. On March 9, 2007, the Division requested from Respondent various information about
CIF's notes receivable.
28. On or about March 10, 2007, in response to the Division's request, Field provided to the
Division additional information about CIF's notes receivable, including a schedule of transactions in each note receivable.

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29. On March 12, 2007, a principal ofthe 2006 Finn responded to the Division's eleven (11)
questions about Respondent's 2006 audited financial statements.
30. On March 13, 2007, Field gave a statement to the Division primarily about Respondent's
notes receivable and related collateral and Respondent's 2006 financial statements.
31. On March 15, 2007, because the 2006 Finn's response on March 12, 2007, and Field's
statement on March 13, 2007, did not eliminate the Division's concerns about Respondent's 2006 audited financial statements, the Division engaged Clifton D. Bodiford, CPA, to review those financial statements and provide to the Division his findings and conclusions.
32. On March 21, 2007, the Division informed Respondent by letter that the Division had
some concerns about whether CIF's registration statement was complete in all material respects.
33. On March 22, 2007, Field by letter responded to the Division's March 21, 2007, letter.
34. On March 22, 2007, the Division received from Respondent an amendment to the March
7, 2007, registration statement to which Respondent had attached the 2006 Firm's report and the 2006 audited financial statements.
35. On March 22, 2007, Clifton Bodiford, CPA, by letter stated that in his opmwn
Respondent's 2006 audited financial statements are not presented in accordance with GAAP and provided the reasons for his opinion.
36. On April 2, 2007, the Division by letter infonned Respondent that the Division had
detennined that CIF's registration is not complete in all material respects and that the effectiveness of CIF's registration statement is delayed for not more than ninety (90) days from April 21, 2007, to July 20, 2007, subject to an extension of not more than thirty (30) days and gave Respondent eight (8) comments about its registration statement.
37. On April 2, 2007, Field by letter responded to the Division's April 2, 2007, letter
addressing some of the eight (8) comments in the Division's letter.
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38. On April 3, 2007, the Division spoke to Field about Respondent's registration statement.
39. On April 3, 2007, and after the Division's conversation with Field, Field rewrote the
prospectus for the Series 2007 Senior Notes.
40. The Division received this amended prospectus on or about April 4, 2007.
41. On April 23, 2007, Field by letter confirmed that the Division had not completed its
review of Respondent's 2007 prospectus and made several statements about how Respondent's operations are affected by not having an approved 2007 prospectus.
Offering to Existing Note Holders
42. On April 30, 2007, the Division received a letter from Field in which Field stated that,
because the registration statement for the Series 2007 Senior Notes has not been approved by the Division, CIF has been renewing existing notes as they mature under the exemption provided by S.C. Code Ann.§ 35-1-202(15) since March 22,2007.
Exemption from Registration with the Securities and Exchange Commission ("SEC")
43. In the proposed prospectus, Respondent states, "These securities are believed by
management of [CIF] to be exempt from registration with the [SEC] in Washington, D.C., under Section 3(a)(11) of the Securities Act of 1933, as amended."
44. Respondent has not provided to the Division a no-action letter from the SEC saying that
Respondent is exempt pursuant to 15 U.S.C. § 77c(a)(11) (the "intrastate exemption") from registering its securities with the SEC.
45. Respondent filed no registration statement with the SEC regarding its securities.
46. Per the Preliminary Note No. 4 to the SEC's Rule 147, "[t]he legislative history of
[Section 3(a)(l1)] suggests that the exemption was intended to apply to issues genuinely local in character, which in reality represent local financing by local industries, carried out through local investment."

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47. The Securities Act of 1933, as amended, applies to securities when it would be difficult
for State regulators to supervise a securities offering or transaction because, for example, the income-producing operations are in a different state from the issuer and the holders of the securities.

48. The SEC has ruled that the intrastate exemption is unavailable when an offering is made
in one state if interests in income producing operations are located in another state.
49. Further, the SEC ruled that the intrastate exemption was designed to apply only to local
financing that may practically be consummated in its entirety within the state in which the issuer is incorporated and doing business.
50. Further, the SEC ruled that the doing business requirement is not satisfied by performing
functions such as bookkeeping, maintaining stock records, and doing similar activities in the issuer's state of incorporation or by offering securities in that state.
51. In its 2006 audited financial statements, Respondent stated that its revenues consisted of
$3,592,871 of interest earned and $14,076 of other income.
52. In its 2006 audited financial statements, Respondent stated that its total assets were
$41,761,695.
53. Regarding Respondent's revenues, at December 31, 2006, Respondent had
approximately $39,000,000 in interest earning notes receivable, of which approximately $24,000,000 {or 62%) was either loaned to borrowers who operated outside of South Carolina or to borrowers who secured their loans with property located outside of South Carolina.
54. Regarding Respondent's revenues, Respondent, according to Field, receives
approximately $240,000 per month (or $2,880,00 per year) in interest from Lancaster Resources, Inc. and its affiliates ("LRI''). In 2006, this $2,880,000 comprised 80% of Respondent's total revenues.

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55. LRI is incorporated outside of South Carolina and primarily operates outside of South
Carolina.
56. During his March 13, 2006, statement, Field stated that CIF "was assigned all the LRI
collateral" and that he "actually went up [to New Jersey] and inspected" the collateral.
57. In addition to CIF's interests in the out-of-state operations of LRI, Respondent has
loaned money to borrowers and has been granted security interests in property in Florida, Oregon, and New York and has loaned money to borrowers that have operations in other states and interests in companies incorporated in other states.
58. Regarding Respondent's assets, at December 31, 2006, Respondent had approximately
$42,000,000 in assets of which approximately $24,000,000 (or 57%) were related to notes receivable owed to Respondent by entities outside of South Carolina or to property located outside of South Carolina that secured notes receivable owed to Respondent or to Respondent's re-lender.
59. Respondent does not qualify for the intrastate exemption because its does not conduct a
predominant amount of its business within South Carolina. For example:
a. Far less than 80% of Respondent's consolidated revenues come from sources
within South Carolina;
b. Less than 80% of Respondent's assets are located within South Carolina;
c. Respondent depends on income-producing operations located outside of South
Carolina to generate a significant portion of its revenues; and
d. A significant amount of assets located outside of South Carolina have been assigned to Respondent or pledged to Respondent as collateral for notes receivable that could necessitate the taking of legal and other actions outside of South Carolina.

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60. Respondent's claim in its proposed prospectus that its securities are exempt from federal
registration under Section 3(a)(II) is not supported by a valid no-action letter from the SEC and rests upon a factual basis deemed insufficient to justify such exemption.
61. Additionally, Respondent failed to disclose its contingent liability arising from its failure
to register its securities with the SEC, thus making its prospectus incomplete in a material respect.
Effect of Repayment of Debt by Lancaster Resources, Inc.
62. At December 3 I, 2006, Respondent had approximately $I 7,057,000 in interest earning
notes receivable from LRI, which comprised approximately 44% of all notes receivable held by Respondent.
63. LRI is likely to repay all of its debt to Respondent soon as evidenced by the following:
a. During his statement on March 13, 2007, Field stated that the LRI debt "will be
gone by the end of [2007] ... but hopefully within 90 days."
b. During his statement on March 13, 2007, Field stated, "CIF will end up owning
LRI in the near future ... and then effectuate repayment immediately."
c. During his statement on March 13, 2007, Field stated that on March 12, 2007,
LRI stated that it is "trying to get the entire thing repaid right away."
d. During his statement on March 13, 2007, Field stated, " If he can break through the Dr. Caserta morass, he may just have to pay [the LRI debt] back to me all at once."

e. During his statement on March I 3, 2007, Field stated that the LRI debt is ''all due by the end of this year as I recall."
f In the proposed prospectus, Respondent states, "LRI has served notice upon the [Respondent] it intends to repay such obligations prior to maturity."

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64. Based on statements made by CIF in its proposed prospectus and Field in his March 13, 2007, statement, the Division understands that LRI's repayment in the near future of its debt could put Respondent out ofbusiness as evidenced by the following:
a. During his statement on March 13, 2007, Field stated, "If [LRI) pays me back in
one instant, he puts me out of business."
b. During his statement on March 13, 2007, Field stated that repayment of the entire
LRI loan all at once is a "problem[] because how do I stay in business? ... I'll immediately go negative ... in my cash flow. Unless I fire everyone who works [for CIF), I shut all my offices."
c. During his statement on March 13, 2007, Field stated, "I don't know where to put the $240,000 worth of interest a month" that LR1 is paying to Respondent.
d. During his statement on March 13, 2007, Field stated, "When [LRI] threatened to repay it all to me, I begged them not to actually, because I couldn't take it right away."
e. In the proposed prospectus, Respondent states, "(S]uch winding up [of CIF's business] could result from the sudden repayment by LRI of its debt prior to maturity, which might cause the [Respondent] to be unable to balance its lending
and cash reserves."

f. In the proposed prospectus, Respondent states, "Were [LRI) to repay its principal
in a lump sum, the [Respondent) could have a huge, unexpected increase in its
reserves and might be unable to originate new lending quickly enough to absorb
those reserves, even if advance notice of such intended repayment is given."
65. Full repayment of LRI's debt of approximately $17,000,000 to Respondent does not assure note holders of being timely or completely repaid as evidenced by the following:

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a. In the proposed prospectus, Respondent states, "In the event of a winding up, Note Holders may receive less principal and/or interest than originally anticipated or payment may be delayed or made on a pro-rata basis, rather than based upon maturity date."
b. In the proposed prospectus, Respondent states that payment of certain tax, lease, and employment obligations, including Field's $175,000 per year employment contract, take precedence over repayment to note holders.
c. In the event of a winding up of Respondent's business, note holders do not have priority to available cash reserves.
i. As stated in the proposed prospectus, in the event of a winding up of Respondent's business, Respondent "shall collect so much of all outstanding indebtedness . . . and satisfy all liquidated and/or secured
debts, all tax, payroll, operating and employment obligations and then pay
so much principal and then interest as it may be able to all unsecured or
unliquidated creditors of the [Respondent] on a pro-rata basis."
11. As stated in the proposed prospectus, "Any interest earned or principal
recovered by the (Respondent] during the winding up period may first be
used to pay the operational and administrative expenses associated with
the winding up, and then will be used to pay Note Holders."
66. The offering of the Series 2007 Senior Notes would work or would tend to work a fraud upon purchasers because (l) Field indicated LRI is likely to repay its debt to Respondent in the near future, (2) CIF and Field state such repayment could put Respondent out of business, and (3) such repayment could have an adverse impact on note holders.
Disclosure of LRI's Default
67. Respondent began making loans to LRI in or about 1999.
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68. Respondent ceased making direct loans to LRI in approximately 2002.
69. In 2006, LRI made no principal payments on its $17,057,000 debt to Respondent.
70. According to CIF and Field, LRI is effectively in default or an anticipatory breach
situation exists such that CIF could declare LRI in default on its debt to Respondent.
a. During his statement on March 13, 2007, Field stated, "Could I declare [LRI] in
default? Yes. Am I going to? No."
b. During his statement on March 13, 2007, Field stated, "I can declare [LRI] in
default any time the manager and I agree they're in default."
c. During his statement on March 13, 2007, Field stated that the president of LRI
and he are very close to declaring LRI in default "because under any security agreement if you have the feeling that an asset is impaired or that future payment
is impaired, you can declare them in default."
d. During his statement on March 13, 2007, Field stated that LRI currently is in an anticipatory breach situation regarding its debt to Respondent.
e. LRI's ability to repay its debt is in doubt because Respondent in the notes to its
2006 audited financial statements says, "The credit worthiness [sic] of the notes
receivable from [LRI] and other debtors is dependent upon their ability to
maintain collateral necessary to liquidate their obligations."
71. In the proposed prospectus, Respondent states, "[A] default by LRI or related entity
would have a severe impact upon the (Respondent's] viability."
72. Respondent's registration statement is incomplete in a material respect because Respondent does not disclose that LRI is effectively in default or an anticipatory breach situation exists on the $17,057,000 debt that LRI owes to Respondent.

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Financial Statements

73. Respondent's 2006 audited financial statements on which the 2006 Firm opined are the
responsibility of Respondent's management.
74. Respondent says in the proposed prospectus that "fully detailed" audited financial
statements are attached to the prospectus.
75. Respondent's 2006 audited financial statements are incomplete in a material respect
because they omit the foiJowing statements or information required by GAAP:
a. A going concern explanatory paragraph in the 2006 Firm's opinion and a further explanation in the notes to Respondent's financial statements appear necessary
because of the following:
1. The $17,057,000 note receivable from LRI at December 31, 2006, IS
effectively in default or an anticipatory breach situation exists;
u. Based on statements made by CIF and Field, LRI may repay its entire debt
in the near future which could put Respondent out of business; and
m. As of February 12, 2007, the registration of the Series 2007 Senior Notes
was not guaranteed, and Respondent states in its proposed prospectus that Respondent may enter into a winding up of its business if the notes are not registered.
b. Complete disclosure of related party transactions is not provided.
c. Whether the 2006 audited financial statements have been consolidated and the consolidation policy are not disclosed.
d. Respondent did not record and include in its 2006 financial statements interest receivable at December 3 1, 2006.
e. The amount and tenns of Field's employment contract is not disclosed in CIF's financial statements.
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f. Certain information about the notes receivable is not disclosed.
g. Certain information about the notes payable to investors is not disclosed.
h. Outstanding commitments at December 31, 2006, are not disclosed.
1. The provision for loan losses and all expense categories that exceed I% of interest
income are not included on the Statement of Operations.
J. Respondent failed to disclose the contingent liability arising from its failure to
register its securities with the SEC.
76. Respondent's 2006 audited financial statements are false or misleading with respect to a material fact because they include the following material misstatements:
a. Respondent represents that the 2006 financial statements are presented m accordance with GAAP.
b. Respondent presented a classified Balance Sheet when an unclassified Balance
Sheet is appropriate.
c. Respondent represented on the classified Balance Sheet that all $38,872,039 of notes receivable at December 31, 2006, were due within the next year, when many of these notes receivable were not due to be repaid by December 31, 2007.
d. Respondent represented in the notes to the audited financial statements that all $41,130,388 of notes and interest payable to note holders at December 31, 2006, were payable on demand; however, in the proposed prospectus, Respondent stated that some of CIF's notes payable to note holders are not payable until 20 I 0.
e. Because of at least two misclassifications on the Statement of Cash Flows, Respondent overstated "net cash provided by operating activities" by approximately 200%.
f. Respondent appears to have understated the reserve for loan losses and overstated member's equity at December 31, 2006. Based on the notes to the financial 14

statements, the reserve for loan losses should be $500,000; however, Respondent has only recorded a reserve for loan losses of $110,416 at December 31, 2006.
g. On the Statement of Operations, Respondent has incorrectly classified loan origination fees and income from prepayment penalties as "other income.''
h. Income and the provision for loan losses appear to be understated because
accrued, but unpaid, interest income and fees that were forgiven were not
recorded.
77. The offering of the Series 2007 Senior Notes would work or would tend to work a fraud
upon purchasers because the 2006 audited financial statements, which are attached to the proposed prospectus, contain numerous material omissions and misstatements that could mislead an investor or potential investor.
Accuracy of Information from Cosimo, LLC
78. Respondent lends funds to Cosimo, LLC, which re-lends the funds to other borrowers.
79. At December 31, 2006, Cosimo owes approximately $9,000,000 to Respondent.
80. Field, who owns a majority of Respondent and manages Respondent, owns directly or
indirectly 50% of Cosimo.
81. In the proposed prospectus, Respondent states that Cosimo provided certain information
about its loans and that information "may be subject to error."
82. The offering of the Series 2007 Senior Notes would work or would tend to work a fraud
upon purchasers if the information about Respondent's loans to Cosimo contains material errors and if Field has not done his due diligence to obtain accurate and complete information about the loans that Cosimo has made in order to manage Respondent and to prepare proper disclosures to investors.

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Other Examples of Where the Registration Statement is Incomplete in a Material Respect
83. None of the important risk factors disclosed later in the proposed prospectus are
disclosed in the ''Risk Factors" portion of the ''Summary" of the proposed prospectus.
84. In the proposed prospectus, Respondent says that Respondent "may conduct transactions
with other parties considered directly or indirectly 'related."' However, Respondent does not state at the beginning of the "Transactions with Related Parties and Potential Conflicts" section that Respondent has engaged in related transactions for many years and does not fairly disclose the nature and extent of the related party transactions in 2006.
85. Respondent states in the proposed prospectus, "The debt from LRI is being repaid
pursuant to a schedule put in place by LRI during 2002." However, Respondent fails to state that LRI made no principal repayments in 2006 and that, according to Field, principal is being repaid under an "informal" agreement.
86. Respondent states in the proposed prospectus that "the concentration of lending to
various re-lenders and also loans in the commercial sphere ... may add elements of risk." However, investors are unable to assess this risk because Respondent fails to disclose the percentage and amount of loans at December 31, 2006, that were made to re-lenders and to commercial borrowers.

87. Respondent does not adequately describe in the proposed prospectus the $200,000 and
$100,000 payments it received in the workout of the loans to the Tiger entities.
88. Respondent says in the proposed prospectus that the loans made by its re-lenders may be
in default while the related debt that there-lender owes to Respondent is not in default. The proposed prospectus is incomplete because Respondent fails to disclose the amount of loans that was in this position at December 31, 2006, 2005, and 2004.
89. The proposed prospectus' "Internal Controls" section is incomplete because Respondent
fails to state that Respondent lacks a segregation of duties because Field performs various 16

authorization, custody and control, and record-keeping activities and that this lack of segregation of duties increases the possibility that a fraudulent act or that a misappropriation of funds may occur and not be timely discovered or discovered at all.
90. The proposed prospectus is incomplete when it says that in 2006 Respondent received
approximately $12,000,000 in principal repayments and made approximately $12,000,000 in new loans. In 2006, Respondent made loans to one or more entities and the proceeds of those loans were used to repay other loans due to Respondent.
91. The Respondent says in the proposed prospectus that Respondent's goal is to maintain
assets between $38,000,000 and $42,000,000. The prospectus is incomplete without an explanation of why Respondent seeks authorization to issue $50,000,000 in new securities. Other Examples of Where the Registration Statement is False or Misleading with Respect to a Material Fact

92. Respondent says in the proposed prospectus that "$8 Million in loans exist to .... related
parties." However, this amount does not include approximately $9,000,000 due from Cosimo, LLC, a related party.
93. Respondent says in the proposed prospectus, "LRI has indicated it will cooperate in such
efforts" to balance Respondent's cash and lending needs. This statement contradicts another statement in the proposed prospectus that LRI "intends to repay such obligations prior to maturity" which "might cause [Respondent] to be unable to balance its lending and cash reserves."

94. Respondent says in the proposed prospectus that LRI repaid $500,000 of its debt in 2006;
however, the loan documentation provided to the Division by Field shows that LRI made no principal payments in 2006 to Respondent.
95. Respondent says in the proposed prospectus and in its 2006 audited financials statements
that the workout of the loans to the Tiger entities "was approved by the Court," but 17

Respondent does not disclose which court and in which court proceeding the workout was approved and the manner in which a court approved the workout.
96. Respondent says in the proposed prospectus that in the workout of the loans to the Tiger
entities the "remaining principal, accrued interest, costs, taxes and fees are to be satisfied" by the tax credits from the Simpsonville Cotton Mill; however, the Respondent stated in its 2006 audited financial statements that Respondent forgave up to $350,000 in accrued interest, taxes, and attorney's fees in the workout of the loans to the Tiger entities.
97. Respondent says in the proposed prospectus that at December 31, 2006, "reserves stood
at roughly $777,793" while total cash approximated $2,300,000. This statement may imply that $777,793 is held in a special reserve account to protect note holders. However, Respondent has no legal or regulatory requirement to maintain a cash reserve. Therefore, any informal cash reserve may be used for any other purpose the Respondent desires, so note holders cannot rely on any informal reserve to protect them.
98. Respondent says in the proposed prospectus that Respondent "has no control over the
business of our borrowers." It is probable that Respondent has control over several borrowers and a large amount of its loan portfolio because (1) Field directly or indirectly owns 50% of Cosimo, LLC, (2) Respondent owns Monmouth Financial Group, Ltd., (3) Field, Field's wife, and Field's son are or have been owners or key employees of several borrowers, (4) Field appears to have some control or influence over LRI because he stated that "I decided" to repay the Monmouth Financial Group, Ltd. debt and keep the LRI debt the same, and (5) Field stated during his March 13, 2007, statement that LRI had already assigned its collateral to CIF and that LRI had conditionally assigned all LRI shareholder rights to CIF.

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99. Respondent says in the proposed prospectus that Respondent does not subordinate note-holder monies to other bank debt; however, Respondent does accept second mortgages, which do subordinate the security protecting note-holder monies to other bank debt.
I 00. Respondent says in the proposed prospectus that 2006 "profits were in excess of $2I5,000;" however, Respondent shows net income for 2006 of $I97,908 on its audited financial statements, an 8.6% overstatement.
I 0 I. Respondent says in the proposed prospectus that Respondent lends momes through "independent or related" party re-lenders. The Division is not aware that Respondent has used any independent re-lenders. However, if Respondent has used independent re-lenders, it should disclose the amount and percentage of loans outstanding at December 31, 2006, made through independent re-lenders and the amount and percentage of loans outstanding at December 31, 2006, made through related party re-lenders.
102. Respondent uses the term "FDIC" bank multiple times in the proposed prospectus. Since at December 31, 2006, Respondent has at most $200,000 of insured deposits out of almost $42,000,000 in assets, the use of this term implies to investors that more of CIF's deposits are insured than is the case.
103. Respondent says in the proposed prospectus, "Lending activities have been satisfactory since ... 1999." This is incomplete and misleading because of the default on the loans to the Tiger entities and the effective breach or anticipatory breach by LRI.
104. Respondent includes the 2006 audited financial statements and a table of loans in the proposed prospectus, but several times Respondent tells readers of the prospectus that they cannot rely on these documents when making a decision about whether to purchase notes from Respondent.
105. Respondent says in the proposed prospectus that "this document is a forward-looking document." Respondent also says in the proposed prospectus that readers should not rely on 19

the forward-looking statements in the prospectus. Therefore, Respondent appears to say that readers cannot rely on any portion of the prospectus.
106. On the table of loans, which Respondent has attached to the proposed prospectus, Respondent makes several misstatements or misleading statements about its notes receivable. The Offering Tends to Work a Fraud
107. The Division has identified a number of areas m which the proposed prospectus IS incomplete.
108. The Division has identified a number of areas in which the proposed prospectus is false or misleading.
109. Taken as a whole, the volume and nature of these problem areas make the offering tend to work or work a fraud upon purchasers ofCIF's securities.
Exemption to Offer Securities to Existing Note Holders
110. As stated above, Respondent may declare a winding up of its business or go out of business in the near future because LRI may repay its entire $17,000,000 debt owed to CIF.
111. In the proposed prospectus, Respondent states that it may declare a winding up of CIF's business upon the "failure of any regulator to renew registration" of Respondent's securities.
112. The Division has herein stated its intent to seek to deny the effectiveness of Respondent's 2007 registration statement.
113. Based on the facts noted above, Respondent soon may declare a winding up of its business and go out of business.
114. Based on these and other facts noted herein, Respondent should not offer securities pursuant to the exemptions from registration contained in S.C. Code Ann. § 35-1 -202, including, but not limited to, the exemption contained in S.C. Code Ann. § 35-1-202(15) permitting offers to existing note holders.

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Public Interest

115. The proposed prospectus is deceptive because it is incomplete. However, even if it was complete (which the Division does not believe is the case), this disclosure document does not have the necessary full and fair disclosure of all material facts to investors.
116. Based on the above-stated facts, it is in the public interest to deny the effectiveness of Respondent's registration statement and to revoke the exemptions from registration contained in S.C. Code Ann. § 35-1-202, including, but not limited to, the exemption contained in S.C. Code Ann. § 35-1-202(15) under which Respondent is or may currently be offering securities to existing note holders.
APPLICABLE LAW

117. Pursuant to 15 U.S.C. § 77c(a)(1 I), any security which is part of an issue offered and sold only to persons resident within a single state, where the issuer of such security is a person resident and doing business within or, if a corporation, incorporated by and doing business within, such state is exempt from the requirement to register such security with the SEC.
118. It is settled case law that the issuer who is claiming exemption from the registration requirements under federal securities laws has the burden of proving its availability. See S.E.C. v. Ralston Purina Co., 346 U.S. 119, 126 (1953).
119. Pursuant to 17 C.F.R. § 230.I47(a), offers, offers to sell, offers for sale, and sales by an issuer of its securities made in accordance with all of the terms and conditions of this rule

shall be deemed to be part of an issue offered and sold only to persons resident within a single state where the issuer is a person resident and doing business with such state, within the meaning of 15 U.S.C. § 77c(a)(l I).
I 20. Pursuant to 17 C.F.R. § 230.147(c)(2), the issuer shall be deemed to be doing business within a state if:

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a. The issuer derives at least 80% of its consolidated revenue from the operation of a business or of real property located in such state or from the rendering of services within such state;
b. The issuer had at the end of its most recent semi-annual fiscal period prior to the first offer of any part of the issue, at least 80% of its consolidated assets located within such state;
c. The issuer intends to use and uses at least 80% of the net proceeds to the issuer
from sales made pursuant to this rule in connection with the operation of a
business or of real estate, the purchase of real property located in, or the rendering
of services within such state; and
d. The principal office of the issuer is located within such state.
121. Pursuant to S.C. Code Ann. § 35-1-304(a), a security may be registered by qualification under the Act.

122. Pursuant to S.C. Code of Regulations 13-302, as a condition of registration, a prospectus must contain the information listed in Sections 35-1-304(b)(l) through (18).
123. Pursuant to S.C. Code Ann. § 35-l-304(b)(I6), (17), and (18), a registration statement under this section must contain:
a. A signed consent from the accountant about the use of the audited financial statements in connection with the registration statement;
b. A balance sheet and statements of income and cash flows of the issuer; and
c. Any additional information or records required by rules adopted or order issued
under the Act.

124. Pursuant to S.C. Code of Regulations I 3-601, an Independent Public Accountant regularly engaged in business as such shall certify all financial statements submitted with an application to register securities or for inclusion in the prospectus used in South Carolina.
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125. Pursuant to Dictionary of Finance and Investment Terms, certified financial statements are financial statements accompanied by an accountant's opinion, and an accountant's opinjon is a statement signed by an independent public accountant expressing his opinion based on his audit of a company's books and records. J. Downes & J. Goodman, Dictionary of Finance and Investment Terms, 304, 84 (4th ed. 1995).
126. Pursuant to S.C. Code Ann. § 35-l-306(a)(1) and (7)(A), the Securities Commissioner ("Commissioner") may issue a stop order denying effectiveness to, or suspending or revoking the effectiveness of, a registration statement if the Commissioner finds that the order is in the public interest and that:
a. The registration statement as of its effective date or before the effective date in the
case of an order denying effectiveness, an amendment under Section 35-I-306(j)
as of its effective date, or a report under Section 35-l-306(i), is incomplete in a
material respect or contains a statement that, in the light of the circumstances
under which it was made, was false or misleading with respect to a material fact;

or

b. The offering will work or tend to work a fraud upon purchasers, or would so
operate.
127. Pursuant to S.C. Code Ann. § 35-l-306(e), a stop order may not be issued under this section without (1) appropriate notice to the applicant or registrant, the issuer, and the person on whose behalf the securities are to be or have been offered; (2) an opportunity for a hearing; and (3) findings of fact and conclusions oflaw in a record.
128. Pursuant to S.C. Code Ann. § 35-1-204, except with respect to a federal covered security or a transaction involving a federal covered security, an order under the Act may deny, suspend application of, condition, limit, or revoke an exemption created under Section 35-1-

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202. This order may be issued only pursuant to the procedures in Section 35-1-306(d) or 35-1-604 and only prospectively.
129. Pursuant to S.C. Code Ann. § 35-l-306(d), the Commissioner shall promptly notify the applicant or registrant, the issuer, and the person on whose behalf the securities are to be or have been offered that the Division is seeking the issuance of an order to revoke the exemption, the reasons for the revocation, and that within fifteen days after receipt of a request in a record from the person the matter will be scheduled for a hearing. If a hearing is not requested and none is ordered by the Commissioner, within thirty days after the date of service of the notice, an order to revoke the exemption may be issued.
NOTICE AND OPPORTUNITY FOR A HEARING

NOTICE is hereby given that the Respondent shall have thirty (30) days from the date of receipt of this Notice of Intent to Seek the Issuance of a Stop Order Denying Effectiveness to a Registration Statement and to Seek the Issuance of an Order Revoking Available Exemptions to give written notice requesting a hearing on the matters contained herein to Thresechia Navarro, Securities Division, Post Office Box 11549, Columbia, South Carolina, 29211-1549. Within fifteen (15) days of receipt of a written notice requesting a hearing, this matter will be scheduled for a hearing. Respondent may then appear, with or without the assistance of an attorney, at the hearing to present testimony, evidence, and argument relating to the matters contained herein. In the event such written notice requesting a hearing is not received within the above-stated thirty
(30) day period of time, an order denying Respondent's application for registration and revoking the exemptions contained in S.C. Code Ann. § 35-1-202 may be entered in this proceeding with no further notice.
By seeking to tssue a stop order denying effectiveness of Respondent's registration statement for its Series 2007 Senior Notes and an order revoking the exemptions contained in S.C. Code Ann. § 35-1-202, the Division is not waiving any rights it may have to pursue 24

additional remedies available to it for the above or other violations of the Act committed by the

Respondent.

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Executed and entered, this the _l _-day of May, 2007.

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By:
Tracy

~ A. eyers

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Assistant Attorney General
Securities Division

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