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9 UNITED STATES DISTRICT COURT  
10 NORTHERN DISTRICT OF CALIFORNIA  
11 SAN FRANCISCO DIVISION

12 **CV 11**

**1356**

13 SECURITIES AND EXCHANGE COMMISSION,

Case No.

14 Plaintiff,

COMPLAINT

15 vs.

**LB**

16 JSW FINANCIAL INC., JAMES S. WARD, DAVID  
17 S. LEE, EDWARD G. LOCKER, RICHARD F.  
TIPTON, and DAVID C. LIN,

18 Defendants,

19 and

20 BLUE CHIP REALTY FUND LLC and  
21 SHORELINE INVESTMENT FUND, LLC,

22 Relief Defendants.

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1 Plaintiff Securities and Exchange Commission (the "Commission") alleges:

2 **SUMMARY OF THE ACTION**

3 1. This case involves false and misleading statements, misuse of client assets, and  
4 self-dealing from 2002 to 2008 relating to two real estate investment funds, Blue Chip Realty  
5 Fund LLC ("Blue Chip") and Shoreline Investment Fund, LLC ("Shoreline") (collectively the  
6 "Funds"). JSW Financial Inc. ("JSW") and its predecessor Jim Ward & Associates ("JWA")  
7 were the investment advisers to the Funds, which lost nearly \$17 million while managed by JSW  
8 and JWA. As investor losses mounted and the enterprise collapsed, investors continued to  
9 receive monthly account statements falsely stating that their investment was intact and  
10 earning steady returns in excess of 10% annually.

11 2. Through JWA, James S. Ward ("Ward"), David S. Lee ("Lee") and Edward G.  
12 Locker ("Locker") represented to Blue Chip investors that their money would be used to make  
13 residential real estate loans secured by first or second deeds of trust, and that no more than 25%  
14 of Blue Chip's loans would be made to affiliated parties of JWA. In reality, through JWA,  
15 Ward, Lee and Locker used nearly all of the money invested in Blue Chip to make unsecured  
16 loans to entities that Ward and Lee controlled to prop up their failing real estate development  
17 projects.

18 3. Through JSW, Ward, Locker, Richard F. Tipton ("Tipton") and David C. Lin  
19 ("Lin") represented to Blue Chip and Shoreline investors that their money would be used to  
20 make residential real estate loans secured by first or second deeds of trust, and that no more than  
21 25% of Blue Chip's loans would be made to affiliated parties of JSW. In reality, through JSW,  
22 Ward, Locker, Tipton and Lin used nearly all of the money invested in Blue Chip and Shoreline  
23 to make unsecured loans to entities that Ward, Locker, Tipton and Lin controlled to prop up their  
24 failing real estate development projects.

25 4. By making materially false and misleading statements and omissions to Blue  
26 Chip and Shoreline investors, JSW, Ward, Lee, Locker, Tipton and Lin violated Section 17(a)  
27 of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)], Section 10(b) of the  
28

1 Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b)] and Rule 10b-5  
2 thereunder [17 C.F.R. 240.10b-5].

3 5. JSW and JWA acted as investment advisers to the Funds under the Investment  
4 Advisers Act of 1940 (“Advisers Act”) [15 U.S.C. § 80b-2]. By acting for the benefit of the  
5 JSW and JWA officers personally rather than in the interests of the Funds, JSW and JWA  
6 breached their fiduciary duties in violation of Sections 206(1) and 206(2) of the Advisers Act  
7 [15 U.S.C. §§ 80b-6(1) and 80b-6(2)] and JSW violated Section 206(4) of the Advisers Act  
8 [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 206(4)-8]. Ward, Lee,  
9 Locker, Tipton and Lin aided and abetted the Advisers Act violations under Exchange Act  
10 Section 20(e) [15 U.S.C. § 78t(e)].

11 6. The Commission seeks a court order enjoining JSW, Ward, Lee, Locker,  
12 Tipton and Lin from future violations of these provisions of the securities laws; requiring  
13 them to disgorge their ill-gotten gains plus prejudgment interest; imposing civil money  
14 penalties against Defendants Ward, Lee, Locker, Tipton and Lin; and ordering disgorgement  
15 and appointment of a receiver over Relief Defendants Blue Chip and Shoreline.

#### 16 JURISDICTION AND VENUE

17 7. The Commission brings this action pursuant to Sections 20(b), 20(d) and 22(a)  
18 of the Securities Act [15 U.S.C. §§ 77t(b), 77t(d) and 77v(a)]; Sections 21(d), 21(e), and 21A  
19 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78u-1(c)]; and Sections 209 and 214  
20 of the Advisers Act [15 U.S.C. §§ 80b-9 and 80b-14].

21 8. This Court has jurisdiction over this action pursuant to Sections 20(b) and  
22 22(a) of the Securities Act [15 U.S.C. §§ 77t(b) and 77v(a)]; Sections 21(d), 21(e) and 27 of  
23 the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e) and 78aa]; and Sections 209 and 214 of the  
24 Advisers Act [15 U.S.C. §§ 80b-9 and 80b-14].

25 9. Defendants, directly or indirectly, made use of the means or instrumentalities  
26 of interstate commerce, or of the mails, or of the facilities of a national securities exchange in  
27 connection with the transactions, acts, practices and courses of business alleged in this  
28 Complaint.

1 10. Venue is proper in this District pursuant to Section 22(a) of the Securities Act  
2 [15 U.S.C. § 77v]; Section 27 of the Exchange Act [15 U.S.C. § 78aa]; and Section 214 of the  
3 Advisers Act [15 U.S.C. § 80b-14]. During much of the period described in this Complaint,  
4 Lee, Locker, Tipton and Lin resided within the Northern District of California, and JSW  
5 maintained its principal place of business in this District. In addition, acts, practices and  
6 courses of business alleged in this Complaint occurred within this District.

7 11. Intradistrict assignment to the San Francisco Division is proper pursuant to  
8 Civil Local Rule 3-2(c) because a substantial part of the events or omissions which give rise  
9 to these claims occurred in the Counties of San Mateo and San Francisco.

#### 10 DEFENDANTS

11 12. Defendant JSW Financial Inc. (“JSW”) is a privately-held California  
12 corporation that had its principal place of business in Mountain View, California between 2005  
13 and November 2008. JSW has not conducted substantive business operations since November  
14 2008 and is currently in Chapter 7 bankruptcy, Case No. 09-57648 (N.D. Cal. Bankr.). JSW has  
15 never been registered with the Commission in any capacity.

16 13. Defendant James S. Ward (“Ward”), age 64, currently resides in Delaware,  
17 Ohio. Between 2001 and 2008, Ward resided in this District for approximately one week per  
18 month. Ward was the founder of JWA and Chairman and 50% owner of JWA from 2001  
19 until at least 2006. Ward was the founder of JSW and its largest shareholder from 2005 to  
20 2006. Between 2006 and 2008, Ward continued to solicit investments through and participate  
21 in the management of JSW. Ward is not currently employed, and has never been licensed or  
22 registered with the Commission in any capacity.

23 14. Defendant David S. Lee (“Lee”), age 53, resides in Los Altos, California. Lee  
24 was President and 50% owner of JWA from 2001 until at least 2006. Lee is a California-  
25 licensed attorney and CPA and currently operates a solo law practice. Lee has never been  
26 licensed or registered with the Commission in any capacity.

27 15. Defendant Edward G. Locker (“Locker”), age 35, currently resides in Highland  
28 Heights, Ohio. Between 2002 and 2008, Locker resided in this District. Locker was Vice

1 President of JWA from 2003 to 2006 and President of JSW from 2005 to 2008. Locker also held  
2 a 34% ownership stake in JSW from 2006 until at least 2008. Locker is currently employed as  
3 a warehouse manager, and has never been licensed or registered with the Commission in any  
4 capacity.

5 16. Defendant Richard F. Tipton (“Tipton”), age 60, resides in Palo Alto,  
6 California. Tipton was Vice President of JSW from 2005 to 2008 and held a 33% ownership  
7 stake in JSW from 2006 until at least 2008. Tipton is not currently employed, and has never  
8 been licensed or registered with the Commission in any capacity.

9 17. Defendant David C. Lin (“Lin”), age 42, resides in Los Altos, California. Lin  
10 was a contract attorney for JWA from 2004 to 2005 and Secretary/General Counsel of JSW from  
11 2005 to 2008. Lin also held a 33% ownership stake in JSW from 2006 until at least 2008. Lin is  
12 a California-licensed attorney but is not currently employed. Lin has never been licensed or  
13 registered with the Commission in any capacity.

#### 14 RELIEF DEFENDANTS

15 18. Blue Chip Realty Fund LLC (“Blue Chip”) is a pooled real estate investment  
16 fund that has never been registered with the Commission. JWA was investment adviser to  
17 Blue Chip from 2002 to 2006, and JSW was investment adviser to Blue Chip from 2006 to  
18 2010. Tipton currently acts as investment adviser to Blue Chip. Blue Chip is named as a  
19 Relief Defendant in this action for the purpose of assuring complete relief.

20 19. Shoreline Investment Fund, LLC (“Shoreline”) is a pooled real estate  
21 investment fund that has never been registered with the Commission. JSW was investment  
22 adviser to Shoreline from 2006 to 2010. Tipton currently acts as investment adviser to  
23 Shoreline. Shoreline is named as a Relief Defendant in this action for the purpose of assuring  
24 complete relief.

#### 25 RELEVANT ENTITY

26 20. Jim Ward & Associates (“JWA”) is a privately-held California corporation that  
27 had its principal place of business in Mountain View, California between 2001 and 2006. JWA  
28

1 has not conducted substantive business operations since 2006 and has never been registered with  
2 the Commission in any capacity.

### 3 **DEFENDANTS' FRAUDULENT INVESTMENT SCHEME**

#### 4 **A. JWA Operated a Private Real Estate Financing Business**

5 21. In 2000, Ward founded JWA to solicit investments to finance real estate ventures.  
6 In 2001 and 2002, JWA primarily marketed and sold promissory notes to investors secured by  
7 deeds of trust on particular residential properties, which JWA referred to as "trust deed  
8 investments."

9 22. JWA generally used the trust deed investments to originate two secured loans for  
10 each property, the first for 50% of the estimated "as finished" value of the property (which JWA  
11 referred to as the "loan-to-value" ratio), and the second for an additional 15% of the estimated  
12 finished value, for a cumulative loan-to-value ratio of 65%. JWA generally provided each trust  
13 deed investor a recorded assignment of a fractionalized interest (corresponding to the amount of  
14 their investment) in a note secured by a first or second deed of trust. JWA found borrowers who  
15 typically paid interest of 8% to 9% on notes secured by a first deed and 10% to 11% on notes  
16 secured by a second deed.

17 23. In 2002, JWA's largest borrower became delinquent on several trust deed  
18 investment loans. Ward and Lee took over the loans through various entities that they created  
19 and owned. As a result, Ward and Lee began acting not only as loan brokers, but also borrowers.

#### 20 **B. Ward and Lee Founded Blue Chip in 2002**

21 24. To raise additional money for loans, Ward and Lee formed Blue Chip in  
22 September 2002. Blue Chip was organized as an LLC in which investors received membership  
23 interests, and JWA was the Blue Chip Fund Manager.

24 25. Lee prepared the Blue Chip offering circular, which made the following  
25 representations:

- 26 • Blue Chip would make loans secured by a first or second deed of trust;
- 27 • Blue Chip loans would not exceed a cumulative 65% loan-to-value ratio;

28

- 1 • Loans to affiliates of JWA would not exceed 25% of total Blue Chip assets;
- 2 and
- 3 • JWA would receive a management fee only if the Fund earned 10% or more.

4 26. The offering circular identified Ward and Lee as JWA's principals and stated that  
5 "Throughout his career, NO investor has ever lost money investing in loans arranged by Mr.  
6 Ward" (emphasis in original).

7 27. Ward was primarily responsible for distributing the offering circular and  
8 soliciting Blue Chip investors. Lee also distributed the offering circular to potential Blue Chip  
9 investors, and was primarily responsible for supervising bookkeeping and day-to-day office  
10 operations of JWA and Blue Chip.

11 28. Ward hired Locker in October 2002. Shortly thereafter, Locker received a copy  
12 of the Blue Chip offering circular and began distributing it to potential investors. Locker was  
13 promoted to Vice President of JWA in 2003.

14 29. In soliciting investors, Ward, Lee and Locker presented Blue Chip and the trust  
15 deed investments as JWA's two investment alternatives. They told investors that trust deed  
16 investments allowed investors to pick a particular property in which to invest, while Blue Chip  
17 was diversified and pooled investor money to make loans secured by first or second deeds of  
18 trust on a portfolio of residential properties. For both Blue Chip and the trust deed investments,  
19 they told investors that loans would never exceed a cumulative 65% loan-to-value ratio, so that  
20 investors could not lose money unless a property declined in value by more than 35%.

21 **C. Ward and Lee Used Blue Chip Money to Prop Up Their Failing Real Estate**  
22 **Development Projects**

23 30. Initially, Ward and Lee used some Blue Chip money to make loans within the  
24 65% loan-to-value ratio. However, contrary to representations to Blue Chip investors, JWA  
25 rarely recorded any assigned interests in the promissory notes for Blue Chip. Generally, only  
26 trust deed investors were listed on recorded assignments, not the Blue Chip Fund.

27 31. By 2003, many of the projects owned by entities that Ward and Lee controlled  
28 were experiencing substantial delays and cost overruns. Ward and Lee began misusing money

1 from Blue Chip for unsecured loans to fund their own construction projects and make monthly  
2 interest payments to trust deed investors after they depleted the money from trust deed  
3 investment loans.

4 32. Ward and Lee did not document their use of Blue Chip money through loan  
5 agreements or promissory notes and did not secure the loans in any way.

6 33. Because there were no loan documents setting an interest rate for Blue Chip's  
7 loans, Lee told JWA's bookkeeper to calculate Blue Chip's monthly interest using the rate for  
8 loans secured by second deeds on the same properties, even though the Blue Chip money was  
9 used on an unsecured basis. Blue Chip investors continued receiving monthly statements with  
10 purported returns calculated on this basis until JSW's collapse in November 2008.

11 34. Although the offering circular stated that loans to affiliated parties would not  
12 exceed 25% of total Blue Chip assets, Lee sent Blue Chip investors a misleading letter in  
13 October 2004 that failed to disclose that nine of the ten Blue Chip loans at the time, comprising  
14 nearly 90% of the Fund's \$4.7 million in assets, were to borrowers controlled by Ward and Lee.

15 35. Even though the ratio of loans to affiliates greatly exceeded 25% of Fund assets,  
16 Ward and Lee continued self-dealing in 2004 and 2005 by using Blue Chip money for real estate  
17 projects they personally owned. When the projects were finally completed and the properties  
18 were sold, many did not sell for enough to repay the unsecured Blue Chip loans. By November  
19 2005, Blue Chip had incurred nearly \$700,000 in losses from the sale of properties owned by  
20 Ward and Lee.

21 36. Although Ward, Lee and Locker raised money from other investors through JWA  
22 to cover these Blue Chip losses, they failed to disclose the losses to Blue Chip investors and  
23 concealed the fact that Blue Chip's purported earnings were in part the result of new investor  
24 contributions. They also failed to include the losses in calculating JWA's monthly management  
25 fee. Ward, Lee and Locker knew or were reckless in not knowing that they omitted to state facts  
26 necessary in order to make the statements made, in the light of the circumstances under which  
27 they were made, not misleading.

28



1           37.     Ward, Lee and Locker continued using the same Blue Chip offering circular to  
2 solicit investors from 2002 to 2006. At least by 2003, Ward, Lee and Locker knew that the  
3 offering circular misrepresented to potential Blue Chip investors that their money would be used  
4 to make secured loans at a maximum 65% loan-to-value ratio, because Blue Chip's loans were  
5 not secured and because Ward and Lee themselves were the borrowers on secured trust deed  
6 investment loans that were already subscribed to the full 65% loan-to-value ratio on most of the  
7 properties for which Blue Chip money was used. Ward, Lee and Locker therefore knew or were  
8 reckless in not knowing that these statements were false and misleading.

9           38.     At least by 2004, Ward, Lee and Locker knew that the offering circular  
10 misrepresented to potential Blue Chip investors that loans to affiliates of JWA would not exceed  
11 25% of total Blue Chip assets, because nearly 90% of Blue Chip's assets were loans to borrowers  
12 controlled by Ward and Lee. Ward, Lee and Locker knew or were reckless in not knowing that  
13 this statement was false and misleading.

14           39.     At least by 2005, Ward, Lee and Locker knew that the offering circular  
15 misrepresented to potential Blue Chip investors that JWA would receive a management fee only  
16 if the Fund earned 10% or more in profits, because Blue Chip had incurred nearly \$700,000 in  
17 losses that were not included in calculating the Fund's purported earnings and JWA's  
18 corresponding management fee. Ward, Lee and Locker knew or were reckless in not knowing  
19 that this statement was false and misleading.

20           40.     The false and misleading statements and omissions described in paragraphs 34  
21 to 39 above were material to investors because they concerned the ultimate safety, security,  
22 and performance of their investments in Blue Chip.

23           **D. Ward, Locker, Tipton and Lin Continued the Fraud Through JSW**

24           41.     In mid-2005, Ward began operating primarily through JSW rather than JWA. At  
25 the same time, Lee's role in Ward's organization diminished. Ward appointed Locker as JSW's  
26 President and Ward was initially JSW's sole owner. Lee held the title of JWA President and  
27 supervised the largest construction projects for which he and Ward had borrowed money from  
28 Blue Chip until early 2006.

1           42.     In the fall of 2005, Ward recruited Tipton, a college friend, to become JSW's  
2 Vice President. Tipton worked with Locker to manage construction projects, solicit investments,  
3 and improve the company's accounting and bookkeeping systems. Ward also recruited Lin to  
4 become JSW's Secretary/General Counsel. Lin was primarily responsible for preparing property  
5 assignments, investment agreements, and offering materials.

6           43.     Ward, Lee, Locker, Tipton and Lin signed written consents dated February 1,  
7 2006 transferring JWA's business to JSW. The transfer did not include the entities that owned  
8 and borrowed Blue Chip money for projects. Ward and Lee continued to own the entities that  
9 had started projects by 2005 and Ward, Locker, Tipton and Lin owned new entities that started  
10 projects and borrowed Blue Chip money beginning in the fall of 2005.

11          44.     In April 2006, Ward transferred ownership of JSW to Locker, Tipton and Lin.  
12 Ward kept a 49% ownership stake of the entities that owned the projects and borrowed Blue  
13 Chip money.

14          45.     Locker, Tipton and Lin knew about the Blue Chip losses caused by JWA when  
15 they agreed to become owners of JSW and the entities that owned projects. Rather than  
16 disclosing the losses to Blue Chip investors, Ward, Locker, Tipton and Lin continued concealing  
17 the Blue Chip losses.

18          46.     Ward, Locker, Tipton and Lin continued using the 2002 Blue Chip offering  
19 circular to solicit new investors in 2005 and 2006, but they acknowledged repeatedly in emails to  
20 each other that the Blue Chip money was not being used for loans secured by first or second  
21 deeds of trust. They also acknowledged in emails that using Blue Chip money for loans secured  
22 by third deeds up to an 80% loan-to-value ratio would be a major modification of the terms in the  
23 Blue Chip offering circular and would likely cause problems with Blue Chip investors.

24          47.     In November 2006, Lin prepared a revised Blue Chip offering circular that  
25 Ward, Locker and Tipton reviewed and distributed to investors. The 2006 offering circular  
26 named JSW rather than JWA as Fund Manager, but continued to misrepresent that Blue Chip  
27 would make loans secured by a first or second deed of trust, that Blue Chip loans would not  
28 exceed a cumulative 65% loan-to-value ratio, that loans to affiliates of JSW would not exceed

1 25% of total Blue Chip assets, and that JSW would receive a management fee only if the Fund  
2 earned profits of 10% or more. Lin knew that Ward, Locker and Tipton distributed this  
3 offering circular to potential investors from 2006 to 2008.

4 48. From 2006 to 2008, Ward, Locker, Tipton and Lin knew that Blue Chip's loans  
5 were not secured. They also knew that trust deed investment loans that were secured had already  
6 been subscribed to the full 65% loan-to-value ratio on the same properties, because they  
7 themselves were the borrowers and used Blue Chip money to continue making interest payments  
8 on the vast majority of those loans. Further, they knew that far greater than 25% of Blue Chip's  
9 assets were loans to borrowers that they themselves controlled and that Blue Chip was incurring  
10 mounting losses that they concealed from investors and did not include in calculating the Fund's  
11 purported earnings and JSW's corresponding management fee. Ward, Locker, Tipton and Lin  
12 therefore knew or were reckless in not knowing that the statements described in paragraph 47  
13 were false and misleading, and that they omitted to state facts necessary in order to make the  
14 statements made, in the light of the circumstances under which they were made, not misleading.

15 49. The false and misleading statements and omissions described in paragraphs 45  
16 to 48 above were material to investors because they concerned the ultimate safety, security,  
17 and performance of their investments in Blue Chip.

#### 18 **E. Ward and Locker Misappropriated Nearly \$1 Million From Blue Chip**

19 50. In the fall of 2006, Ward and Locker misappropriated Blue Chip funds to  
20 purchase homes for themselves – from the borrowing entities that they controlled – for \$2.3  
21 million and \$1.6 million, respectively. Ward used \$600,000 and Locker used \$300,000 from  
22 Blue Chip on an unsecured basis, which enabled them to qualify for bank loans for the remainder  
23 of the purchase prices (\$1.7 million for Ward and \$1.3 million for Locker).

24 51. In addition to the \$900,000 in undocumented and unsecured affiliated-party  
25 “loans” to Ward and Locker, the purchase prices of \$2.3 million and \$1.6 million left Blue Chip  
26 investors with a \$1.4 million loss from unsecured Blue Chip loans that Ward, Locker, Tipton and  
27 Lin had used to complete construction on the two homes. Ward and Locker told Tipton and Lin  
28 about the unsecured loans and \$1.4 million loss to Blue Chip. Ward, Locker, Tipton and Lin

1 failed to record the \$1.4 million loss on Blue Chip's books and concealed the loss from Blue  
2 Chip investors until JSW's collapse. Locker never repaid any of the \$300,000 and Ward repaid  
3 only about \$200,000 of the \$600,000.

4 **F. Ward, Locker, Tipton and Lin Founded Shoreline in 2006 to Continue the Fraud**

5 52. In 2006, Ward, Locker, Tipton and Lin created Shoreline. Similar to Blue  
6 Chip, Shoreline was a pooled investment fund organized as an LLC. Lin prepared the  
7 Shoreline offering circular, which Ward, Locker and Tipton reviewed and distributed to  
8 investors. The offering circular designated JSW as the Fund Manager and identified Locker,  
9 Tipton and Lin as JSW's officers.

10 53. The Shoreline offering circular misrepresented that Shoreline would make  
11 loans secured by a first or second deed of trust and that Shoreline's loans would not exceed a  
12 cumulative 75% loan-to-value ratio. Unlike Blue Chip, the Shoreline circular did not limit the  
13 percent of loans that could be made to affiliated borrowers or condition the receipt of a  
14 management fee on Fund earnings. Lin knew that Ward, Locker and Tipton distributed the  
15 Shoreline offering circular to potential investors from 2006 to 2008.

16 54. Locker and Tipton also prepared brochures, a website, and other marketing  
17 materials stating that Shoreline money was used for loans primarily secured by first and  
18 second deeds of trust.

19 55. Although Locker was the person at JSW primarily responsible for day-to-day  
20 decisions about the use of Blue Chip and Shoreline money, Locker discussed his use of the  
21 money for unsecured loans with Ward, Tipton and Lin. In emails during 2007 and 2008,  
22 Locker, Tipton and Lin discussed trying to secure the Blue Chip and Shoreline loans to  
23 comply with the offering materials, but the vast majority of the Blue Chip and Shoreline loans  
24 remained unsecured.

25 56. From 2006 to 2008, Ward, Locker, Tipton and Lin knew that JSW did not use  
26 Shoreline money for secured loans, but rather for undocumented, unsecured loans to entities  
27 controlled by Ward, Lee, Locker, Tipton and Lin to complete failing construction projects after  
28 they depleted their trust deed loans. They also knew that Shoreline was incurring mounting

1 losses that they concealed from investors and did not include in calculating the Fund's purported  
2 earnings. Ward, Locker, Tipton and Lin therefore knew or were reckless in not knowing that the  
3 statements described in paragraph 53 were false and misleading, and that they omitted to state  
4 facts necessary in order to make the statements made, in the light of the circumstances under  
5 which they were made, not misleading.

6 57. The false and misleading statements and omissions described in paragraphs 53  
7 to 56 above were material to investors because they concerned the ultimate safety, security,  
8 and performance of their investments in Shoreline.

9 **G. JSW Collapsed in November 2008**

10 58. By June 30, 2008, the JWA and JSW principals had lost \$7.4 million of the  
11 money invested in Blue Chip and \$1.4 million invested in Shoreline. None of the losses were  
12 disclosed to Blue Chip or Shoreline investors, who continued receiving monthly statements  
13 showing purported annual earnings over 10% as well as the full value of their invested  
14 principal.

15 59. Although Ward was not closely involved in day-to-day management of JSW  
16 from mid-2006 to mid-2008, he continued to have the final say in selecting JSW's projects,  
17 own the largest stake in the projects, receive the largest salary (about \$200,000 per year), and  
18 meet regularly with the investors, whom Ward referred to at all times as "my investors."

19 60. As JSW's and the Funds' financial condition deteriorated in the summer of  
20 2008, Ward and Locker desperately tried to keep JSW afloat and sent emails to all investors,  
21 most of whom were seniors, reassuring them that the enterprise was doing well and had new  
22 "opportunities" because of declining real estate prices.

23 61. In October 2008, Locker, Tipton and Lin told Ward they could not keep JSW  
24 going. At an all-investor meeting in November 2008, JSW's counsel revealed to investors for  
25 the first time that all of the money in the entire enterprise was gone, the unfinished real estate  
26 projects were underwater, and the Blue Chip and Shoreline investors were not likely to  
27 recover any of their principal because most of the loans made by Blue Chip and Shoreline  
28 were unsecured.

1           62.     At the time, Blue Chip's books showed current investor account balances totaling  
2 \$12.5 million, and Shoreline's books showed investor account balances of \$5 million. The Blue  
3 Chip and Shoreline money had been used in approximately 45 unfinished projects, the vast  
4 majority of which were owned by the JSW and JWA principals. Of the 45 projects, Blue Chip  
5 only held secured interests in four notes totaling \$1.1 million and Shoreline held one secured  
6 interest in a note worth \$90,000 – leaving Blue Chip and Shoreline investors with losses totaling  
7 nearly \$17 million.

8           63.     The Commission first received an investor complaint relating to JSW, JWA,  
9 Blue Chip or Shoreline in or about April 2009. Because none of the Defendants were licensed  
10 or registered with the Commission in any capacity at any time, and because the Defendants  
11 concealed their misuse of assets and false and misleading statements and omissions from  
12 investors until November 2008, the Commission did not have reason to question or  
13 investigate the accuracy of representations made to investors by JSW, JWA, Ward, Lee,  
14 Locker, Tipton and Lin until April 2009.

15  
16   **FIRST CLAIM FOR RELIEF**

17   **Violations of Section 17(a) of the Securities Act  
18 by JSW, Ward, Lee, Locker, Tipton and Lin**

19           64.     The Commission hereby incorporates paragraphs 1 through 63 by reference.

20           65.     Defendants JSW, Ward, Lee, Locker, Tipton and Lin have, by engaging in the  
21 conduct set forth above, directly or indirectly, in the offer or sale of securities, by the use of  
22 means or instruments of transportation or communication in interstate commerce, or of the mails:  
23 (a) with scienter, employed devices, schemes, or artifices to defraud; (b) obtained money or  
24 property by means of untrue statements of material fact or by omitting to state material facts  
25 necessary in order to make statements made, in the light of the circumstances under which they  
26 were made, not misleading; and (c) engaged in transactions, practices, or courses of business  
27 which operated or would operate as a fraud or deceit upon the purchasers of such securities.  
28

1 66. By reason of the foregoing, Defendants JSW, Ward, Lee, Locker, Tipton and Lin  
2 have directly or indirectly violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)] and  
3 unless enjoined will continue to violate Section 17(a) of the Securities Act.

4 **SECOND CLAIM FOR RELIEF**

5 **Violations of Section 10(b) of the Exchange Act and**  
6 **Rule 10b-5 Thereunder by JSW, Ward, Lee, Locker, Tipton and Lin**

7 67. The Commission hereby incorporates Paragraphs 1 through 66 by reference.

8 68. Defendants JSW, Ward, Lee, Locker, Tipton and Lin, by engaging in the conduct  
9 set forth above, directly or indirectly, by use of means or instrumentalities of interstate  
10 commerce, or of the mails, or of a facility of a national security exchange, with scienter: (a)  
11 employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact  
12 or omitted to state material facts necessary in order to make the statements made, in light of the  
13 circumstances under which they were made, not misleading; and (c) engaged in acts, practices,  
14 or courses of business which operated or would operate as a fraud or deceit upon other persons,  
15 in connection with the purchase or sale of securities.

16 69. By reason of the foregoing, Defendants JSW, Ward, Lee, Locker, Tipton and Lin  
17 have directly or indirectly violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and  
18 Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5] and unless enjoined will continue to violate  
19 Section 10(b) of the Exchange Act and Rule 10b-5.

20 **THIRD CLAIM FOR RELIEF**

21 **Violations of Sections 206(1) and 206(2) of the Advisers Act by JSW**

22 70. The Commission hereby incorporates Paragraphs 1 through 69 by reference:

23 71. At least from 2006 to 2010, JSW acted as an investment adviser, as defined by  
24 Section 202(a)(11) of the Advisers Act [15 U.S.C. § 80b-2(a)(11)], to Blue Chip and Shoreline.

25 72. JSW, by engaging in the acts and conduct alleged above, directly or indirectly,  
26 through use of the means or instruments of transportation or communication in interstate  
27 commerce or of the mails, and while engaged in the business of advising others for  
28 compensation as to the advisability of investing in, purchasing, or selling securities: (a) with

1 | scienter, employed devices, schemes, and artifices to defraud; and (b) engaged in acts, practices,  
2 | or courses of business which operated or would operate as a fraud or deceit upon clients or  
3 | prospective clients.

4 | 73. By reason of the foregoing, Defendant JSW has violated Sections 206(1) and  
5 | 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)] and unless enjoined will  
6 | continue to violate Sections 206(1) and 206(2) of the Advisers Act.

7 | **FOURTH CLAIM FOR RELIEF**

8 | **Aiding and Abetting Violations of Sections 206(1) and 206(2) of the Advisers Act**  
9 | **by Ward, Lee, Locker, Tipton and Lin**

10 | 74. The Commission hereby incorporates Paragraphs 1 through 73 by reference.

11 | 75. JSW and JWA, by engaging in the acts and conduct alleged above, directly or  
12 | indirectly, through use of the means or instruments of transportation or communication in  
13 | interstate commerce or of the mails, and while engaged in the business of advising others for  
14 | compensation as to the advisability of investing in, purchasing, or selling securities: (a) with  
15 | scienter, employed devices, schemes, and artifices to defraud; and (b) engaged in acts, practices,  
16 | or courses of business which operated or would operate as a fraud or deceit upon clients or  
17 | prospective clients.

18 | 76. Defendants Ward, Locker, Tipton and Lin knowingly provided substantial  
19 | assistance to JSW's violations of Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§  
20 | 80b-6(1) and 80b-6(2)].

21 | 77. Defendants Ward, Lee and Locker knowingly provided substantial assistance to  
22 | JWA's violations of Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and  
23 | 80b-6(2)].

24 | 78. By reason of the foregoing, Defendants Ward, Lee, Locker, Tipton and Lin have  
25 | aided and abetted, and unless enjoined, will continue to aid and abet, violations of Sections  
26 | 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)].



1 **FIFTH CLAIM FOR RELIEF**

2 **Violations of Section 206(4) of the Advisers Act and Rule 206(4)-8 Thereunder by JSW**

3 79. The Commission hereby incorporates Paragraphs 1 through 78 by reference.

4 80. At least from 2006 to 2010, JSW acted as an investment adviser, as defined by  
5 Section 202(a)(11) of the Advisers Act [15 U.S.C. § 80b 2(a)(11)], to Blue Chip and Shoreline.

6 81. Blue Chip and Shoreline operated as pooled investment vehicles, as defined by  
7 Rule 206(4)-8(b) promulgated under the Advisers Act [17 C.F.R. § 275.206(4)-8(b)], after  
8 September 10, 2007, the effective date of Rule 206(4)-8.

9 82. JSW, by engaging in the acts and conduct alleged above, while acting as an  
10 investment adviser to a pooled investment vehicle, by the use of the means and instrumentalities  
11 of interstate commerce and of the mails, directly and indirectly, has engaged in transactions,  
12 practices, and courses of business which operate as a fraud or deceit upon investors in Blue Chip  
13 and Shoreline. JSW made untrue statements of a material fact or omitted to state a material fact  
14 necessary to make the statements made, in the light of the circumstances under which they were  
15 made, not misleading, to any investor or prospective investor in Blue Chip and Shoreline, and  
16 otherwise engaged in acts, practices or courses of business that were fraudulent, deceptive, or  
17 manipulative with respect to any investor or prospective investor in Blue Chip and Shoreline.

18 83. By reason of the foregoing, Defendant JSW has violated Section 206(4) of the  
19 Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8]  
20 and unless enjoined will continue to violate Section 206(4) of the Advisers Act and Rule 206(4)-  
21 8 thereunder.

22 **SIXTH CLAIM FOR RELIEF**

23 **Aiding and Abetting Violations of Section 206(4) of the Advisers Act**  
24 **and Rule 206(4)-8 Thereunder by Ward, Locker, Tipton and Lin**

25 84. The Commission hereby incorporates Paragraphs 1 through 83 by reference.

26 85. JSW, by engaging in the acts and conduct alleged above, while acting as an  
27 investment adviser to a pooled investment vehicle, by the use of the means and instrumentalities  
28 of interstate commerce and of the mails, directly and indirectly, has engaged in transactions,

1 practices, and courses of business which operate as a fraud or deceit upon investors in Blue Chip  
2 and Shoreline. JSW made untrue statements of a material fact or omitted to state a material fact  
3 necessary to make the statements made, in the light of the circumstances under which they were  
4 made, not misleading, to any investor or prospective investor in Blue Chip and Shoreline, and  
5 otherwise engaged in acts, practices or courses of business that were fraudulent, deceptive, or  
6 manipulative with respect to any investor or prospective investor in Blue Chip and Shoreline.

7 86. Defendants Ward, Locker, Tipton and Lin knowingly provided substantial  
8 assistance to JSW's violations of Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and  
9 Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

10 87. By reason of the foregoing, Defendants Ward, Locker, Tipton and Lin have aided  
11 and abetted, and unless enjoined, will continue to aid and abet, violations of Section 206(4) of  
12 the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-  
13 8].

#### 14 RELIEF REQUESTED

15 WHEREFORE, the Commission respectfully requests that the Court:

##### 16 I.

17 Permanently enjoin Defendants JSW, Ward, Lee, Locker, Tipton and Lin from directly  
18 or indirectly violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b)  
19 of the Exchange Act [15 U.S.C. § 78j(b)], and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-  
20 5].

##### 21 II.

22 Permanently enjoin Defendant JSW from directly or indirectly violating Sections  
23 206(1), 206(2), and 206(4) of the Advisers Act [15 U.S.C. §§ 80b-6(1), 80b-6(2), and  
24 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

##### 25 III.

26 Permanently enjoin Defendants Ward, Locker, Tipton and Lin from aiding and  
27 abetting violations of Sections 206(1), 206(2), and 206(4) of the Advisers Act [15 U.S.C. §§  
28 80b-6(1), 80b-6(2), and 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

1 IV.

2 Permanently enjoin Defendant Lee from aiding and abetting violations of Sections  
3 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)].

4 V.

5 Order Defendants JSW, Ward, Lee, Locker, Tipton and Lin to disgorge their ill-gotten  
6 gains according to proof, plus prejudgment interest thereon.

7 VI.

8 Order Defendants Ward, Lee, Locker, Tipton and Lin to pay civil penalties pursuant to  
9 Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d) of the Exchange Act  
10 [15 U.S.C. § 78u(d)], and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)].

11 VII.

12 Order Relief Defendants Blue Chip and Shoreline to disgorge their ill-gotten gains  
13 according to proof.

14 VIII.

15 Appoint a receiver over Relief Defendants Blue Chip and Shoreline.

16 IX.

17 Retain jurisdiction of this action in accordance with the principles of equity and the  
18 Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders  
19 and decrees that may be entered, or to entertain any suitable application or motion for  
20 additional relief within the jurisdiction of this Court.

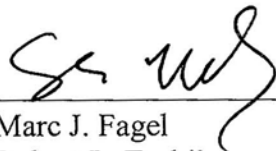
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X.

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

Respectfully submitted,



Dated: March 22, 2011

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