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9 **UNITED STATES DISTRICT COURT**
10 **SOUTHERN DISTRICT OF CALFIORNIA**

11
12
13 SECURITIES AND EXCHANGE
14 COMMISSION,

15 Plaintiff,

16 v.

17
18 BILL C. (BILLY) CRAFTON, JR.,

19 Defendant.
20

Case No. '14CV2916 DMS JLB

**COMPLAINT FOR VIOLATIONS
OF THE FEDERAL SECURITIES
LAWS**

21
22 Plaintiff Securities and Exchange Commission (“Commission” or “SEC”)
23 alleges as follows:

24 **SUMMARY OF ALLEGATIONS**

25 1. This action concerns Defendant Bill C. (Billy) Crafton, Jr.’s
26 fraudulent misconduct in connection with investment advisory services Crafton
27 provided to his advisory clients.

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1 2. From at least 2006 through at least 2011, while acting as an
2 investment advisor and unregistered broker, Crafton knowingly misrepresented or
3 failed to disclose to his advisory clients the fact that he received over \$1.5 million
4 in compensation in connection with certain investments and financial services
5 Crafton recommended to those clients.

6 3. In addition, in or about June 2010, while acting as an investment
7 advisor, and while associated with an investment advisor registered with the
8 Commission, Crafton knowingly perpetrated a scheme to defraud two of his
9 advisory clients by directing the misappropriation of \$700,000 from them for the
10 benefit of a third client by using the funds to redeem, and assign to them, the third
11 client's investment in a private illiquid fund, which only days prior to the
12 misappropriation – and as Crafton well knew – had been the subject of an
13 emergency action filed by the Commission, in which a freeze of the fund's assets
14 was ordered based on allegations the fund was being operated as a Ponzi-like
15 scheme.

16 4. Crafton has violated and, unless enjoined, will continue to violate the
17 antifraud and broker-dealer registration provisions of the federal securities laws.
18 Accordingly, the Commission seeks permanent injunctions against Crafton, as well
19 as the disgorgement of ill-gotten gains and the imposition of a civil penalty.

20 **JURISDICTION AND VENUE**

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

27 6. Crafton has, directly or indirectly, made use of the means or
28 instrumentalities of interstate commerce, of the mails, or of the facilities of a

1 national securities exchange, in connection with the transactions, acts, practices,
2 and courses of business alleged in this complaint.

3 7. Venue is proper in this District pursuant to Section 22(a) of the
4 Securities Act [15 U.S.C. § 77v(a)], Section 27 of the Exchange Act [15 U.S.C. §
5 78aa], and Section 214 of the Investment Advisers Act of 1940 (“Advisers Act”)
6 [15 U.S.C. § 80b-14] because certain of the transactions, acts, practices, and
7 courses of conduct constituting violations of the federal securities laws occurred
8 within this District; Crafton resides in this District; and a substantial portion of the
9 conduct alleged in this complaint occurred within this District.

10 **DEFENDANT**

11 8. **Bill C. (Billy) Crafton**, age 38, is, and at all relevant times was, a
12 resident of San Diego, California. Since 1999, Crafton has provided investment
13 advisory and business management services primarily to professional athletes.
14 Crafton was the CEO and 100% owner of Martin Kelly Capital Management, LLC
15 (“Martin Kelly Capital”), an investment adviser registered with the Commission,
16 from approximately June 2006 to December 2009 and then again from December
17 2012 through the present.

18 **FACTUAL ALLEGATIONS**

19 **Crafton’s Background**

20 9. In approximately May 2006, Crafton founded Martin Kelly Capital.
21 Martin Kelly Capital was an investment adviser registered with the Commission
22 from approximately 2006 through December 2012. From approximately 2006
23 through November 2009, Crafton maintained 100% ownership and control of
24 Martin Kelly Capital, and was solely responsible for providing investment advice
25 to clients. From 2006 through approximately March 2010, Crafton was also a
26 registered investment adviser representative of Martin Kelly Capital. From 2006
27 through November 2009, Crafton’s number of advisory clients and assets under
28 management at Martin Kelly Capital grew from approximately 17 advisory clients

1 with approximately \$26 million in assets under management to approximately 50
2 advisory clients with over \$110 million in assets under management.

3 10. Crafton's advisory clients consisted primarily of present and former
4 professional athletes in Major League Baseball, the National Football League, the
5 National Hockey League, the National Basketball Association, and other
6 professional sports leagues.

7 11. In approximately November 2009, Crafton sold his advisory client
8 relationships to Investment Advisory Firm A, which contemporaneously hired
9 Crafton and at least two of Crafton's employees from Martin Kelly Capital. From
10 approximately December 2009 through September 2010, Crafton was associated
11 with Investment Advisory Firm A where he was employed as an investment
12 advisor and continued to provide investment advisory services to his clients. In
13 September 2010, Investment Advisory Firm A terminated its association with and
14 employment of Crafton. At all times during the relevant period, Investment
15 Advisory Firm A was an investment advisor registered with the Commission.

16 12. From approximately September 2010 through at least December 2011,
17 Crafton continued to provide investment advisory and business management
18 services to those of his advisory clients he was able to retain following his
19 termination from Investment Advisory Firm A.

20 **Crafton Received Undisclosed Compensation Related to Securities**

21 **Investments Recommended to Clients**

22 13. From approximately 2006 through at least 2010, Crafton received
23 over \$950,000 in undisclosed compensation from the principals of, and entities
24 associated with, certain illiquid private investments that Crafton recommended to
25 his advisory clients. Crafton received the undisclosed compensation in the form of
26 brokerage commissions, cash, and securities.

27 14. From at least 2006 through at least 2008, Crafton recommended to his
28 advisory clients that they invest in a private investment fund operating in Southern

1 California (“Fund A”). Fund A offered securities in the form of investment
2 contracts, and was purportedly in the business of making secured loans to real
3 estate developers. Based on Crafton’s recommendation, Crafton’s advisory clients
4 invested in total at least \$10 million in Fund A through private offerings
5 purportedly exempt from registration under the Securities Act.

6 15. Crafton received over \$485,000 in undisclosed compensation in
7 connection with recommending that his advisory clients invest in Fund A.
8 Crafton’s undisclosed compensation included: (i) \$81,000 in undisclosed
9 brokerage commissions; (ii) a \$50,000 equity interest in Fund A gifted to Crafton
10 by Fund A’s principal; and (iii) \$354,000 in shares of a penny stock issuer gifted to
11 Crafton by Fund A’s principal.

12 16. From approximately 2006 through 2010, Crafton recommended to his
13 advisory clients that they invest in the Westmoore Lending Opportunity Fund,
14 LLC and Westmoore Investment, L.P. (collectively the “Westmoore Funds”), two
15 presently defunct private funds whose principal place of business was in Anaheim
16 Hills, California. The Westmoore Funds offered securities in the form of
17 investment contracts, and were purportedly in the business of making loans and
18 investing in and operating various businesses. Crafton also recommended that his
19 clients invest in notes offered by certain Westmoore entities (the “Westmoore
20 Notes”). The Westmoore Notes were securities in the form of notes or investment
21 contracts. During the relevant period, Principal A was the principal of the
22 Westmoore Funds and the entities associated with the Westmoore Notes. Based on
23 Crafton’s recommendation, Crafton’s advisory clients invested in total at least \$22
24 million in the Westmoore Funds and Westmoore Notes.

25 17. In connection with recommending the Westmoore Funds and
26 Westmoore Notes to his advisory clients, Crafton received over \$466,000 in
27 undisclosed compensation, including over \$295,000 in undisclosed brokerage
28 commissions and \$170,484 in direct payments from Principal A.

1 18. The brokerage commissions associated with Crafton's clients'
2 investments in Fund A, the Westmoore Funds, and the Westmoore Notes were
3 made pursuant to a secret arrangement whereby commissions were surreptitiously
4 funneled to Crafton through one of Crafton's employees ("Employee A"), who
5 from 2006 through 2009 was employed as Martin Kelly Capital's Chief
6 Compliance Officer and, simultaneously, served as a registered representative of
7 Westmoore Securities, Inc. ("Westmoore Securities"). Westmoore Securities paid
8 Employee A brokerage commissions calculated based on Crafton's clients' initial
9 investments in Fund A, the Westmoore Funds, and the Westmoore Notes (which
10 ranged from 1.8% to 4.5% of the amount invested), as well as trailer commissions
11 paid later based on Crafton's clients' total amounts invested in those respective
12 vehicles. In accordance with their secret arrangement, Employee A deposited all
13 relevant brokerage commissions to Crafton's wholly-owned, private corporation,
14 Redhawk Capital Management, Inc. ("Redhawk"), a California corporation with its
15 principal place of business in San Diego, California.

16 19. At all times during the relevant period, Crafton, while acting as an
17 investment adviser, knew or was reckless in not knowing that he was receiving the
18 undisclosed brokerage commissions, cash payments, and gifted securities from the
19 principals of, and entities associated with, Fund A, the Westmoore Funds, and the
20 Westmoore Notes, and that the compensation was related to and occurred during
21 the period in which he was advising his clients to invest in Fund A, the Westmoore
22 Funds, and the Westmoore Notes.

23 20. At all times during the relevant period, Crafton, while acting as an
24 investment advisor, intentionally, knowingly, or recklessly failed to disclose or
25 intentionally and falsely denied to his advisory clients the fact that he was
26 receiving compensation in connection with his advising clients as to the
27 advisability of investments in Fund A, the Westmoore Funds, and the Westmoore
28 Notes.

Crafton Received Undisclosed Compensation Related to Mortgage Brokerage and Life Insurance Services Recommended to His Clients

21. From approximately 2007 through 2011, Crafton, while acting as an investment adviser, received over \$554,000 in undisclosed compensation from a mortgage broker and a life insurance agent whom Crafton recommended to his advisory clients. Crafton received the undisclosed compensation in the form of cash payments to his corporate entity, Redhawk, as well as payments to Crafton's creditors.

22. From approximately 2007 through 2009, while acting as an investment adviser, Crafton recommended to his advisory clients the products and services offered by a certain mortgage broker operating in California ("Mortgage Broker A"). Unbeknownst to his clients, Crafton had a referral fee agreement with Mortgage Broker A whereby Crafton would receive 25% of all commissions earned by Mortgage Broker A on transactions by Crafton's advisory clients.

23. During the relevant period, Crafton received over \$228,000 in undisclosed referral fees in connection with recommending Mortgage Broker A to his clients.

24. From approximately 2010 through 2011, while acting as an investment adviser, Crafton recommended to his advisory clients the services of a certain life insurance agent operating in Washington state ("Life Insurance Agent A") for purchasing life insurance products. Based on Crafton's recommendations, Crafton's clients purchased from Life Insurance Agent A life insurance products with aggregate policy amounts exceeding \$80 million. Crafton's clients made premium payments on these policies exceeding \$2 million. Life Insurance Agent A received over \$690,000 in commissions based on these premium payments.

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1 25. Crafton received over \$326,000 in undisclosed compensation from
2 Life Insurance Agent A in connection with Crafton's recommending to his
3 advisory clients that they purchase life insurance products offered by Life
4 Insurance Agent A.

5 26. At all times during the relevant period, Crafton, while acting as an
6 investment advisor, knew or was reckless in not knowing that he was receiving
7 compensation from Mortgage Broker A and Life Insurance Agent A, and that the
8 compensation was in connection with the products and services offered by
9 Mortgage Broker A and Life Insurance Agent A to Crafton's advisory clients.

10 27. At all times during the relevant period, Crafton, while acting as an
11 investment advisor, intentionally, knowingly, or recklessly failed to disclose to his
12 advisory clients the fact that he was receiving compensation in connection with
13 their purchasing mortgage and life insurance products and services from Mortgage
14 Broker A and Life Insurance Agent A, respectively.

15 **Crafton Misappropriated \$700,000 in Client Funds**

16 28. In June 2010, Crafton knowingly and intentionally orchestrated a
17 fraudulent scheme whereby he directed the misappropriation of a total of \$700,000
18 from two of his advisory clients for the benefit of a third advisory client.

19 29. From approximately 2006 through 2010, Crafton recommended to his
20 clients that they invest in the Westmoore Funds and Westmoore Notes. Based on
21 Crafton's advice Client A, a professional athlete, invested a total of \$700,000 in
22 Westmoore between approximately 2006 and 2008.

23 30. In early 2009, Crafton had become aware that the Westmoore Funds
24 and Westmoore Notes could no longer make monthly distribution payments to
25 investors or honor investors' redemption requests due to Westmoore's
26 deteriorating financial condition.

27 31. In approximately spring 2010, Client A requested that Crafton
28 liquidate and redeem Client A's entire \$700,000 investment in the Westmoore

1 Funds and Westmoore Notes as part of Client A's decision to retain a different
2 financial adviser. Despite knowing of Westmoore's financial condition and failure
3 to honor investors' redemption requests, Crafton promised to redeem Client A's
4 investment within 90 days. During the ensuing 90 day period, Client A continued
5 to demand that Crafton liquidate his Westmoore investment.

6 32. On June 16, 2010, the Commission filed an emergency action against
7 Principal A and numerous Westmoore entities alleging that the Westmoore entities,
8 including the Westmoore Funds, were a fraudulent Ponzi-like scheme. As a result
9 of the emergency action, the Commission obtained an order freezing the assets of
10 the Westmoore entity defendants, including the Westmoore Funds.

11 33. On June 17, 2010, Crafton learned of the Commission's emergency
12 action against Principal A and the Westmoore entities, including the Commission's
13 allegation that the Westmoore operation was a fraudulent Ponzi-like scheme and
14 the order freezing Westmoore's assets.

15 34. On June 21, 2010, Crafton directed Employee A to cause two
16 clients—Client B and Client C—to purchase Client A's \$700,000 position in
17 Westmoore (the "June Transaction"). Crafton instructed Employee A to forge
18 Client B and Client C's signatures on wire authorization documents for transfers of
19 \$350,000 from their respective brokerage accounts to Client A's personal bank
20 account. Employee A used Adobe Photoshop to cut-and-paste the signatures on
21 the wire authorization forms submitted to Client B and Client C's brokerage
22 account. Ultimately, the transactions were completed, and a total of \$700,000 was
23 deposited into Client A's personal bank account. At Crafton's direction, Client B
24 and Client C were then each assigned half of Client A's \$700,000 position in
25 Westmoore.

26 35. In perpetrating the June Transaction, Crafton, while acting as an
27 investment adviser and while associated with a registered investment adviser, knew
28 or was reckless in not knowing the following: (i) Client B and Client C had not

1 consented to and were otherwise unaware of the June Transaction prior to, during,
2 and for a period of time subsequent to Crafton's effecting the transaction; (ii)
3 Client B and Client C had not consented to and were otherwise unaware of the wire
4 transfers or the use of their signatures to effect the June Transaction; (iii) Client B
5 and Client C would not have consented to the June Transaction had they known of
6 its existence; (iv) Crafton failed to disclose to Client B and Client C the existence
7 of the June Transaction prior to, during, and for a period of time subsequent to
8 Crafton effecting the transaction; and (v) Crafton failed to disclose to Client B or
9 Client C that, only days prior to the June Transaction, the Commission had sued
10 Principal A and numerous Westmoore entities alleging Westmoore was operating a
11 fraudulent Ponzi-like scheme and that the Commission had already obtained a
12 court order freezing Westmoore's assets, including the assets of the Westmoore
13 Funds.

14 36. Client B and Client C each lost their \$350,000 investment in
15 Westmoore as a result of the June Transaction.

16 37. At all times during the relevant period, Crafton: (i) advised his clients
17 concerning the advisability of investing in, purchasing, or selling securities,
18 including Fund A, the Westmoore Funds, and the Westmoore Notes; and (ii)
19 charged his investment advisory clients a fee based on a percentage of assets under
20 management, charged his clients particularized fees for his advisory services, or
21 otherwise received compensation for his advisory services.

22 38. At all times during the relevant period, Crafton was engaged in the
23 business of effecting transactions in securities for the account of others, including
24 Crafton's clients' transactions in Fund A, the Westmoore Funds, and the
25 Westmoore Notes, by, among other things: (i) helping issuers identify potential
26 purchasers of securities; (ii) soliciting his advisory clients to engage in securities
27 transactions; (iii) giving advice on the value or merits of securities; (iv) assisting
28 his advisory clients in determining the amounts to invest in securities; (v)

1 executing or facilitating the execution of securities transactions, including
2 personally providing and submitting client investment documentation; (vi)
3 executing client trades through an institutional brokerage account; (vii) directly
4 handling advisory client funds, including having direct access to client bank
5 accounts; and (viii) and preparing and sending transaction confirmations on behalf
6 of his advisory clients, including wire transfer confirmations and securities trade
7 confirmations.

8 **FIRST CLAIM FOR RELIEF**

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

10 39. The Commission realleges and incorporates by reference paragraphs 1
11 through 38 above.

12 40. Crafton, by engaging in the conduct described above, directly or
13 indirectly, in the offer or sale of securities by the use of means or instruments of
14 transportation or communication in interstate commerce or by use of the mails:

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

23 41. By engaging in the conduct described above, Crafton violated, and
24 unless restrained and enjoined will continue to violate, Section 17(a) of the
25 Securities Act [15 U.S.C. § 77q(a)].

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SECOND CLAIM FOR RELIEF

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

42. The Commission realleges and incorporates by reference paragraphs 1 through 38 above.

43. Crafton, by engaging in the conduct described above, directly or indirectly, in connection with the purchase or sale of a security, by the use of means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange, with scienter:

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

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

THIRD CLAIM FOR RELIEF

Violations of Sections 206(1), 206(2), and 206(3) of the Advisers Act

45. The Commission realleges and incorporates by reference paragraphs 1 through 38 above.

46. At all relevant times, Crafton operated as an investment adviser as defined by Section 202(a)(11) of the Advisers Act [15 U.S.C. § 80b2(a)(11)], and served in that capacity with respect to his clients and investors.

47. Crafton, by engaging in the acts and conduct described above, directly or indirectly, through the use of the means or instruments of transportation or

1 communication in interstate commerce or of the mails, while engaged in the
2 business of advising others for compensation as to the advisability of investing in,
3 purchasing, or selling securities:

- 4 (a) with scienter employed devices, schemes, and artifices to defraud
5 clients or prospective clients; or
6 (b) engaged in transactions, practices, or courses of business which
7 operated or would operate as a fraud or deceit upon clients or
8 prospective clients.
9 (c) while acting as principal for his own account, knowingly sold any
10 security to or purchased any security from a client, or acting as a
11 broker for a person other than such client, knowingly effected a
12 sale or purchase of securities for the account of such client, without
13 first disclosing to such client in writing, before the completion of
14 such transaction, the capacity in which he was acting and obtaining
15 the consent of the client to each such transaction.

16 48. By engaging in the conduct described above, Crafton violated, and
17 unless restrained and enjoined will continue to violate, Sections 206(1), 206(2),
18 and 206(3) of the Advisers Act [15 U.S.C. §§ 80b-6(1), 80b-6(2), and 80b-6(3)].

19 **FOURTH CLAIM FOR RELIEF**

20 **Violations of Section 15(a) of the Exchange Act**

21 49. The Commission realleges and incorporates by reference paragraphs 1
22 through 38 above.

23 50. Crafton, by engaging in the acts and conduct described above, directly
24 or indirectly, singularly or in concert, made use of the mails or the means or
25 instrumentalities of interstate commerce to effect transactions in, or induce or
26 attempt to induce, the purchase or sale of securities, without registering with the
27 Commission as a broker or dealer.

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1 51. By engaging in the conduct described above, Crafton violated, and
2 unless restrained and enjoined will continue to violate Section 15(a)(1) of the
3 Exchange Act [15 U.S.C. § 78o(a)(1)].

4 **PRAYER FOR RELIEF**

5 **WHEREFORE**, Plaintiff Securities and Exchange Commission respectfully
6 requests that the Court:

7 **I.**

8 Issue findings of fact and conclusions of law that Crafton committed the
9 alleged violations described hereinabove.

10 **II.**

11 Issue judgments, in a form consistent with Fed. R. Civ. P. 65(d),
12 permanently enjoining Crafton and his agents, servants, employees, and attorneys,
13 and those persons in active concert or participation with any of them, who receive
14 actual notice of the judgment by personal service or otherwise, and each of them,
15 from violating, directly or indirectly, Section 17(a) of the Securities Act [15 U.S.C.
16 § 77q(a)], Sections 10(b) and 15(a) of the Securities Exchange Act of 1934
17 (“Exchange Act”) [15 U.S.C. §§ 78j(b) and 78o(a)] and Rule 10b-5 thereunder [17
18 C.F.R. § 240.10b-5], and Sections 206(1)-(3) of the Advisers Act [15 U.S.C. § 80b-
19 6(1)-6(3)] .

20 **III.**

21 Order Crafton to disgorge all ill-gotten gains, including prejudgment
22 interest, resulting from the illegal acts or courses of conduct alleged in this
23 Complaint.

24 **IV.**

25 Order Crafton to pay civil penalties pursuant to Section 20(d) of the
26 Securities Act [15 U.S.C. § 77t(d)], Section 21(d)(3) of the Exchange Act [15
27 U.S.C. § 78u(d)(3)], and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9].

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V.

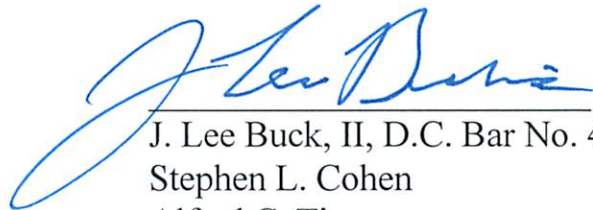
Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction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

VII.

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

Dated: December 10, 2014

Respectfully submitted,



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Securities and Exchange Commission