

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 3123 / December 14, 2010

ADMINISTRATIVE PROCEEDING
File No. 3-14162

In the Matter of

John W. Lawton,

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
PROCEEDINGS PURSUANT TO SECTION
203(f) OF THE INVESTMENT ADVISERS
ACT OF 1940 AND NOTICE OF HEARING**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 203(f) of the Investment Advisers Act of 1940 (“Advisers Act”) against John W. Lawton (“Respondent” or “Lawton”).

II.

After an investigation, the Division of Enforcement alleges that:

A. RESPONDENT

Lawton organized the hedge fund Paramount Partners, LP (“Paramount” or the “Fund”) in 2001. Lawton owned and controlled Crossroad Capital Management, LLC (“Crossroad”), which served as the investment adviser of the Fund. Through his ownership and control of Crossroad, Lawton managed the Fund. Neither Lawton nor Crossroad has been registered with the Commission at any time relevant to this proceeding. Lawton, age 35, is currently serving a prison sentence at a Federal Prison Camp in Duluth, Minnesota. Lawton’s expected prison release date is November 30, 2015.

B. THE DISTRICT COURT PROCEEDING

1. On February 18, 2009, the Commission filed a Complaint in the United States District Court for the District of Minnesota against Lawton, Paramount and Crossroad captioned SEC v. John W. Lawton, Paramount Partners, LP, and Crossroad Capital Management, LLC, No. 09-cv-00368, charging Lawton, Paramount and Crossroad with violations of Section 17(a) of the Securities Act of 1933 (the "Securities Act"), Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder, and Sections 206(1), 206(2), and 206(4) of the Advisers Act and Rule 206(4)-8 thereunder.

2. The Commission's Complaint alleged, among other things, that Lawton defrauded Paramount investors through disseminating misleading offering material and monthly account statements. Lawton distributed a monthly fact sheet that purported to show returns each month for the existence of the Fund, along with assets under management. The numbers were routinely misstated. For example in December 2008, Lawton distributed a fact sheet which indicated that the Fund had approximately \$21 million in assets under management, when in reality the Fund had about \$9 million under management. Lawton also sent out monthly statements to each investor, incorporating the false returns. Lawton then took management and performance fees based on the fraudulently misstated numbers. Based on those allegations, the Complaint asserted that Lawton and other defendants violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 206(1), 206(2), and 206(4) of the Advisers Act and Rule 206(4)-8 thereunder. The court granted a temporary injunction on February 19, 2009 and subsequently entered a preliminary injunction on February 25, 2009.

3. On July 13, 2009, the Court entered a judgment that, among other things, permanently enjoins Lawton from violating Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 206(1), 206(2), and 206(4) of the Advisers Act and Rule 206(4)-8 thereunder. In a written consent, Lawton and other defendants agreed to the entry of the order of permanent injunction without admitting or denying the allegations of the Complaint except as to jurisdiction, which was admitted.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative proceedings be instituted to determine:

- A. Whether the allegations set forth in Section II hereof are true and, in connection therewith, to afford Respondent Lawton an opportunity to establish any defenses to such allegations; and
- B. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 203(f) of the Advisers Act.

IV.

Accordingly, it is hereby ORDERED:

That a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. Section 201.110.

IT IS FURTHER ORDERED that Respondent Lawton shall file an Answer to the allegations contained in this Order within 20 days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. Section 201.220.

If Respondent Lawton fails to file the directed answer, or fails to appear at a hearing after being duly notified, the Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 115(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. Sections 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served upon Respondent personally and by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 210 days from the date of service of this Order, pursuant to Rule 360(a) (2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in the proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

For the Commission, by its Secretary, pursuant to delegated authority.

Elizabeth M. Murphy
Secretary

Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of the Order Instituting Administrative Proceedings Pursuant to Section 203(f) of the Investment Advisers Act of 1940 and Notice of Hearing ("Order") on the Respondent John W. Lawton and his legal agent.

The attached Order has been sent to the following parties and other persons entitled to notice:

Honorable Brenda P. Murray
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