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UNITED STATES DISTRICT COURT
DISTRICT OF NEVADA

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

LEWIS E. GRAHAM II, and FLOWORKS, INC.

Defendants,

and

LINWORTH LLC,

Relief Defendant.

Case. No. CV-2- _____

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission" or "SEC"), for its complaint, alleges as follows:

INTRODUCTION

1. This is an SEC enforcement action based on the conduct of Defendant Lewis E. Graham ("Graham") and his company, FLOWorks, Inc. ("FLOWorks"), in providing fraudulent information to the investor members of Stanford Square Investors LLC ("SSI"). Graham and FLOWorks misled SSI's investors in order to, among other things, further Graham's personal financial interests in a water bottling venture. The actions of the defendants resulted in harm to the SSI investors including, but not limited to, millions of dollars in unreported taxable gains for the investors and undisclosed liabilities secured by liens on SSI's real property totaling several million dollars. The SEC seeks injunctive relief, disgorgement, prejudgment interest, civil penalties, and other relief against Graham and FLOWorks based upon their illegal conduct. The SEC also seeks disgorgement and prejudgment interest from relief defendant Linworth LLC, based upon its receipt of profits in connection with the scheme.

DEFENDANTS

2. **Lewis E. Graham II** of Las Vegas, Nevada, controlled SSI through FLOWorks, which was the manager of SSI. Graham controlled FLOWorks. On August 19, 2007, Graham filed a Petition for Relief under Chapter 11 of the U.S. Bankruptcy Code in the District of Oregon, Case No. 07-62339-fra11.

3. **FLOWorks, Inc.** is a Nevada corporation. Its current principal place of business is Las Vegas, Nevada. During the times at issue in this complaint, Graham was the president of FLOWorks. FLOWorks has been the manager of SSI since approximately November 2002. FLOWorks' sole shareholder was FLOWorks LLC, now known as relief defendant Linworth LLC.

RELIEF DEFENDANT

4. **Relief defendant Linworth LLC,** formerly known as FLOWorks LLC, is a Nevada limited liability company that is **currently** 99% owned in equal shares by Graham and his wife, Marina D. Graham. During the time period at issue it was 100% owned in equal shares by Graham and his wife. In approximately December 2007, Linworth LLC changed its name from FLOWorks LLC to its current name.

OTHER RELATED ENTITIES AND INDIVIDUALS

5. **Stanford Square Investors LLC** is currently a Nevada limited liability company. However, during most of the time period at issue it was a California limited liability company. SSI is managed by FLOWorks, and its principal place of business is Eugene, Oregon.
6. **Langenburg Research, Inc. ("LRI")** is a Nevada not-for-profit corporation. Its principal place of business is Eugene, Oregon, and it is controlled by its sole officer, Albrecht zu Hohenlohe Langenburg.
7. **Albrecht zu Hohenlohe Langenburg,** a/k/a Albrecht Hohenlohe, a/k/a Max Langenburg, is a German citizen and a resident of Eugene, Oregon. He is president,

treasurer and secretary of LRI, and claims to have invented an unpatented process to purify and permanently oxygenate water.

8. **Linworth LLC (California)**. During the time period at issue, Graham controlled an entity also by the name of Linworth LLC that was a *California* limited liability company. During the relevant time period, Linworth LLC (California) was 100% owned in equal shares by Graham and his wife. In approximately December 2007, Linworth LLC (California) filed for dissolution. In approximately 2008, Linworth LLC (California) merged all its assets and liabilities into relief defendant Linworth LLC.

SUMMARY

9. SSI is the successor to a real estate limited partnership formed in approximately 1985 to own an office building in Palo Alto, California ("Palo Alto Property"). It has approximately 100 investors.

10. On or about June 14, 2005, SSI sold its primary asset, the Palo Alto Property. Although SSI's operating agreement provided that the company would terminate upon the sale of substantially all of its assets, on or about July 29, 2005, Graham, without the approval of SSI's investors, caused SSI to purchase a 45% interest in a commercial property in Eugene, Oregon (the "Eugene Property").

11. After the purchase, Graham made materially false and misleading misrepresentations and failed to disclose important information about the transaction to SSI's investors, including the nature and tax-free status of the transaction, the value of the Eugene Property, the liabilities to be assumed by SSI, and Graham's interests in the Eugene

Property's proposed tenant, H2O Bottling, Inc. ("H2O Bottling").

12. These material misstatements and omissions were made in connection with an offer by the purported seller of the Eugene Property, LRI, to buy the interest of any SSI investor that did not wish to continue in the new property venture. Approximately sixty-one SSI investors, representing approximately 62% of the ownership interests in SSI, chose to hold their SSI interests and participate in the new venture. With respect to the members that elected to sell, LRI has declined to purchase their interests. However, as discussed below, three SSI investors sold their interests to another SSI investor and to SSI.

13. Graham contacted several attorneys in connection with SSI's sale of the Palo Alto Property and purchase of the Eugene property, but he failed to provide complete information to them, he provided misleading information to them, and he failed to follow the instructions and advice he received.

14. Graham misled the SSI investors in order to continue to take substantial fees from SSI and to further his personal financial interests in H2O Bottling and Langenburg's bottled water technology and ventures.

15. Since approximately January 2004, Graham paid himself, directly or indirectly, over $1 million in fees from SSI. Graham transferred these amounts from SSI to Linworth LLC (California). Graham claims that he, FlOWorks and/or relief defendant Linworth LLC are owed additional unpaid fees from SSI.

16. The actions of Graham and FLOWorks have resulted in substantial financial harm to the investors of SSI, including millions of dollars in unreported taxable gains to the investors, and undisclosed liabilities secured by liens on SSI's real property totaling

several million dollars.

17. As a result of their conduct, Graham and FLOWorks, directly and indirectly, have engaged in, and unless restrained and enjoined by this Court will in the future engage in, transactions, acts, practices, and courses of business that violate Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §§ 240.10b-5].

18. In connection with the unlawful conduct of Graham and FLOWorks, relief defendant Linworth LLC obtained unlawful profits that were paid to its predecessor entity, Linworth LLC (California), and to which it has no legitimate claim. It should be required to disgorge and pay prejudgment interest upon these improper gains.

19. The Commission brings this action pursuant to the authority conferred upon it by Sections 21(d) and (e) of the Exchange Act [15 U.S.C. §§ 78u(d) and (e)] for an order: (1) permanently restraining and enjoining Graham and FLOWorks; (2) requiring Graham, FLOWorks and relief defendant Linworth LLC to pay disgorgement plus prejudgment interest; (3) imposing on Graham and FLOWorks third-tier civil penalties; and (4) granting such other equitable relief as the Court deems necessary and appropriate.

JURISDICTION AND VENUE

20. This Court has jurisdiction over this action pursuant to Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa]. Venue lies in this Court pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa].

21. In connection with the transactions, acts, practices, and courses of business described

in this Complaint, Graham and FLOWorks, directly and indirectly, have made use of the means or instrumentalities of interstate commerce or of the mails.

22. Graham is a resident of Nevada. FLOWorks is a Nevada corporation and its current principal place of business is Las Vegas, Nevada. Relief defendant Linworth LLC is a Nevada limited liability company and its principal place of business is Las Vegas, Nevada.

FACTS

The Palo Alto and Eugene Property Transactions

23. SSI's operating agreement provided that SSI was set up "to manage, operate, lease and sell [an office building in Palo Alto, California]." The Palo Alto Property was purchased by SSI in approximately 1985 for approximately $15 million and was SSI's primary asset, representing the majority of the company's total assets, until the property's sale on or about June 14, 2005.

24. SSI's operating agreement stated that the company would terminate upon the sale of all or substantially all of its assets. However, instead of terminating the company after the sale of the Palo Alto Property, on or about July 29, 2005, Graham, through FLOWorks, used the sales proceeds to purchase, on SSI's behalf, a 45% interest in the Eugene Property.

25. In the months leading up to the sale of the Palo Alto Property on or about June 14, 2005, Graham wrote and distributed newsletters, on behalf of FLOWorks, to the SSI investors that discussed the proposed sale and the possible tax consequences. He also introduced the possibility of deferring the tax consequences of the sale transaction by

replacing the Palo Alto Property with another property in a tax-free transaction under the Internal Revenue Code, Section 1031 (26 U.S.C. §1031) ("IRC 1031").

26. In the newsletters, Graham essentially informed the SSI investors that if the Palo Alto Property were sold in a taxable transaction, their respective tax liabilities on the sale of the Palo Alto Property would exceed their respective shares of the sale proceeds. Alternatively, Graham told the SSI investors that they could defer payment of taxes if they elected to participate in a tax-free exchange under IRC 1031.

27. In a newsletter dated April 18, 2005, Graham told SSI's investors that he had located a possible "investment opportunity for a[n] [IRC] 1031 exchange." Graham also explained that in order to secure this investment opportunity for SSI, he had irrevocably assigned a sales commission and other payments that would be due to FLOWorks upon the sale of the Palo Alto Property (collectively referred to as the "Manager's Interest") to the selling entity, later identified as LRI.

28. The assignment agreement to which Graham referred in the April 18, 2005 newsletter identified the "investment opportunity" as a commercial property located in Klamath Falls, Oregon.

29. On or about June 14, 2005, SSI sold the Palo Alto Property for $28.5 million. After paying off approximately $19.9 million in debt, plus other expenses and closing costs, SSI netted approximately $2.8 million on the sale. At the closing, an IRC 1031 a "Qualified Intermediary" took possession of the sales proceeds pending the identification and purchase of the property to complete the purported tax-free exchange under IRC 1031 (known as the "Replacement Property"), and LRI was paid FLOWorks' Manager's Interest of approximately $2.4 million.

30. Approximately sixty-eight percent (68%) of SSI's investors approved the sale of the Palo Alto Property.

31. In or about early July 2005, LRI identified a second possible investment property in Eugene, Oregon -- the Eugene Property -- to serve as the Replacement Property for the proposed IRC 1031 transaction. The Eugene Property was owned by an Oregon limited liability company named Western Mechanical, LLC ("WM"). Graham agreed with Langenburg that SSI would purchase an interest in the Eugene Property.

32. On or about July 28, 2005, SSI and Langenburg executed a "Joint Ownership Agreement" ("JOA") describing the ownership and management rights and obligations of each party in relation to the Eugene Property. The JOA included the following:

- SSI and Langenburg intended to acquire the Eugene Property on or about July 29, 2005.
- SSI and Langenburg would jointly own the Eugene Property.
- SSI and Langenburg "agreed" that the "value" of the Eugene Property was $75 million, "categorically exclud[ing] all fixtures, furnishings and equipment."
- SSI would purchase "45% of the property for $33.8 million as its exchange property per IRC Section 1031."
- SSI would pay Langenburg a total of $33.8 million, broken down as follows:
    - $180,282.57 cash;
    - $2,819,717.43 to be wired (by the Qualified Intermediary) into the escrow account for the purchase of the Eugene Property;
    - Credit for $150,000 as the agreed value of three corporations owned by

SSI to be sold to Langenburg; and

- A ten-year promissory note to LRI for the balance of $30,650,000.

33. On or about the same day that SSI and Langenburg executed the JOA, Graham directed the Qualified Intermediary to wire the approximately $2.8 million of cash proceeds from the sale of the Palo Alto Property to a numbered escrow account for the purchase of the Eugene Property. LRI signed a receipt for the funds as the "seller" of the Eugene Property, which was given to the Qualified Intermediary for its files. In correspondence accompanying the payment, the intermediary directed the title company to deed the property directly from LRI to SSI, indicating its understanding that LRI was selling the Eugene Property to SSI.

34. In reality, however, LRI was not the seller of the Eugene Property, but a co-buyer, along with SSI. On or about July 29, 2005, WM conveyed the Eugene Property directly to LRI and SSI, as tenants in common, by way of a single deed. LRI purchased a 55% interest and SSI purchased a 45% interest from WM for approximately $5.4 million. Closing documents reflect that SSI paid roughly $2.8 million or 51% of the total price, LRI paid roughly $0.75 million or 14% of the total price, and SSI and LRI together signed a promissory note to WM secured by a deed of trust for the balance of approximately $1.9 million or 35% of the total price.

35. On or about the same day as the conveyance, Graham also signed a promissory note from SSI to LRI in the amount of $30,650,000.

36. Although in March 2005 Graham had assured SSI investors that the purchase of an IRC 1031 Replacement Property would require the approval of a majority-in-interest of the investors, he purchased the Eugene Property on behalf of SSI without the

investors' consent. In fact, Graham gave no details about the property or its purchase to the membership until roughly three weeks after the purchase.

37. In his August 19, 2005 newsletter ("August 19 newsletter") to SSI investors, Graham disclosed that SSI had purchased a 45% tenancy in common interest in the Eugene Property from LRI for $33,800,000, composed of $3,000,000 cash, $150,000 in credits from LRI, and a $30,650,000 promissory note.

38. Graham told the SSI investors in his August 19 newsletter that he had gone forward with the transaction "*while also creating an exit path for Members who wished to sell now and 'cash out.'*" (emphasis in original). As an "exit path", Graham told the investors he had arranged for LRI to purchase the interest of any investor who did not want to be involved in the new property venture. He stated that LRI was willing to pay $30,000 per 1% interest – roughly the pro-rata share of the $3 million in cash purportedly paid to LRI in the Eugene Property transaction. However, he encouraged the investors to remain with the new project, stating that investors who remained would have no tax consequences from the sale of the Palo Alto Property and would reap the rewards of a "5-year triple net, gross-receipts lease" with the new property's "single, high-tech tenant," H2O Bottling.

39. A ballot attached to the August 19 newsletter offered investors a choice to either (1) "continue to hold [their SSI] interest for now while retaining the right to sell to [their] own *bona fide* purchaser . . . ," or (2) "sell [their] interest to [LRI] . . . ." Any investor who failed to vote by September 28, 2005 was deemed to have chosen to remain in the investment.

40. Approximately sixty-one investors, representing approximately 62% of the total

members-in-interest, chose (either by voting or failing to respond) to hold their SSI interests and participate in the new venture.

41. Approximately forty investors, representing approximately 38% of the total members-in-interest, voted to sell to LRI. The ownership interests of three of the investors who elected to sell, representing approximately 7% of the total interests, were ultimately purchased by SSI and an SSI investor pursuant to the "Right of First Refusal" clause in SSI's operating agreement. The remaining thirty-seven investors who voted and signed contracts to sell their interests to LRI never got their money.

42. In approximately late August or early September 2005, Graham and Langenburg finalized the terms of the operating agreement for H2O Bottling. It provided that LRI and FLOWorks LLC would each own a 50% interest in the profits and losses of H2O Bottling. It also provided that H2O Bottling would be "under the control of the Manager," which it identified as FLOWorks, and that "[t]here shall be no control of [H2O Bottling] by Members."

43. In approximately September 2005, LRI and SSI entered into a commercial lease agreement with H2O Bottling, with an effective date of July 29, 2005, in which H2O Bottling agreed to lease the Eugene Property for a term of five years and three months, with rent based on H2O Bottling's gross revenue.

44. In approximately October 2005, SSI and LRI obtained two loans from Grand Pacific Financing Corporation ("Grand Pac") totaling $5.5 million. The loan proceeds were used to pay off the $1.9 million loan from WM and purchase equipment for use by H2O Bottling. Both loans were secured by the Eugene Property and guaranteed by FLOWorks LLC, Linworth LLC (California) and Graham.

45. In connection with the loans, Grand Pac commissioned an appraisal of the Eugene Property. The appraisal, dated October 6, 2005, listed the fair market value of the Eugene Property as of September 22, 2005 at $5.4 million.

46. Approximately one year later, in early November of 2006, Langenburg, in his individual capacity and as President of LRI, and Graham, in his individual capacity and on behalf of SSI, FLOWorks, FLOWorks LLC, and H2O Bottling, signed agreements ("November 2006 agreements") in which Graham, SSI, FLOWorks and FLOWorks LLC agreed to separate any business interests they might have with Langenburg and LRI, including any joint interest in H2O Bottling. The November 2006 agreements also provided that LRI would buy-out SSI's interest in the Eugene Property and H2O Bottling's lease of the property.

47. Roughly one year after that, in November of 2007, Graham and Langenburg, on behalf of SSI, LRI and H2O Bottling, entered into a new agreement ("November 2007 agreement") canceling and modifying the November 2006 agreements. The November 2007 agreement, which was contingent upon LRI obtaining financing, provided that SSI would give up its interest in the Eugene Property and the H2O Bottling lease in return for $3,851,134.85. Graham informed SSI investors that after a set-aside for outstanding debt and legal expenses of $450,000, proposed payments to SSI investors would be just over $34,000 for each 1% interest in SSI. However, LRI has failed to obtain financing to fulfill the November 2007 agreement.

48. In November 2007, Graham and Langenburg, on behalf of themselves, LRI and SSI, among others, also entered into a settlement agreement with SIPC trustee Stephen E. Snyder ("November 2007 settlement"). Snyder was the trustee for the liquidation of

Consolidated Investment Services Inc. ("CIS"), a broker-dealer formerly controlled by Norman P. Rounds. Rounds and his wife had, directly or indirectly, served as manager of SSI prior to FLOWorks.

49. Under the November 2007 settlement, LRI agreed to pay the trustee or his assignees $1.4 million. LRI and FLOWorks also agreed to execute and deliver a $1.8 million stipulated judgment in favor of the trustee to be filed with the Oregon district court in the event that LRI failed to pay the $1.4 million. LRI did not pay the $1.4 million and the trustee filed the $1.8 million stipulated judgment. The judgment is secured by deeds of trust from both LRI and SSI.

50. LRI and SSI have failed to make the required payments on the $5.5 million borrowed from Grand Pac. In response, Grand Pac has filed actions to foreclose on the Eugene Property.

Materially Misleading Information in Graham's August 19, 2005 Newsletter

51. Graham's August 19, 2005 newsletter presented investors with the choice of holding or selling their SSI securities. The information Graham presented to SSI investors regarding the Eugene Property transaction and venture was materially false and misleading for several reasons. Among other things, Graham misstated or omitted material information regarding the nature of the Eugene Property transaction, the value of the Eugene property, facts about certain water processing equipment, the tax-free status of the transaction, the liabilities to be assumed by SSI, and Graham's interests in the new venture.

The Nature of the Transaction

52. Graham and FLOWorks knowingly or recklessly provided materially false and misleading information or failed to disclose material information to SSI's investors regarding the nature of the purported tax-free transaction.

53. For example, in the August 19 newsletter, Graham falsely stated that SSI was purchasing its 45% interest in the Eugene Property from LRI when in fact SSI purchased its 45% interest from WM. This false statement was the foundation for other misinformation, and was integral to the distorted picture Graham conveyed to SSI's investors.

The Value of the Eugene Property

54. Graham and FLOWorks knowingly or recklessly provided materially false and misleading information or failed to disclose material information to SSI's investors regarding the value of the Eugene property.

55. Graham's August 19 newsletter falsely portrayed to SSI members that the Eugene Property was valued at approximately $75 million without any valid or reasonable basis. The August 19 newsletter told SSI investors that:

> The [Eugene Property] buildings along with the land, improvements and equipment were appraised by KPMG in late 2000 at approximately $75+ million before some specialized equipment was removed by a previous high-tech tenant…. After much negotiating, LRI and [SSI] mutually agreed on an overall property value of $75,000,000 including the existing land, buildings, improvements and generic equipment *plus* all specialized

production equipment installed by the seller. (emphasis in original)

56. The August 19 newsletter also included a term sheet which stated that the "Agreed Property Value" was "$75,000,000, with Property to include all fixtures, generic equipment, and all custom and generic water business operating equipment. . . ."

57. While Graham's August 19 newsletter represented to SSI's investors that the "agreed" value of the Eugene Property was $75 million, Graham and FLOWorks knowingly or recklessly failed to disclose to the investors that the actual value of the land and buildings – measured by the sales price – was only $5.4 million.

58. Graham knew or was reckless in not knowing that SSI and LRI had only paid approximately $5.4 million for the Eugene Property, and that the disclosures to SSI investors omitted this important information. Graham knew or was reckless in not knowing that the actual value of the Eugene Property was nowhere near the "agreed" value of $75 million, and that the disclosures to SSI investors regarding the value of the Eugene Property were grossly misleading.

59. Graham and FLOWorks also knowingly or recklessly failed to disclose to SSI's investors that the real seller of the Eugene Property, WM, had purchased the property roughly a month earlier for approximately $2.1 million, or less than half what SSI and LRI paid on or about July 29, 2005. Graham knew or was reckless in not knowing that WM had purchased the Eugene Property roughly a month prior to selling it for less than half what SSI and LRI agreed to pay, and that the disclosures to SSI investors omitted this important information.

60. In the August 19 newsletter, Graham and FLOWorks also knowingly or recklessly told SSI's investors that the Eugene Property was "appraised by KPMG in late 2000

at approximately $75+ million before some specialized equipment was removed." That information was false. The Eugene Property was never appraised for anywhere near $75 million.

61. In fact, KPMG Consulting had prepared a valuation report in October 2000 for a previous owner of the Eugene Property. However, that report included values for several properties, and it valued the Eugene Property at only approximately $14 million. The KPMG report clearly conveyed that it did not value the Eugene Property at $75 million.

62. Moreover, Graham was warned prior to distributing the August 19 newsletter that the KPMG report was unclear, and that it might value the Eugene Property at only approximately $14 million. Graham never informed the SSI members that his representation regarding the KPMG report was incorrect or false. Graham knew or was reckless in not knowing that KPMG had not valued the Eugene Property at anywhere near $75 million, and that his statement that KPMG had done so was false and grossly misleading.

Water Processing Equipment

63. Graham and FLOWorks knowingly or recklessly provided materially false and misleading information or failed to disclose material information to SSI's investors regarding certain water processing equipment purportedly associated with the Eugene Property.

64. Graham's August 19 newsletter communicated to SSI's investors that the agreed value of $75 million included the value of water processing equipment to be installed

by LRI.

65. However, this representation was contrary to the JOA signed by Langenburg and Graham on July 28, 2005. That agreement, which referenced the purported $75 million value, explicitly provided that the transaction between SSI and Langenburg "categorically *excludes* all fixtures, furnishings and equipment" (emphasis added).

66. Graham also failed to disclose to SSI's investors that none of the purported equipment had been installed at the time of the purchase of the Eugene Property, and that he had no written agreement with Langenburg or LRI specifying what equipment, if any, would be installed.

67. In fact, Langenburg and LRI never installed *any* of their purported specialized water processing equipment on the Eugene Property. Although some water bottling eventually occurred at the Eugene Property, the water was produced *at another location* and was then shipped to the Eugene Property to be bottled.

68. Even if the agreement between SSI and Langenburg was modified to include equipment, Graham failed to disclose to the SSI members that almost all of the agreed $75 million value was attributable to water processing equipment. Also, Graham had not conducted appropriate due diligence and had no reasonable basis for suggesting that the equipment was worth many tens of millions of dollars.

The Status of the Transaction as a Tax Free Exchange

69. Graham and FLOWorks knowingly or recklessly provided materially false and misleading information or failed to disclose material information to SSI's investors regarding the status of the transaction as a tax-free exchange under IRC 1031.

70. In the August 19 newsletter, Graham stated that SSI had completed a tax-free IRC 1031 exchange by selling the Palo Alto Property and purchasing a 45% tenancy-in-common interest in a "like kind" property in Eugene, Oregon. Graham represented that, as a result, "those who elect to remain in the LLC will have no current tax liabilities from their decision to sell the Palo Alto [Property]." These statements were materially false and misleading.

71. The sale of the Palo Alto Property and purchase of an interest in the Eugene Property did not qualify as a tax-free exchange under IRC 1031. Rather, SSI and its investors incurred millions of dollars in taxable gains on the sale of the Palo Alto Property.

72. In the August 19 newsletter, Graham falsely assured the members that he had been advised that SSI had fully complied with each of the requirements for a tax-free exchange when in fact Graham had no reasonable basis to represent to SSI's investors that the transaction met all of the tax-free exchange requirements.

73. In the August 19 newsletter, Graham falsely told the investors that SSI had complied with the tax-free exchange requirements that the purchase price of the Replacement Property (the Eugene Property) be equal to or greater than the sale price of the Relinquished Property (the Palo Alto Property), and the debt acquired on the Replacement Property be equal to or greater than the debt relieved on the Relinquished Property. Graham represented that SSI met these requirements by purchasing the Eugene Property for $33.8 million and acquiring debt on the new property of $30.65 million. These representations were false. SSI did not purchase its interest in the Eugene Property for $33.8 million. Rather, SSI and LRI purchased that property together for roughly $5.4 million. For its 45% interest, SSI paid

approximately $2.8 million in cash and signed a promissory note to WM for approximately $1.9 million.

74. Even if SSI had purchased its interest in the Eugene Property for $33.8 million, the transaction still would not have qualified as a tax-free exchange pursuant to IRC 1031 because the water processing equipment, which would have to account for most of the value of the property, was not permanently attached to and a part of the property when SSI acquired the Eugene Property. Graham had been warned that the equipment needed to be attached to and part of the Eugene Property at the time of the sale to be considered part of the Replacement Property for purposes of the tax-free transaction.

75. Graham also falsely represented to the members that SSI had complied with the requirement that the Palo Alto Property and the Eugene Property be "like kind". He told the investors that SSI had met this requirement because SSI "sold one commercial property . . . and exchanged into another commercial property . . . (as an undivided [tenant-in-common] owner)." This statement was false, however, since the relationship between SSI and LRI was, based on the circumstances, a partnership rather than a tenancy in common. A partnership interest and an interest in real property are not "like-kind." Moreover, even if they were, the provisions of IRC 1031 do not apply to partnership interests.

Failure to Disclose Graham's Personal Financial Interests

76. Graham and FLOWorks knowingly or recklessly provided materially false and misleading information or failed to disclose material information to SSI's investors

regarding Graham's personal financial interests in the Eugene Property transaction and H2O Bottling.

77. Graham's August 19 newsletter contained information about the proposed tenant of the Eugene Property, H2O Bottling, including the statement that "H2O Bottling is owned by Langenburg Research, Inc. (as voting member) and its partners; one of these is a Nevada company that is parent to FLOWorks, Inc…." This disclosure was incomplete and materially misleading.

78. Graham failed to disclose to SSI's investors that he and his wife (through FLOWorks LLC) had a 50% interest in the profits of H2O Bottling despite the fact that Graham believed that H2O Bottling would generate net profits of over $20 million per year.

79. The August 19 newsletter also failed to disclose to SSI's investors that, under the H2O Bottling operating agreement, Graham (through FLOWorks) would receive a fee for serving as manager of H2O Bottling.

80. Additionally, the parent company referenced in Graham's statement (FLOWorks LLC) was not "one" of LRI's partners in H2O Bottling. It was LRI's only partner.

81. Graham intentionally misrepresented the relationship between his company (FLOWorks LLC) and H2O Bottling. While Graham was preparing the August 19 newsletter, a reviewer noticed that Graham's proposed disclosures in this area were incomplete and inaccurate. The reviewer suggested language disclosing that FLOWorks LLC was LRI's only partner in H2O Bottling. Graham kept the reference to FLOWorks LLC, but falsely stated that it was only "one of" the partners in H2O Bottling.

Graham's Failure to Disclose Existing and Potential Liabilities Incurred by SSI

82. Graham and FLOWorks knowingly or recklessly provided materially false and misleading information or failed to disclose material information to SSI's investors regarding loans or liabilities that Graham and FLOWorks obtained or planned to obtain that SSI would be responsible for repaying.

83. In purchasing the Eugene Property, SSI and LRI jointly signed a promissory note to WM, secured by the Eugene Property, in the amount of approximately $1.9 million. Graham failed to disclose this liability incurred by SSI in his August 19 newsletter or any other newsletter to SSI's investors.

84. By approximately early August 2005, Graham and Langenburg had already contacted at least one loan broker in search of financing to pay off the $1.9 million loan from WM. They were also seeking additional funds to purchase equipment for use by H2O Bottling.

85. By approximately mid-September 2005, prior to the close of the voting period to sell SSI membership interests to LRI, Grand Pac had agreed to fund two loans to SSI and LRI, one for $1.5 million and one for $4 million, and both secured by the Eugene Property. Both loans closed in approximately October 2005.

86. After WM was paid off, at least $3.4 million of the loan proceeds went to LRI for the benefit of H2O Bottling.

87. Graham and FLOWorks never disclosed to the SSI investors that Graham planned to obtain these loans or even that he had done so. The Grand Pac loans were not even listed in SSI's 2005 financial statements which were distributed to the SSI members in June 2006. Graham never disclosed to the SSI members that SSI was liable for

loans, secured by liens on the Eugene Property, totaling millions of dollars that were obtained, at least in part, for the benefit of H2O Bottling.

88. Graham knew or was reckless in not knowing that SSI's investors were not told in his August 19 newsletter or any other newsletter that SSI had incurred or would be incurring significant liabilities totaling millions of dollars.

Other Materially Misleading Communications by Graham

89. In addition to the statements made in the August 19 newsletter, Graham made other materially false and misleading statements that may have influenced the actions of SSI investors. For example, in a newsletter disseminated to the members on or about April 18, 2005, Graham represented that FLOWorks had assigned its Manager's Interest "for the benefit of the members and in order to secure an investment opportunity for [an IRC] 1031 exchange." While FLOWorks did assign its Manager's Interest to LRI, Graham failed to disclose that he obtained substantial personal benefits (such as rights in the Klamath Falls property or an interest in H2O Bottling) from the assignment.

90. Graham knew or was reckless in not knowing that the disclosures to SSI members regarding the Manager's Interest, Graham's personal financial interests, and Graham's conflict of interest were materially incomplete and misleading.

91. Graham also made false and misleading lulling statements to the SSI investors after they made their decisions to sell or keep their interests in SSI. In a newsletter to SSI investors dated August 25, 2006, Graham falsely stated that LRI had executed all of the sale contracts for investors who wished to sell their interests to LRI. On

September 14, 2006, Graham again falsely told the investors, in another newsletter, that LRI had executed the sales documents. In his October 20, 2006 newsletter, Graham falsely told SSI's investors that on October 13, 2006, LRI had "provided timely payment checks for the 37 interests that remained available after 3 [right of first refusal] purchases" and that FLOWorks had almost finished printing cover letters and preparing the checks for mailing, but that while FLOWorks was preparing the checks LRI "developed strong misgivings" about going forward and had put the contracts on hold until matters could be reviewed by LRI's legal counsel. The statements made by Graham in these newsletters about Langenburg signing sales contracts and sending checks to FLOWorks to pay for interests in SSI were false.

92. Graham knew or was reckless in not knowing that the disclosures to SSI members regarding Langenburg or LRI executing sale contracts and providing checks were materially false and misleading.

FIRST CLAIM FOR RELIEF
Violations by Graham and FLOWorks of
Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5

93. Plaintiff realleges and incorporates by reference paragraphs 1 through 92 above.

94. Graham and FLOWorks, directly or indirectly, with scienter, in connection with the purchase or sale of securities, by the use of means or instrumentalities of interstate commerce, the mails, or any facility of a national securities exchange, have employed devices, schemes, or artifices to defraud; have made untrue statements of material fact 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 have

engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit.

95. By reason of the foregoing, Graham and FLOWorks violated 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], and unless restrained and enjoined will continue to do so.

SECOND CLAIM FOR RELIEF
Claim for Equitable Disgorgement Against
Relief Defendant Linworth LLC

96. Plaintiff realleges and incorporates by reference paragraphs 1 through 92 above.

97. Relief defendant Linworth LLC has obtained illegal profits as a result of unlawful transfers of funds from SSI. Thus, it holds illegally obtained profits to which it has no legitimate claim.

98. Relief defendant Linworth LLC should be required to disgorge all illegal or improper gains or benefits which inured to its benefit under the equitable doctrines of disgorgement, unjust enrichment and constructive trust.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court:

I.

Find that the defendants, and each of them, committed the violations alleged.

II.

Enter injunctive relief permanently restraining and enjoining Graham and FLOWorks, to the full extent provided by Rule 65(d) of the Federal Rules of Civil Procedure, from, directly or indirectly, violating the provisions of law and rules alleged in

this Complaint.

III.

Order all defendants and the relief defendant to disgorge and pay over, as the Court may direct, all ill-gotten gains received or benefits in any form derived from the illegal conduct alleged in this Complaint, together with pre-judgment and post-judgment interest as provided by law.

IV.

Order Graham and FLOWorks to pay civil money penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)] in amounts to be determined by the Court.

V.

Grant such other relief as this Court may deem just or appropriate.

Dated: February 6, 2009

Respectfully submitted,

s/Thomas J. Krysa
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