

and **Crossroad**, directly and through others in their employ, disseminated account statements to investors that, taken together, reflected investments purportedly totaling about \$17 million as of December 31, 2008.

3. In fact, records obtained from the independent financial firms that hold the assets of **Paramount** establish that as of December 31, 2008 the fund had only about \$5.3 million of assets in its accounts. Records obtained from the independent financial firms reveal that as of February 13, 2009, **Paramount's** assets amounted to less than \$2 million.

4. Records obtained from the independent financial firms reveal that during January 2009, \$900,000 was withdrawn from **Paramount** accounts under the control of **Lawton**.

5. In early February 2009, the Commission requested documents from the **Defendants** in order to verify the **Defendants'** claims about the assets of **Paramount**. In response, the **Defendants** supplied the Commission with brokerage account statements that purportedly explained the shortfall by showing a recent balance of over \$12 million in a single brokerage account. In fact, however, the account in question has been closed since approximately June 2008.

DEFENDANTS

6. **John W. Lawton** is 34 years old. He is the owner of at least 50% of **Crossroad**. **Lawton** resided in metropolitan Minneapolis until approximately a year ago, when he moved to San Francisco, California.

7. **Paramount Partners, LP** is organized as a limited partnership under the laws of Delaware. Its principal place of business formerly was in Wayzata, Minnesota and currently is in San Francisco, California. **Paramount** purports to operate as a hedge fund.

8. **Crossroad Capital Management, LLC** is a limited liability company organized under the laws of Delaware. Its principal place of business formerly was in Wayzata, Minnesota and currently is in San Francisco, California. **Crossroad** is the general partner and investment manager for Paramount. **Lawton** holds at least a 50% ownership interest in, and exercises control over the affairs of, **Crossroad**.

JURISDICTION AND VENUE

9. The Commission brings this action pursuant to the authority conferred on it by Section 20(b) of the Securities Act of 1933 (the “Securities Act”) [15 U.S.C. § 77t(b)], Sections 21(d) and (e) of the Securities Exchange Act of 1934 (the “Exchange Act”) [15 U.S.C. §§ 78u(d) and 78u(e)], and Section 209(d) of the Investment Advisers Act of 1940 (the “Advisers Act”) [15 U.S.C. § 80b-9(d)].

10. The Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], Section 27 of the Exchange Act [15 U.S.C. §78aa], Section 214 of the Advisers Act [15 U.S.C. § 80b-14], and 28 U.S.C. §1331.

11. Venue is proper in this Court pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], Section 27 of the Exchange Act [15 U.S.C. §78aa], and Section 214 of the Advisers Act [15 U.S.C. § 80b-14].

12. The acts, practices, and courses of business constituting the violations alleged herein occurred within the jurisdiction of the United States District Court for the District of Minnesota and elsewhere.

13. Defendants, directly and indirectly, have made, and are making, use of the means and instrumentalities of interstate commerce and of the mails in connection with the acts,

practices and courses of business alleged herein in the District of Minnesota and elsewhere.

FACTS

Paramount Partners

14. In approximately November 2001, **Lawton**, through **Crossroad**, organized a private hedge fund named The Crossfire Trading Fund, L.P.

15. In approximately May 2003, **Lawton** changed the name of the hedge fund to **Paramount**.

16. **Crossroad** is **Paramount's** general partner. As the general partner, **Crossroad** is responsible for, among other things, investment decisions on behalf of **Paramount** and for the execution of **Paramount's** securities transactions. **Lawton** controls **Crossroad** and, through and on behalf of **Crossroad**, handles the day-to-day management of **Paramount's** investments.

17. **Lawton and Crossroad** are compensated for their management of **Paramount's** investments through an annual management fee equal to 1% of **Paramount's** net asset value and through an annual performance fee equal to 25% of any positive total return experienced by **Paramount**.

18. As of December 2008 **Paramount** had approximately 54 investors, who were limited partners of **Paramount**.

19. During the period from December 2001 through December 2008, investors have invested approximately \$10.8 million in **Paramount**. During that same period, investors have withdrawn approximately \$1.8 million from the hedge fund, for a net investment of approximately \$9 million.

20. Several investors have invested a portion of their individual retirement accounts

and other retirement savings in **Paramount**.

21. Many of the investors live in Minnesota.

22. **Lawton** invested approximately \$228,000 in **Paramount** during 2003.

23. However, from May 2008 through October 2008, **Lawton** withdrew approximately \$233,500 from the fund.

Defendants' Representations to Investors

24. **Defendants** have made written representations to **Paramount** investors through at least four means: a private placement memorandum; other written promotional materials; monthly account statements to existing investors; and a public website for **Crossroad**.

25. Though these written materials, **Defendants** hold out **Paramount** “as a boutique for wealthy investors.” **Paramount** supposedly uses investor funds to “maximize investment returns while minimizing risks by using a ‘long/short’ investment strategy” involving “a long/short equity hedge fund, primarily through direct equity purchases and offsetting option based positions.”

26. **Defendants** also distributed one or more versions of a fact sheet to prospective investors in 2008 which represented that since 2001 Paramount had produced annual returns ranging from 65% to 19%, with only one losing year, 2004, in which Paramount supposedly lost approximately 5%. The fact sheet claimed that **Paramount** has far outperformed the S&P 500 index during this period.

27. In a December 2008 version of the fact sheet, **Defendants** represented that **Paramount** held \$21 million in assets.

28. As late as January 2009, **Lawton** has made substantially similar oral

representations to current and prospective investors regarding **Paramount's** trading strategy, performance, and use of investor funds.

29. **Defendants** also have distributed monthly account statements to **Paramount** investors. Investors' account statements from 2007 and 2008 show substantial increases in value for investments in **Paramount**.

30. Several investors made additional investments in **Paramount** during 2008 based on the returns that they saw reflected in their monthly account statements for their existing investments.

31. In January 2009, **Defendants** disseminated account statements to **Paramount** investors which purported to show that, taken together, the investors' accounts were worth a total of approximately \$17 million as of December 31, 2008.

32. During 2008, **Defendants** received approximately \$5.8 million of new investor money.

33. **Defendants** have taken in as much as \$2.2 million of new investor funds as recently as September through December of 2008.

Lawton's Withdrawal of \$1.1 Million of Investor Funds

34. In approximately March 2007, **Crossroad** and **Lawton** opened three accounts through UBS, one each for **Paramount**, **Crossroad**, and **Lawton**.

35. From March 2007 through July 2008, the **Paramount** account received approximately \$3 million in wire transfers from investors.

36. During that same time period, **Lawton** transferred approximately \$2.1 million of the investor funds from the **Paramount** account to the **Crossroad** account. **Lawton** then

transferred approximately \$1.1 million from the **Crossroad** account into his own personal account.

Defendants Have Overstated Paramount's Assets by Millions of Dollars

37. As late as December 2008, **Lawton, Paramount, and Crossroad**, directly and through others in their employ, have disseminated a fact sheet which represents that **Paramount** holds investments totaling approximately \$21 million. As late as January 2009, **Lawton, Paramount, and Crossroad**, directly and through others in their employ, have disseminated investor account statements which purport to show that **Paramount** has approximately \$17 million in assets.

38. **Lawton** has asserted that these investments are held at four brokerage firms, Merrill Lynch, Jefferies, Interactive Brokers, and Goldman Sachs.

39. The Commission has learned directly from Merrill Lynch, Jefferies, Interactive Brokers, and Goldman Sachs that **Paramount's** accounts at those firms held only about \$5.3 million as of December 31, 2008 and that as of last week those accounts of **Paramount** held less than \$2 million.

40. Within the past week, **Defendants** have produced to the Commission purported account documents from Goldman Sachs, which statements purport to show a total balance of over \$12 million as of December 2008 in **Paramount's** account with Goldman Sachs.

41. Representatives of Goldman Sachs, however, have informed the Commission that the documents supplied by **Defendants** are not genuine. In fact, **Paramount** closed its account with Goldman Sachs in or about June 2008.

42. During January 2009, approximately \$900,000 was withdrawn from **Paramount**

accounts under the control of **Lawton**.

COUNT I

**Violations (All Defendants) of
Section 17(a)(1) of
the Securities Act [15 U.S.C. § 77q(a)(1)]**

43. Paragraphs 1 through 42 are realleged and incorporated by reference.

44. At the times alleged in this Complaint, **Defendants**, in the offer and sale of securities in the form of limited partnership interests in **Paramount**, by the use of the means and instruments of transportation and communication in interstate commerce and by the use of the mails, directly and indirectly, have employed devices, schemes and artifices to defraud, all as more fully described above.

45. In the offer and sale of securities described above and as part of the scheme to defraud, **Defendants** have made and are making false and misleading statements of material fact or have omitted and are omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading to investors and prospective investors.

46. **Defendants** acted knowingly and/or with a reckless disregard for the truth in connection with the actions alleged herein.

47. By reason of the activities described herein, **Defendants** have violated and unless restrained and enjoined will continue to violate Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

COUNT II

Violations (All Defendants) of

**Sections 17(a)(2) and 17(a)(3) of
the Securities Act [15 U.S.C. §§ 77q(a)(2) and (3)]**

48. Paragraphs 1 through 42 are realleged and incorporated by reference.

49. At the times alleged in this Complaint, **Defendants**, in the offer and sale of securities in the form of limited partnership interests in **Paramount**, by the use of the means and instruments of transportation and communication in interstate commerce and by the use of the mails, directly and indirectly, obtained money or property by means of an untrue statement of a material fact or an omission to state a material fact necessary in order to make statements made, in the light of the circumstances under which they were made, not misleading, as more fully described above.

50. At the times alleged in this Complaint, **Defendants**, in the offer and sale of securities, by the use of the means and instruments of transportation and communication in interstate commerce and by the use of the mails, directly and indirectly, engaged in transactions, practices and courses of business which operated or would have operated as a fraud and deceit upon purchasers, as more fully described above.

51. By reason of the activities described herein, **Defendants** have violated and unless restrained and enjoined will continue to violate Sections 17(a)(2), and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and (3)].

COUNT III

**Violations (All Defendants)
of Section 10(b) of the Exchange Act
and Rule 10b-5 Thereunder [15 U.S.C. § 78j; 17 C.F.R. § 240.10b-5]**

52. Paragraphs 1 through 42 are realleged and incorporated by reference.

53. At the times alleged in the Complaint, **Defendants**, in connection with the purchase and sale of securities in the form of limited partnership interests in **Paramount**, by the use of the means and instrumentalities of interstate commerce and of the mails, directly and indirectly, have employed devices, schemes and artifices to defraud; have made untrue statements of material fact and have 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; and have engaged in acts, practices and courses of business which have operated as a fraud and deceit upon purchasers and sellers of such securities.

54. **Defendants** acted knowingly and/or with a reckless disregard for the truth in connection with the actions alleged herein.

55. By reason of the activities described herein, the **Defendants** have violated and unless restrained and enjoined will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder.

COUNT IV

Violations (Lawton and Crossroad) of Section 206(1) and (2) of the Advisers Act [15 U.S.C. § 80b-6(1) and (2)]

56. Paragraphs 1 through 42 are realleged and incorporated by reference.

57. At all times alleged in the Complaint, **Lawton and Crossroad** were investment advisers as defined under the Advisers Act. **Lawton and Crossroad** managed the investments of **Paramount** in exchange for compensation in the form of fees.

58. **Lawton and Crossroad**, while acting as investment advisers, by the use of the means and instrumentalities of interstate commerce and of the mails, directly and indirectly, have

employed and are employing devices, schemes and artifices to defraud their client, **Paramount**; and have engaged and are engaging in transactions, practices, and courses of business which operated as a fraud or deceit upon their client, **Paramount**.

59. **Lawton and Crossroad** acted knowingly and/or with a reckless disregard for the truth in connection with the actions alleged herein.

60. By reason of the activities described herein, **Lawton and Crossroad** have violated Sections 206(1) and (2) of Advisers Act [15 U.S.C. § 80b-6]. Unless restrained and enjoined, **Lawton and Crossroad** will continue to violate those provisions.

COUNT V

Aiding and Abetting of Violations (Lawton) of Section 206(1) and (2) of the Advisers Act [15 U.S.C. § 80b-6(1) and (2)]

61. Paragraphs 1 through 42 are realleged and incorporated by reference.

62. At all times alleged in the Complaint, **Crossroad** was an investment adviser as defined under the Advisers Act. **Crossroad** managed the investments of **Paramount** in exchange for compensation in the form of fees. **Lawton** directed and controlled the actions of **Crossroad**.

63. **Crossroad**, while acting as an investment adviser, by the use of the means and instrumentalities of interstate commerce and of the mails, directly and indirectly, has employed and is employing devices, schemes and artifices to defraud its client, **Paramount**; and has engaged and is engaging in transactions, practices, and courses of business which operated as a fraud or deceit upon its client, **Paramount**. **Crossroad** acted knowingly and/or with a reckless disregard for the truth in connection with the actions alleged herein.

64. **Lawton** provided substantial assistance to **Crossroad** in its violations and in so doing acted knowingly, recklessly, and/or with a general awareness that he was participating in an improper or illegal activity.

65. By reason of the activities described herein, **Crossroad** has violated, and **Lawton** has aided and abetted violations of, Sections 206(1) and (2) of Advisers Act [15 U.S.C. § 80b-6]. Unless restrained and enjoined, **Lawton** will continue to aid and abet violations of, those provisions.

COUNT VI

Violations (Lawton and Crossroad) of Section 206(4) of the Advisers Act and Rule 206(4)-8 Thereunder [15 U.S.C. § 80b-6(4); 17 C.F.R. § 275.206(4)-8]

66. Paragraphs 1 through 42 are realleged and incorporated by reference.

67. At all times alleged in the Complaint, **Lawton and Crossroad** were investment advisers as defined under the Advisers Act. **Lawton and Crossroad** managed the investments of **Paramount** in exchange for compensation in the form of fees.

68. **Lawton and Crossroad**, while acting as investment advisers to a pooled investment vehicle, **Paramount**, by the use of the means and instrumentalities of interstate commerce and of the mails, directly and indirectly, have engaged in transactions, practices, and courses of business which operate as a fraud or deceit upon investors in **Paramount**. **Lawton and Crossroad** made untrue statements of a material fact or omitted to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to investors or prospective investors in the pooled investment vehicle, and otherwise engaged in acts, practices or courses of business that were fraudulent, deceptive, or

manipulative with respect to investors or prospective investors in the pooled investment vehicle.

69. By reason of the activities described herein, **Lawton and Crossroad** have violated Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8]. Unless restrained and enjoined, **Lawton and Crossroad** will continue to violate those provisions.

COUNT VII

Aiding and Abetting Violations (Lawton) of Section 206(4) of the Advisers Act and Rule 206(4)-8 Thereunder [15 U.S.C. § 80b-6(4); 17 C.F.R. § 275.206(4)-8]

70. Paragraphs 1 through 42 are realleged and incorporated by reference.

71. At all times alleged in the Complaint, **Crossroad** was an investment adviser as defined under the Advisers Act. **Crossroad** managed the investments of **Paramount** in exchange for compensation in the form of fees. **Lawton** directed and controlled the actions of **Crossroad**.

72. **Crossroad**, while acting as an investment adviser to a pooled investment vehicle, **Paramount**, by the use of the means and instrumentalities of interstate commerce and of the mails, directly and indirectly, has engaged in transactions, practices, and courses of business which operate as a fraud or deceit upon investors in **Paramount**. **Crossroad** made untrue statements of a material fact or omitted to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to any investor or prospective investor in the pooled investment vehicle, and otherwise engaged in acts, practices or courses of business that was fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in the pooled investment vehicle.

73. **Lawton** provided substantial assistance to **Crossroad** in its violations and in so doing acted knowingly, recklessly, and/or with a general awareness that he was participating in an improper or illegal activity.

74. By reason of the activities described herein, **Crossroad** has violated, and **Lawton** has aided and abetted violations of, Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8]. Unless restrained and enjoined, **Lawton** will continue to aid and abet violations of, those provisions.

PRAYER FOR RELIEF

WHEREFORE, the Commission requests that the Court:

I.

Find that **Defendants** have committed the violations alleged above.

II.

Grant a Permanent Injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, restraining and enjoining **Defendants Lawton, Paramount, and Crossroad**, their officers, agents, servants, employees, attorneys and those persons in active concert or participation with them who receive actual notice of the Permanent Injunction, by personal service or otherwise, and each of them, from, directly or indirectly, engaging in the acts, practices or courses of business described above, or in conduct of similar purport and object, in violation of Sections 17(a)(1), 17(a)(2), and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(1), q(a)(2) and q(a)(3)], 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].

III.

Grant a Permanent Injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, restraining and enjoining **Defendants Lawton and Crossroad**, their officers, agents, servants, employees, attorneys and those persons in active concert or participation with them who receive actual notice of the Permanent Injunction, by personal service or otherwise, and each of them, from, directly or indirectly, engaging in the acts, practices or courses of business described above, or in conduct of similar purport and object, in violation of Sections 206(1) and (2) of the Advisers Act [15 U.S.C. § 80b-6(1) and (2)], Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

IV.

Grant a Permanent Injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, restraining and enjoining **Defendant Lawton**, his officers, agents, servants, employees, attorneys and those persons in active concert or participation with them who receive actual notice of the Permanent Injunction, by personal service or otherwise, and each of them, from, directly or indirectly, engaging in the acts, practices or courses of business described above, or in conduct of similar purport and object, which aid and abet violations of Sections 206(1) and (2) of the Advisers Act [15 U.S.C. § 80b-6(1) and (2)], Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

V.

Grant an Order requiring **Defendants Lawton, Paramount, and Crossroad** to disgorge all ill-gotten gains that they have received as a result of the acts and courses of conduct complained of herein, with prejudgment interest.

VI.

Grant an Order directing the **Defendants Lawton and Crossroad** to pay civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. §77t(d)], Section 21(d)(3) of the Exchange Act [15 U.S.C. §78u(d)(3)], and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)].

VII.

Retain jurisdiction of this action in accordance with the principals 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.

VIII.

Grant Orders for such further relief as the Court may deem appropriate.

Respectfully submitted,

s/ Adolph J. Dean, Jr.

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