

1 John Birkenheier (IL Bar No. 6270993)  
 Email: birkenheierj@sec.gov  
 2 Michael D. Foster (IL Bar No. 6257063)  
 Email: fostermi@sec.gov  
 3 Jennifer Peltz (IL Bar No. 6280848)  
 Email: peltzj@sec.gov  
 4 Securities and Exchange Commission  
 175 West Jackson Blvd., Suite 900  
 5 Chicago, Illinois 60604  
 Telephone: (312) 353-7390  
 6 Facsimile: (312) 353-7398

7 *Local Counsel*  
 Karen Matteson (Cal. Bar No. 102103)  
 8 Email: mattesonk@sec.gov  
 Securities and Exchange Commission  
 9 5670 Wilshire Boulevard, 11th Floor  
 Los Angeles, California 90036  
 10 Telephone: (323) 965-3840  
 Facsimile: (323) 965-3908

11 Attorneys for Plaintiff

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 13  
 14 **UNITED STATES DISTRICT COURT**  
 15 **SOUTHERN DISTRICT OF CALIFORNIA**

16 SECURITIES AND EXCHANGE  
COMMISSION,

17 Plaintiff,

18 vs.

19 JAMES Y. LEE

20 Defendant,

21 and LARISSA O. ETTORE, ELX  
 22 INTERNATIONAL, INC., CLAYTON K.  
 LEE, ADVANCED CENTURY CORP.,  
 23 LOLITA GATCHALIAN, ULTRA  
 INTERNATIONAL, INC., and SOT  
 24 GROUP, INC.,

25 Relief Defendants.  
26  
27  
28

Case No. '14CV0347 LAB BGS

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

**DEMAND FOR JURY TRIAL**

1 Plaintiff Securities and Exchange Commission (the “Commission”) alleges the  
2 following against Defendant James Y. Lee (“Lee”) and Relief Defendants Larissa O.  
3 Ettore, ELX International, Inc., Clayton K. Lee, Advanced Century Corp., Lolita  
4 Gatchalian, Ultra International Inc., and SOT Group, Inc., and hereby demands a jury  
5 trial:

6 **SUMMARY OF THE ACTION**

7 1. This enforcement action concerns an unregistered investment adviser  
8 who gained his clients’ trust through deceit and then abused this misplaced trust to  
9 further defraud his clients in other ways, after they provided him investment funds  
10 to manage on their behalf.

11 2. Defendant Lee misled investors about his background, portraying  
12 himself as a highly successful financial industry expert, while failing to disclose a  
13 prior criminal conviction for embezzlement and a more recent Commission cease-  
14 and-desist order for his role in unlawful penny stock offerings.

15 3. To further entice investors to place retirement or other needed savings  
16 in his unclean hands, Lee misrepresented investors’ risk of loss. Lee covered up  
17 the truth of the undisclosed risks of his speculative options trading strategy with  
18 false assurances to protect clients from downside risk through “stop-loss” controls  
19 and by partially reimbursing any losses out of his own supposedly “deep pockets.”

20 4. Lee also deceived certain clients by providing them with inflated  
21 investment returns in order to collect undeserved management fees.

22 5. Finally, Lee traded in penny stocks in some client accounts, which  
23 was outside of his discretionary authority, and fraudulently induced one client to  
24 enter into a convertible promissory note with another penny stock company.

25 6. Lee was no more interested in sharing in his clients’ eventual and  
26 substantial losses (as promised) than he was in paying millions of dollars owed to  
27 the federal government for his past illegal conduct, so he purposefully avoided  
28 holding assets in his own name by funneling monies through the Relief

1 Defendants. Lee instructed clients to pay his management fees to various shell  
2 companies owned by his girlfriend, son, and two long-time associates,  
3 respectively. These companies, in turn, disbursed a portion of the funds to Lee and  
4 to the friends and family that served as his de facto intermediaries.

5 7. Through the conduct alleged in this Complaint, Lee engaged in: (1)  
6 fraudulent or deceptive conduct in connection with the purchase or sale of  
7 securities, in violation of Section 10(b) of the Securities Exchange Act of 1934  
8 (“Exchange Act”) and Rule 10b-5 thereunder; (2) fraud in the offer or sale of  
9 securities in violation of Section 17(a)(1) and (2) of the Securities Act of 1933  
10 (“Securities Act”); and (3) fraudulent or deceptive conduct with respect to  
11 investment advisory clients, in violation of Section 206(1) and (2) of the  
12 Investment Advisers Act of 1940 (“Advisers Act”).

13 8. Accordingly, the Commission seeks the following relief: (a) entry of  
14 a permanent injunction prohibiting Lee from further violations of the relevant  
15 provisions of the federal securities laws; (b) disgorgement of Lee’s ill-gotten gains,  
16 plus pre-judgment interest; (c) disgorgement by the Relief Defendants of all unjust  
17 enrichment and/or ill-gotten gain received from Lee, plus pre-judgment interest,  
18 with Lee jointly and severally liable with the corporate Relief Defendants; and (d)  
19 the imposition of a civil monetary penalty against Lee due to the egregious nature  
20 of his violations.

### 21 JURISDICTION AND VENUE

22 9. The Commission seeks a permanent injunction and disgorgement  
23 pursuant to Section 20(b) of the Securities Act [15 U.S.C. §§ 77t(b)], Section  
24 21(d)(1) of the Exchange Act [15 U.S.C. § 78u(d)(1)], and Section 209(d) of the  
25 Advisers Act [15 U.S.C. §§ 80b-9(d)].

26 10. The Commission seeks the imposition of a civil monetary penalty  
27 pursuant to Section 20(d) of the Securities Act [15 U.S.C. §§ 77t(d)], Section  
28 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)], and Section 209(e) of the

1 Advisers Act [15 U.S.C. §§ 80b-9(e)].

2 11. This Court has jurisdiction over this action pursuant to Sections 20(d)  
3 and 22(a) of the Securities Act [15 U.S.C. §§ 77t(d), 77v(a)], Sections 21(d), 21(e),  
4 and 27(a) of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), 77aa(a)],<sup>9</sup> and  
5 Sections 209(d), 209(e) and 214(a) of the Advisers Act [15 U.S.C. §§ 80b-9(d),  
6 80b-9(e), 80b-14(a)].

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

10 13. A substantial part of the acts and transactions giving rise to the claims  
11 alleged herein occurred in this district and, as set forth below, Defendant and one  
12 or more Relief Defendants reside and/or transact business in this district.

13 14. In connection with the conduct alleged in this Complaint, Defendant  
14 Lee directly or indirectly made use of the means or instrumentalities of  
15 transportation or communication in interstate commerce, the facilities of a national  
16 securities exchange, or the mails.

17 15. Lee's conduct involved fraud, deceit, or deliberate or reckless  
18 disregard of regulatory requirements, and resulted in substantial loss, or significant  
19 risk of substantial loss, to other persons.

20 16. Unless enjoined, Lee is likely to continue to engage in the securities  
21 law violations alleged herein, or in similar conduct that would violate the federal  
22 securities laws.

23 **DEFENDANT**

24 17. **James Y. Lee**, age 58, resides in La Jolla, California. Lee is not  
25 registered with the Commission and has never held any securities licenses.

26 **RELIEF DEFENDANTS**

27 18. **Larissa O. Ettore** ("Ettore"), age 37, is Lee's girlfriend. She is a  
28 resident of La Jolla, California, and the sole officer and director of ELX

1 International Corp., one of the companies that Lee used to collect client  
2 management fees and disburse the proceeds. Ettore is not registered with the  
3 Commission and has never held any securities licenses.

4 19. **ELX International, Corp.** (“ELX”), is a Texas corporation that  
5 maintains an office in San Diego, California. ELX received funds from Lee’s  
6 clients and made payments to (or for the benefit of) Lee as well his family, friends  
7 and/or associates.

8 20. **Clayton K. Lee**, age 34, is Lee’s son. He is a resident of Alameda,  
9 California, and the sole officer and director of Advanced Century Corp., one of the  
10 companies that Lee used to collect client management fees and disburse the  
11 proceeds. Clayton Lee is not registered with the Commission and has never held  
12 any securities licenses.

13 21. **Advanced Century Corp.** (“Advanced Century”), is a California  
14 corporation that maintains an office in Alameda, California. Advanced Century  
15 received funds from Lee’s clients and made payments to (or for the benefit of) Lee  
16 as well as his family (including Clayton Lee), friends and/or associates.

17 22. **Lolita Gatchalian** (“Gatchalian”), age 55, is a long-time associate of  
18 Lee. She is a resident of Albany, California, and the sole officer and director of  
19 Ultra International Corp., one of the companies Lee used to collect client  
20 management fees and disburse the proceeds. Gatchalian is not registered with the  
21 Commission and has never held any securities licenses.

22 23. **Ultra International, Inc.** (“Ultra”), is a Nevada Corporation with its  
23 place of business in Albany, California. Ultra received funds from Lee’s clients  
24 and made payments to (or for the benefit of) Lee and Gatchalian.

25 24. **SOT Group, Inc.** (“SOT”), is a Nevada Corporation with its principal  
26 place of business in San Diego, California. SOT’s sole officer and director is a  
27 long-time associate of Lee. SOT received funds from Lee’s clients and made  
28 payments to (or for the benefit of) Lee as well as his family, friends and/or

1 associates.

2 **FACTUAL ALLEGATIONS**

3 25. Starting in December 2008, if not earlier, Lee solicited investors in  
4 multiple states (including California, Colorado, and Texas) to open online  
5 brokerage accounts, including margin accounts, for purposes of allowing him to  
6 trade stock options on their behalf and share in any profits.

7 26. A stock “option” is a security that gives the purchaser the right, but  
8 not the obligation, to buy (in the case of a “call” option) or sell (in the case of a  
9 “put” option) shares of a company’s stock for a specified price (the “strike price”)  
10 until the expiration date of the option contract.

11 27. Conversely, the party that writes (or “sells to open”) the option  
12 contract, receiving a payment for doing so, is obligated to sell the shares to, or buy  
13 the shares from, the option holder at the specified price if the option is timely  
14 exercised.

15 28. Generally, the value of an option will change as the price of the  
16 underlying stock changes. When an option expires, it no longer has any value.

17 29. Many of the investors who became Lee’s clients had limited  
18 investment experience and no prior options trading experience.

19 30. From March 2009 through May 2011, at least 24 clients opened  
20 brokerage accounts for purposes of investing in options through Lee.

21 31. Lee’s clients funded individual accounts opened in their names at  
22 Scottrade OptionsFirst or Charles Schwab, by mailing checks and making wire or  
23 other transfers to these online brokers.

24 32. Lee exercised near complete control over client accounts, determining  
25 what options should be traded and when. Lee had access to client accounts  
26 through use of client user name and password information. Lee executed the  
27 trades in the accounts or directed others to do so per his instructions. Lee  
28 conducted this activity out of SOT’s office in San Diego, among other places.

1           **Lee misled clients about his background**

2           33. Lee's clients often were first introduced to him at pre-arranged  
3 meetings held in hotel suites or conference rooms, among other places. Most  
4 prospective clients were family, friends or acquaintances of one of two early Lee  
5 investors, who helped facilitate these meetings.

6           34. To induce prospective clients into believing he was an investment  
7 adviser worthy of fiduciary trust, Lee portrayed himself as a wealthy and  
8 successful financial industry expert who now enjoyed helping others to make  
9 money.

10          35. In terms of his educational background, Lee told investors that he had  
11 a law degree, an MBA, PhD and was a CPA.

12          36. In terms of his work history, Lee told investors (among other things)  
13 that he had over 20 years of trading experience, including on the floor of the New  
14 York Stock Exchange and at large broker-dealers, and advised companies on tax,  
15 acquisition and/or financing matters.

16          37. In terms of his trading operation, Lee told investors that he had a large  
17 research team in China that helped him to identify profitable options trades. Using  
18 this support and his own "proprietary" strategies, Lee said he oversaw options  
19 trading in the accounts of select "family and friends." Lee likened himself to a  
20 coach that was calling the plays for various "quarterbacks" who executed trades at  
21 his direction in client accounts.

22          38. Among other occasions, Lee made these representations (described in  
23 paragraphs 34 to 37) to an investor in a meeting held on or about October 8, 2009  
24 in Las Vegas, Nevada; to a different investor in a meeting held on or about October  
25 9, 2009 in Las Vegas, Nevada; and over several meetings held with another  
26 investor on or about February 22, 2011, April 20, 2011 and May 2011 in Houston,  
27 Texas.

28          39. The same or substantially similar representations were made by Lee to

1 numerous other investors between December 2008 and May 2011.

2 40. When touting his purported professional and financial success, Lee  
3 failed to disclose past and more recent serious legal troubles.

4 41. Lee had been the chief financial officer of a mortgage company that  
5 ceased operating in 1993. Lee failed to disclose to his clients that he had been  
6 convicted in 1997 of wire fraud and embezzlement related to the mortgage  
7 company's business activities and pension plan. Lee was sentenced to 30 months  
8 in prison and ordered to pay \$2,880,000 in restitution. He has made only minimal  
9 payments towards this obligation.

10 42. Despite this, Lee described his mortgage-industry background to at  
11 least one investor in glowing terms, stating in a December 2008 meeting in Las  
12 Vegas that he had built a mortgage company and sold it for a lot of money.

13 43. Likewise, Lee failed to disclose to his clients that in a 2008  
14 administrative proceeding, the Commission entered an order making findings and  
15 imposing sanctions by default against Lee related to his involvement in  
16 unregistered offerings of billions of shares in penny stock companies. Specifically,  
17 after he affirmatively declined to defend the proceeding, Lee was ordered to cease  
18 and desist from committing or causing violations of Sections 5(a) and 5(c) of the  
19 Securities Act and further ordered to disgorge ill-gotten gains of \$2,866,375 plus  
20 prejudgment interest. See In re Alexander & Wade, Inc., and James Y. Lee,  
21 Securities Act Release No. 8954 (A.L.J. Aug. 28, 2008). Lee has not made any  
22 payments to satisfy this obligation.

23 44. When confronted in a meeting in early 2009 by an investor who  
24 learned about the Commission cease and desist order, Lee placated the investor by  
25 falsely claiming that his name was later removed from the Commission's lawsuit  
26 because he was merely a consultant whose advice had been misused by corporate  
27 management. Believing this to be true, the investor later repeated this information  
28 to another prospective Lee client in an email sent on June 10, 2010. The next day,



1 the existing client forwarded this exchange to Lee, but Lee did nothing to correct  
2 the false explanation.

3 45. The information Lee failed to disclose to his clients was material. A  
4 reasonable investor would want to know about Lee's prior criminal conviction and  
5 securities law violations before entrusting savings to his discretion.

6 **Lee misled clients about their investment risk**

7 46. In addition to what Lee's clients, problematically, did not know about  
8 his background, the full picture of their investment risk was further obscured by  
9 Lee's incomplete and false assurances about the safety of their trading accounts  
10 with him.

11 47. In the investor meetings in Las Vegas and Houston described above,  
12 as well as in similar pitches to other investors, Lee indicated that he, or one of his  
13 "quarterbacks" that submitted trades for execution in client accounts at his  
14 direction, would closely monitor account performance to adhere to conservative  
15 trading guidelines he established, which ensured consistently positive results.

16 48. Lee, however, did not discuss with clients the risks of options trading,  
17 in particular the risks of his preferred strategy—writing (or "selling to open")  
18 uncovered (or "naked") option positions. An uncovered position is one in which  
19 the option writer does not own shares of the underlying stock. Whereas an option  
20 holder's potential loss is limited to the amount paid for the option (should the  
21 option expire worthless or "out of the money"), the option writer's potential loss is  
22 not so limited (and may be unlimited, if writing uncovered calls) because the writer  
23 may have to buy or sell shares of the underlying stock at an unfavorable price  
24 compared to the current market price.

25 49. Lee also did not disclose to clients the related risks involved with his  
26 trading on "margin." In a margin account, the brokerage firm lends the investor  
27 cash, using the account as collateral, to purchase securities. With respect to  
28 options trading, margin also refers to the cash or securities required to be deposited

1 as collateral for the option writer's obligation to buy or sell shares of the  
2 underlying stock. Margin requirements for option writing are complex and vary  
3 based on option type. An uncovered option writer may be required to provide the  
4 broker with additional cash or securities in the event of adverse market  
5 movements.

6 50. Lee did not explain to his clients that they could: (a) lose more money  
7 than invested in the margin account; (b) have to deposit additional cash or  
8 securities in the margin account on short notice to cover market losses; and (c) be  
9 forced to sell some or all of the securities held in the account if the account value  
10 falls below a certain threshold.

11 51. Instead of making these risk disclosures, Lee made empty guarantees.  
12 To attract the business of at least twelve clients, Lee promised that if their accounts  
13 actually suffered any realized losses, he would split the losses with them "50/50"  
14 and repay them out of his own supposedly "deep pockets." In return, as described  
15 further below, Lee asked to share "50/50" in the clients' realized gains.

16 52. This equal sharing of profits and losses was among the representations  
17 made in the investor meetings described above in paragraph 38.

18 53. While Lee put few things in writing, he confirmed his agreement to  
19 share losses equally with one investor, in a June 24, 2011 email.

20 54. Lee also told certain clients his trading platform included the  
21 application of "stop-losses," or risk controls, that prevented clients from losing  
22 more than 10%. Lee also told one of these clients that the principal in her account  
23 would be safe and not at risk, in their initial meeting held on or about October 8,  
24 2009 in Las Vegas.

25 55. Despite Lee's claims about the safety of client investments, all of  
26 Lee's clients faced margin calls and suffered substantial losses in their accounts.

27 56. By early 2012, Lee's clients collectively had lost over \$11 million  
28 (out of approximately \$25 million invested) and additionally paid over \$3.3 million

1 in fees.

2 57. Nonetheless, Lee failed to share in client losses as promised and as  
3 demanded by clients. He repaid less than \$200,000 and most clients received  
4 nothing.

5 58. Lee's misleading statements about the management of client assets  
6 were material. A reasonable investor would want to know the truth about the risks  
7 associated with Lee's trading strategy, including the absence of promised  
8 safeguards and loss-sharing, when deciding to invest with Lee.

9 **Lee charged fees based on false performance**

10 59. Part of Lee's usual pitch to prospective clients was that he would keep  
11 their best interests in mind, more so than large, traditional firms that he said spent  
12 most of their money on overhead expenses. Lee, however, charged high fees and  
13 even defrauded certain clients by knowingly charging fees based on overstated  
14 investment results.

15 60. Lee told prospective clients that they would pay 50% of monthly  
16 realized profits as management fees. He later reduced his fee to 25% for some  
17 clients. Lee told prospective clients that no written contract with him was needed,  
18 but if a client did not pay his invoices, he would stop trading in that client's  
19 account.

20 61. Lee, or others at his direction, calculated the realized gains or losses in  
21 client accounts on a monthly basis. Lee determined the percentage of monthly  
22 realized profits that clients would be charged as a management fee and when  
23 clients would be invoiced.

24 62. In his zeal to profit at his clients' expense, Lee charged fees to three  
25 of his investment advisory clients based on false account performance for February  
26 2011 and concealed from the clients that they had actually incurred net realized  
27 losses that month, such that no fees were due.

28 63. Lee had an arrangement to pay a portion of the fees generated by the

1 accounts of these three clients to another individual (also a Lee investor) who  
2 introduced the clients to Lee and helped manage their accounts at Lee's direction.  
3 This individual went along with Lee's plan to spread the realized losses in these  
4 client accounts over five months and to charge only one-fifth of the realized losses  
5 against the realized gains for February 2011, so it would appear that the clients had  
6 net realized profits for which management fees were due. Accordingly, the three  
7 clients received invoices for management fees from Lee, and/or the individual that  
8 managed their accounts at Lee's direction, based on the false net realized profits  
9 for February 2011, which invoices the clients paid.

10 64. As for the supposed deferral of the remainder of the losses to future  
11 months, this never came to pass. Lee billed one of the clients for management fees  
12 in subsequent months without reducing the client's gains by any offsetting  
13 adjustments for the prior February 2011 losses. The other two clients incurred  
14 additional losses after February 2011 and did not receive further invoices for the  
15 affected accounts.

16 65. By exaggerating gains and minimizing losses, Lee deceived his clients  
17 about the true performance of their investments and his associated fees.

18 **Lee traded outside his discretionary authority in penny stocks**

19 66. Lee or others acting at his direction, purchased and sold penny stocks  
20 in two client accounts even though Lee only had an agreement with these clients to  
21 trade options.

22 **Lee misled a client about another penny stock investment**

23 67. In July 2009, Lee advised one of his clients to invest in Axia Group  
24 Inc. ("Axia"), which at the time was a Nevada Corporation based in Cave Creek,  
25 Arizona.

26 68. Based on Lee's recommendation, the client invested \$15,000 in Axia  
27 through a convertible promissory note.

28 69. Lee said that he served as a consultant to small companies like Axia,

1 and helped take them public via the over-the-counter market. Lee further claimed  
2 that he was compensated only in stock.

3 70. At the time of the client's \$15,000 investment, Axia had less than  
4 \$700 in its bank account. There was only one additional deposit in the account (for  
5 \$2,490) before it was liquidated in March 2010. Unbeknown to Lee's client, after  
6 receiving his \$15,000 investment, Axia began transferring funds to companies and  
7 individuals associated with Lee: two payments to ELX totaling \$8,000; two  
8 payments to MAKJ Capital Solutions, Inc. totaling \$4,500; and one payment to  
9 Ettore's brother for \$1,500. Lee never disclosed these cash payments to his client.

10 71. Lee's deceit about his relationship with Axia and the use of his  
11 client's investment proceeds was material. A reasonable investor would want to  
12 know that in recommending Axia, Lee stood to be the primary beneficiary from an  
13 investment in the company.

14 **Lee diverted fraudulent proceeds to the Relief Defendants**

15 72. To avoid having assets in his own name, and to reinforce his contrived  
16 image as a successful money manager, Lee's clients were invoiced by and paid  
17 management fees to various shell companies controlled by Lee, namely ELX,  
18 Advanced Century, Ultra and/or SOT (the "Corporate Relief Defendants").

19 73. Lee, or others at his direction, sent invoices to clients through email  
20 and mail. Many client invoices were prepared and sent by an administrative  
21 assistant who worked with Lee out of SOT's San Diego office.

22 74. Lee's clients paid the invoices by mailing checks or making wire  
23 transfers to the Corporate Relief Defendants.

24 75. During the relevant period, the Corporate Relief Defendants were  
25 almost exclusively funded by Lee's clients.

26 76. SOT received over \$990,000 from various Lee clients, plus additional  
27 funds from ELX.

28 77. ELX received over \$900,000 from various Lee clients, plus additional

1 funds from Advanced Century and SOT.

2 78. Advanced Century received over \$660,000 from various Lee clients,  
3 plus additional funds from ELX.

4 79. Ultra received over \$130,000 of Lee client funds.

5 80. The Corporate Relief Defendants, in turn, funneled a portion of the  
6 client fees to Lee, his family, friends and/or close associates, as well as businesses  
7 they controlled.

8 81. Among other individuals and entities, the Corporate Relief  
9 Defendants disbursed the monies received from Lee's clients to Ettore, Clayton  
10 Lee and/or Gatchalian (the "Individual Relief Defendants").

11 82. Ettore received over \$390,000 from ELX and SOT, in payments made  
12 directly to Ettore or for her benefit.

13 83. Clayton Lee received over \$40,000 in payments from SOT and  
14 Advanced Century.

15 84. Gatchalian received over \$69,000 in payments from Ultra.

16 85. The Individual Relief Defendants, and the Corporate Relief  
17 Defendants they formed, collaborated with Lee by serving as intermediaries for  
18 payments related to his investment advisory business.

19 86. The Corporate Relief Defendants were formed at the request and  
20 direction of Lee, and Lee conducted the corporations' businesses.

21 87. The management fees paid by Lee's clients to the Corporate Relief  
22 Defendants, and the above-described amounts received by the Individual Relief  
23 Defendants, constitute proceeds of Lee's fraud.

24 88. When Lee appeared before Commission staff for investigative  
25 testimony, he invoked his Fifth Amendment right against self-incrimination and  
26 refused to answer any questions about his background, his representations to  
27 investors, his trading strategy and the other conduct described above.

28

1 **FIRST CLAIM FOR RELIEF**

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

3 89. The Commission repeats and incorporates by reference the allegations  
4 in paragraphs 1 through 88 above.

5 90. By engaging in the conduct described above, Defendant Lee, directly  
6 or indirectly, acting knowingly or recklessly, in connection with the purchase or  
7 sale of securities, by the use of means and instrumentalities of interstate commerce,  
8 or of the mails, or a facility of a national securities exchange: (a) employed  
9 devices, schemes or artifices to defraud; (b) made untrue statements of material  
10 fact or omitted to state a material fact necessary to make the statements made, in  
11 the light of the circumstances under which they were made, not misleading; and (c)  
12 engaged in acts, practices or courses of business which operated as a fraud or  
13 deceit upon certain persons.

14 91. As a result, Defendant violated, and unless enjoined will likely  
15 continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and  
16 Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder.

17 **SECOND CLAIM FOR RELIEF**

18 **Violations of Section 17(a)(1) and (2) of the Securities Act**

19 92. The Commission repeats and incorporates by reference the allegations  
20 in paragraphs 1 through 88 above.

21 93. Defendant, by engaging in the conduct described above, directly or  
22 indirectly, in the offer or sale of securities by use of the means or instruments of  
23 transportation or communication in interstate commerce or by use of the mails: (a)  
24 with scienter, employed devices, schemes, or artifices to defraud; and (b) obtained  
25 money or property by means of untrue statements of material fact or omissions to  
26 state a material fact necessary to make the statements made, in light of the  
27 circumstances under which they were made, not misleading.

28 94. By engaging in the conduct described above, Defendant violated, and

1 unless enjoined will likely continue to violate, Section 17(a)(1) and (2) of the  
2 Securities Act [15 U.S.C. § 77q(a)(1), (2)].

3 **THIRD CLAIM FOR RELIEF**

4 **(Violations of Section 206(1) and 206(2) of the Advisers Act)**

5 95. The Commission repeats and incorporates by reference the allegations  
6 in paragraphs 1 through 88 above.

7 96. Defendant Lee was an “investment adviser” within the meaning of  
8 Section 202(a)(11) of the Advisers Act [15 U.S.C. § 80b-2(a)(11)].

9 97. By engaging in the conduct described above, Defendant, directly or  
10 indirectly, while acting as an investment adviser, by use of the mails or any means  
11 or instrumentality of interstate commerce: (a) with scienter, employed devices,  
12 schemes, or artifices to defraud clients or prospective clients; and (b) engaged in  
13 transactions, practices, or courses of business which operated or would operate as a  
14 fraud or deceit upon clients or prospective clients.

15 98. By engaging in the conduct described above, Defendant has violated,  
16 and unless enjoined will likely continue to violate, Section 206(1) and (2) of the  
17 Advisers Act [15 U.S.C. § 80b-6(1), (2)].

18 **FOURTH CLAIM FOR RELIEF**

19 **(Unjust Enrichment of Relief Defendants)**

20 99. The Commission repeats and incorporates by reference the allegations  
21 in paragraphs 1 through 88 above.

22 100. Section 21(d)(5) of the Exchange Act [15 U.S.C. § 78u(d)(5)] states:  
23 “In any action or proceeding brought or instituted by the Commission under any  
24 provision of the securities laws, the Commission may seek, and any Federal court  
25 may grant, any equitable relief that may be appropriate or necessary for the benefit  
26 of investors.”

27 101. As described above, Relief Defendants ELX, Advanced Century,  
28 Ultra, SOT, Ettore, Clayton Lee and Gatchalian received investor funds under



1 circumstances dictating that, in equity and good conscience, they should not be  
2 allowed to retain such funds.

3 102. As a result, each Relief Defendant is liable for unjust enrichment and  
4 should be required to return his, her or its ill-gotten gains, in an amount to be  
5 determined by the Court.

6 103. Defendant Lee should be held jointly and severally liable for the total  
7 amounts received by each of the respective Corporate Relief Defendants as a result  
8 of the conduct described above.

9 **PRAYER FOR RELIEF**

10 **WHEREFORE**, the Commission respectfully requests that the Court:

11 A. Enter a permanent injunction restraining Defendant and each of his  
12 agents, servants, employees and attorneys and those persons in active concert or  
13 participation with him who receive actual notice of the injunction by personal  
14 service or otherwise, including facsimile transmission or overnight delivery  
15 service, from directly or indirectly engaging in the conduct described above, or in  
16 conduct of similar purport and effect, in violation of:

- 17 1. Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and  
18 Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5];
- 19 2. Section 17(a)(1) and (2) of the Securities Act [15 U.S.C.  
20 § 77q(a)(1), (2)]; and
- 21 3. Section 206(1) and 206(2) of the Advisers Act [15 U.S.C.  
22 § 80(b)-6(1), (2)].

23 B. Require Defendant to disgorge his ill-gotten gains and losses avoided,  
24 plus prejudgment interest;

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

1 D. Require the Relief Defendants to disgorge all unjust enrichment  
2 and/or ill-gotten gain received directly or indirectly from Defendant, plus  
3 prejudgment interest, holding Defendant jointly and severally liable with the  
4 respective Corporate Relief Defendants;

5 E. Retain jurisdiction over this action to implement and carry out the  
6 terms of all orders and decrees that may be entered or to entertain any suitable  
7 application or motion for additional relief, within the jurisdiction of this Court; and

8 F. Award such other and further relief as the Court deems just and  
9 proper.

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Dated: February 13, 2014

Respectfully submitted,

**Securities and Exchange Commission,**

By its attorneys,



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Michael D. Foster (IL Bar No. 6257063)  
Email: fostermi@sec.gov  
John Birkenheier (IL Bar No. 6270993)  
Email: birkenheierj@sec.gov  
Jennifer Peltz (IL Bar No. 6280848)  
Email: peltzj@sec.gov  
Securities and Exchange Commission  
175 West Jackson Boulevard, Suite 900  
Chicago, Illinois 60604  
Telephone: (312) 353-7390  
Facsimile: (312) 353-7398

/s/ Karen Matteson

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Karen Matteson (Cal. Bar No. 102103)  
mattesonk@sec.gov  
Securities and Exchange Commission  
5670 Wilshire Boulevard, 11<sup>th</sup> Floor  
Los Angeles, CA 90036  
Telephone: (323) 965-3840  
Facsimile: (323) 965-3908  
*Local Counsel*

JS 44 (Rev. 12/12)

**CIVIL COVER SHEET**

**'14CV0347 LAB BGS**

The JS 44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON NEXT PAGE OF THIS FORM.)

**I. (a) PLAINTIFFS**

U.S. Securities and Exchange Commission

(b) County of Residence of First Listed Plaintiff San Diego  
(EXCEPT IN U.S. PLAINTIFF CASES)

(c) Attorneys (Firm Name, Address, and Telephone Number)  
5670 Wilshire Boulevard, 11th Floor, Los Angeles, CA 90036-3648,  
(323) -

**DEFENDANTS**

James Y. Lee and Relief Defendants: Larissa O. Ettore; ELX International, Inc.; Clayton K. Lee; Advanced Century Corp.; Lolita Gatchalian; Ultra International, Inc.; and SOT Group, Inc.

County of Residence of First Listed Defendant San Diego  
(IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

Attorneys (If Known)  
For Defendant James Y. Lee and one or more Relief Defendants:  
Irving Einhorn, 1710 10th Street, Manhattan Beach, California 90266,  
(310) 798-7216

**II. BASIS OF JURISDICTION (Place an "X" in One Box Only)**

- 1 U.S. Government Plaintiff
- 2 U.S. Government Defendant
- 3 Federal Question (U.S. Government Not a Party)
- 4 Diversity (Indicate Citizenship of Parties in Item III)

**III. CITIZENSHIP OF PRINCIPAL PARTIES (Place an "X" in One Box for Plaintiff and One Box for Defendant)**

- |   |                            |                            |   |                            |                            |
|---|----------------------------|----------------------------|---|----------------------------|----------------------------|
|   | PTF                        | DEF                        |   | PTF                        | DEF                        |
| Citizen of This State                   | <input type="checkbox"/> 1 | <input type="checkbox"/> 1 | Incorporated or Principal Place of Business In This State     | <input type="checkbox"/> 4 | <input type="checkbox"/> 4 |
| Citizen of Another State                | <input type="checkbox"/> 2 | <input type="checkbox"/> 2 | Incorporated and Principal Place of Business In Another State | <input type="checkbox"/> 5 | <input type="checkbox"/> 5 |
| Citizen or Subject of a Foreign Country | <input type="checkbox"/> 3 | <input type="checkbox"/> 3 | Foreign Nation  | <input type="checkbox"/> 6 | <input type="checkbox"/> 6 |

**IV. NATURE OF SUIT (Place an "X" in One Box Only)**

CONTRACT	TORTS	FORFEITURE/PENALTY	BANKRUPTCY	OTHER STATUTES	
<input type="checkbox"/> 110 Insurance <input type="checkbox"/> 120 Marine <input type="checkbox"/> 130 Miller Act <input type="checkbox"/> 140 Negotiable Instrument <input type="checkbox"/> 150 Recovery of Overpayment & Enforcement of Judgment <input type="checkbox"/> 151 Medicare Act <input type="checkbox"/> 152 Recovery of Defaulted Student Loans (Excludes Veterans) <input type="checkbox"/> 153 Recovery of Overpayment of Veteran's Benefits <input type="checkbox"/> 160 Stockholders' Suits <input type="checkbox"/> 190 Other Contract <input type="checkbox"/> 195 Contract Product Liability <input type="checkbox"/> 196 Franchise	<b>PERSONAL INJURY</b> <input type="checkbox"/> 310 Airplane <input type="checkbox"/> 315 Airplane Product Liability <input type="checkbox"/> 320 Assault, Libel & Slander <input type="checkbox"/> 330 Federal Employers' Liability <input type="checkbox"/> 340 Marine <input type="checkbox"/> 345 Marine Product Liability <input type="checkbox"/> 350 Motor Vehicle <input type="checkbox"/> 355 Motor Vehicle Product Liability <input type="checkbox"/> 360 Other Personal Injury <input type="checkbox"/> 362 Personal Injury - Medical Malpractice	<b>PERSONAL INJURY</b> <input type="checkbox"/> 365 Personal Injury - Product Liability <input type="checkbox"/> 367 Health Care/Pharmaceutical Personal Injury Product Liability <input type="checkbox"/> 368 Asbestos Personal Injury Product Liability <b>PERSONAL PROPERTY</b> <input type="checkbox"/> 370 Other Fraud <input type="checkbox"/> 371 Truth in Lending <input type="checkbox"/> 380 Other Personal Property Damage <input type="checkbox"/> 385 Property Damage Product Liability	<input type="checkbox"/> 625 Drug Related Seizure of Property 21 USC 881 <input type="checkbox"/> 690 Other  <b>LABOR</b> <input type="checkbox"/> 710 Fair Labor Standards Act <input type="checkbox"/> 720 Labor/Management Relations <input type="checkbox"/> 740 Railway Labor Act <input type="checkbox"/> 751 Family and Medical Leave Act <input type="checkbox"/> 790 Other Labor Litigation <input type="checkbox"/> 791 Employee Retirement Income Security Act  <b>IMMIGRATION</b> <input type="checkbox"/> 462 Naturalization Application <input type="checkbox"/> 465 Other Immigration Actions	<input type="checkbox"/> 422 Appeal 28 USC 158 <input type="checkbox"/> 423 Withdrawal 28 USC 157  <b>PROPERTY RIGHTS</b> <input type="checkbox"/> 820 Copyrights <input type="checkbox"/> 830 Patent <input type="checkbox"/> 840 Trademark  <b>SOCIAL SECURITY</b> <input type="checkbox"/> 861 HIA (1395ff) <input type="checkbox"/> 862 Black Lung (923) <input type="checkbox"/> 863 DIWC/DIWW (405(g)) <input type="checkbox"/> 864 SSID Title XVI <input type="checkbox"/> 865 RSI (405(g))  <b>FEDERAL TAX SUITS</b> <input type="checkbox"/> 870 Taxes (U.S. Plaintiff or Defendant) <input type="checkbox"/> 871 IRS—Third Party 26 USC 7609	<input type="checkbox"/> 375 False Claims Act <input type="checkbox"/> 400 State Reapportionment <input type="checkbox"/> 410 Antitrust <input type="checkbox"/> 430 Banks and Banking <input type="checkbox"/> 450 Commerce <input type="checkbox"/> 460 Deportation <input type="checkbox"/> 470 Racketeer Influenced and Corrupt Organizations <input type="checkbox"/> 480 Consumer Credit <input type="checkbox"/> 490 Cable/Sat TV <input checked="" type="checkbox"/> 850 Securities/Commodities/Exchange <input type="checkbox"/> 890 Other Statutory Actions <input type="checkbox"/> 891 Agricultural Acts <input type="checkbox"/> 893 Environmental Matters <input type="checkbox"/> 895 Freedom of Information Act <input type="checkbox"/> 896 Arbitration <input type="checkbox"/> 899 Administrative Procedure Act/Review or Appeal of Agency Decision <input type="checkbox"/> 950 Constitutionality of State Statutes
REAL PROPERTY	CIVIL RIGHTS	PRISONER PETITIONS			
<input type="checkbox"/> 210 Land Condemnation <input type="checkbox"/> 220 Foreclosure <input type="checkbox"/> 230 Rent Lease & Ejectment <input type="checkbox"/> 240 Torts to Land <input type="checkbox"/> 245 Tort Product Liability <input type="checkbox"/> 290 All Other Real Property	<input type="checkbox"/> 440 Other Civil Rights <input type="checkbox"/> 441 Voting <input type="checkbox"/> 442 Employment <input type="checkbox"/> 443 Housing/Accommodations <input type="checkbox"/> 445 Amer. w/Disabilities - Employment <input type="checkbox"/> 446 Amer. w/Disabilities - Other <input type="checkbox"/> 448 Education	<b>Habeas Corpus:</b> <input type="checkbox"/> 463 Alien Detainee <input type="checkbox"/> 510 Motions to Vacate Sentence <input type="checkbox"/> 530 General <input type="checkbox"/> 535 Death Penalty <b>Other:</b> <input type="checkbox"/> 540 Mandamus & Other <input type="checkbox"/> 550 Civil Rights <input type="checkbox"/> 555 Prison Condition <input type="checkbox"/> 560 Civil Detainee - Conditions of Confinement			

**V. ORIGIN (Place an "X" in One Box Only)**

- 1 Original Proceeding
- 2 Removed from State Court
- 3 Remanded from Appellate Court
- 4 Reinstated or Reopened
- 5 Transferred from Another District (specify)
- 6 Multidistrict Litigation

**VI. CAUSE OF ACTION**

Cite the U.S. Civil Statute under which you are filing (Do not cite jurisdictional statutes unless diversity):  
Section 10(b) Securities Exchange Act; Section 17(a) Securities Act; Section 206 Investment Advisers Act  
Brief description of cause:  
Securities Fraud

**VII. REQUESTED IN COMPLAINT:**

CHECK IF THIS IS A CLASS ACTION UNDER RULE 23, F.R.Cv.P. **DEMAND \$** \_\_\_\_\_  
CHECK YES only if demanded in complaint:  
**JURY DEMAND:**  Yes  No

**VIII. RELATED CASE(S) IF ANY**

(See instructions): JUDGE Miranda Du (Ayers, et al. v. Lee, at al) DOCKET NUMBER 2:13-cv-02219 (D. Nevada)

DATE 2/13/2014 SIGNATURE OF ATTORNEY OF RECORD [Signature] /s/ Karen Matteson

FOR OFFICE USE ONLY: RECEIPT # \_\_\_\_\_ AMOUNT \_\_\_\_\_ APPLYING IFP \_\_\_\_\_ JUDGE \_\_\_\_\_ MAG. JUDGE \_\_\_\_\_