

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Shopoff Securities, Inc. (CRD No. 142866),

William A. Shopoff (CRD No. 1273471),

and

Stephen R. Shopoff (CRD No. 5276325),

Respondents.

DISCIPLINARY PROCEEDING
No. 2016048393501

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. In or about December 2010 through March 2017 (the “Notes Period”), Shopoff Securities, Inc. (“Shopoff Securities” or the “Firm”), through two of its officers, President and Chief Executive Officer William A. Shopoff and his brother, Senior Vice President for Investor Relations Stephen R. Shopoff, fraudulently sold approximately \$12.57 million of promissory note investments (the “Notes”) to 29 investors. The Notes were issued by two Firm affiliates that were owned by William Shopoff, purportedly to fund his private real estate firm.

2. However, Respondents failed to disclose that some investment proceeds would actually be transferred to William Shopoff and his personal trust to pay his and his wife’s personal expenses, and that approximately \$165,000 was used for those personal expenses.

3. Respondents also failed to disclose that some investment proceeds would be used to repay previous Notes investors. Furthermore, although William Shopoff and his wife personally guaranteed the investments, Respondents failed to disclose to the investors that the Shopoffs' assets were largely illiquid. Shopoff Securities, William Shopoff and Stephen Shopoff thereby willfully violated Securities Exchange Act of 1934 § 10(b), Rule 10b-5 thereunder, and FINRA Rules 2020 and 2010.

4. Respondents' recommendations that investors purchase the Notes were not suitable. By making these recommendations without a reasonable basis to do so, Shopoff Securities, William Shopoff and Stephen Shopoff violated NASD Rule 2310 and FINRA Rule 2010 for conduct occurring on or before July 8, 2012, and violated FINRA Rules 2111 and 2010 for conduct occurring on or after July 9, 2012.

5. Further, from at least August 2014 through August 2016 (the "Private Placement Period"), Shopoff Securities and William Shopoff fraudulently sold two private placement offerings that were sponsored by William Shopoff's private real estate firm. Shopoff Securities, through William Shopoff, massively inflated his and his wife's cash assets in a financial statement given to a third-party due diligence provider assessing the Shopoffs' financial wherewithal. Shopoff Securities and William Shopoff thereby willfully violated Securities Exchange Act of 1934 §10(b), Rule 10b-5 thereunder, and FINRA Rules 2020 and 2010.

RESPONDENTS AND JURISDICTION

Shopoff Securities

6. Respondent Shopoff Securities is a captive registered broker-dealer with its principal place of business in Irvine, California. Respondent William Shopoff founded the Firm in September 2006 and it became registered with FINRA in May 2007.

7. The Firm is majority-owned by the Shopoff Revocable Trust, which is a personal trust wholly owned by Respondent William Shopoff and his wife, [REDACTED] Shopoff.

8. At all times relevant to this Complaint, Shopoff Securities primarily sold retail and wholesale offerings of its affiliates, which are also majority-owned by the Shopoff Revocable Trust. As of December 2018, Shopoff Securities employed 11 registered individuals at a single branch located in Irvine, California.

9. By virtue of its current FINRA membership, FINRA possesses jurisdiction over Shopoff Securities under Article IV of FINRA's By-Laws.

William Shopoff

10. Respondent William Shopoff first became registered in the securities industry from October 1984 through December 1985 and then as a General Securities Principal and Corporate Securities Representative beginning in May 2007. Subsequently, William Shopoff became registered as a Direct Participation Programs Representative.

11. From at least May 2007 until the date of this Complaint, William Shopoff has been registered with FINRA through an association with Shopoff Securities. From September 2006 until the date of this Complaint, William Shopoff was the President and Chief Executive Officer of Shopoff Securities. He is a direct owner of Shopoff Securities. In addition, he and his wife, [REDACTED] Shopoff, are the trustees of the Shopoff Revocable Trust, which holds the majority ownership interest in Shopoff Securities.

12. From January 2011 until March 2016, William Shopoff was the Chief Compliance Officer and Anti-Money Laundering Compliance Officer of Shopoff Securities.

13. Under Article V of FINRA's By-Laws, FINRA possesses jurisdiction over William Shopoff because (a) he currently is registered with FINRA and associated with a

member firm and (b) the Complaint charges him with misconduct committed while he was registered with FINRA and associated with a member firm.

Stephen Shopoff

14. Respondent Stephen Shopoff first became registered in the securities industry as a Corporate Securities Representative with Shopoff Securities in May 2007. Subsequently, Stephen Shopoff became registered as a General Securities Principal and Direct Participation Programs Representative with Shopoff Securities.

15. From September 2006 until the date of this Complaint, Stephen Shopoff, William Shopoff's brother, was the Firm's Senior Vice President for Investor Relations. Additionally, Stephen Shopoff is a direct owner of Shopoff Securities.

16. Under Article V of FINRA's By-Laws, FINRA possesses jurisdiction over Stephen Shopoff because (a) he currently is registered with FINRA and associated with a member firm and (b) the Complaint charges him with misconduct committed while he was registered with FINRA and associated with a member firm.

FACTS

Fund IV, L.P.

I. William and Stephen Shopoff Solicit Investments in Fund IV, L.P.

17. In 2004, William Shopoff created The Shopoff Group, L.P., as the successor of a real estate business that he had co-founded in 1992. The Shopoff Group is now known as, and is referred to in this Complaint as, Shopoff Realty Investments, L.P. ("Shopoff Realty"). Shopoff Realty is a private real estate firm William and [REDACTED] Shopoff have wholly owned since inception through the Shopoff Revocable Trust.

18. William Shopoff has been the President of Shopoff Realty since inception.

19. In 2006, William Shopoff formed TSG Fund IV, L.P. (“Fund IV”), a California limited partnership, with the stated purpose of raising funds for Shopoff Realty.

20. In or about October 2006, William Shopoff caused a Private Placement Memorandum (the “PPM”) to be prepared that offered for sale interests of Fund IV. William Shopoff reviewed and approved the final version of the PPM. The PPM included the Fund IV Subscription Agreement template (“Subscription Agreement”). William Shopoff also reviewed and approved the Subscription Agreement. William Shopoff also reviewed and approved a document entitled “Loan Guaranty Agreement” (the “Guaranty”) for the Fund IV investments.

21. Beginning approximately four years later, during the Notes Period, Shopoff Securities, through William or Stephen Shopoff or both, recommended to 13 customers of Shopoff Securities that they invest in Fund IV. Respondents sold 19 investments totaling approximately \$1.67 million in Fund IV (the “Fund IV Investors”) during the Notes Period to those 13 investors.

22. All of the Fund IV Investors were individuals. The Fund IV investments are set forth in **Appendix A**.

23. Respondents sold Fund IV pursuant to the 2006 PPM which, as alleged below, was outdated and never updated at the time of the sales.

24. As the owner of Fund IV, William Shopoff authorized all of the Fund IV Investors’ investments in Fund IV. He also recommended the Fund IV investment to three of the Fund IV Investors as set forth in Appendix A, and he facilitated their respective Fund IV investments.

25. Stephen Shopoff recommended the Fund IV investment to six Fund IV Investors as set forth in Appendix A. These six Fund IV Investors made ten total Fund IV investments,

totaling approximately \$764,000. Stephen Shopoff also facilitated their respective Fund IV investments.

26. William Shopoff provided or directed others at Shopoff Securities to provide the PPM to the Fund IV Investors that he solicited.

27. Stephen Shopoff provided or directed others at Shopoff Securities to provide the PPM to the Fund IV Investors that he solicited.

II. The Offering Documents for Fund IV Contained Material Misrepresentations and Omissions

28. Potential investors in Fund IV were provided with the PPM and other documents that, as alleged below, contained certain misrepresentations and omissions of facts material to investors. Respondents did not otherwise provide the material information misrepresented in or omitted from these documents to Fund IV Investors.

A. The PPM

29. The PPM pre-dated the Fund IV Investors' investments by at least four years and was not updated during the Notes Period. Respondents knew that the PPM was outdated when they provided or directed others to provide the PPM to the Fund IV Investors.

30. During the Notes Period, Respondents made the following material misrepresentations and omissions in the PPM:

- a. Respondents did not update or cause the PPM to be updated during the Notes Period to accurately reflect the extent of Shopoff Realty's debt, which was material information because Shopoff Realty was the sole source of repayment. The PPM stated that as of October 2006 Shopoff Realty's debt was \$2.835 million. By 2013, Shopoff Realty had at least \$22.6 million in debt.

- b. The PPM stated that Shopoff Realty and related entities expected to sell five real estate projects by the end of 2007, generating approximately \$40 million in profits and commissions. Four of these sales were consummated years later, if at all, and at a loss:
- i. The PPM predicted that Shopoff Realty would receive nearly \$6.5 million in profits and commissions from the sale of residential lots in Southern California. Instead, the project was not sold until May 2011 and was sold at a loss of \$22,000.
 - ii. The PPM predicted that Shopoff-related entities would receive nearly \$13.5 million in profits and commissions from the sale of residential lots in Southern California. Instead, this project was not sold until August 2014, at a \$2.4 million loss.
 - iii. The PPM predicted that Shopoff-related entities would receive nearly \$8.5 million in profits and commissions from the sale of residential lots in Southern California. The project was not sold, however, until November 2009, at a \$37,000 loss.
 - iv. The PPM predicted that Shopoff-related entities would receive nearly \$5.5 million in profits and commissions from the sale of land and water stock in Southern California. However, as of January 2017, that project had not been sold.

Respondents never updated the PPM to disclose the current status, sale dates or losses from these projects.

- c. The PPM identified five executives of Shopoff Realty by name and provided biographical information for each. However, Respondents did not update the PPM to reflect that Shopoff Realty's Chief Financial Officer left in November 2012. Respondents did not update the PPM to reflect that the Senior Vice President for Land Acquisitions left Shopoff Realty in December 2012. The PPM was also not updated to identify and provide background information about the new executives.
- d. The PPM stated that Shopoff Realty would repay any promissory note to Fund IV from Shopoff Realty's income and cash flow sources. Respondents did not disclose to Fund IV Investors that Shopoff Realty had limited liquidity and regularly relied upon cash infusions from William Shopoff, the Shopoff Revocable Trust, Fund IV and another affiliate, Shopoff Enterprises, Inc.
- e. The PPM did not disclose that a portion of the Fund IV investment funds would be used to repay other Fund IV investors. In or about April 2013, Shopoff Securities, through Stephen Shopoff, solicited customer RL to invest \$5,000 in Fund IV. On or about April 25, 2013, Fund IV used RL's investment to fund, in part, payments totaling approximately \$13,000 to Fund IV investors SH and JH, which was not disclosed to RL.
- f. The PPM stated that Fund IV was issuing a maximum of \$5 million in notes for Shopoff Realty, which Shopoff Realty would ultimately repay. However, Fund IV actually issued notes for more than \$6 million from its inception through the end of the Notes Period.

B. Other Agreements Provided to Potential Investors

31. The PPM included the Fund IV Subscription Agreement template. Fund IV Investors were required to complete and return the Subscription Agreement to Shopoff Securities in order for Fund IV to accept their investments.

32. During the Notes Period, Shopoff Securities, through William Shopoff and Stephen Shopoff, made an additional material misrepresentation in the Subscription Agreement. The Subscription Agreement stated that Fund IV had no current financial or operating history. However, by the commencement of the Notes Period and throughout that period, Fund IV had several years of financial and operating history. Respondents did not disclose Fund IV's financial and operating history to potential investors in the Subscription Agreement or otherwise. The issuer's financial history was a material fact to an investor.

33. Additionally, Respondents provided each Fund IV Investor with a document entitled "Loan Guaranty Agreement" (the "Guaranty"). William and [REDACTED] Shopoff each signed the Guaranties as co-trustees of the Shopoff Revocable Trust.

34. According to the Guaranty, the Shopoff Revocable Trust guaranteed that it would pay the amounts due to Fund IV investors if Fund IV defaulted on its repayment obligations.

35. However, the Guaranties did not disclose that the Shopoffs' net worth was largely derived from self-valuations of their closely held private corporations, which were primarily real estate corporations, and that their assets lacked liquidity. This information about the Shopoffs' net worth was material for an investor to be able to assess the risk that Fund IV would default and the Shopoffs would fail to fulfill their Guaranty of the Fund IV Investor's investment.

III. Respondents Failed to Disclose Fund IV's Financial Difficulties When Renegotiating Repayment Terms with Fund IV Investors

36. During the Notes Period, Shopoff Securities, through William Shopoff and Stephen Shopoff repeatedly recommended that certain of the Fund IV Investors extend or amend their Fund IV investments. Specifically, when Fund IV or Shopoff Realty did not have sufficient funds available to make required principal and/or interest payments, William Shopoff or Stephen Shopoff asked the applicable Fund IV Investors to extend or amend their investment in order to delay the required payment:

- a. In or about April 2014, Shopoff Realty's CFO, SS, sent an email to William Shopoff expressing her concerns that the company would not have sufficient funds to make the next scheduled payment to Fund IV Investors SH and JH. Several days later, the day before payment was due to SH and JH, William Shopoff instructed her not to make the payment to those Fund IV Investors. William Shopoff and JH and SH then executed amendments to JH's and SH's respective Fund IV promissory notes, extending the date for the payments due to them. Prior to amending the promissory notes, William Shopoff did not disclose to either SH or JH the material fact that neither Fund IV or Shopoff Realty had adequate funds to make the payment due to them as scheduled.
- b. On or about June 14, 2014, Shopoff Realty's CFO, SS, sent William Shopoff an email expressing concerns about timing of inflows and outflows of funds and the need for additional cash, particularly with respect to Shopoff Realty's payroll obligations. Her email noted Stephen Shopoff had already deferred a \$50,000 loan from a Shopoff relative and that Stephen Shopoff was working on deferring the payment of \$110,000 due to a Fund IV Investor, RC. On or

about June 29, 2014, William Shopoff and RC executed an amendment to RC's Fund IV promissory note, extending the date for the payment due to him until December 2014. Prior to amending the promissory note, neither Stephen Shopoff nor William Shopoff disclosed to RC the material fact that Fund IV and Shopoff Realty were experiencing difficulty meeting its payment deadlines.

- c. In or about December 2014, individuals at Shopoff Realty, including Respondents William Shopoff and Stephen Shopoff and Shopoff Realty CFO SS, exchanged emails regarding an anticipated shortfall in funding. In order to prevent this shortfall, William Shopoff asked Fund IV Investors JH and SH, both of whom had payments due in December 2014, to amend their existing Fund IV investments and extend the due date for some or all of the payments. In order to prevent this shortfall, Stephen Shopoff also asked Fund IV Investors RC and RL, who had payments due in December 2014 or January 2015, to amend their existing Fund IV investments and extend the due date for some or all of the payments. William Shopoff and each of these Fund IV Investors executed amendments to their respective Fund IV promissory notes, extending the due date for the payments due to each of them. However, prior to amending each of these Fund IV promissory notes, neither Stephen Shopoff nor William Shopoff disclosed to any of the Fund IV Investors the material fact that Fund IV and Shopoff Realty were experiencing funding difficulties.

Shopoff Enterprises Notes

I. William and Stephen Shopoff Solicit Investment in Shopoff Enterprises

37. In 1981, William Shopoff formed Shopoff Enterprises, Inc., a Texas corporation. William Shopoff has served as President of Shopoff Enterprises since that time.

38. Shopoff Enterprises is owned by William and [REDACTED] Shopoff through the Shopoff Revocable Trust.

39. During the Notes Period, Respondents sold 42 investments totaling approximately \$10.9 million to 23 investors in the Shopoff Enterprises offering (“Shopoff Enterprises Investors”) as set forth on **Appendix B**. The 23 investors included individuals, corporate entities and trusts.

40. As the owner of Shopoff Enterprises, William Shopoff authorized all of the Shopoff Enterprises Investors’ investments in Shopoff Enterprises. He also recommended the Shopoff Enterprises investment to 12 Shopoff Enterprises Investors, as set forth in Appendix B, and facilitated their respective Shopoff Enterprises investments. These 12 Shopoff Enterprises Investors made 23 investments totaling approximately \$6.58 million.

41. Stephen Shopoff recommended the Shopoff Enterprises investment to four Shopoff Enterprises Investors, as set forth in Appendix B. These four Shopoff Enterprises Investors made eight investments totaling approximately \$1.5 million. Stephen Shopoff facilitated their respective Shopoff Enterprises investments.

42. Respondents provided Shopoff Enterprises Investors with a promissory note (“Enterprises Note”) and a purported loan guaranty (“Enterprises Guaranty”) in the same form as those provided to the Fund IV Investors. Respondents did not provide any private placement

memorandum, partnership agreement, or subscription agreement to Shopoff Enterprises Investors.

43. William Shopoff approved the form and content of the Enterprises Notes, and signed each of them as President of Shopoff Enterprises.

44. The Enterprises Notes did not disclose how the investment proceeds would be used or provide any financial or operational information about Shopoff Enterprises.

45. The use of investment proceeds, including the use of investment proceeds for William and [REDACTED] Shopoff's personal needs, is a material fact.

46. Shopoff Enterprises' financial information is material information for an investor to be able to assess the risk of an investment in Shopoff Enterprises.

47. William Shopoff approved the form and content of the Enterprises Guaranty. William and [REDACTED] Shopoff each signed the Enterprises Guaranties as co-trustees of the Shopoff Revocable Trust.

48. According to the Enterprises Guaranty, the Shopoff Revocable Trust guaranteed that it would pay the amounts due to the Shopoff Enterprises Investor if Shopoff Enterprises defaulted on its repayment obligations. Therefore, the Shopoffs' liquidity, net worth, cash balance and assets were material information.

49. However, the Enterprises Guaranties did not disclose that the Shopoffs' net worth was largely derived from self-valuations of their closely held private corporations, which were primarily real estate corporations, and that their assets lacked liquidity. This information about the Shopoffs' net worth was material for an investor to be able to assess the risk that Shopoff Enterprises would default and the Shopoffs would fail to fulfill their Guaranty.

50. William Shopoff and Stephen Shopoff each represented in verbal conversations with Shopoff Enterprises Investors that the Shopoff Enterprises investment proceeds would be used for working capital and/or general corporate needs.

51. Respondents did not disclose to Shopoff Enterprises Investors that, as alleged further below, some of the Shopoff Enterprises investment proceeds would be transferred to William Shopoff or his Shopoff Revocable Trust or otherwise used to pay personal expenses for William Shopoff and [REDACTED] Shopoff. The intended use of investment proceeds is a material fact to investors.

52. Respondents also did not disclose to Shopoff Enterprises Investors that, as alleged further below, Shopoff Enterprises was soliciting new investments that would be used to repay principal and interest due to other Fund IV or Shopoff Enterprises Investors. The intended use of investment proceeds is a material fact to investors.

53. Respondents also did not disclose, in connection with renegotiating payment terms to certain Shopoff Enterprises Investors that, as alleged further below, Shopoff Enterprises and its affiliates were experiencing financial difficulties.

54. As alleged above, and as Respondents were aware, during the Notes Period, William Shopoff regularly authorized and Shopoff Realty regularly relied upon cash infusions from William Shopoff, the Shopoff Revocable Trust, Fund IV and Shopoff Enterprises. However, Respondents did not disclose this practice to Shopoff Enterprises Investors. The withheld information was material to potential investors in order for an investor to be able to assess the risk of the investment.

II. William and [REDACTED] Shopoff Use Investor Funds for Personal Expenses

55. William Shopoff knew of and actively managed the financial affairs of Shopoff Enterprises and Shopoff Realty.

56. Approximately \$165,000 of the Shopoff Enterprises investment proceeds were used to pay personal expenses of William Shopoff and [REDACTED] Shopoff.

57. In or about November 2013, Shopoff Securities, through William Shopoff, solicited AL, LLC to invest \$250,000 in Shopoff Enterprises. Respondents did not disclose that a portion of the proceeds would be used to make a payment on a personal note that William and [REDACTED] Shopoff had provided to a third party, JR, in connection with JR's seller-financing of residential property purchased by William and [REDACTED] Shopoff. Yet, on or about November 6, 2013, Shopoff Enterprises transferred the \$250,000 to another Shopoff affiliate which then used approximately \$105,000 of AL, LLC's investment proceeds to fund part of a payment to JR.

58. In or about February 2014, Shopoff Securities, through William Shopoff, solicited CR to invest \$750,000 in Shopoff Enterprises. Respondents did not disclose that some of the proceeds of that investment would be used to pay William and [REDACTED] Shopoff's personal expenses. Yet, on or about February 28, 2014, William and [REDACTED] Shopoff used approximately \$27,000 of CR's investment to pay their monthly rent for their residence.

59. On or about January 30, 2015, Shopoff Securities, through William Shopoff, solicited RC to invest \$50,000 in Shopoff Enterprises. Respondents did not disclose that portion of RC's Shopoff Enterprises investment proceeds would be used to pay William and [REDACTED] Shopoff's personal expenses. Yet, on or about January 30, 2015, Shopoff Enterprises transferred RC's entire investment to William Shopoff's personal account. On or about the same day,

William Shopoff used approximately \$23,000 of CR's Shopoff Enterprises investment to fund part of the payment for their monthly rent for their residence.

60. In or about July 2015, Shopoff Securities, through Stephen Shopoff, solicited LS to invest \$625,000 in Shopoff Enterprises. LS initially funded \$100,000 of her Shopoff Enterprises investment on or about July 1, 2015. At about the same time, Shopoff Securities, through William Shopoff, solicited RP, LP to invest \$200,000 in Shopoff Enterprises. Respondents did not disclose that the proceeds of these investments would be used to pay William and [REDACTED] Shopoff's personal expenses. Yet, between approximately July 9 and July 14, 2015, William and [REDACTED] Shopoff and/or Shopoff Enterprises used approximately \$10,000 the \$300,000 invested by RP and LS to pay charges for [REDACTED] Shopoff's various credit cards, including vacation and restaurant charges.

61. Respondents did not provide the material information omitted from the Enterprises Notes or the Enterprises Guaranties to Shopoff Enterprises Investors in their verbal communications or in any other written documents.

III. Shopoff Securities and William Shopoff Used New Shopoff Enterprises Investor Funds to Repay Principal and Interest Due to Previous Investors

62. Shopoff Enterprises, through Respondents, solicited several new investments that were used to repay principal and interest due to other Fund IV or Shopoff Enterprises Investors. They did not disclose this intended use of proceeds to the solicited investors or this practice to any Shopoff Enterprises Investors. The intended use of investment proceeds is a material fact to investors.

A. A Substantial Portion of AL's \$380,000 Investment is Used to Pay Shopoff Enterprises Investors and a Fund IV Investor

63. In or about December 2013, Shopoff Securities, through William Shopoff, solicited AL, LLC, to invest \$380,000 in Shopoff Enterprises.

64. Respondents did not disclose that the proceeds of that investment would be used to repay previous Shopoff Enterprises and Fund IV Investors.

65. Yet, on or about December 30, 2013, a portion of AL, LLC's Shopoff Enterprises investment was transferred from Shopoff Enterprises to Shopoff Realty and then to Fund IV. Fund IV then used the funds from AL, LLC's Shopoff Enterprises investment to fund part of a principal and interest payment of \$112,530 to Fund IV Investor DC.

66. Additionally, on or about December 30 and December 31, 2013, Shopoff Enterprises used a portion of AL, LLC's investment to fund, in part, a \$75,000 payment to Shopoff Enterprises Investor LCP and a principal payment of approximately \$100,000 to Shopoff Enterprises Investor WM.

B. A Substantial Portion of the \$825,000 Total Investment by LS and RP, LP is Used to Pay Shopoff Enterprises Investors

67. On or about July 1, 2015, Shopoff Securities, through Stephen Shopoff, solicited LS to invest \$625,000 in Shopoff Enterprises. LS made an initial investment of \$100,000 on or about July 1, 2015 and funded the balance of her investment in late July 2015.

68. On or about July 6, 2015, Shopoff Securities, through William Shopoff, solicited RP, LP to invest \$200,000 in Shopoff Enterprises.

69. Respondents did not disclose that portions of LS's and RP, LP's Shopoff Enterprises investment proceeds would be used repay previous Shopoff Enterprises Investors.

70. Yet, on or about July 6 and July 10, 2015, Shopoff Enterprises used portions of LS's and RP, LP's investments to fund payments of approximately \$245,000 to Shopoff Enterprises Investor CR.

71. Additionally, on or about July 14, 2015, Shopoff Enterprises used portions of LS's and RP, LP's investments to fund a payment of approximately \$6,000 to RP, LP and a payment of approximately \$3,600 to Shopoff Enterprises Investor JS.

C. A Substantial Portion of the \$750,000 Investment by KLT is Used to Pay a Fund IV Investor

72. In or about December 2015, Shopoff Securities, through William Shopoff, solicited KLT to invest \$750,000 in Shopoff Enterprises.

73. Respondents did not disclose that the proceeds of that investment would be used to repay previous Fund IV Investors.

74. Yet, on or about December 24, 2015, Shopoff Enterprises transferred a portion of KLT's Shopoff Enterprises investment to Fund IV. Fund IV then used these KLT Shopoff Enterprises investment funds to fund a payment of approximately \$62,000 to Fund IV Investor RC.

IV. Respondents Failed to Disclose Shopoff Enterprises' Financial Difficulties When Renegotiating Repayment Terms with Several Investors

75. Similar to its practice with Fund IV Investors, at various points during the Notes Period, Shopoff Securities, through William Shopoff and Stephen Shopoff, recommended that certain Shopoff Enterprises Investors extend or amend their Shopoff Enterprises investments. Specifically, when Shopoff Enterprises or Shopoff Realty did not have sufficient funds available to make required principal and/or interest payments to an investor, William Shopoff or Stephen

Shopoff asked the investor to extend or amend their investment in order to delay the required payment:

- a. In or about December 2014, Respondents William Shopoff and Stephen Shopoff and Shopoff Realty CFO SS exchanged emails regarding an anticipated shortfall in funding. In order to prevent this shortfall, Stephen Shopoff asked Shopoff Enterprises Investor RL and William Shopoff asked Shopoff Enterprises Investor OH, LLC to amend their existing Shopoff Enterprises investments and extend the due dates for the payments for those investments. William Shopoff, RL and OH, LLC then executed amendments to RL's and OH, LLC's respective Enterprises Notes, extending the due date for the payments due pursuant to each of the Enterprises Notes. However, prior to amending RL's and OH, LLC's Shopoff Enterprises investments, Respondents did not disclose to RL or OH, LLC the material fact that Shopoff Enterprises and Shopoff Realty were experiencing a shortfall in funding.
- b. In or about January 2014, William Shopoff and Shopoff Realty CFO SS exchanged emails expressing concerns about Shopoff Realty's cash flow and the availability of funds in January and early February 2014 to make required payments. At around the same time, Stephen Shopoff asked Shopoff Enterprises Investor JL to amend her existing Shopoff Enterprises investment to extend the due date for some or all of the payment due to her in early February 2014. JL agreed to amend her Shopoff Enterprises investment in order to extend the due date for approximately \$100,000 of the amount due to her. William Shopoff and JL executed an amendment to JL's Shopoff

Enterprises Note, extending the due date for part of the payments due to her.

However, prior to amending JL's Shopoff Enterprises investment,

Respondents did not disclose to JL the material fact that Shopoff Enterprises and Shopoff Realty were experiencing difficulty with cash flow.

- c. In or about May 2015, William Shopoff and Shopoff Realty CFO SS exchanged emails about cash flow concerns. In or about May 2015, Stephen Shopoff asked Shopoff Enterprises Investor RC to amend his existing Shopoff Enterprises investment to extend the due date for some of the payment due to him in May 2015. RC agreed to amend his Shopoff Enterprises investment in order to extend the due date for \$200,000 of approximately \$250,000 that was due to him. William Shopoff and RC executed an amendment's to RC's Enterprises Note, extending the due date for the \$200,000. However, prior to amending RC's Shopoff Enterprises investment, Respondents did not disclose to RC the material fact that Shopoff Enterprises and Shopoff Realty were experiencing cash flow problems.

Shopoff Securities and William Shopoff Made Material Misrepresentations and Material Omissions in Connection with Sales of Private Placements

76. During the Private Placement Period, William Shopoff made material misrepresentations and omissions about his and [REDACTED] Shopoff's financial condition in connection with sales of two Shopoff Realty offerings, Shopoff Land Fund III and Shopoff Land Fund IV (collectively, the "Private Placement Offerings"). William Shopoff engaged a third-party due diligence provider ("Company A") to create two due diligence reports about Shopoff Realty, which was the sponsor of both of the Private Placement Offerings. Each of these reports stated that Shopoff Realty historically relied upon financial support from William Shopoff and

████ Shopoff. These reports, which were reviewed and approved by William Shopoff, materially misstated his and █████ Shopoff's ability to provide such support.

I. William Shopoff Misrepresents his Assets in Connection with Third Party Due Diligence Reports

A. William Shopoff Temporarily Inflates His Net Worth in Preparation of a Personal Financial Statement

77. Prior to the Private Placement Period, in anticipation of the Private Placement Offerings, William Shopoff engaged an accounting firm to provide a personal financial compilation ("Compilation") for himself and █████ Shopoff that would reflect their assets and liabilities as of March 31, 2014.

78. Shopoff Realty made an offering in 2013 similar to the Private Placement Offerings, which was supported by two third-party due diligence reports. Those earlier reports noted that the Shopoffs had a history of funding such projects but that their net worth was primarily comprised of equity and investments in affiliates and that they had "minimal liquid [] assets."

79. As a result, William Shopoff was aware that third party due diligence providers would consider his and █████ Shopoff's financial condition, including liquidity, in their evaluation of the Private Placement Offerings.

80. On or about March 31, 2014, William Shopoff caused SS, the CFO of Shopoff Realty, to transfer temporarily \$1.5 million to William Shopoff's personal bank account from the account of an affiliate of Shopoff Realty. William Shopoff authorized this temporary transfer in order to artificially and falsely inflate the appearance of his liquid net worth in anticipation of the Private Placement Offerings.

81. William Shopoff directed Shopoff Realty to provide the accounting firm with a financial statement that reflected the artificially inflated cash amount in William Shopoff's personal bank account due to the temporary \$1.5 million transfer. The accounting firm used that financial statement to create the Compilation on or about August 1, 2014.

82. Within only one month after he artificially inflated his account with the temporary \$1.5 million transfer, William Shopoff transferred most of the \$1.5 million out of his personal bank account. Specifically, several checks totaling \$1.15 million were written from William and [REDACTED] Shopoff's personal bank account to Shopoff Realty.

83. As of April 30, 2014, the balance in William and [REDACTED] Shopoff's personal bank account was approximately \$220,000.

84. At the time the Compilation was completed on or about August 1, 2014, William and [REDACTED] Shopoff's personal bank account had a cash balance of approximately \$300,000. However, the Compilation contained the inflated cash balance of \$1,496,404.

B. William Shopoff Provides the Inflated "Compilation" to a Third-Party Due Diligence Provider

85. During the Private Placement Period, William Shopoff engaged Company A to provide two operational due diligence reports for Shopoff Realty: one dated August 29, 2014 (the "August 2014 Report") and one dated November 10, 2015 (the "November 2015 Report").

86. Company A had provided the earlier due diligence reports in support of the 2013 offering alleged above, which had noted the Shopoffs' minimal liquid assets.

87. Shopoff knew that Company A would make one or both of these reports available to broker-dealers who were soliciting investments in the Private Placement Offerings.

i. The August 2014 Report Contained Misrepresentations and Omissions From the Compilation

88. William Shopoff provided or caused others at Shopoff Realty to provide the Compilation to Company A for use in the August 2014 Report even though the Compilation misrepresented William and [REDACTED] Shopoff's cash balance.

89. William Shopoff knew that certain FINRA broker-dealers who were soliciting or considering soliciting investors to invest in the Private Placement Offerings could request the August 2014 Report from Company A. Three FINRA member broker-dealers requested and obtained a copy of the August 2014 Report from Company A between September 2014 and November 2015. During this same period, these three broker-dealers solicited and obtained investments in Shopoff Land Fund III or Shopoff Land Fund IV.

90. The August 2014 Report noted that Shopoff Realty and its affiliates relied upon William and [REDACTED] Shopoff for ongoing financial support. The August 2014 Report stated that it relied upon the Compilation. The August 2014 Report also specifically stated that William and [REDACTED] Shopoff had a cash balance of \$1.5 million as of March 31, 2014.

91. The August 2014 Report did not provide any updated information about William and [REDACTED] Shopoff's actual cash balance of approximately \$300,000 as of August 1, 2014. The August 2014 Report did not disclose that the nearly \$1.5 million cash balance reflected in the Compilation was the result of a temporary transfer of \$1.5 million to the couple's personal bank account on March 31, 2014. The August 2014 Report also did not disclose that William and [REDACTED] Shopoff transferred the majority of the \$1.5 million to Shopoff Realty in April 2014 or that the couple's personal cash balance remained significantly below \$1.5 million between April 30, 2014 and the issuance of the August 2014 Report. The August 2014 Report omitted these

material facts that were known to William Shopoff and that were necessary to make the other statements about the Shopoffs' finances in the August 2014 Report not misleading.

92. William Shopoff reviewed draft versions of the August 2014 Report and provided comments and feedback to Company A during the drafting process.

93. William Shopoff, on behalf of Shopoff Realty, certified Shopoff Realty's comments to the August 2014 Report, which were incorporated at the end of the document. He also executed a certification for the August 2014 Report on behalf of Shopoff Realty. By signing, William Shopoff certified that Shopoff Realty had provided Company A with "any and all information relevant to the information contained in the [August 2014 Report]" and also certified that the August 2014 Report was "complete, true and accurate representations of the facts."

94. However, the August 2014 Report did not provide accurate information about William and [REDACTED] Shopoff's liquidity as of August 2014.

ii. The November 2015 Report Contained Misrepresentations and Omissions From the Compilation

95. William Shopoff provided or caused others at Shopoff Realty to provide the Compilation to Company A for use in the November 2015 Report even though the Compilation misrepresented William and [REDACTED] Shopoff's cash balance.

96. Prior to the creation of the November 2015 Report, William Shopoff authorized Shopoff Realty personnel to create an updated statement of financial condition for William and [REDACTED] Shopoff as of December 31, 2014 (the "December 2014 Financial Statement"). The December 2014 Financial Statement reflected that William and [REDACTED] Shopoff had a cash balance of \$5,192 as of December 31, 2014.

97. Although it reflected more accurate and timely financial information, nobody provided the December 2014 Financial Statement, or any other updated financial information, to Company A.

98. As of October 31, 2015, William and [REDACTED] Shopoff's personal cash balance was approximately \$33,000.

99. William Shopoff knew that certain FINRA broker-dealers who were soliciting or considering soliciting investors to invest in Shopoff Land Fund IV could request the November 2015 Report from Company A.

100. Three FINRA member broker-dealers requested and obtained a copy of the November 2015 Report from Company A between November 2015 and August 2016. During this same period, these three broker-dealers solicited and obtained investments in Shopoff Land Fund IV.

101. The November 2015 Report stated that Shopoff Realty was dependent upon the continued financial support of the Shopoff Revocable Trust and William and [REDACTED] Shopoff if sufficient funds were not generated through Shopoff Realty's operational activities. The November 2015 Report stated that although at the time of the report it appeared that Shopoff Realty had the capacity to fund ongoing operations, historically Shopoff Realty had relied upon support from William and [REDACTED] Shopoff through the Shopoff Revocable Trust.

102. The November 2015 Report further stated "[m]anagement indicated the financial position of William and [REDACTED] Shopoff has not changed significantly since the [Compilation] was prepared." The November 2015 Report also stated that William and [REDACTED] Shopoff had a cash balance of \$1.5 million as of March 31, 2014. Both of these representations were false and material to investors in Shopoff Land Fund IV.

103. The November 2015 Report did not provide any information about William and [REDACTED] Shopoff's cash balance after March 31, 2014.

104. The November 2015 Report did not disclose that the \$1.5 million cash balance as of March 31, 2014 was the result of a \$1.5 million transfer to the couple's personal bank account on that date, nor did it disclose that William and [REDACTED] Shopoff transferred the majority of the \$1.5 million to Shopoff Realty in April 2014. The November 2015 Report also did not disclose that William and [REDACTED] Shopoff's personal cash balance remained significantly below \$1.5 million at all times between April 30, 2014 and November 10, 2015. The November 2015 Report omitted these material facts that were known to William Shopoff and that were necessary to make the other statements about the Shopoffs' finances in the November 2015 Report not misleading.

105. William Shopoff, on behalf of Shopoff Realty, reviewed at least one draft version of the November 2015 Report and he provided comments and feedback to Company A during the drafting process. William Shopoff had the opportunity to request corrections to the November 2015 Report. William Shopoff did not request or have anyone at Shopoff Realty request a correction or update to his reported cash balance in the November 2015 Report. Shopoff Realty also provided its own comments to the November 2015 Report, which were included at the end of the November 2015 Report. However, William Shopoff did not take any steps to include corrections or updates to his reported cash balance in Shopoff Realty's comments included within the November 2015 Report.

106. William Shopoff, on behalf of Shopoff Realty, signed a certification that he had reviewed the November 2015 Report for material misstatements, that Shopoff Realty had provided Company A with "all information responsive to [Company A's] requests" and also that

the sections of the November 2015 Report that contained the aforementioned material misrepresentations were accurate in all material aspects.

FIRST CAUSE OF ACTION
Fraud in the Sale of Fund IV
Violation of Securities and Exchange Act § 10(b),
Rule 10b-5 thereunder and FINRA Rules 2020 and 2010
(All Respondents)

107. The Department of Enforcement realleges and incorporates all preceding paragraphs.

108. Section 10(b) of the Exchange Act and Rule 10b-5 thereunder prohibit any person, by the use of any means or instrumentality of interstate commerce, or of the mails, to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, in connection with the purchase or sale of a security.

109. FINRA Rule 2020 provides that: “No member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.”

110. FINRA Rule 2010 requires members and associated persons in the conduct of their business to “observe high standards of commercial honor and just and equitable principles of trade.”

111. During the Notes Period, William Shopoff and Stephen Shopoff each distributed or directed others at Shopoff Securities to distribute the PPM to the Fund IV investors that they each solicited (as identified in Appendix A). Additionally, William Shopoff approved the PPM that was distributed to all of the Fund IV investors identified in Appendix A.

112. The PPM contained the following material misrepresentations: (1) Shopoff's Realty debt; (2) the profits and commission that Shopoff Realty received or could receive from anticipated sales of projects described in the PPM; (3) the identity of the Chief Financial Officer and Senior Vice President for Land Acquisitions for Shopoff Realty; and (4) the maximum size of the offering.

113. The PPM also omitted information necessary to make the following statements in the PPM not misleading:

- a. The PPM stated that Shopoff Realty would use the Fund IV investments for working capital needs of Shopoff Realty and related entities listed in the PPM. The PPM failed to disclose that portion of the Fund IV investment funds would be used to repay Fund IV investors.
- b. The PPM stated that Shopoff Realty would repay the note to Fund IV from Shopoff Realty's income and cash flow sources. However, the PPM failed to disclose that Shopoff Realty had limited liquidity and regularly relied upon cash infusions from William Shopoff, the Shopoff Revocable Trust, Fund IV and Shopoff Enterprises. The PPM also failed to disclose that Fund IV would repay some of its investors using future investment proceeds from Fund IV Investors and Shopoff Enterprises Investors.

114. During the Notes Period, William Shopoff and Stephen Shopoff each distributed or directed others at Shopoff Securities to distribute the Subscription Agreement (that William Shopoff approved) to the Fund IV investors that they each solicited (as identified in Appendix A). The Subscription Agreement contained a material misrepresentation because it falsely stated that Fund IV had no current financial or operating history.

115. During the Notes Period, William Shopoff and Stephen Shopoff each distributed or directed others at Shopoff Securities to distribute the Guaranty (that William Shopoff approved and executed) to the Fund IV investors that they each solicited (as identified in Appendix A). The Guaranty omitted material information about the Shopoffs' liquidity, net worth, cash balance and assets that was necessary for an investor to assess the risk involved in the Fund IV investment.

116. William Shopoff misrepresented this material information in the PPM, Subscription Agreement and Guaranty and failed to disclose the material information omitted from the PPM, Subscription Agreement and Guaranty to all of the Fund IV Investors identified in Appendix A.

117. Stephen Shopoff misrepresented this material information in the PPM, Subscription Agreement and Guaranty and failed to disclose the material information omitted from the PPM, Subscription Agreement and Guaranty to the six Fund IV Investors that he solicited, as identified in Appendix A.

118. William and Stephen Shopoff verbally misrepresented material facts to the Fund IV Investors they each solicited (as set forth in Appendix A) by stating that the Fund IV investment proceeds would be used for working capital needs or general corporate purposes of Shopoff Realty or its affiliates.

119. In soliciting or accepting the extensions of their respective Fund IV investments, William Shopoff failed to disclose to Fund IV Investors JH, SH, RC and RL the material fact that Fund IV and Shopoff Realty was experiencing funding difficulty that necessitated the extension of their Fund IV investment.

120. In soliciting the extensions of their respective Fund IV investments, Stephen Shopoff failed to disclose to Fund IV Investors RC and RL the material fact that Fund IV and Shopoff Realty was experiencing funding difficulty that necessitated the extension of their Fund IV investment.

121. William Shopoff failed to disclose to the three Fund IV Investors whose Fund IV investments he accepted after he extended Fund IV investments due to funding difficulties the material fact that Fund IV had had to ask previous Fund IV Investors to extend the payment deadlines due to the funding difficulties.

122. Stephen Shopoff failed to disclose to the Fund IV Investor whose Fund IV investment he solicited after Fund IV extended Fund IV investments due to funding difficulties the material fact that Fund IV had had to ask previous Fund IV Investors to extend the payment deadlines due to the funding difficulties.

123. Respondents did not correct the material misrepresentations or provide the material information omitted from the PPM, Subscription Agreement or Guaranties to the Fund IV Investors in verbal communications or in other written documents.

124. The Fund IV Investors purchased their investments in Fund IV through Shopoff Securities.

125. In the course of soliciting and selling investments in the Fund IV offering, Shopoff Securities, William Shopoff and Stephen Shopoff made use of means or instrumentalities of interstate commerce, including emails, the mails and telephone calls.

126. Each of the foregoing misrepresentations and omissions was willful and knowing or, at minimum, reckless.

127. The aforementioned acts and conduct are inconsistent with high standards of commercial honor and just and equitable principles of trade.

128. As a result of the foregoing conduct, Respondents Shopoff Securities, William Shopoff and Stephen Shopoff willfully violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and FINRA Rules 2020 and 2010.

SECOND CAUSE OF ACTION
Fraud in the Sale of Shopoff Enterprises
Violation of Securities and Exchange Act § 10(b),
Rule 10b-5 thereunder and FINRA Rules 2020 and 2010
(All Respondents)

129. The Department of Enforcement realleges and incorporates by reference all preceding paragraphs.

130. During the Notes Period, Shopoff Securities, through William Shopoff and Stephen Shopoff, offered and sold 42 promissory note investments in Shopoff Enterprises to 23 Shopoff Enterprises Investors. William Shopoff authorized all of the Shopoff Enterprises Investors' investment in Shopoff Enterprises.

131. The Shopoff Enterprises Investors purchased their investments in Shopoff Enterprises through Shopoff Securities.

132. In soliciting the Shopoff Enterprises investments from the 12 Shopoff Enterprises Investors that he solicited (as identified in Appendix B), William Shopoff verbally misrepresented that the Shopoff Enterprises investment proceeds would be used for working capital and/or general corporate needs. The use of the investment proceeds was a material fact.

133. In soliciting the Shopoff Enterprises investments from the four Shopoff Enterprises Investors that he solicited (as identified in Appendix B), Stephen Shopoff verbally

misrepresented that the Shopoff Enterprises investment proceeds would be used for working capital and/or general corporate needs. The use of the investment proceeds was a material fact.

134. In soliciting the Shopoff Enterprises investments from the Shopoff Enterprises Investors that they each solicited (as identified in Appendix B), William Shopoff and Stephen Shopoff each failed to disclose the following material information:

- a. That some of the Shopoff Enterprises investment proceeds would be transferred to William Shopoff or his Shopoff Revocable Trust and would be used to pay personal expenses for William Shopoff and [REDACTED] Shopoff.
- b. That some of the Shopoff Enterprises investment proceeds would be used to repay principal and interest due to other Fund IV Investors or Shopoff Enterprises Investors.
- c. That William Shopoff regularly authorized and Shopoff Realty regularly relied upon cash infusions from William Shopoff, the Shopoff Revocable Trust, Fund IV and Shopoff Enterprises.

135. William Shopoff and Stephen Shopoff each distributed or directed others at Shopoff Securities to distribute the Enterprises Note and Enterprises Guaranty to the Shopoff Enterprises Investors that they each solicited (as identified in Appendix B). William Shopoff approved and signed each Enterprises Note.

136. William Shopoff failed to disclose the material information omitted from the Enterprises Note and Enterprises Guaranty to any of the Shopoff Enterprises Investors identified in Appendix B.

137. Stephen Shopoff failed to disclose the material information omitted from the Enterprises Note and Enterprises Guaranty to the four Shopoff Enterprises Investors that he solicited, as identified in Appendix B.

138. Respondents did not correct the material misrepresentations or provide the material information omitted from the Enterprises Note and Enterprises Guaranties to the Shopoff Enterprises Investors in verbal communications or in other written documents.

139. In soliciting or accepting the extensions of their respective Shopoff Enterprises investments, William Shopoff failed to disclose to Shopoff Enterprises Investors RL, OH, LLC, JL and RC the material fact that Shopoff Enterprises and Shopoff Realty was experiencing funding difficulty that necessitated the extension of their Shopoff Enterprises investment.

140. In soliciting the extensions of their respective Shopoff Enterprises investments, Stephen Shopoff failed to disclose to Shopoff Enterprises Investors RL, JL and RC the material fact that Shopoff Enterprises and Shopoff Realty was experiencing funding difficulty that necessitated the extension of their Shopoff Enterprises investment.

141. William Shopoff failed to disclose to the Shopoff Enterprises Investors whose cumulative 15 Shopoff Enterprises investments he accepted after he extended a Shopoff Enterprises investment due to funding difficulties the material fact that Shopoff Enterprises had had to ask previous Shopoff Enterprises Investors to extend the payment deadlines due to the funding difficulties.

142. Stephen Shopoff failed to disclose to the two Shopoff Enterprises Investors whose Shopoff Enterprises investments he solicited after Shopoff Enterprises extended Shopoff Enterprises investments due to funding difficulties the material fact that Shopoff Enterprises had

had to ask previous Shopoff Enterprises Investors to extend the payment deadlines due to the funding difficulties.

143. In the course of soliciting and selling investments in the Shopoff Enterprises offering, Shopoff Securities, William Shopoff and Stephen Shopoff made use of means or instrumentalities of interstate commerce, including emails, the mails and telephone calls.

144. Each of the foregoing misrepresentations and omissions was willful and knowing or, at minimum, reckless.

145. The aforementioned acts and conduct are inconsistent with high standards of commercial honor and just and equitable principles of trade.

146. As a result of the foregoing conduct, Respondents Shopoff Securities, William Shopoff and Stephen Shopoff willfully violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and FINRA Rules 2020 and 2010.

THIRD CAUSE OF ACTION
Unsuitable Recommendations
Violation of NASD Rule 2310(b) and FINRA Rules 2111(a) and 2010
(All Respondents)

147. The Department of Enforcement realleges and incorporates by reference all preceding paragraphs.

148. From the beginning of the Notes Period until July 8, 2012, NASD Rule 2310 was effective. NASD Rule 2310 prohibited a registered person from recommending a security to an investor unless the registered person had “reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs.”

149. FINRA Rule 2111 became effective on July 9, 2012 and was effective through the end of the Notes Period. FINRA Rule 2111 holds members and associated persons to the same standards of conduct as its predecessor, NASD Rule 2310.

150. Both rules require the member or associated person to have a reasonable basis to believe, based upon reasonable diligence, that the recommendation is suitable for at least some investors.

151. During the Notes Period, Shopoff Securities, William Shopoff and Stephen Shopoff did not satisfy their reasonable basis suitability obligation with respect to the Fund IV and Shopoff Enterprises offerings. Nonetheless, William Shopoff recommended the Fund IV securities to three customers (identified in Appendix A) and the Shopoff Enterprises securities to 12 customers (identified in Appendix B). Additionally, despite not satisfying his reasonable basis suitability obligation, Stephen Shopoff recommended the Fund IV securities to six customers (identified in Appendix A) and the Shopoff Enterprises securities to four customers (identified in Appendix B).

152. The investments in the Fund IV offering and the Shopoff Enterprises offering were not suitable for any investor. Shopoff Realty used new investments in order to make principal and interest payments to previous investors.

153. The investments in the Fund IV offering and the Shopoff Enterprises offering were not suitable for any investor because investment proceeds were used to pay for William and [REDACTED] Shopoff's personal expenses and to repay previous investors. The investments in the Fund IV offering and the Shopoff Enterprises offering were also not suitable for any investor due to the financial condition of Shopoff Realty, Shopoff Enterprises, and Fund IV and limited liquidity of the Shopoff Revocable Trust that acted as the guarantor for the investments.

Respondents lacked a reasonable basis to believe that the investments were suitable to sell to any investor.

154. By virtue of this conduct, Respondents violated NASD Rule 2310 and FINRA Rules 2111(a) and 2010.

FOURTH CAUSE OF ACTION
Fraud in the Sale of Shopoff Land Fund III and Shopoff Land Fund IV
Violation of Securities and Exchange Act § 10(b),
Rule 10b-5 thereunder and FINRA Rules 2020 and 2010
(Shopoff Securities and William Shopoff)

155. The Department of Enforcement realleges and incorporates by reference all preceding paragraphs.

156. From September 2014 through October 2015, Shopoff Securities, through William Shopoff, caused material overstatements of his and [REDACTED] Shopoff's personal financial liquidity to be made to three retail broker-dealers (CSS, FGS, and LCG) soliciting investments in Private Placement Offerings in the August 2014 Report he reviewed and signed. These retail broker-dealers solicited 70 investors to invest more than \$3.4 million in Private Placement Offerings.

157. From September 2014 through October 2015, Shopoff Securities, through William Shopoff, failed to disclose the following material information about his and [REDACTED] Shopoff's personal financial liquidity that was necessary to make the statements in the August 2014 Report not misleading:

- a. William Shopoff's and [REDACTED] Shopoff's actual cash balance was approximately \$300,000 as of August 1, 2014.
- b. The \$1.5 million cash balance reflected in the Compilation and cited in the August 2014 Report was the result of a temporary transfer of \$1.5 million to

the couple's personal bank account on March 31, 2014 but William Shopoff transferred the majority of the \$1.5 million to Shopoff Realty in April 2014.

- c. William Shopoff's and [REDACTED] Shopoff's personal cash balance remained significantly below \$1.5 million between April 30, 2014 and the issuance of the August 2014 Report.

158. From November 2015 through August 2016, Shopoff Securities, through William Shopoff, caused material overstatements of his and [REDACTED] Shopoff's personal financial liquidity to be made to three retail broker-dealers (CFM, FGS, and SS) soliciting investments in Shopoff Land Fund IV in the November 2015 Report he reviewed and signed. These retail broker-dealers solicited 13 investors to invest more than \$1.1 million in Shopoff Land Fund IV.

159. From November 2015 through August 2016, Shopoff Securities, through William Shopoff, failed to disclose the following material information about his and [REDACTED] Shopoff's personal financial liquidity that was necessary to make the statements in the November 2015 Report not misleading:

- a. William Shopoff's and [REDACTED] Shopoff's actual cash balance was approximately \$33,000 as of October 31, 2015.
- b. The \$1.5 million cash balance reflected in the Compilation and cited in the November 2015 Report was the result of a temporary transfer of \$1.5 million to the couple's personal bank account on March 31, 2014 but William Shopoff transferred the majority of the \$1.5 million to Shopoff Realty in April 2014.
- c. William Shopoff's and [REDACTED] Shopoff's personal cash balance remained significantly below \$1.5 million between April 30, 2014 and the issuance of

the November 2015 Report, including at the time of the undisclosed
December 2014 Financial Statement.

160. In the course of soliciting and selling investments in the Shopoff Land Fund III and Shopoff Land Fund IV offerings, Shopoff Securities and William Shopoff made use of means or instrumentalities of interstate commerce, including emails, the mails and telephone calls.

161. Each of the foregoing misrepresentations and omissions was willful and knowing or, at minimum, reckless.

162. The aforementioned acts and conduct are inconsistent with high standards of commercial honor and just and equitable principles of trade.

163. As a result of the foregoing conduct, Respondents Shopoff Securities and William Shopoff willfully violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and FINRA Rules 2020 and 2010.

RELIEF REQUESTED

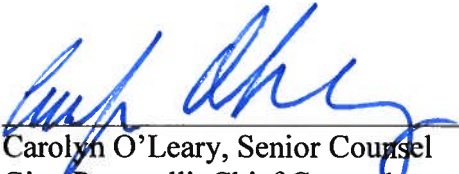
WHEREFORE, the Department of Enforcement respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondents committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that Respondents be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest;
- C. order that Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330; and

- D. make specific findings that Respondents SSI, William Shopoff and Stephen Shopoff willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

FINRA DEPARTMENT OF ENFORCEMENT

Date: January 10, 2019



Carolyn O'Leary, Senior Counsel
Gina Petrocelli, Chief Counsel
Sara Raisner, Director
FINRA Department of Enforcement
Brookfield Place
200 Liberty Street, 11th Floor
New York, NY 10281-1003
Tel: 646.315.7355 (O'Leary)
646.315.7310 (Petrocelli)
646.315.7412 (Raisner)
Email: carolyn.oleary@finra.org
gina.petrocelli@finra.org
sara.raisner@finra.org

Appendix A – TSG Fund IV Notes Investments*Department of Enforcement v. Shopoff Securities, Inc.,**William A. Shopoff and Stephen R. Shopoff**Discip. Proceeding No. 2016048393501*

Date	Investor	Investment Amount	Solicited By
11/9/2011	JMS	\$276,724.12	Shopoff Securities
12/1/2011	TS	\$200,000	Shopoff Securities
12/20/2011	RC	\$100,000	Shopoff Securities Stephen Shopoff
12/29/2011	DC	\$100,000	Shopoff Securities Stephen Shopoff
4/18/2012	JH	\$94,536.19	Shopoff Securities Stephen Shopoff
4/18/2012	JH	\$157,685.58	Shopoff Securities Stephen Shopoff
4/18/2012	SH	\$94,399.50	Shopoff Securities Stephen Shopoff
4/18/2012	SH	\$181,536.39	Shopoff Securities Stephen Shopoff
8/6/2012	RL	\$20,000	Shopoff Securities Stephen Shopoff
4/22/2013	RL	\$5,000	Shopoff Securities Stephen Shopoff
5/15/2013	RL	\$5,000	Shopoff Securities Stephen Shopoff
9/12/2013	TS	\$114,000	Shopoff Securities
10/10/2013	DL	\$100,093.91	Shopoff Securities William Shopoff
10/18/2013	ArL	\$24,550.16	Shopoff Securities William Shopoff
12/3/2013	WM	\$4,000	Shopoff Securities William Shopoff
4/21/2014	KS	\$40,000	Shopoff Securities
1/27/2016	JMS	\$105,000	Shopoff Securities
5/9/2016	JLe	\$6,158.30	Shopoff Securities Stephen Shopoff
1/23/2017	JD	\$42,000	Shopoff Securities

Appendix B – Shopoff Enterprises Notes Investments

*Department of Enforcement v. Shopoff Securities, Inc.,
William A. Shopoff and Stephen R. Shopoff
Discip. Proceeding No. 2016048393501*

Date	Investor	Investment Amount	Solicited By
12/24/2010	RA	\$250,000	Shopoff Securities William Shopoff
2/14/2011	BR and PR	\$75,000	Shopoff Securities
12/1/2011	TS	\$100,000	Shopoff Securities
12/29/2011	NL	\$200,000	Shopoff Securities William Shopoff
1/23/2012	JWM	\$100,000	Shopoff Securities William Shopoff
1/23/2012	JWM	\$250,000	Shopoff Securities William Shopoff
2/3/2012	JL	\$200,000	Shopoff Securities Stephen Shopoff
2/10/2012	LCP	\$250,000	Shopoff Securities William Shopoff
2/20/2012	RP, LP	\$200,000	Shopoff Securities William Shopoff
4/10/2012	RM and SM	\$100,000	Shopoff Securities William Shopoff
6/22/2012	AL, LLC	\$145,000	Shopoff Securities William Shopoff
8/3/2012	RL	\$180,000	Shopoff Securities Stephen Shopoff
3/3/2013	CR	\$150,000	Shopoff Securities William Shopoff
4/17/2013	RL	\$45,000	Shopoff Securities Stephen Shopoff
5/10/2013	RL	\$45,000	Shopoff Securities Stephen Shopoff
5/10/2013	RC	\$250,000	Shopoff Securities Stephen Shopoff
5/22/2013	JS	\$150,000	Shopoff Securities
9/5/2013	DL	\$152,633.14	Shopoff Securities William Shopoff
9/19/2013	JS	\$200,000	Shopoff Securities
10/17/2013	CR	\$400,000	Shopoff Securities William Shopoff

Date	Investor	Investment Amount	Solicited By
11/6/2013	AL, LLC	\$250,000	Shopoff Securities William Shopoff
12/27/2013	AL, LLC	\$80,000	Shopoff Securities William Shopoff
12/29/2013	RC	\$100,000	Shopoff Securities Stephen Shopoff
12/30/2013	AL, LLC	\$300,000	Shopoff Securities William Shopoff
12/31/2013	WM	\$100,000	Shopoff Securities William Shopoff
1/2/2014	RM and SM	\$400,000	Shopoff Securities William Shopoff
2/18/2014	CR	\$750,000	Shopoff Securities William Shopoff
11/3/2014	JS	\$650,000	Shopoff Securities
12/17/2014	DO	\$100,000	Shopoff Securities
12/30/2014	AL, LLC	\$500,000	Shopoff Securities William Shopoff
1/30/2015	RC	\$50,000	Shopoff Securities Stephen Shopoff
2/9/2015	OH, LLC	\$500,000	Shopoff Securities William Shopoff
2/9/2015	OH, LLC	\$250,000	Shopoff Securities William Shopoff
2/26/2015	DO	\$250,000	Shopoff Securities
3/3/2015	KO	\$250,000	Shopoff Securities
3/25/2015	AL, LLC	\$300,000	Shopoff Securities William Shopoff
7/1/2015	LS	\$625,000	Shopoff Securities Stephen Shopoff
7/6/2015	RP, LP	\$200,000	Shopoff Securities William Shopoff
11/24/2015	KO	\$250,000	Shopoff Securities
12/24/2015	KLT	\$750,000	Shopoff Securities William Shopoff
11/8/2016	GH	\$600,000	Shopoff Securities
2/15/2017	RPo	\$222,000	Shopoff Securities