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10 BEFORE THE DEPARTMENT OF CORPORATIONS
 11 OF THE STATE OF CALIFORNIA

<p>12 In the Matter of 13 THE CALIFORNIA CORPORATIONS 14 COMMISSIONER, 15 Complainant, 16 v. 17 JOHN D. STEWART, CORNERSTONE 18 EQUITY PARTNERS, LLC, 19 Respondent.</p>	<p>) CASE NO.)) FILE NO. 925-3693)) ACCUSATION AND STATEMENT IN) SUPPORT OF NOTICE OF INTENTION TO) ISSUE ORDERS:)) (1) TO MAKE FINAL THE ORDER TO) DISCONTINUE VIOLATIONS PURSUANT) TO CORPORATIONS CODE SECTION 25249)) (2) LEVYING ADMINISTRATIVE) PENALTIES PURSUANT TO) CORPORATIONS CODE SECTION 25252)) (3) FOR ANCILLARY RELIEF PURSUANT) TO CORPORATIONS CODE SECTION 25254)) (4) REVOKING CORNERSTONE EQUITY) PARTNERS, LLC's INVESTMENT ADVISER) CERTIFICATE PURSUANT TO) CORPORATIONS CODE SECTION 25232) AND)) (5) BARRING JOHN D. STEWART FROM) ANY POSITION OF EMPLOYMENT,) MANAGEMENT OR CONTROL OF ANY) INVESTMENT ADVISER OR BROKER-) DEALER PURSUANT TO CORPORATIONS) CODE SECTION 25232.1))</p>
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1 Preston DuFauchard, the California Corporations Commissioner ("Commissioner") of the
2 Department of Corporations ("Department") alleges and charges as follows:

3 **I**
4 **JURISDICTION AND VENUE**

5 1. The Commissioner is authorized to administer and enforce the provisions of the
6 Corporate Securities Law of 1968 (Corp. Code, § 25000 et seq.) and the regulations promulgated
7 thereunder (Cal. Code Regs., tit. 10, § 260.000 et seq.).

8 2. Cornerstone Income Fund I, LP ("CIF") is a California limited partnership first registered
9 on August 26, 2004, which was marketed to investors as a "hedge fund". Cornerstone Equity
10 Partners, LLC, (CEP) is a California limited liability corporation first registered on September 18,
11 2004. CEP is the investment manager and general partner of CIF and acts as the fund's investment
12 adviser. CEP currently holds a valid and un-revoked investment adviser certificate issued by the
13 Commissioner pursuant to Corporations Code section 25230 (CRD#128721). John D. Stewart
14 (Stewart) is the principal of CEP and the signatory on the application for the investment adviser
15 certificate filed by CEP. Stewart, CEP and CIF all have a registered business address of 1700 Soscol
16 Avenue, Suite 20, Napa, CA 94559-2515.

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18 3. Stewart became registered as an agent of the licensed securities broker-dealer Eplanning
19 Securities, Inc. ("Eplanning", Firm CRD #4600, Individual CRD for Stewart CRD #4061560) on
20 September 30, 2005. Eplanning's address is 3721 Douglas Blvd. # 200, Roseville, California 95661.

21 **II**
22 **STATEMENT OF FACTS**

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24 4. Stewart is a principal and owner of CEP, a licensed investment adviser that acted as the
25 investment manager and general partner of the CIF limited partnership, which Stewart marketed as a
26 "hedge fund". The limited partners invested over 4.3 million dollars in CIF, which CEP under the
27 direction of Stewart invested on behalf of CIF in various securities and notes. Under the CIF limited
28 partnership agreement CEP and Stewart were to be compensated for their management of the CIF

1 funds, an annual management fee of three percent (3%) of assets under management and a performance
2 fee of twenty percent (20%) of the return on capital.

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4 5. Stewart and CEP invested the majority of CIF's funds into a company called ProAction
5 Sports Medicine Concepts (ProAction). ProAction is a limited partnership formed to operate a
6 "state-of-the-art" ProAction Arena – Sporting and Wellness Centers in Fort Wayne and Lawrence,
7 Indiana, and planned to expand to operate other Sporting and Wellness Centers throughout the
8 United States. Stewart is one of two owners of ProAction Concepts, LLC, which is the general partner
9 of ProAction Sports Medicine Concepts. From September 5, 2004 through August 23, 2005 Stewart
10 invested \$2,763,000 of CIF's money in ProAction. CIF was the only investor in ProAction.
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12 6. Stewart received \$214,991 in "fees" from ProAction as a "finder" for making the investment
13 of CIF funds. As a result Stewart's compensation was equal to approximately 7.8 percent of total
14 investment made by CIF in ProAction Sports Medicine Concepts. Stewart took \$170,000 out of
15 ProAction as an "advance on fees" he claimed he would earn in the future for placing future investors in
16 ProAction. The \$170,000 along with other ProAction company funds totaling \$214,991 were used by
17 Stewart to make a \$200,000 down payment on his personal residence. The fees and advances paid to
18 Stewart by ProAction were not disclosed to the CIF limited partners.
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20 7. The money invested by CIF in ProAction was initially for the purchase of an equity
21 ownership interest in ProAction, but the terms of the investment also contractually required ProAction
22 to make monthly interest payments to CIF on the investment. On April 1, 2005 Stewart converted the
23 equity interest held by CIF in ProAction into a debt note in the amount of \$2,263,000 owed by
24 ProAction to CIF that also required monthly interest payments. Another debt note in the amount of
25 \$500,000 was issued on August 23, 2005 to complete the conversion of CIF's entire investment from
26 equity interest to unsecured debt. Stewart did not disclose that he converted the equity interest into
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1 unsecured debt to the CIF limited partners. Stewart subsequently represented to the Department of
2 Corporations that the equity interest in ProAction was converted into debt because ProAction had
3 suffered losses beginning in its first years of operations and had subjected the CIF investment to losses as
4 a result. ProAction suffered year to date losses of \$511,673.97 as of 2005 and \$747,239.45, as of April
5 30, 2006. Since its inception ProAction has continually lost money and has reportedly never owned or
6 operated a working health club in Indiana or elsewhere. Even though Stewart knew ProAction was
7 suffering large losses and had been making interest payments to CIF with the funds CIF had originally
8 invested, he attempted to conceal the losses from the CIF limited partners by reporting that they were
9 receiving positive returns on their investments. In a letter dated December 31, 2004, from Stewart and
10 CEP to the CIF limited partners it reported that CIF had “completed our first 12 months with positive
11 returns” and that this will (almost assuredly) increase the Cornerstone Income Fund I returns above
12 10% for 2004.” In another letter dated April 2005, it stated: “I am very pleased to enclose your most
13 recent statement indicating another uninterrupted string of 15 months of positive returns!” Thus
14 Stewart misrepresented that the investment in ProAction and the CIF investments as a whole were
15 receiving a positive returns when in fact he knew that ProAction and CIF were losing money.
16 Currently, ProAction does not have any operating business or a way to generate income to pay either
17 interest payments or principal on the debt notes to CIF. It is unlikely to ever be able to make any
18 payments on the note in the future and it appears that all of CIF’s 2.7 million dollar investment in
19 ProAction is lost.

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24 8. Beginning in or about December of 2003 and until September 2005, CEP under the
25 direction of Stewart also used CIF funds to purchase securities in the form of units in partnerships in
26 MKA Real Estate Opportunity Fund I, LLC and MKA Real Estate Opportunity Qualified Fund I,
27 LLC. (MKA.) MKA purportedly provided capital to developers of residential real estate.
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1 Commissions were paid by MKA on the sales of those securities, which totaled in excess of
2 \$341,186.07 to Stewart, CEP and CIF. Specifically, Stewart received a total of \$126,400 in
3 commissions, CEP received \$213,160.54 and CIF received \$1,625.53. The sale of these securities
4 involved 42 separate securities transactions. The commissions paid by MKA to Stewart, CEP and
5 CIF were not disclosed to the limited partners of CIF.
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7 9. Stewart, CEP and CIF had neither applied for nor secured from the California
8 Corporations Commissioner the certificate required to induce the purchase or sale of securities or
9 otherwise operate in the capacity of a securities broker-dealer in the State of California at the time of
10 the sale of the securities referred to above, nor were they exempt from such licensing requirements at
11 the time.
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13 10. On September 30, 2005, Stewart became registered as an agent of the broker-dealer
14 Eplanning Securities, Inc. (Eplanning.) Therefore, Stewart was not eligible to receive commissions
15 as an agent of a broker-dealer until this date. However, Eplanning Securities, Inc. paid commissions
16 to Stewart for acting as an agent of a broker dealer in the sales of securities on September 29, 2005
17 in the amount of \$15,638.13 before he was eligible to earn such commissions.
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19 11. CEP and Stewart recently reported to the CIF limited partners that they will wind down CIF
20 and are in the process of liquidating the investments for return to the limited partners. However, as of
21 the date of this Accusation CIF has only been able to return less than ten percent (10%) of the limited
22 partners initial investment to the limited partners. Stewart and CEP claim that additional funds will be
23 returned when other assets are liquidated in the next few months, but estimates of this amount appear to
24 be still less that fifty percent (50%) of the funds initially invested by the limited partners. The entire
25 investment of \$2,763,000 that CIF invested in Stewart's company ProAction at Stewarts direction is
26 currently held in the nonperforming debt notes which appear to be un-collectable. Despite the likely
27 loss of the entire investment in ProAction, Stewart has recently reported to some CIF limited partners
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1 that they will eventually receive their entire investment back.

2 **III**
3 **FIRST CAUSE FOR DISCIPLINE - VIOLATIONS OF CORPORATIONS CODE SECTION**
4 **25235 FOR EMPLOYING A SCHEME TO DEFRAUD CLIENTS AND CODE OF**
5 **REGULATIONS SECTION 260.238 FOR FAILING TO COMPLY WITH INVESTMENT**
6 **ADVISER DUTIES TO DISCLOSE CONFLICTS OF INTEREST AND FEES TO CLIENTS**

7 12. The Corporate Securities Law of 1968 (Corp. Code, § 25000 et seq.), and the California
8 Code of Regulations, title 10, (§ 260.000 et seq.), contain provisions that govern persons licensed to
9 operate in the securities industry. To ensure the protection of the public, the Commissioner requires
10 compliance by persons or entities that seek to act as securities broker-dealers or investment advisers
11 with licensing requirements of these laws and regulations. It is also required that persons that obtain
12 licenses as security broker-dealers and investment advisers comply with the requirements of the
13 Corporate Securities Laws and regulations. These include the requirement that investment advisers
14 fully disclose to clients any material fact or potential conflict of interest the investment adviser may
15 have with regard to investments made on the clients behalf.

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17 13. Corporations Code section 25237, authorizes the Commissioner to prescribe rules for
18 investment advisers who have custody of the clients' securities or funds or who have any power of
19 attorney from their clients to execute transactions. The Commissioner has done so by specifying,
20 among other requirements, regulations requiring the disclosure of any conflicts of interest to clients
21 the investment adviser may have with regard to any investment made on behalf of or recommended
22 to the client. Those regulations are contained in California Code of Regulations, Title 10 Section
23 260.238 (k), (1), (2) and (o) which prohibits investment advisers from:

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26 (k) Failing to disclose to a client in writing before entering into or
27 renewing an advisory agreement with that client any material
28 conflict of interest relating to the adviser, its representatives or any

1 of its employees, which could be reasonably expected to impair the
2 rendering of unbiased and objective advice including:

3 (1) Compensation arrangements connected with advisory services to
4 clients which are in addition to compensation from such clients for such
5 services; and

6 (2) Charging a client an advisory fee for rendering advice without
7 disclosing that a commission for executing securities transactions
8 pursuant to such advice will be received by the adviser, its
9 representatives or its employees, or that such advisory fee is being
10 reduced by the amount of the commission earned by the adviser, its
11 representatives or employees for the sale of securities to the client.

12 (o) Making any untrue statement of a material fact or omitting a
13 statement of material fact necessary in order to make the
14 statements made, in light of the circumstances under which they
15 are made, not misleading in the solicitation of advisory clients.

16 14. California Corporations Code Section 25235 further states that it is unlawful for any
17 investment adviser directly or indirectly:

18 (a) To employ any device, scheme, or artifice to defraud any client or
19 prospective client.

20 (b) To engage in any transaction, practice, or course of business which
21 operates or would operate as a fraud or deceit upon any client or
22 prospective client.

23 (c) Acting as principal for his own account, knowingly to sell any
24 security to or purchase any security from a client for whom he is acting as
25 investment adviser, or, acting as broker for a person other than such client,
26 knowingly to effect any sale or purchase of any security for the account of
27 such client, without disclosing to such client in writing before the
28 completion of the transaction the capacity in which he is acting and
obtaining the written consent of the client to such transaction.

(d) To engage in any act, practice, or course of business which is
fraudulent, deceptive, or manipulative. The commissioner shall, for the
purpose of this subdivision, by rule define and prescribe means reasonably
designed to prevent such acts, practices, and courses of business as are
fraudulent, deceptive, or manipulative.

15. ProAction was a limited partnership purportedly formed to operate a “state-of-the-art”
ProAction Arena – Sporting and Wellness Centers in Fort Wayne and Lawrence, Indiana, along with
opening and operating other Sporting and Wellness Centers throughout the United States. Stewart is

1 an owner and one of two general partners of ProAction Concepts, LLC, which is the general partner of
2 ProAction.

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4 16. From September 5, 2004 through August 23, 2005, Stewart and CEP acting in the capacity
5 of an investment adviser for CIF invested \$2,763,000 of CIF's funds into ProAction and received
6 \$214,991 in fees. Stewart's compensation was equal to approximately 7.8 percent of the total
7 investment made by CIF in ProAction. The following table shows amounts invested and fees received.

Date	Date Fee Paid to	Investment/Loan	
	Mr. Stewart	Amounts	Fees Paid
09/05/04	9/22/2004	\$100,000	\$10,000
09/25/04	10/5/2004	\$400,000	\$2,800
10/05/04	11/1/2004	\$140,000	\$14,000
10/26/04	12/8/2004	\$700,000	\$170,000
12/13/04	4/12/2005	\$423,000	\$8,000
02/15/05	4/14/2005	\$100,000	\$191
03/31/05	N/A	\$400,000	0
08/23/05	8/30/05	\$500,000	\$10,000
Total		\$2,763,000	\$214,991

17. The offering memorandum and partnership agreement provided by CIF to investors in the
fund provides for an annual management fee of three percent (3%) of assets under management and a
performance fee of twenty percent (20%). Neither the offering memorandum nor the partnership
agreement disclosed that Stewart would be eligible to receive this additional compensation for investing
CIF's funds.

18. Therefore, Stewart violated California Code of Regulations section 260.238(k)(2) as he did
not disclose the conflict of interest that arose due to the additional compensation arrangement that
provided commissions to him for placing the investments in ProAction. In addition, Stewart violated

1 260.238(o) as the failure to disclose the additional compensation and misrepresenting that CIF was
2 receiving positive returns on investments in 2004 and 2005 when he knew or should have known that
3 ProAction was losing money and was unlikely to be able to repay CIF, constitutes misrepresentations
4 and omissions of material fact. This conduct also violated California Corporations Code Section
5 25235 by employing a scheme or artifice to defraud clients and engaging in practices that are
6 fraudulent, deceptive and manipulative. This conduct supports an award of administrative penalties,
7 disgorgement of fees and other disciplinary action requested in sections V, VI, and VII below against
8 Stewart and CEP.

9 **IV**
10 **SECOND CAUSE FOR DISCIPLINE - UNLICENSED BROKER DEALER ACTIVITIES IN**
11 **VIOLATION OF CORPORATIONS CODE SECTION 25210**

12 19. California Corporations Code Section 25210 (a) and (b) states:

13 (a) Unless exempted under the provisions of Chapter 1 (commencing with
14 Section 25200) of this part, no broker-dealer shall effect any transaction in,
15 or induce or attempt to induce the purchase or sale of, any security in this
16 state unless such broker-dealer has first applied for and secured from the
17 commissioner a certificate, then in effect, authorizing that person to act in
18 that capacity.

19 (b) No person shall, on behalf of a broker-dealer licensed pursuant to
20 Section 25211, or on behalf of an issuer, effect any transaction in, or induce
21 or attempt to induce the purchase or sale of, any security in this state unless
22 that broker-dealer and agent have complied with any rules as the
23 commissioner may adopt for the qualification and employment of those
24 agents.

25 20. As described in the statement of facts above beginning in or about December of 2003
26 and until September 2005, John D. Stewart and CEP engaged in the business of selling securities in
27 the form of units in partnerships in MKA Real Estate Opportunity Fund I, and earned commissions
28 on the sales of those securities that totaled in excess of \$341,186.07 that were paid to Stewart, CEP
and CIF. Specifically, Stewart received a total of \$126,400 in commissions, CEP received

1 \$213,160.54 and CIF received \$1,625.53. The sale of these securities involved 42 separate
2 transactions.

3 21. John D. Stewart, Cornerstone Equity Partners, LLC, and Cornerstone Income Fund I,
4 LP, had neither applied for nor secured from the California Corporations Commissioner a certificate
5 to operate in the capacity of a securities broker-dealer in the State of California at the time of the sale
6 of the securities referred to above, nor were they exempt from such licensing requirements at the
7 time.
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9 22. Further on September 30, 2005, Stewart became registered as an agent of the broker-dealer
10 Eplanning Securities, Inc., (Eplanning). Stewart was not eligible to receive commissions as an agent of
11 a broker- dealer until this date. However, Eplanning Securities, Inc. paid Stewart commissions for
12 acting as a broker dealer in the sales of securities on September 29, 2005 in the amount of \$15,638.13.
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14 23. The California Corporations Commissioner is of the opinion that Stewart, and CEP,
15 induced the sale of securities in this state without having first applied for and secured a certificate
16 authorizing them to act in the capacity of a securities broker-dealer, in violation of section 25210 of
17 the Corporate Securities Law of 1968, and violated the registration requirements established for
18 broker-dealers and agents by California Corporations Code sections 25210(a) and (b). The
19 commissioner has issued a Desist and Refrain Order to Stewart and CEP prohibiting further
20 unlicensed broker-dealer activity. This conduct also supports an order for administrative penalties,
21 disgorgement of fees and the disciplinary action requested in sections V, VI, and VII below against
22 Stewart and CEP.
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25 **V**
26 **GOOD CAUSE EXISTS TO ISSUE AN ORDER TO DISCONTINUE VIOLATIONS**
27 **FOR FAILING TO DISCLOSE MATERIAL FACTS AND CONFLICTS OF**
28 **INTEREST TO INVESTMENT ADVISER CLIENTS.**

24. Corporations Code section 25249, authorizes the Commissioner to issue an order

1 directing any investment adviser to discontinue any violation of the Corporations Code and any
2 corresponding rules stating, in relevant part:

3 If, after examination or investigation, the commissioner has
4 reasonable grounds to believe that any . . . investment adviser has
5 violated any law or rule binding upon it, the commissioner shall,
6 by written order addressed to the . . . investment adviser, direct the
7 discontinuance of the violation. The order shall be effective
8 immediately, but shall not become final except in accordance with
9 the provisions of Section 25251.

10 25. The procedure for issuance of orders pursuant to Corporations Code section
11 25249, is set forth in Corporations Code section 25251, which provides:

12 (a) No order issued pursuant to Section 25249 or 25250 may become
13 final except after notice to the affected broker-dealer or investment
14 adviser of the commissioner's intention to make the order final and of
15 the reasons for the finding. The commissioner shall also notify the
16 broker-dealer or investment adviser that upon receiving a request the
17 matter shall be set for hearing to commence within 15 business days
18 after receipt of the request. The broker-dealer or investment adviser
19 may consent to have the hearing commence at a later date. If no
20 hearing is requested within 30 days after the mailing or service of the
21 required notice, and none is ordered by the commissioner, the order
22 may become final without a hearing and the broker-dealer or
23 investment adviser shall immediately discontinue the practices named
24 in the order. If a hearing is requested or ordered, it shall be held in
25 accordance with the provisions of the Administrative Procedure Act
26 (Chapter 5 (commencing with Section 11500) of Part 1 of Division 3
27 of Title 2 of the Government Code), and the commissioner shall have
28 all of the powers granted under that act. If, upon the conclusion of
the hearing, it appears to the commissioner that the broker-dealer or
investment adviser is conducting business in an unsafe and injurious
manner or is violating any law of this state or any rule binding upon
it, the commissioner shall make the order of discontinuance final and
the broker-dealer or investment adviser shall immediately discontinue
the practices named in the order.

(b) The broker-dealer or investment adviser may within 10 days after
an order is made final commence an action to restrain enforcement of
the order. If the enforcement of the order is not enjoined within 10
days by the court in which the action is brought, the broker-dealer or
investment adviser shall comply with the order.

1 26. Stewart, and CEP, during relevant times violated the Corporate Securities Law and
 2 regulations thereunder with regard to the duties and obligations of investment advisers as
 3 explained in section III above, which justifies the issuance of an Order to Discontinue Violations.
 4 Stewart and CEP having applied for and secured an investment adviser certificate, is obligated to
 5 have knowledge of and comply with the provisions of the Corporations Code and the regulations
 6 thereunder to maintain its investment adviser certificate.

7 27. By reason of the foregoing, Respondent Stewart and CEP violated the following
 8 provisions:

- 9 a. California Code of Regulations, Title 10 Section 260.238 (k), (1), (2) and
 10 (o).
- 11 b. California Corporations Code 25235

12 28. Therefore, pursuant to Corporations Code section 25249, the Commissioner has issued an
 13 Order directing John D. Stewart, and Cornerstone Equity Partners, LLC, to discontinue violating
 14 Corporations Code section 25235; and California Code of Regulations, title 10, section 260.238 (k),
 15 (1), (2) and (o) and are hereby providing notice of the intent to make that Order final.

16 VI

17 **GOOD CAUSE EXISTS FOR AN ORDER FOR ADMINISTRATIVE PENALTIES AND 18 CLAIM FOR ANCILLARY RELIEF INCLUDING DISGORGEMENT OF FEES AND 19 COMMISSIONS EARNED AS A RESULT OF UNLAWFUL INVESTMENT ADVISER 20 AND UNLICENSED BROKER DEALER ACTIVITIES.**

21 29. Corporations Code section 25252 authorizes the Commissioner to issue an Order
 22 Levying Administrative Penalties against any investment adviser or broker-dealer for willful
 23 violations of any provisions of the Corporate Securities Law and any rules promulgated there
 24 under.

25 30. Corporations Code section 25252, provides, in relevant part:

26 The commissioner may, after appropriate notice and opportunity
 27 for hearing, by orders, levy administrative penalties as follows: . . .

28 (b) Any broker-dealer or investment adviser that willfully violates
 any provision of this division to which it is subject, or that
 willfully violates any rule or order adopted or issued pursuant to

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this division and to which it is subject, is liable for administrative penalties of not more than five thousand dollars (\$5,000) for the first violation, not more than ten thousand dollars (\$10,000) for the second violation, and not more than fifteen thousand dollars (\$15,000) for each subsequent violation . . .

(d) The administrative penalties available to the commissioner pursuant to this section are not exclusive, and may be sought and employed in any combination with civil, criminal, and other administrative remedies deemed advisable by the commissioner to enforce the provisions of this division.

31. In addition Corporations Code section 25254, also authorizes the commissioner to bring a claim for ancillary relief including claims for restitution or disgorgement of fees or commissions against any investment adviser or broker dealer for willful violations of any provisions of the Corporate Securities Law and any rules promulgated thereunder.

Corporations Code section 25254 states in pertinent part:

(a) If the commissioner determines it is in the public interest, the commissioner may include in any administrative action brought under this part a claim for ancillary relief, including, but not limited to, a claim for restitution or disgorgement or damages on behalf of the persons injured by the act or practice constituting the subject matter of the action, and the administrative law judge shall have jurisdiction to award additional relief.

(b) In an administrative action brought under this part, the commissioner is entitled to recover costs, which in the discretion of the administrative law judge may include an amount representing reasonable attorney's fees and investigative expenses for the services rendered, for deposit into the State Corporations Fund for the use of the Department of Corporations.

32. The above-described willfull violations of the Corporate Securities Law and California Code of Regulations by Stewart, and CEP, with regard to unlawful investment adviser activities, as described in Section III above justifies an Order for administrative penalties for each transaction engaged in by Stewart and CEP in which they failed to properly disclose to their clients the material facts concerning their earning fees for making investments in ProAction on behalf of CIF. Stewart

1 and CEP engaged in seven such transactions on which they earned undisclosed fees. The
2 administrative penalties sought are \$90,000 against Stewart and CEP which represents a \$5000
3 penalty per violation for the first of the seven violations, \$10,000 for the second violation and
4 \$15,000 for each of the five remaining violations engaged in by Stewart with ProAction. In addition
5 this conduct justifies an order requiring Stewart to disgorge the fees paid by ProAction to Stewart in
6 the amount of \$214,991.00 to be paid to the other limited partners of CIF, prorated in proportion to
7 the percentage of their remaining investment in the fund.
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9 33. In addition to the administrative penalties and orders regarding violation of investment
10 adviser regulations, Stewart and CEP acted as securities broker-dealer without a license in violation
11 of Corporation Code Section 25210 as described in section IV above. This conduct also justifies an
12 Order for administrative penalties and claims for ancillary relief for disgorgement of fees and
13 commissions earned by Stewart and CEP as a result of the unlicensed broker dealer conduct as
14 authorized by Corporations Code sections 25252 and 25254.
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17 34. Beginning in or about December of 2003 and until September 2005, John D. Stewart
18 engaged in the business of selling securities in the form of units in partnerships in MKA Real Estate
19 Opportunity Fund I, LLC and MKA Real Estate Opportunity Qualified Fund I, LLC, and earned
20 commissions on the sales of those securities that totaled in excess of \$341,186.07 that were paid to
21 Stewart, CEP and CIF. Specifically, Stewart received a total of \$126,400 in commissions, CEP
22 received \$213,160.54 and CIF received \$1,625.53. Neither Stewart, CEP nor CIF had a license to
23 act as a broker-dealer during this time. This conduct justifies the Order requiring Stewart and CEP
24 to disgorge the commissions earned by Stewart and CEP on these sales in the total amount of
25 \$339,560.44. The money disgorged is to be paid to the limited partners of CIF, prorated in
26 proportion to the percentage of their remaining investment in the fund. The sale of these securities
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1 involved 42 separate transactions, which each represent a separate violation for which a separate
2 administrative penalty of \$5000 for the first violation, \$10,000 for the second violation and \$15,000
3 for each of the remaining the 40 unlicensed transactions for a total administrative penalty of
4 \$615,000 is sought against Stewart and CEP. Stewart is an appropriate party to levy the full amount
5 of the penalties against jointly with CEP as Stewart directed and profited from the sales of the
6 securities and commissions paid to CEP.
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8 35. Further, as described in section IV, on September 30, 2005, Stewart became registered as
9 an agent of the broker-dealer Eplanning and was not eligible to receive commissions as an agent of a
10 broker-dealer until this date. However, Eplanning Securities, Inc. paid him commissions for acting as
11 an agent of a broker-dealer in the sales of securities on September 29, 2005 in the amount of
12 \$15,638.13. It is also the Commissioner's intent to order that Stewart disgorge these additional
13 commissions in the amount of \$15,638.13 to the other limited partners of CIF on a prorated basis.
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16 **VII**
17 **GOOD CAUSE EXISTS FOR AN ORDER REVOKING THE INVESTMENT ADVISERS**
18 **CERTIFICATE OF CORNERSTONE EQUITY PARTNERS LLC.**

19 Cause exists to revoke CEP's investment advisers certificate based on the facts alleged above.

20 36. Corporations Code section 25232, subdivision (h), provides in relevant part, as
21 follows:

22 The commissioner may, after appropriate notice and opportunity
23 for hearing, by order censure, deny a certificate to, suspend for a
24 period not exceeding 12 months or revoke the certificate of, any
25 investment adviser if the commissioner finds that the censure,
26 denial, suspension, or revocation is in the public interest and that
27 the investment adviser, whether prior or subsequent to becoming
28 such, or any partner, officer or director thereof, or any person
performing similar functions or any person directly or indirectly
controlling the investment adviser, whether prior or subsequent to
becoming such, or any employee of the investment adviser while
so employed has done any of the following:

1 (h) Has violated any provision of this division or the rules
2 thereunder

3 37. Stewart and CEP have violated Corporations Code sections 25210, and 25235, and
4 California Code of Regulations, Title 10 Section 260.238 (k), (1), (2) and (o) as explained in sections
5 III and IV above. Wherefore, the California Corporations Commissioner finds it is in the public
6 interest to revoke the investment adviser certificate of CEP, pursuant to Corporations Code sections
7 25232, subdivision (h), as set forth in the Prayer for Relief, herein.
8

9 **VIII**
10 **GOOD CAUSE EXISTS FOR AN ORDER BARRING JOHN D. STEWART FROM ANY**
11 **POSITION OF EMPLOYMENT, MANAGEMENT OR CONTROL OF ANY BROKER-**
12 **DEALER, OR INVESTMENT ADVISER**

13 38. Corporations Code section 25232.1 provides, in relevant part:

14 The commissioner may, after appropriate notice and opportunity
15 for hearing, by order censure, or suspend for a period not
16 exceeding 12 months, or deny or bar from any position of
17 employment, management or control of any investment adviser,
18 broker-dealer or commodity advisor, any officer, director, partner,
19 employee of, or person performing similar functions for, an
20 investment adviser, or any other person, if he or she finds that the
21 censure, suspension, denial or bar is in the public interest and that
22 the person has committed any act or omission enumerated in
23 subdivision...(e)...of Section 25232...

24 39. Subdivision (e) of Corporations Code section 25232 provides, in relevant part:

25 (e) Has willfully violated any provision of . . . or Title 4
26 (commencing with Section 25000)... or of any rule or regulation
27 under any of those statutes, or any order of the commissioner
28 which is or has been necessary for the protection of any investor.

40. Stewart and CEP have willfully violated Corporations Code sections 25210, and 25235,
and California Code of Regulations, Title 10 Section 260.238 (k), (1), (2) and (o) as explained in
sections III and IV above. Wherefore, the California Corporations Commissioner finds it is in the

1 public interest to issue an order, pursuant to Corporations Code section 25232.1, barring John D.
2 Stewart from any position of employment, management or control of any broker-dealer or
3 investment adviser as set forth in the Prayer for Relief, herein.
4

5 **PRAYER**

6 **WHEREFORE**, good cause showing, the California Corporations Commissioner prays for relief, as
7 follows:

8 1. For an order, pursuant to Corporations Code section 25232, revoking the Cornerstone Equity
9 Partners, LLC, investment adviser certificate. CEP and Stewart will not be allowed to accept new
10 investment adviser business or make any additional investment of client funds, but will be permitted
11 to continue servicing existing CIF client accounts in order to allow a winding down and liquidation
12 of the CIF fund and to return the funds to the other limited partners as soon as practically feasible on
13 a prorated basis in proportion to each partners remaining investment in the fund.
14

15 2. For an order, pursuant to Corporations Code section 25232.1, barring John D. Stewart from
16 any position of employment, management or control of any broker-dealer or investment adviser.

17 3. For an order, pursuant to Corporations Code section 25251, making final the Order to
18 Discontinue Violations Pursuant to Corporations Code Section 25249 issued to John D. Stewart and
19 Cornerstone Equity Partners, LLC.
20

21 4. For an order, pursuant to Corporations Code Section 25252, levying administrative penalties
22 against Respondents, as follows:

23 (a) \$615,000 in administrative penalties against John D. Stewart for violating Corporations
24 Code section 25210 by engaging in unlicensed broker dealer activities with regard to the sale of
25 MKA securities which represents a \$5000 penalty per violation for the first of the 42 unlicensed
26 securities transactions, \$10,000 for the second and \$15,000 for each of the remaining 40 transactions
27 engaged in by Stewart.
28

1 (b) An additional \$90,000 in administrative penalties against John D. Stewart and
2 Cornerstone Equity Partners, LLC for violations of Corporations Code 25235, and California Code
3 of Regulations, Title 10 Section 260.238 (k), (1), (2) and (o), for collecting fees from ProAction
4 without disclosing them to their investment adviser clients and for operating a scheme to defraud
5 them. This amount represents a \$5000 penalty per violation for the first of the seven undisclosed
6 fees transactions, \$10,000 for the second violation and \$15,000 for each of the remaining 5
7 violations engaged in by Stewart with ProAction.
8

9 5. For an order, pursuant to Corporations Code section 25254, subdivisions (a) and (b), granting
10 ancillary relief, as follows:
11

12 (a) Disgorgement by John D. Stewart of the \$214,991.00 in fees collected from ProAction for
13 investing CIF funds in ProAction without disclosing the fees to his clients in violation of 25235, and
14 California Code of Regulations, Title 10 Section 260.238 (k), (1), (2) and (o). The money disgorged by
15 Stewart is to be paid to the other limited partners of CIF on a prorated basis in proportion to the percentage of
16 the funds each partner presently has invested in CIF.
17

18 (b) Disgorgement by John D. Stewart and Cornerstone Equity Partners, LLC of the \$339,560.44 in
19 fees or commissions collected by Stewart and CEP for unlicensed broker-dealer activity in violation of 25210
20 with regard to the sale of MKA securities, and disgorgement of an additional \$15,638.13 in commissions and
21 fees paid by Eplanning to Stewart before Stewart became a registered agent of Eplanning for a total of
22 \$355,198.57. The money disgorged by Stewart and CEP is to be paid to the other limited partners of CIF on a
23 prorated basis in proportion to percentage of the funds each partner presently has invested in the fund. The
24 order requiring disgorgement for this amount should be joint and several as to Stewart and CEP as Stewart
25 was the sole owner of CEP and directed its activities in this regard and would have profited from any
26 commissions paid to CEP for the unlicensed activities.
27

28 (c) Recovery of the Commissioner's costs, including investigative expenses and reasonable attorney's
fees incurred in the investigation and prosecution of this action, according to proof.

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(d) Requiring Stewart, CEP and CIF to inform all current clients in writing of any final orders of revocation or bar issued by the Commissioner in this case.

(e) Such additional relief as the administrative law judge considers just.

Dated: July 06, 2007
San Francisco, California

PRESTON DuFAUCHARD
California Corporations Commissioner

By: _____
Kirk Wallace
Corporations Counsel
Enforcement Division