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10 BEFORE THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION
11 OF THE STATE OF CALIFORNIA

12 In the Matter of:) CRD Nos. 166634, 6153055
13 THE COMMISSIONER OF FINANCIAL)
PROTECTION AND INNOVATION,) CONSENT ORDER
14 Complainant,)
15 v.)
16 LOCKBOX CAPITAL, LLC, an entity; and)
17 DAREN LAM, an individual,)
18 Respondents.)
19 _____)

20 This Consent Order is entered between Complainant, the Commissioner of the California
21 Department of Financial Protection and Innovation (Commissioner), and Respondents, Lockbox
22 Capital, LLC, and Daren Lam (Lockbox) (collectively the Parties), and is made with respect to the
23 following facts:

24 **I.**

25 **RECITALS**

26 A. The Commissioner has jurisdiction over the licensing and regulation of investment
27 advisers in California under the Corporate Securities Law of 1968 (Corp. Code §§ 25000-25707)
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1 (CSL).¹ The Commissioner is authorized to administer the CSL, and the rules and regulations
2 promulgated thereunder (Cal. Code Regs. (CCR), tit. 10, § 260.000 et seq.).

3 B. Lockbox is a California limited liability company registered with the California
4 Secretary of State on July 25, 2016. Lockbox’s principal place of business is located at 2492 Walnut
5 Avenue, Suite 103, Tustin California ZIPCODE.

6 C. Lockbox is an investment adviser licensed by the Commissioner under the CSL since
7 April 16, 2013 (Central Registration Depository (CRD) No. 166634).

8 D. Daren Lam (Lam) is the founder and sole manager of Lockbox. Lam has been
9 licensed by the Commissioner as an investment adviser representative since January 1, 2013 (CRD
10 No. 6153055).

11 E. On or about March 31, 2021, Respondents filed a “Form ADV — Uniform
12 Application Investment Adviser Registration and Report by Exempt Reporting Advisers” (ADV)
13 with the Financial Industry Regulatory Authority (FINRA), reporting under Part 2A that they had
14 assets under management totaling \$10,410,000. Lockbox further indicated in its ADV that it offers
15 investment advisory services to “qualified clients,” including a hedge fund in “Lockbox 1 LLC” (the
16 Fund), which Lockbox described as a separate entity offering limited liability company interests to a
17 limited number of sophisticated accredited and qualified individuals.

18 F. In or about November 2020, the Commissioner commenced a regulatory examination
19 of the books and records of Lockbox pursuant to section 25241 (Examination). The Examination
20 disclosed that Lockbox and Lam conducted business as investment advisers unlawfully by: (i)
21 engaging in activities that do not promote fair, equitable, and ethical principles in violation of
22 section 25238; (ii) engaging in unsafe or injurious practices in violation of sections 25248 and
23 25250; and (iii) engaging in fraudulent, deceptive, or manipulative practices in violation of section
24 25235, subdivision (d).

25 G. A review of Lockbox’s ADV showed that on August 8, 2018, Lockbox opened a
26 custodian account with TD Ameritrade (TDA Account xxx-xx4451) in which it listed GT
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28 ¹ All further references are to the Corporations Code unless otherwise indicated.

1 Management Group, Inc. (GT Management) as the Fund’s investment adviser. GT Management is
2 an investment adviser licensed by the Commissioner on June 30, 2008. GT Management is owned
3 by Gary Chow, an investment adviser licensed by the Commissioner on August 18, 1999 (CRD No.
4 5522751).

5 H. Contrary to Lockbox’s representations in its ADV that GT Management is the Fund’s
6 investment adviser, Lockbox’s Private Placement Memorandum and disclosure documents provided
7 to investors state that Lockbox is the only investment adviser for the Fund. The Commissioner
8 observed from the Examination that Lockbox’s manager and owner, Lam, is the son of Chow’s
9 friend and client.

10 I. The Examination further revealed that Lockbox was using GT Management’s
11 brokerage account passwords and other identifying information to trade securities in the Fund
12 without proper authorization from Lockbox’s clients. The Commissioner noted that GT Management
13 had access to Lockbox’s account with GT Management’s master username and password.

14 J. The Commissioner finds Lockbox’s practice to be fraudulent, deceptive, or
15 manipulative as Lockbox did not disclose its arrangement with GT Management to its clients. The
16 Commissioner further finds that Lockbox engaged in activities that do not promote fair, equitable,
17 and ethical principles and engaged in unsafe or injurious practices because by granting access to
18 Lockbox’s clients’ brokerage accounts or passwords to GT Management, GT Management
19 essentially had constructive custody of Lockbox’s clients’ assets and could potentially trade or
20 transfer Lockbox’s clients’ assets in those accounts.

21 K. In response to the Commissioner’s regulatory examination report, Lockbox provided
22 documentation showing it has since disclosed its use of GT Management’s account credentials to
23 trade securities on behalf of Lockbox’s investors. Notwithstanding, the Commissioner deems
24 Lockbox’s practice unsafe and hazardous due to the potential risk of, among other concerns, GT
25 Management comingling its funds with the Fund.

26 L. Without admitting the Commissioner’s findings, as set forth in paragraphs A through
27 K, Respondents desire to enter this Consent Order which the Commissioner finds is in the public
28 interest and consistent with the purposes fairly intended by the policies and provisions of the CSL.

1 NOW, THEREFORE, in consideration of the foregoing, and the terms and conditions set
2 forth herein, the Parties agree as follows:

3 **II.**

4 **Terms and Conditions**

5 1. Purpose. This Consent Order resolves the issues before the Commissioner, set forth
6 above, in a manner that avoids the expense of a hearing and other possible court proceedings,
7 protects consumers, is in the public interest, and is consistent with the purposes, policies, and
8 provisions of the CSL.

9 2. Finality of Consent Order. Respondents agree to comply with this Consent Order and
10 stipulate this Consent Order is hereby deemed final.

11 3. Final Order to Discontinue Violations. Pursuant to Corporations Code sections
12 25249 and 25250, Lockbox Capital, LLC and Daren Lam are hereby ordered to discontinue
13 violations of Corporations Code sections 25235, 25248, and 25250. This Order to Discontinue
14 Violations is final and effective from the Effective Date of this Consent Order, as defined in
15 Paragraph 26 (Effective Date).

16 4. Penalties. Respondents shall pay to the Commissioner penalties in the amount of
17 \$3,000.00 no later than 30 days after the Effective Date set forth in Paragraph 26. The penalties must
18 be made payable in the form of a cashier's check or Automated Clearing House deposit transmitted
19 to the attention of Accounting – Litigation, at the Department of Financial Protection and
20 Innovation, 2101 Arena Boulevard, Sacramento, California 95834. Notice of the payment must be
21 concurrently sent to Uche Enenwali, Senior Counsel, Enforcement Division, by email at:
22 uche.enenwali@dfpi.ca.gov. In the event the payment due date falls on a weekend or holiday, the
23 payment shall be due the next business day.

24 5. Failure to Comply with Consent Order or Order to Discontinue Violations.
25 Respondents agree that if they fail to comply with this Consent Order, or the Order to Discontinue
26 Violations set forth in this Consent Order, or fail to timely cure any breach to the satisfaction of the
27 Commissioner, the Commissioner may, in addition to all other available remedies she may invoke
28 under the CSL, summarily suspend, deny any pending application for a license by Respondents, or

1 revoke, the investment adviser certificates of Respondents. Respondents stipulate to the finality of
2 any such suspensions, revocations, or denials that the Commissioner may order. Respondents waive
3 any notice and hearing rights to contest such summary suspensions, revocations, or denials which
4 may be afforded under the CSL, the California Administrative Procedure Act, the California Code of
5 Civil Procedure, or any other provision of law in connection therewith.

6 6. Waiver of Hearing Rights. Respondents acknowledge the Commissioner is ready,
7 willing, and able to proceed with the filing of an administrative action on the charges contained in
8 this Consent Order. Respondents hereby waive the right to any hearings, and to any reconsideration,
9 appeal, or other right to review which may be afforded pursuant to the CSL, the California
10 Administrative Procedure Act, the California Code of Civil Procedure, or any other provision of law.
11 Respondents further expressly waive any requirement for the filing of an Accusation pursuant to
12 Government Code section 11415.60, subdivision (b). By waiving such rights, Respondents
13 effectively consent to this Consent Order becoming final.

14 7. Full and Final Settlement. The Parties hereby acknowledge and agree that this
15 Consent Order is intended to constitute a full and final resolution of the violations described herein,
16 and that no further proceedings or actions will be brought by the Commissioner in connection with
17 these matters under the CSL or any other provision of law except for proceeding to enforce
18 compliance with the terms of this Consent Order.

19 8. Information Willfully Withheld or Misrepresented. This Consent Order may be
20 revoked, and the Commissioner may pursue any and all remedies available under law against
21 Respondents if the Commissioner discovers that Respondents knowingly or willfully withheld or
22 misrepresented material information used for and relied upon in this Consent Order.

23 9. Future Actions by Commissioner. If Respondents fail to comply with any terms of
24 this Consent Order, the Commissioner may institute proceedings for any and all violations otherwise
25 resolved under this Consent Order and bring any actions against Respondents, or any of their
26 partners, owners, officers, shareholders, directors, employees, or successors for any and all unknown
27 violations of the CSL.
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1 10. Assisting Other Agencies. Nothing in this Consent Order limits the Commissioner’s
2 ability to assist any other government agency (city, county, state, or federal) with any prosecution,
3 administrative, civil, or criminal brought by that agency against Respondents or any other person
4 based upon any of the activities alleged in this matter or otherwise.

5 11. Headings. The headings to the paragraphs of this Consent Order are inserted for
6 convenience only and will not be deemed a part hereof or affect the construction or interpretation of
7 the provisions hereof.

8 12. Binding. This Consent Order is binding on all heirs, assigns, and/or successors in
9 interest.

10 13. Reliance. Each of the Parties represents, warrants, and agrees that in executing this
11 Consent Order it has relied solely on the statements set forth herein and the advice of its own
12 counsel, if represented. Each of the Parties further represents, warrants, and agrees that in executing
13 this Consent Order it has placed no reliance on any statement, representation, or promise of any
14 other party, or any other person or entity not expressly set forth herein, or upon the failure of any
15 party or any other person or entity to make any statement, representation, or disclosure of anything
16 whatsoever. The Parties have included this clause: (1) to preclude any claim that any party was in
17 any way fraudulently induced to execute this Consent Order; and (2) to preclude the introduction of
18 parol evidence to vary, interpret, supplement, or contradict the terms of this Consent Order.

19 14. Waiver, Amendments, and Modifications. No waiver, amendment, or modification of
20 this Consent Order will be valid or binding unless it is in writing and signed by each of the Parties.
21 The waiver of any provision of this Consent Order will not be deemed a waiver of any other
22 provision. No waiver by either party of any breach of, or of compliance with, any condition or
23 provision of this Consent Order by the other party will be considered a waiver of any other condition
24 or provision or of the same condition or provision at another time.

25 15. Full Integration. This Consent Order is the final written expression and the complete
26 and exclusive statement of all the agreements, conditions, promises, representations, and covenant
27 between the Parties with respect to the subject matter hereof, and supersedes all prior or
28 contemporaneous agreements, negotiations, representations, understandings, and discussions

1 between and among the Parties, their respective representatives, and any other person or entity, with
2 respect to the subject matter covered hereby.

3 16. No Presumption Against Drafting Party. Each party acknowledges that s/he has had
4 the opportunity to draft, review, and edit the language of this Consent Order. Accordingly, the
5 Parties intend that no presumption for or against the drafting party will apply in construing any part
6 of this Consent Order. The Parties waive the benefit of Civil Code section 1654 as amended or
7 corresponding provisions of any successor statute, which provide that in cases of uncertainty,
8 language of a contract should be interpreted most strongly against the party that caused the
9 uncertainty to exist.

10 17. Independent Legal Advice. Each of the Parties represents, warrants, and agrees that
11 s/he has received, or had the opportunity to receive, independent advice from his or her attorney(s)
12 and/or representatives with respect to the advisability of executing this or Consent Order.

13 18. Governing Law. This Consent Order will be governed by and construed in
14 accordance with California law. Each of the Parties hereto consents to the jurisdiction of such court,
15 and hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient
16 forum to the maintenance of such action or proceeding in such court.

17 19. Effect Upon Future Proceedings. If Respondents apply for any license, permit or
18 qualification under the Commissioner's current or future jurisdiction, or are the subject of any future
19 action by the Commissioner to enforce this Consent Order, then the subject matter hereof shall be
20 admitted for the purpose of such application(s) or enforcement proceedings(s).

21 20. Third Parties. This Consent Order does not create or give rise to any private
22 rights or remedies against Respondents, create any liability for Respondents, or limit the defenses of
23 Respondents for any person or entity not a party to this Consent Order.

24 21. Voluntary Agreement. Respondents enter into this Consent Order voluntarily and
25 without coercion and acknowledge that no promises, threats, or assurances have been made by the
26 Commissioner or any officer, or agent thereof, about this Consent Order. The Parties each represent
27 and acknowledge that they are executing this Consent Order completely voluntarily and without any
28 duress or undue influence of any kind from any source.

1 22. Counterparts. This Consent Order may be executed in one or more separate
2 counterparts, each of which when so executed, shall be deemed an original. Such counterparts shall
3 together constitute a single document.

4 23. Notice. Any notice required under this Consent Order shall be provided to each party
5 at the following addresses:

6 To Respondents: Lockbox Capital, LLC,
7 c/o Daren Lam
8 2492 Walnut Avenue, Suite 103
9 Tustin California.
 daren@lockboxcapital.com

10 To the Commissioner: Uche L. Enenwali, Senior Counsel
11 Department of Financial Protection and Innovation
12 320 West 4th Street, Suite 750
 Los Angeles, California 90013
 Uche.Enenwali@dfpi.ca.gov

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14 24. Signatures. A fax or electronic mail signature shall be deemed the same as an original
15 signature.

16 25. Public Record. Respondents hereby acknowledge that this Consent Order is a matter
17 of public record.

18 26. Effective Date. This Consent Order shall become final and effective when signed by
19 all Parties and delivered by the Commissioner's agent via e-mail to: daren@lockboxcapital.com.

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27. Authority to Sign. Each signatory hereto covenants that he/she possesses all necessary capacity and authority to sign and enter into this Consent Order and undertakes the obligations set forth herein.

Dated: December 19, 2022

CLOTHILDE V. HEWLETT
Commissioner of Financial Protection and Innovation



By _____
MARY ANN SMITH
Deputy Commissioner
Enforcement Division

Dated: December 19, 2022

LOCKBOX CAPITAL, LLC

By _____
DAREN LAM, CEO