



# Department of Justice



United States Attorney Melinda Haag  
Northern District of California

FOR IMMEDIATE  
RELEASE

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## **FOUNDERS OF S3 PARTNERS CHARGED IN \$21 MILLION REAL ESTATE INVESTMENT FRAUD SCHEME**

### *Defendants Allegedly Engaged in Securities Fraud Targeting Elderly Investors*

SAN JOSE, Calif. – The three founders of S3 Partners who allegedly defrauded numerous individual investors and banks out of more than \$21 million in connection with a real estate investment fraud scheme were arrested and arraigned on 33 counts of conspiracy, wire, mail, bank and securities fraud, United States Attorney Melinda Haag announced.

According to the indictment, which was filed in San Jose federal district court on May 23 and unsealed on May 24, from 2006 to 2009, Melvin Russell “Rusty” Shields, 42, of Granite Falls, N.C.; Michael Sims, 58, of Gilroy, Calif.; and Sam Stafford, 56, of Campbell, Calif., defrauded individual investors and banks in the Northern District of California and elsewhere in connection with various real estate development projects. The three defendants conducted their business as “S3 Partners” out of a variety of locations including San Jose, Campbell, and Palo Alto, Calif.; and Hickory, N.C. Shields, Sims and Stafford allegedly engaged in securities fraud targeting elderly investors by encouraging those elderly investors to cash out their individual retirement accounts (IRAs) and wire the proceeds to the S3 Partners for the purchase of shares in an S3 Partners-controlled LLC. The three defendants falsely represented to investors that they would receive predictable high rates of return, that there was minimal to no risk of investing, and that profits from S3 Partners business projects would benefit various charitable and religious organizations. Shields, Sims and Stafford obtained more than \$21 million from investors and banks and converted more than half of those funds for their personal benefit, their personal business ventures and other unauthorized purposes. Their conduct resulted in a near-total loss to investors.

On May 24, the Federal Bureau of Investigation arrested Sims and Stafford in Northern California and Shields in North Carolina pursuant to a sealed arrest warrant. That same day, Sims and Stafford made their initial appearances in San Jose before United States Magistrate Judge Paul Grewal where, subject to the posting of a \$100,000 secured bond and being placed on home electronic monitoring, they were ordered released pending a detention hearing. Sims and Stafford are scheduled to appear at a detention hearing in San Jose tomorrow at 9:30 a.m, at which hearing Magistrate Judge Grewal will consider additional conditions governing their pretrial release. Shields made an initial appearance May 24 in Charlotte, N.C. After a detention hearing this morning before U.S. Magistrate Judge David C. Keesler, Shields was ordered released subject to a \$100,000 unsecured bond and placed on home electronic monitoring.

The maximum statutory penalty for each count of conspiracy to commit wire, mail and bank fraud, wire fraud, and mail fraud in violation of Title 18, United States Code, Sections 1349, 1343 and 1341 is 20 years in prison and a fine of \$250,000, plus restitution. The maximum statutory penalty for each count of bank fraud in violation of Title 18, United States Code, Section 1344 is 30 years prison and a fine of \$1 million, plus restitution. The maximum statutory penalty for each count of Title 15, United States Code, Sections 78j(b) and 78ff; and 17 C.F.R. Section 240.10b-5 – Securities Fraud is 20 years in prison and a fine of \$5 million, plus restitution. Any sentence following conviction would, however, be determined by the Court after considering the Federal Sentencing Guidelines, which take into account a number of factors and would be imposed in the discretion of the Court.

Assistant United States Attorney Joseph Fazioli is prosecuting the case with the assistance of Legal Assistant Kamille Singh. The prosecution is the result of a multi-year investigation by the Federal Bureau of Investigation.

*Please note, an indictment contains only allegations against an individual and, as with all defendants, Shields, Sims and Stafford must be presumed innocent unless and until proven guilty.*

This prosecution is part of efforts underway by President Barack Obama's Financial Fraud Enforcement Task Force. President Obama established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes. For more information about the task force visit: [www.stopfraud.gov](http://www.stopfraud.gov).

**Further Information:**

Case #: 12-00410 LHK

A copy of this press release may be found on the U.S. Attorney's Office's website at [www.usdoj.gov/usao/can](http://www.usdoj.gov/usao/can).

Electronic court filings and further procedural and docket information are available at <https://ecf.cand.uscourts.gov/cgi-bin/login.pl>.

Judges' calendars with schedules for upcoming court hearings can be viewed on the court's website at [www.cand.uscourts.gov](http://www.cand.uscourts.gov).

All press inquiries to the U.S. Attorney's Office should be directed to Jack Gillund at (415) 436-6599 or by e-mail at [Jack.Gillund@usdoj.gov](mailto:Jack.Gillund@usdoj.gov).

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