

STATE OF ALABAMA
ALABAMA SECURITIES COMMISSION

IN THE MATTER OF:)
)
EVERLIGHT FINANCIAL, INC.) ADMINISTRATIVE ORDER
RUSSELL IVAN MORGAN II) NO. CO-2018-0021
)
RESPONDENTS)

CONSENT ORDER

The Alabama Securities Commission ("Commission"), having authority to administer and provide for the enforcement of all provisions of Title 8, Chapter 6, Code of Alabama 1975, the Alabama Securities Act ("Act"), upon due consideration of the subject matter hereof, and having confirmed information of the offers for sale and/or sale of securities, into, within or from the state of Alabama, has determined as follows:

RESPONDENTS

1. EVERLIGHT FINANCIAL, INC. ("EFI"), is an Alabama based entity with a business address of 3125 Blue Lake Drive, Vestavia, AL 35243.
2. RUSSELL IVAN MORGAN II ("MORGAN"), at all times relevant, has identified himself as the director of EFI, with a business address of 3125 Blue Lake Drive, Vestavia, AL 35243. MORGAN was previously registered as an Investment Adviser Representative from 2008 until 2015, and Broker Dealer Agent from 2004 until 2015. MORGAN'S CRD number is 4836040.

STATEMENT OF FACTS

Woodbridge Group of Companies, LLC

3. Woodbridge Group of Companies, LLC, to include but not limited to,

Woodbridge Wealth, Woodbridge Mortgage Investment Fund 3A, LLC (“Fund 3A”), and Woodbridge Mortgage Investment Fund 4, LLC (“Fund 4”), are all Delaware Limited Liability Companies with a business address of 14140 Ventura Blvd Suite 302, Sherman Oaks, CA 91423, hereinafter to be collectively known as “Woodbridge.” Woodbridge raised capital from investors nationally, including Alabama residents, by offering and selling “First Position Commercial Mortgages”, also referred to as “Secure Bridge Loans.”

4. Woodbridge Mortgage Investment Fund 3A filed a Form D, Notice of Exempt Offering of Securities, with the United States Securities and Exchange Commission (“SEC”) as a security under Regulation D, Rule 506(b) on October 30, 2015, and notice filed in the State of Alabama on January 19, 2016.

5. **EFI** filed a Certificate of Formation with the Alabama Secretary of State on April 8, 2016. Section 4, paragraph (a), of the Certificate of Formation states the purpose of this business is “To own and operate a financial planning business.” Section 4, paragraph (k), of the Certificate of Formation states that the purpose of this business is “To acquire, by purchase, subscription or otherwise, and to own, hold, sell, and dispose of, exchange, deal in and deal with stocks, bonds, debentures, obligations, evidences or indebtedness, promissory notes, mortgages, and securities executed by any individual or any corporation.”

6. Woodbridge Mortgage Investment Fund 4 filed a Form D, Notice of Exempt Offering of Securities with the SEC as a security Regulation D, Rule 506(b) on November 21, 2016, and notice filed in the State of Alabama on February 2, 2017.

7. At all times relevant, **MORGAN** represented himself as an independent Woodbridge sales agent through **EFI**. **MORGAN** offered and sold Woodbridge First Position Commercial Mortgages by issuing promissory notes whereby the investors were to receive a seven percent (7.0%) interest rate per annum from Woodbridge, and **MORGAN** would receive a two percent (2.00%) commission or “referral fee” for each investor that made a purchase in Funds 3A and 4.

8. Between May 2, 2017 and October 3, 2017 **MORGAN** offered and sold

Woodbridge First Position Commercial Mortgages to at least four Alabama residents and one Tennessee resident. **MORGAN'S** total sales in Woodbridge were approximately \$395,000 for which he received approximately \$6,200 in commissions, or “referral fees.”

9. **MORGAN** failed to disclose to the investors that he was not registered to sell securities during all times relevant to these transactions.

10. On August 30, 2017, Commission staff had a conference call with **MORGAN'S** attorney. During the call, Commission staff inquired about the nature of **EFI**'s business. **MORGAN'S** attorney indicated he would research and respond later. On November 3, 2017, **MORGAN'S** attorney responded to the Commission's inquiry of **EFI**, by stating that “Everlight is not registered as an investment advisor or broker dealer because it is not advising on, or dealing in, securities. Instead, Everlight is involved in the sale of life insurance policies.”

11. On October 23, 2017, Commission staff sent a corporate inquiry letter to **MORGAN** to determine if **EFI** was involved in securities activities as an investment adviser or as a dealer at any time during 2017. On November 21, 2017, **MORGAN'S** attorney responded that he was “working through investment advisor registration requirements” with the Commission. According to Commission records, **MORGAN** currently has a pending application with the Commission as an investment advisor representative.

12. On November 15, 2017, **MORGAN** amended the Articles of Incorporation for **EFI** filed with the Alabama Secretary of State. The amendment changed Section 4, paragraph (a) “to own and operate an insurance agency” from the original stated purpose of “operating a financial planning business.” No other sections or paragraphs of the original Articles of Incorporation filed on April 8, 2016, were affected by this amendment.

13. On August 22, 2018, **MORGAN** met with the Commission Staff to discuss his affiliation with Woodbridge. During the meeting, **MORGAN** stated that he first learned about Woodbridge in July of 2016 while attending the Summit for Prosperity Economics Advisors (“Summit”) in Park City, Utah. **MORGAN** stated that his mentor, Kim Butler

(“Butler”), a financial advisor from Texas, hosts the Summit as a non-profit arm of Butler’s business, Partners for Prosperity. Butler recommended that **MORGAN** attend the Woodbridge presentation at the Summit.

14. **MORGAN** represented that during the presentation, several attendees questioned whether the Woodbridge First Position Commercial Mortgage was a security. **MORGAN** stated that Woodbridge described the product as a loan and represented the loan was not a security. Woodbridge disclosed to Summit attendees that at least one state, Massachusetts, considered their First Position Loan product to be a security, and Woodbridge cannot do business in that state.

15. **MORGAN** represented that his due diligence consisted of a visit to Woodbridge headquarters to speak in person with a representative. **MORGAN** stated that he did not look at administrative orders issued by other states’ securities regulators against Woodbridge for the sale of unregistered securities despite knowing orders existed. **MORGAN** further represented that he did not consult with Commission staff or a securities professional prior to referring clients to Woodbridge. Further, **MORGAN** did not check the SEC’s Electronic Data Gathering Analysis and Retrieval (“EDGAR”) database to determine if Woodbridge had made any exemption or registration filings with the SEC.

16. **MORGAN** failed to inform his clients that other states’ securities regulators had brought administrative actions against Woodbridge, such as Massachusetts, Texas, Arizona, and Pennsylvania.

17. **MORGAN** was previously registered as an Investment Advisor Representative and a Broker Dealer Agent.

18. Prior to the issuance of the Cease and Desist Order, a check of the records of the Registration Division of the Alabama Securities Commission was conducted, disclosing no record of registration for **EFI** as a broker dealer or investment adviser, nor current registration for **MORGAN** as a broker dealer agent, investment adviser, or investment advisor representative in the state of Alabama at any time relevant to the transactions described herein.

Woodbridge Bankruptcy

19. In December 2017, the Woodbridge Group and certain affiliated companies filed voluntary petitions with the United States Bankruptcy Court for the District of Delaware and in October 2018 the Court entered an Order confirming the Chapter 11 plan of liquidation. The Chapter 11 plan created the Woodbridge Liquidation Trust for the purpose of maximizing the value of the remaining Woodbridge assets.

20. Based on the Disclosure Statement for the Joint Chapter 11 of the Plan of Liquidation filed in federal court in July 2018, the expected recovery to investors is between 60 – 70% of their principal investment. **MORGAN** has represented to Commission staff that it is his intention to pay the remaining 30% to his investors in quarterly payments. **MORGAN** has provided Commission staff with information indicating that in December 2018 he voluntarily began making quarterly payments to his Woodbridge investors, in an effort to repay their principal investment back, specifically to include any outstanding amount that may not be repaid to investors by Woodbridge. **MORGAN** has estimated the total he will pay back to his Woodbridge investors is \$103,500. The remaining principal is anticipated to be repaid to investors through the Woodbridge bankruptcy proceeding and liquidation of assets.

21. On November 9, 2018 Administrative Order No. CD-2018-0021 (“Cease and Desist Order”) was issued against **EFI** and **MORGAN**. Thereafter, **EFI** and **MORGAN** timely responded to the Cease and Desist Order. It was on or around this time, that Commission staff learned that **MORGAN** had offered and/or sold securities in various offerings of Sant'e Realty Investments, LLC (“Sant'e”) between March 2017 and August 2018.

Sant'e Realty Investments

22. Sant'e Realty Investments, LLC, to include but not limited to, Cronos 4040 LLC, Hera 1919 LLC, Morpheus 1020, LLC, Pontus 5050 LLC, Themis 5060, LLC, and El Pequeno Oasis LLC, are all Arizona limited liability corporations with a listed business address of 4939 West Ray Road #4-507 Chandler, AZ 85226; hereinafter to be collectively

known as “Sant’e .” Sant’e raised capital from investors, including Alabama residents, by offering and selling Subordinated Promissory Notes (“Notes”) and “Preferred” Membership Interest (“Interest”), more specifically acquiring an interest in the LLC’s. The Notes bear an interest rate of ten percent (10%) and the Membership Interest an annual rate of seven percent (7%). With the capital raised, Sant’e acquires various properties then improves, rents, and manages said properties.

23. All Sant’e offerings listed above filed a Form D, Notice of Exempt Offering of Securities, with the United States Securities and Exchange Commission (“SEC”) as a security under Regulation D, Rule 506 between January 31, 2017 and January 15, 2019. These offerings were subsequently notice filed in the state of Alabama.

24. On August 29, 2017, **MORGAN** entered into an agreement with Sant’e to receive a 4% “referral bonus” for each investment made in Sant’e through his referral. Between March 2017 and August 2018, **MORGAN** referred 7 Alabama residents to invest in various Sant’e offerings that totaled approximately \$1,000,000.00. **MORGAN** received a commission of approximately \$38,000 as a result of these investments in Sant’e.

25. During all times relevant to the Sant’e transactions, there was no record of registration for **EFI** as a broker dealer or investment adviser, nor for **MORGAN** as a broker dealer agent, investment adviser, or investment adviser representative in the state of Alabama.

26. Since the issuance of the Cease and Desist Order in November 2018, the Commission has been in discussions and negotiations with **MORGAN** and his legal counsel regarding both the Woodbridge and Sant’e transactions. **MORGAN** has timely responded, fully cooperated, and provided information as requested by the Commission staff, which has facilitated the resolution in this matter.

CONCLUSIONS OF LAW

27. Pursuant to Section 8-6-2(10), Code of Alabama 1975, the definition of a security includes any note, stock or evidence of indebtedness. The promissory notes issued

by Woodbridge and Sant'e, offered and sold by **RESPONDENTS**, are securities as defined by the Act.

28. Pursuant to Section 8-6-2(10), Code of Alabama 1975, the definition of a security includes an investment contract. The securities offered and/or sold by **RESPONDENTS**, issued by Woodbridge and Sant'e, require the investor to invest funds in a common enterprise with the expectation of profits from the significant managerial efforts of others. Therefore, the securities offered and/or sold by **RESPONDENTS**, and described herein, constitute investment contracts and are securities as defined by the Act.

29. Pursuant to Section 8-6-2(2), Code of Alabama 1975, the definition of "Agent" includes any individual who represents a dealer or an issuer in effecting or attempting to effect sales of securities. **MORGAN**, by soliciting and effecting securities transactions through **EFI**, acted as an agent of Woodbridge and Sant'e as defined by the Act.

30. Pursuant to Section 8-6-3(a), Code of Alabama 1975, it is unlawful for any person to transact business in this state as a dealer or agent for securities unless they are registered under the Act. **MORGAN** effected sales of securities through **EFI**, and on behalf of Woodbridge and Sant'e, in the state of Alabama without the benefit of registration in violation of the Act.

WHEREAS, **EFI** and **MORGAN** agree that the Statement of Facts set out hereinabove are true and correct; **EFI** and **MORGAN** agree that the assertions made during the Commission's investigation of this matter are true and correct; **EFI** and **MORGAN** represent to the Commission, that to the best of their knowledge, the sales disclosed herein are the only offer and/or sale of a security that were made into, within or from the state of Alabama; that **EFI** and **MORGAN** acknowledge that the Commission relied upon the facts as set forth in the Statement of Facts in entering into this Consent Order, as well as the assertions and responses provided by **EFI** and **MORGAN** during these negotiations; and

WHEREAS, the Commission may seek further civil or criminal remedies available to it under the provisions of the Act, against **EFI** and **MORGAN**, if it determines that the assertions or representations relied upon by the Commission in entering this Consent Order prove to be incorrect;

WHEREAS, the Commission is currently in settlement negotiations with Sant'e Realty Investments, LLC relating to the offers and sales of Sant'e securities; and, due to the pending nature of the negotiations with Sant'e this order shall not be construed to resolve any issues associated with transactions, known or unknown, in Sant'e securities effected by **EFI** or **MORGAN**.

WHEREAS, **EFI** and **MORGAN** voluntarily waive all rights to a hearing upon entry of this Order and have consented to the entry of this Order, and

WHEREAS, the Commission finds this Order necessary and appropriate in the public interest for the protection of investors, and consistent with the purposes fairly intended by the policy and provisions of the Act;

WHEREAS, the Commission, **EFI**, and **MORGAN** are desirous of settling this matter as hereafter set forth and agree;

ACCORDINGLY, IT IS HEREBY ORDERED:

1. That **EFI** and **MORGAN** shall, until such time as proper registration has been granted in the state of Alabama, or an appropriate exemption has been perfected, refrain from effecting securities transactions into, within or from the state of Alabama.
2. That **EFI** and **MORGAN** shall ensure that they follow proper procedures to preclude any future non-compliance with the Act.
3. That **EFI** and **MORGAN** shall continue to make quarterly payments to the Woodbridge investors until such time as the investors have received a full return of their

principal by way of these quarterly payments and/or the disbursements being made by the Woodbridge Liquidation Trust (Woodbridge bankruptcy proceedings).

4. **EFI and MORGAN** shall provide the Commission staff with a detailed statement of the plan of repayment to include investors' names, total investment amount, addresses, and calculated amount to be repaid to Woodbridge investors by **MORGAN**.

5. **EFI and MORGAN** will file with Commission staff on a quarterly basis confirmation of the payments being made to the Woodbridge investors (i.e. copies of cancelled checks).

6. The Commission shall have the right to conduct on-site audits, inspections, or examinations of **EFI and MORGAN** to ensure full compliance with this Order.

7. That **EFI and MORGAN** agree that nothing in this Order shall preclude:

a. the Commission and/or an investor from bringing an action against **EFI and MORGAN**;

b. an investor from bringing an action if the only defense is that it would be otherwise barred by the statute of limitations; and

c. that upon final disbursement of Woodbridge bankruptcy payments and/or Sant'e rescission payments that **EFI and MORGAN** shall continue all payments until all principal is paid to investors.

8. That in accordance with Section 8-6-19(j)(1), Code of Alabama 1975, **EFI and MORGAN** shall pay to the state of Alabama an administrative assessment of Five-thousand dollars (\$5,000) said funds to be tendered in certified funds within 60 days after **MORGAN** has completed payment to the Woodbridge investors' of their principal, which should be in or around January 2022.

9. That in accordance with Section 8-6-19(k)(1), Code of Alabama 1975, **EFI** and **MORGAN** shall pay to the Alabama Securities Commission, as partial reimbursement for the Commission's cost of investigating this matter, the sum of Five-thousand dollars (\$5,000) said funds to be tendered in certified funds within 60 days after **MORGAN** has completed payment to the Woodbridge investors' of their principal, which should be in or around January 2022.

AGREED AND CONSENTED to on the date indicated:

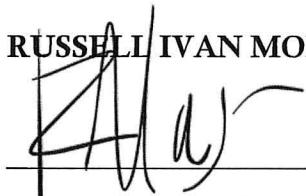
RESPONDENTS

EVERLIGHT FINANCIAL, INC.

TITLE: Owner

DATE: 3/31/2020

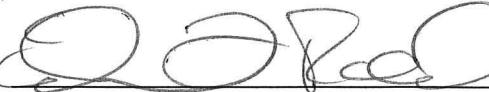
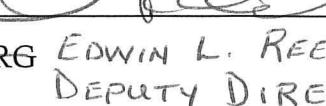
RUSSELL IVAN MORGAN II



DATE: 3/31/2020

APPROVED AND AGREED this 31ST day of MARCH, 2020.

ALABAMA SECURITIES COMMISSION
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Montgomery, AL 36104
(334) 242-2984

BY: 
JOSEPH P. BORG 
Director EDWIN L. REED
DEPUTY DIRECTOR

