

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF FINANCE
OF THE STATE OF IDAHO**

STATE OF IDAHO, Department of Finance,
Securities Bureau,

Complainant,

vs.

Avalon Equity Group, Inc.,

Respondent.

Docket No. 2017-7-15-R

AGREEMENT AND ORDER

The Director of the Department of Finance, State of Idaho ("Director") has instituted an investigation into the conduct of Avalon Equity Group, Inc. Pursuant to said investigation, it appears that violations of the *Idaho Uniform Securities Act (2004)* ("Act"), *Idaho Code §30-14-101 et seq.* have occurred. The Director and Avalon Equity Group, Inc. have agreed to resolve this matter without a public hearing. Therefore, the Director deems it appropriate and in the public interest that this Agreement and Order ("Order") be entered and the Respondent consents to the entry of this Order.

RESPONDENT

1. **Avalon Equity Group, Inc.** ("Avalon") is owned by David Wolfson. The last known mailing address for Avalon was 18425 Burbank Blvd, Tarzana, CA.
2. Avalon is not registered, in any state, to sell securities.

BACKGROUND

3. Woodbridge Mortgage Investments Funds 1, 2, 3, 3A, 4, and 5 ("Woodbridge") are commercial mortgage lenders that lend money to commercial borrowers in exchange for a first position mortgage on the borrower's commercial real estate. Woodbridge funded the commercial loans with money they raised by selling securities in the form of investment contracts. Woodbridge sold the investment contracts as First Position Commercial Mortgage

Loans (“FPCM”). The investment contracts were sold to investors in conjunction with the issuance of one-year promissory notes issued by Woodbridge.

4. Woodbridge pooled FPCM investor proceeds and when sufficient money to fund the commercial loan was raised, the transaction was finalized and Woodbridge obtained a legally recorded first position deed of trust on the property. After obtaining a first position deed of trust on the property, Woodbridge purportedly assigned a portion of its first position deed of trust on the property to FPCM investors.
5. Woodbridge, and their affiliates, filed for chapter 11 bankruptcy on December 4, 2017 citing “unforeseen costs associated with ongoing litigation and regulatory compliance.”
6. On December 20, 2017, the Securities and Exchange Commission (“SEC”) filed a complaint against Woodbridge and its affiliates, alleging that Robert Shapiro, owner of Woodbridge, conducted a nationwide Ponzi scheme that raised over \$1.22 billion from over 8,400 investors. The complaint asserts that Woodbridge issued unregistered securities in the form of promissory notes and paid unregistered agents to sell the investments.
7. At no time were Woodbridge’s investment contracts or promissory notes, for the FPCM loans, registered as securities in Idaho nor did they qualify for an exemption.
8. At least one Avalon agent solicited and sold the promissory notes which included:
 - a. **Timothy Walker** (“Walker”) is a 49-year-old Idaho resident who has been licensed with the State of Idaho’s Insurance Department since 1998 and has never held a securities license. He solicited and sold the promissory notes to at least one Idaho resident, TP.
9. Avalon received \$1,633.33 in commissions from TP’s investment of \$70,000, in approximately March 2017, and subsequent re-investments, which were solicited and sold through Walker.
10. Avalon’s agent, who sold Woodbridge promissory notes to an Idaho resident, was not registered to sell securities in Idaho, nor did he qualify for an exemption.

11. At the time of the above transaction, Avalon was not registered as a broker-dealer in Idaho, nor did the company qualify for an exemption.

FINDINGS OF VIOLATIONS

OFFER & SALE OF UNREGISTERED SECURITIES

12. Investments in investment contracts and promissory notes are "securities" as defined by *Idaho Code §30-14-102(28)*.
13. Pursuant to *Idaho Code §30-14-301*, it is unlawful for a person to offer or sell a security in this state unless: (a) The security is a federal covered security; (b) The security, transaction or offer is exempted from registration under sections 30-14-201 through 30-14-203, Idaho Code; or (c) The security is registered under this chapter.
14. *Idaho Code §30-14-202(11)* provides an exemption for transaction in a note... or other evidence of indebtedness secured by a mortgage or other security agreement if the note... or other evidence of indebtedness is offered and sold with the mortgage or other security agreement as a unit.
15. The *Idaho Administrative Code (IDAPA) Rule 55(2)* clarifies that "offered and sold as a unit" means the offer and sale of the entire mortgage or other security agreement to a single purchaser at a single sale.
16. Woodbridge promissory notes are sold to a "pool" of investors and do not qualify for the exemption provided in *§30-14-202(11)*. The exemption is not available for sales of fractional interests in a promissory note (or the "pooling" of multiple investors funds to purchase a single underlying mortgage).
17. Avalon's agent sold securities in the form of investment contracts and promissory notes. The securities were not registered, nor did they qualify for a registration exemption at the time they were sold, in violation of *Idaho Code §30-14-301*.

OFFER & SALE OF SECURITIES BY AN UNREGISTERED BROKER-DEALER

18. *Idaho Code §30-14-102(4)* defines a “broker-dealer” as a person engaged in the business of effecting transactions in securities for the account of others or for the person's own account.
19. Pursuant to *Idaho Code §30-14-401*, it is unlawful for an individual to transact business in this state as a broker-dealer unless the person is registered under this chapter as a broker-dealer or is exempt from registration as a broker-dealer.
20. Avalon transacted business in Idaho as a broker-dealer. Avalon was not registered as a broker-dealer, nor did they qualify for a registration exemption at the time the securities were sold, in violation of *Idaho Code §30-14-401*.

OFFER & SALE OF SECURITIES BY UNREGISTERED AGENTS

21. Agents, associated with Avalon, assisted Avalon by effecting, or attempting to effect, the sales of Woodbridge's FPCM's to Idaho residents.
22. Pursuant to *Idaho Code §30-14-402*, it is unlawful for an individual to transact business in this state as an agent unless the individual is registered under this chapter as an agent or is exempt from registration as an agent under subsection (b) of this section.
23. Pursuant to *Idaho Code §30-14-402(d)* it is unlawful for a broker-dealer engaged in offering, selling or purchasing securities in this state, to employ or associate with an agent who transacts business in this state on behalf of broker-dealers unless the agent is registered under subsection (a) of this section or is exempt from registration under subsection (b) of this section.
24. Avalon associated with and compensated agents that were not registered to sell securities, nor did the agents qualify for a registration exemption at the time the investment contracts were sold, in violation of *Idaho Code §30-14-402(d)*.

FRAUD PROVISIONS

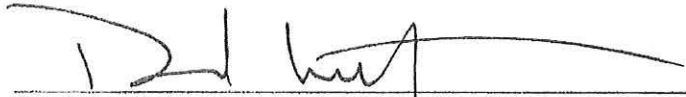
25. Pursuant to *Idaho Code §30-14-501*, it is unlawful for any person, in connection with the offer, sale, or purchase of a security, directly or indirectly: (2) To make an untrue statement of material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.
26. Omissions:
- a. Avalon failed to disclose that that they were not registered as a broker-dealer to sell the securities being offered as required by the Idaho Uniform Securities Act.
27. Avalon omitted material facts in connection with the sale of a security in violation of *Idaho Code §30-14-501(2)*.

ACKNOWLEDGMENT AND REMEDIES

28. Respondent agrees to the entry of the Order.
29. Respondent neither admits nor denies the findings of violations of Idaho law set forth in this Order.
30. Respondent agrees to pay restitution in the amount of one thousand six hundred thirty-three dollars and thirty-three cents (\$1,633.33). Said restitution is to be paid not later than thirty (30) days from the date the Director executes this Order. Payment shall be made to the "Idaho Department of Finance."
31. Respondent agrees to pay a civil penalty of one thousand five hundred dollars (\$1,500) for the violations of the Act, pursuant to *Idaho Code §30-14-604(d)*. Said civil penalty is to be paid not later than thirty (30) days from the date the Director executes this Order. Payment shall be made to the "Idaho Department of Finance."
32. Respondent agrees to not now, nor in the future, offer or sell securities in, into, or from Idaho without complying with the requirements of the Act and its rules.

33. In the event that the Respondent commits future violations of the Act or fail to adhere to the terms of this Order, Respondent acknowledges that the Idaho Department of Finance can incorporate the allegations giving rise to this Order in any future proceeding.

AGREED TO and ACKNOWLEDGED this 1st day of March, 2019.


AVALON EQUITY GROUP INC.

DAVID WOLFSON CEO
NAME (Printed) & TITLE

IT IS SO ORDERED

DATED this 18th day of March, 2019.

STATE OF IDAHO
DEPARTMENT OF FINANCE




MARY HUGHES, Acting Director of Finance