

BEFORE THE SECURITIES COMMISSIONER
OF THE STATE OF KANSAS



In the Matter of:

Roy B. Harrison (CRD # 1133999)

Docket No. 20 E Ø 82
KSC No. 2018-6516

Respondent.

_____/
Pursuant to K.S.A. 17-12a604

CONSENT ORDER

1. The Staff of the Office of the Kansas Securities Commissioner (“KSC Staff”) allege that Roy B. Harrison (“Harrison”) engaged in conduct constituting violations of the Kansas Uniform Securities Act, K.S.A. 17-12a101 *et seq.* (“the KUSA”), and that Harrison is subject to administrative sanctions and remedies under K.S.A. 17-12a604.
2. Harrison and KSC Staff desire to settle the matters raised by KSC Staff relating to Harrison’s alleged violations.

CONSENT TO JURISDICTION

3. Harrison and KSC Staff stipulate and agree that, under the KUSA, the Securities Commissioner of Kansas (“the Commissioner”) has jurisdiction over Harrison and this matter.
4. Harrison and KSC Staff stipulate and agree that the Commissioner has authority to enter this Order under K.S.A. 17-12a604.

WAIVER AND EXCEPTION

5. Harrison waives his right to a hearing with respect to these matters.
6. Harrison waives any rights that he may have to seek judicial review or otherwise challenge or contest the terms and conditions of this Order.
7. Harrison specifically forever releases and holds harmless the Commissioner, KSC Staff, and their respective representatives and agents from any and all liability and claims arising out of, pertaining to, or relating to this matter.
8. Harrison stipulates and agrees that, should the facts contained herein prove to be false or incomplete, the Commissioner and KSC Staff reserve the right to pursue any and all legal and administrative remedies at their disposal.

CONSENT TO THE COMMISSIONER'S ORDER

9. Harrison and KSC Staff agree to the issuance of this Order without further proceedings in this matter, and agree to be fully bound by the terms and conditions specified herein.
10. Without admitting or denying the allegations made by the KSC Staff as reflected in the Findings of Fact and Conclusions of Law set forth below, Harrison agrees to the issuance of this Order on the basis of such Findings of Fact and Conclusions of Law solely and only for the purposes of this proceeding and any proceeding that may be brought to enforce the terms of this specific Order.
11. Harrison agrees to not take any action nor to make or permit to be made any public statement creating the impression that this Order is without a factual basis.

Nothing in this Order affects Harrison's testimonial obligations or right to take legal or factual positions in defense or prosecution of litigation or other legal proceedings in which the Commissioner is not a party.

FINDINGS OF FACT

12. Harrison, CRD # 1133999, is an individual with a last-known address of . Harrison is a licensed insurance agent in the State of Kansas. Prior to the events described herein, Harrison was registered under the KUSA as an agent of a broker-dealer. Harrison's registration as an agent of a broker-dealer was terminated on July 26, 2002. At the times relevant hereto, Harrison was not registered under the KUSA in any capacity.
13. From approximately December 2016 to October 2017, Harrison acted as an agent of Woodbridge Mortgage Investment Fund 2, LLC ("Woodbridge 2"), Woodbridge Mortgage Investment Fund 3A, LLC ("Woodbridge 3A"), and Woodbridge Mortgage Investment Fund 4, LLC ("Woodbridge 4") in effecting the sale of promissory notes to ten Kansas clients and three Missouri clients, for which Harrison received commissions.
14. At the time of the sales, the promissory notes were not registered as a security under the KUSA as required. Additionally, Harrison was not registered as an agent under the KUSA as required.

Woodbridge Investments

15. Woodbridge 2, Woodbridge 3A and Woodbridge 4 were part of a group of affiliated entities (collectively, the “Woodbridge Entities”) that were used by an individual named Robert Shapiro (“Shapiro”) to perpetrate a nationwide Ponzi scheme.
16. Specifically, between no later than July 2012 through December 2017, Shapiro used a web of more than 275 limited liability companies to perpetrate a Ponzi scheme in which he raised more than \$1.22 billion from over 10,000 investors nationwide.
17. The Woodbridge Entities were in the business of extending short-term loans to third-party borrowers. As part of each loan, the third-party borrower gave a First Position Commercial Mortgage (“FPCM”) in favor of the particular Woodbridge Entity that extended the loan.
18. To raise funds for the loans to the third-party borrowers, the Woodbridge Entities sold promissory notes to investors. Proceeds from the sale of each promissory note were then used by the Woodbridge Entity which sold the note to extend a loan to a particular third-party borrower. Once the Woodbridge Entity received the FPCM from the borrower, the Woodbridge Entity then assigned a pro-rata portion of the FPCM to the investors whose funds were used to extend the loan.
19. As part of each short-term loan, the third-party borrower was to make regular monthly interest payments to the Woodbridge Entity which extended the loan,

which would in turn generate the investment returns for the purchasers of the promissory notes.

20. The promissory notes sold by the Woodbridge Entities generally promised to pay investors an annual interest rate of five to eight percent. Interest payments to investors were to be made monthly and the principal was to be paid at the end of each note's respective term.
21. The Woodbridge Entities used independent sales agents to solicit purchases of the promissory notes, which agents were paid commissions for each sale.
22. During the scheme, Shapiro used at least \$368 million of new investor funds to pay fictitious returns or profits to existing investors. Further, Shapiro used approximately \$64.5 million of investor funds to pay commissions to agents who sold the promissory notes to investors.
23. On December 4, 2017, the Woodbridge Entities filed for chapter 11 bankruptcy in the United States Bankruptcy Court for the District of Delaware. On February 15, 2019, the bankruptcy court issued an order confirming the *First Amended Joint Chapter 11 Plan of Liquidation*, which established the Woodbridge Liquidation Trust to hold and administer trust assets and make distributions to beneficiaries, including investors who purchased promissory notes from the Woodbridge Entities. The Woodbridge Liquidation Trust is currently asserting legal and equitable claims against agents to recover the commissions paid for the sale of Woodbridge promissory notes.

Harrison and his Clients' Promissory Notes

24. Harrison initially became aware of the Woodbridge promissory notes through speaking with acquaintances and researching Woodbridge on the internet. Prior to recommending the Woodbridge promissory notes, Harrison contacted a Woodbridge representative and was assured the promissory notes were considered loans and not securities.
25. From approximately December 2016 through October 2017, Harrison recommended that thirteen of his clients purchase promissory notes from the Woodbridge Entities.
26. Harrison recommended the Woodbridge promissory notes to his clients because his clients sought short-term investment alternatives with higher investment returns.
27. From approximately December 2016 through October 2017, thirteen of Harrison's clients signed promissory notes ("Promissory Notes") and loan agreements with the Woodbridge Entities. Under the loan agreements, Harrison's clients loaned a total of \$924,600 to the Woodbridge Entities. Under the Promissory Notes, the Woodbridge Entities promised to pay each of Harrison's clients their principal amount, plus monthly payments of interest ranging from 5.25% to 8% per annum. Details regarding the investments of each of Harrison's clients is provided in the table below:

| <u>Investor Name</u> | <u>Initial Investment</u> | <u>Woodbridge Fund</u> | <u>Interest paid to Investor</u> | <u>Interest %</u> | <u>Commission to Harrison</u> |
|----------------------|---------------------------|------------------------|----------------------------------|-------------------|-------------------------------|
| | \$50,000 | 2 | \$0.00 | 5.5 | \$1,750 |
| | \$26,000 | 4 | \$534.63 | 5.25 | \$975 |
| | \$25,000 | 4 | \$463.04 | 5.25 | \$937.50 |
| | \$100,000 | 3A | \$5,911.11 | 8 | \$2,000 |
| | \$86,200 | 4 | \$1,968.23 | 6 | \$2,586 |
| | \$54,900 | 3A | \$1,392.33 | 5.5 | \$2,241.75 |
| | \$51,500 | 3A | \$1,423.05 | 5.75 | \$2,092.19 |
| | \$100,000 | 4 | \$2,633.33 | 6 | \$3,000 |
| | \$56,000 | 4, 3A | \$1,814.92 | 5.75 | \$2,853.13 |
| | \$100,000 | 3A | \$233.33 | 6 | \$2,500 |
| | \$100,000 | 4 | \$4,459.75 | 6.5 | \$5,250 |
| | \$150,000 | 4 | \$7,875 | 7 | \$6,750 |
| | \$25,000 | 4 | \$546.90 | 5.25 | \$937.50 |

28. Before the commencement of the Woodbridge Entities' bankruptcy, Harrison's clients received a total of \$29,255.62 in interest payments from the Woodbridge Entities.

29. Harrison received commissions ranging from 1.00 to 4.25 percent, totaling \$33,873.07, from the Woodbridge Entities for his role in effectuating the sale of the Promissory Notes to Harrison's clients.
30. At all times relevant hereto, Harrison was not registered under the KUSA as an agent of the Woodbridge Entities.

CONCLUSIONS OF LAW

31. The Commissioner has jurisdiction over Harrison and this matter.
32. The Promissory Notes purchased by Harrison's clients are securities as that term is defined in K.S.A. 17-12a102(28).
33. The Promissory Notes purchased by Harrison's clients are not federal covered securities, as that term is defined in K.S.A. 17-12a102(7), and are not exempt from registration under K.S.A. 17-12a201 through 17-12a203.
34. Harrison violated K.S.A. 17-12a301 by offering and selling the Promissory Notes to his clients.
35. In effecting the sale of the Promissory Notes, Harrison was an agent, as that term is defined in K.S.A. 17-12a102(2), of the Woodbridge Entities, and was not exempt from registration under K.S.A. 17-12a402(b).
36. Harrison violated K.S.A. 17-12a402 by transacting business in this state as an agent when Harrison was neither registered under the KUSA as an agent of the Woodbridge Entities nor exempt from registration.

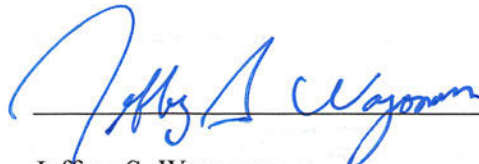
ORDER

IT IS THEREFORE ORDERED that Harrison shall pay a civil penalty in the amount of \$8,468.26. Payment shall be in the form of a cashier's check made payable to the "Office of the Kansas Securities Commissioner," and delivered to 1300 SW Arrowhead Road, Topeka, KS 66604. Such payment shall be made within 30 days of the issuance of this Order. Upon receipt, such payment shall be deposited in the Investor Education and Protection Fund.

IT IS SO ORDERED BY THE COMMISSIONER.

Entered at Topeka, Kansas, this 19 day of March, 2020,





Jeffrey S. Wagaman
Kansas Securities Commissioner

CONSENTED TO BY:

Kathlyn W. Daniels

Kathlyn W. Daniels, Kansas Bar No. 28090
Staff Attorney
OFFICE OF THE KANSAS SECURITIES COMMISSIONER
Attorney for KSC Staff

Roy B. Harrison

Roy B. Harrison
Respondent

STATE OF KANSAS)
COUNTY OF JOHNSON) ss:

This instrument was signed before me on this 12 day of MARCH, 2020,
by Roy B. Harrison.

(seal)

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| NOTARY PUBLIC STATE OF KANSAS | KAREN L. CULBERTSON 10/24/2021 My Appt. Exp. |
|----------------------------------|--|

Karen L. Culbertson
Notary Public

My appointment expires: 10/24/2021



NOTICE

(1) A party to this action may petition the Commissioner for reconsideration within 15 days after service of a final order, following the procedures in K.S.A. 77-529. Under K.S.A. 77-528, a party may petition for a stay of effectiveness of this order until the time at which a petition for judicial review would no longer be timely.

(2) This decision may be subject to judicial review. The agency officer to receive service of a petition for judicial review on behalf of the Office of the Securities Commissioner is Jack Clayton Johnson, Chief Regulatory Counsel, at 1300 SW Arrowhead Road, Topeka, Kansas 66604.