

BEFORE THE SECURITIES COMMISSIONER  
OF THE STATE OF KANSAS



In the Matter of:

Daniel B. Hutcheson

Docket No. 20 E 095  
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 Daniel B. Hutcheson (“Hutcheson”) engaged in conduct constituting violations of the Kansas Uniform Securities Act, K.S.A. 17-12a101 *et seq.* (“the KUSA”), and that Hutcheson is subject to administrative sanctions and remedies under K.S.A. 17-12a604.
2. Hutcheson and KSC Staff desire to settle the matters raised by KSC Staff relating to Hutcheson’s alleged violations.

**CONSENT TO JURISDICTION**

3. Hutcheson and KSC Staff stipulate and agree that, under the KUSA, the Securities Commissioner of Kansas (“the Commissioner”) has jurisdiction over Hutcheson and this matter.
4. Hutcheson 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. Hutcheson waives his right to a hearing with respect to these matters.
6. Hutcheson waives any rights that he may have to seek judicial review or otherwise challenge or contest the terms and conditions of this Order.
7. Hutcheson 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. Hutcheson 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. Hutcheson 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, Hutcheson consents to the issuance of this Order on the basis of such Findings of Fact and Conclusions of Law solely for the purposes of resolving this proceeding and any proceeding that may be brought to enforce the terms of this Order.
11. Hutcheson 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.



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. From August 1, 2012, through November 21, 2016, numerous affiliated Woodbridge Entities filed Form D notices claiming Rule 506 exemptions for the sale of membership units for the Woodbridge Entities, including Woodbridge Fund 3A.
22. In addition to the sale of promissory notes, the Woodbridge Entities offered to sell membership units to investors through private offerings. The purchase of membership units gave investors an equity interest in a particular Woodbridge Entity and the right to receive distributions.
23. Investors who purchased membership units were to receive a ten percent preferred dividend for five years. On or after the fifth year, the investors were to receive an additional two percent accrued preferred dividend, a distribution of fifty percent of profits based on the number of units held by the investor, and the individual Woodbridge Entities would repay the investor and redeem the membership unit.
24. The Woodbridge Entities used independent sales agents to solicit purchases of the promissory notes and membership units, which agents were paid commissions for each sale.
25. 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 and membership units to investors.

26. 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 and membership units 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 and membership units.

*Hutcheson and the Kansas Investors*

27. Hutcheson was initially introduced to the Woodbridge Entities by an associate, Richard Dean, in 2015.
28. In August of 2015, prior to recommending the Woodbridge promissory notes and membership units to his clients, Hutcheson spoke with a Woodbridge representative on the telephone. The Woodbridge representative described the Woodbridge Entities to Hutcheson, stating that the Woodbridge Entities had transacted over \$1.5 billion and had never defaulted, that the Woodbridge Entities had a “perfect tract record” and over 35 years of experience. The Woodbridge representative assured Hutcheson that the Woodbridge promissory notes were not securities and that Hutcheson would not be a securities agent for the sale of Woodbridge units. In addition to contacting a Woodbridge representative,

Hutcheson searched the Better Business Bureau, which showed the company to be in good standing.

29. Despite Hutcheson’s inquiries related to the Woodbridge Entities, as described in Paragraph 28, Hutcheson was unaware of the fraudulent activities of the Woodbridge Entities and Shapiro.
30. From approximately February 2016 through approximately November 2017, Hutcheson solicited several of his clients to purchase Woodbridge promissory notes or membership units.
31. From approximately February 2016 through approximately November 2017, five of Hutcheson’s clients (collectively “the Note Clients”) signed promissory notes (“the Promissory Notes”) and loan agreements . Under the loan agreements, the Note Clients loaned a total of \$258,840 to Woodbridge. Under the Promissory Notes, Woodbridge promised to pay each of the Note Clients their principal amounts plus monthly payments of interest approximating 5% per annum. Details regarding each of the Note Clients’ investments is provided below:

<b>Investor Name</b>	<b>Initial Investment</b>	<b>Woodbridge Fund</b>	<b>Interest Paid to Investor</b>	<b>Hutcheson’s Commission</b>
	\$25,000	3a	\$645.82	\$1,000
	\$60,000	3	\$3,324.97	\$2,850
	\$100,000	2	\$0	\$0
	\$25,000	4, 3	\$781.27	\$1,333.33
	\$48,840	3a	\$2,570.88	\$1,905

32. Between the Note Clients’ purchase of the Promissory Notes and the commencement of the Woodbridge Entities’ bankruptcy, the Note Clients received

a total of \$7,322.94 in interest payments from Woodbridge. Three of the Note Clients have received full repayment of the principal amounts owed under their Promissory Notes.

33. In approximately August of 2016, one of Hutcheson's clients,  
entered into an agreement to purchase 3.07 membership units in Woodbridge Fund 3A ("the Membership Units") for \$307,000.
34. Between purchase of the Membership Units and the commencement of the Woodbridge Entities' bankruptcy, received a total of \$35,816.66 in distribution payments from Woodbridge.
35. Hutcheson received commissions from the Woodbridge Entities, ranging from approximately three to six percent, for his role in effectuating the sale of the Promissory Notes and Membership Units to his clients. The commissions Hutcheson received totaled \$25,508.33.
36. At no time has Hutcheson been registered under the KUSA as an agent.

#### CONCLUSIONS OF LAW

37. The Commissioner has jurisdiction over Hutcheson and this matter.
38. The Promissory Notes described herein are securities as that term is defined in K.S.A 17-12a102(28).
39. The Promissory Notes 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.



40. Hutcheson violated K.S.A. 17-12a301 by offering and selling the Promissory Notes.
41. The Membership Units described herein are securities as that term is defined in K.S.A. 17-12a102(28).
42. In effecting the sale of the Promissory Notes and Membership Units, Hutcheson was an agent, as that term is defined in K.S.A. 17-12a102(2), of Woodbridge, and was not exempt from registration under K.S.A. 17-12a402(b).
43. Hutcheson violated K.S.A. 17-12a402 by transacting business in this state as an agent when Hutcheson was neither registered under the KUSA nor exempt from registration.

ORDER

**IT IS THEREFORE ORDERED** that Hutcheson shall pay a civil penalty in the amount of \$6,377.08. Payment shall be in the form of a cashier's check made payable to the "Office of the Kansas Securities Commissioner," and delivered to Kansas Insurance Department, Securities Division, 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 21 day of May, 2020,



Jeffrey S. Wagaman  
**Kansas Securities Commissioner**

CONSENTED TO BY:




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



Daniel B. Hutcheson  
**Respondent**

STATE OF Kansas )  
 ) ss:  
COUNTY OF Shawnee )

This instrument was signed before me on this 20 day of March, 2020,  
by Daniel B. Hutcheson.

(seal)  **Ashley S. Thornburgh**  
Notary Public  
State of Kansas  
My Appt. Expires 2-19-22

  
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Notary Public

My appointment expires: 02-19-2022

## 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.