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8
9 **UNITED STATES DISTRICT COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**

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12
13 SECURITIES AND EXCHANGE
COMMISSION,

14 Plaintiff,

15 vs.

16
17 SEXTON ADVISORY GROUP, INC.,
and STEVEN M. SEXTON,

18 Defendants.
19

Case No.

COMPLAINT

20
21 Plaintiff Securities and Exchange Commission (“SEC”) alleges:

22 **JURISDICTION AND VENUE**

23 1. The Court has jurisdiction over this action pursuant to Sections 20(b),
24 20(d)(1) and 22(a) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C. §§
25 77t(b), 77t(d)(1) & 77v(a), and Sections 21(d)(1), 21(d)(3)(A), 21(e) and 27(a) of the
26 Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78u(d)(1),
27 78u(d)(3)(A), 78u(e) & 78aa(a).
28

1 **THE DEFENDANTS**

2 7. **Sexton Advisory Group, Inc.** is a California corporation with its
3 principal place of business in Temecula, California. SAG was formed in 2010 and is
4 an insurance agency that primarily sells health, life and long-term care insurance and
5 annuities. At its peak, SAG had approximately 200 clients. SAG has never been
6 registered with the SEC in any capacity or associated with any registered broker-
7 dealers.

8 8. **Steven M. Sexton**, 56 years old, is a resident of Temecula, California.
9 He is SAG’s sole owner and its director, chairman, chief executive officer, secretary
10 and treasurer. Currently, Sexton is SAG’s only employee. Sexton has never been
11 registered with SEC in any capacity or associated with any registered broker-dealers.

12 **OTHER RELEVANT ENTITY**

13 9. Woodbridge is a Sherman Oaks, California-based financial company that
14 is not registered with the SEC in any capacity and has no publicly traded stock.
15 Woodbridge is incorporated in Delaware. Prior to 2015, Woodbridge operated as
16 Woodbridge Structured Funding, LLC (“WSF”) and was headquartered in Boca
17 Raton, Florida. From in or about July 2012 until its Chapter 11 bankruptcy filing in
18 or about December 2017, Woodbridge raised more than \$1.23 billion from
19 approximately 8,400 investors. Woodbridge utilized a nationwide network of
20 external sales agents, including Defendants, who acted as unregistered brokers to sell
21 securities. At the time of this complaint, Woodbridge was operating under a
22 Liquidation Trustee confirmed by the bankruptcy court and was a defendant in a
23 separate pending action brought by the SEC in *Securities and Exchange Commission*
24 *v. Shapiro, et al.* (S.D. Fla., filed December 20, 2017).

25 **THE ALLEGATIONS**

26 **A. Background – Woodbridge’s Ponzi Scheme**

27 10. Until its bankruptcy and the SEC’s action in December 2017,
28 Woodbridge operated a massive Ponzi scheme raising in excess of \$1.23 billion from

1 at least 8,400 nationwide investors by utilizing a nationwide network of external sales
2 agents, including Defendants, to act as unregistered brokers and sell unregistered
3 securities.

4 11. As part of that nationwide offering, Sexton and SAG offered two
5 different Woodbridge securities to their insurance agency clients. Defendants offered
6 their clients two types of Woodbridge securities: a twelve-month term promissory
7 note (referred to as a First Position Commercial Mortgage or “FPCM”) and/or a nine-
8 month term promissory note (referred to as a Co-Lending Opportunity or “CLO”).
9 The returns on these securities were supposedly based on the revenues Woodbridge
10 received from issuing loans to third-party commercial property owners
11 (“Borrowers”).

12 12. In reality and unbeknownst to Defendants, however, the Borrowers were
13 hundreds of shell companies wholly-owned and controlled by Woodbridge’s CEO
14 and president, which never made any payments to Woodbridge. Instead, the returns
15 investors received on their investments were paid using funds raised from other
16 investors. Woodbridge’s misrepresentations concealed the true nature of
17 Woodbridge’s business – a large-scale Ponzi scheme using new investor funds as the
18 source of existing investors’ returns.

19 **B. Defendants’ Unregistered Offer and Sale of Securities**

20 13. According to marketing materials Woodbridge provided to Defendants
21 regarding FPCM that Defendants subsequently provided to their clients, investors
22 would lend money to a Woodbridge affiliate which, in turn, would lend that money to
23 a third-party borrower. The money that investors loaned to Woodbridge was
24 purportedly secured by a recorded first position lien against the third-party
25 borrower’s commercial property and the investor would receive a return on their
26 investment of 5% for 12 months based on the interest payments made by the third-
27 party borrower. The marketing materials Woodbridge provided to Defendants
28 regarding CLOs contained representations similar to those for FPCM, except the

1 money that investors loaned to Woodridge for CLOs was purportedly used to lend
2 money to third-party borrowers for residential (instead of commercial) property and
3 only paid returns for 9 months (instead of 12).

4 14. From in or about May 2016 and continuing through in or about
5 November 2017, Defendants offered and sold FPCMs and CLOs on behalf of
6 Woodridge to approximately 63 SAG clients and investors, and raised
7 approximately \$4,625,000 (\$3,062,000 of FCPs and \$1,563,000 of CLOs).

8 15. Defendants participated in this offering of securities without a
9 registration statement being filed or in effect and when no exemption from
10 registration applied.

11 16. Sexton made use of the means and instruments of interstate commerce to
12 solicit SAG's insurance clients to invest in the FPCMs and CLOs. Sexton also
13 directed SAG's employees to complete Woodbridge's online forms via the internet
14 for SAG clients who agreed to invest in the FPCMs and CLOSs. To assist him,
15 Sexton hired an additional employee to complete the documents required by
16 Woodridge in order for SAG clients to invest.

17 17. Woodbridge's processing department then generated what purported to
18 be a loan agreement and promissory note and sent the documents to SAG and the
19 client. The SAG client signed these documents, provided a check for their principal
20 investment, and returned the package directly to Woodbridge. The client then
21 received what purported to be monthly interest payments directly from Woodbridge.

22 18. The offers and sales by Sexton and SAG of Woodbridge securities were
23 part of a larger nationwide offering of securities by Woodbridge and its other internal
24 and external sales agents involving approximately 8,400 investors who purchased a
25 total of approximately \$1.3 billion in securities in various Woodbridge affiliates.

26 19. The \$1.3 billion in sales generated by the nationwide offering were part
27 of a single integrated offering in that it was a plan of financing by entities under
28 Woodbridge's common control, which formed part of the same investment scheme;

1 the investment proceeds were commingled in accounts Woodbridge controlled; and
2 the proceeds were used for the same general purpose.

3 **C. Defendants Acted as Unregistered Brokers**

4 20. Defendants acted as unregistered brokers for Woodbridge in connection
5 with integrated offering of securities identified above. In exchange for Defendants'
6 direct and indirect participation in these offerings, and for offering, selling, and
7 otherwise effecting transactions in securities on behalf of Woodbridge, Defendants
8 received an approximate 4% commission in connection with their sales of FPCMs
9 and CLOs.

10 21. As alleged above, Defendants' direct and indirect participation in this
11 offering of securities included, among other things, actively soliciting SAG clients to
12 invest, directing investor to complete Woodbridge's online forms, and hiring
13 employees to complete documents required by Woodbridge in order to invest.

14 22. In total, defendants received transaction-based compensation of
15 \$244,653.70, which included \$180,712.50 in commissions and another \$63,941.20 to
16 compensate SAG employees for the time they were spending handling the document
17 preparation associated with selling the Woodbridge investments.

18 23. Neither SAG nor Sexton was registered as a broker-dealer in accordance
19 with Section 15(b) of the Exchange Act, nor was Sexton associated with a registered
20 broker-dealer, when effecting the transactions in Woodbridge securities.

21 **FIRST CLAIM FOR RELIEF**

22 **Unregistered Offer and Sale of Securities**

23 **Violations of Sections 5(a) and 5(c) of the Securities Act**

24 **(against all Defendants)**

25 24. The SEC realleges and incorporates by reference paragraphs 1
26 through 23 above.

27 25. As alleged above, Defendants SAG and Sexton offered and sold
28 Woodbridge securities to investors in interstate commerce, without filing a

1 registration statement with the SEC, and without qualifying for any exemption from
2 registration.

3 26. By engaging in the conduct described above, Defendants SAG and
4 Sexton, and each of them, directly or indirectly, singly and in concert with others,
5 made use of the means or instruments of transportation or communication in
6 interstate commerce, or of the mails, to offer to sell or to sell securities, or carried or
7 caused to be carried through the mails or in interstate commerce, by means or
8 instruments of transportation, securities for the purpose of sale or for delivery after
9 sale, when no registration statement had been filed or was in effect as to such
10 securities, and when no exemption from registration was applicable.

11 27. By engaging in the conduct described above, Defendants SAG and
12 Sexton have violated, and unless restrained and enjoined will continue to violate,
13 Sections 5(a) and 5(c), 15 U.S.C. §§ 77e(a) & 77e(c).

14 **SECOND CLAIM FOR RELIEF**

15 **Unregistered Broker-Dealer**

16 **Violation of Section 15(a) of the Exchange Act**

17 **(against all Defendants)**

18 28. The SEC realleges and incorporates by reference paragraphs 1
19 through 23 above.

20 29. As alleged above, Defendants SAG and Sexton, without registering as
21 brokers, actively solicited investors for SAG clients, and received transaction-based
22 compensation for their services during the Woodbridge offering.

23 30. By engaging in the conduct described above, Defendants SAG and
24 Woodbridge, and each of them, made use of the mails and means or instrumentalities
25 of interstate commerce to effect transactions in, and induced and attempted to induce
26 the purchase or sale of, securities (other than exempted securities or commercial
27 paper, bankers' acceptances, or commercial bills) without being registered with the
28 SEC in accordance with Section 15(b) of the Exchange Act, 15 U.S.C. § 78o(b), and

1 without complying with any exemptions promulgated pursuant to Section 15(a)(2),
2 15 U.S.C. § 78o(a)(2).

3 31. By engaging in the conduct described above, Defendants SAG and
4 Sexton have violated, and unless restrained and enjoined will continue to violate,
5 Section 15(a) of the Exchange Act, 15 U.S.C. § 78o(a).

6 **PRAYER FOR RELIEF**

7 WHEREFORE, the SEC respectfully requests that the Court:

8 **I.**

9 Issue findings of fact and conclusions of law that Defendants committed the
10 alleged violations.

11 **II.**

12 Issue judgments, in forms consistent with Rule 65(d) of the Federal Rules of
13 Civil Procedure, permanently enjoining Defendants SAG and Sexton, and their
14 officers, agents, servants, employees and attorneys, and those persons in active
15 concert or participation with any of them, who receive actual notice of the judgment
16 by personal service or otherwise, and each of them, from violating Sections 5(a)
17 and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c)].

18 **III.**

19 Issue judgments, in forms consistent with Rule 65(d) of the Federal Rules of
20 Civil Procedure, permanently enjoining Defendants SAG and Sexton, and their
21 officers, agents, servants, employees and attorneys, and those persons in active
22 concert or participation with any of them, who receive actual notice of the judgment
23 by personal service or otherwise, and each of them, from violating Section 15(a) of
24 the Exchange Act [15 U.S.C. §§ 78o(a)].

25 **IV.**

26 Order Defendants to disgorge all funds received from their illegal conduct,
27 together with prejudgment interest thereon.

1 V.

2 Order Defendants to pay civil penalties under Section 20(d) of the Securities
3 Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C.
4 § 78u(d)(3)].

5 VI.

6 Retain jurisdiction of this action in accordance with the principles of equity and
7 the Federal Rules of Civil Procedure in order to implement and carry out the terms of
8 all orders and decrees that may be entered, or to entertain any suitable application or
9 motion for additional relief within the jurisdiction of this Court.

10 VII.

11 Grant such other and further relief as this Court may determine to be just and
12 necessary.

13 Dated: September 2, 2020

14 */s/ Douglas M. Miller*

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DOUGLAS M. MILLER

16 Attorney for Plaintiff

17 Securities and Exchange Commission
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Complaints and Other Initiating Documents

[5:20-cv-01806 Securities and Exchange Commission v. Sexton Advisory Group, Inc. et al](#)

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

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Case Number: [5:20-cv-01806](#)

Filer: Securities and Exchange Commission

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Docket Text:

COMPLAINT No Fee Required - US Government, filed by Plaintiff Securities and Exchange Commission. (Attorney Douglas M Miller added to party Securities and Exchange Commission(pty:pla))(Miller, Douglas)

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