
*
IN THE MATTER OF: *
*
JOHN J. LYNCH *
*

CONSENT ORDER
NO. CO-20-202015-S

I. PRELIMINARY STATEMENT

WHEREAS, the Banking Commissioner (“Commissioner”) is charged with the administration of Chapter 672a of the General Statutes of Connecticut, the Connecticut Uniform Securities Act (“Act”), and Sections 36b-31-2 to 36b-31-33, inclusive, of the Regulations of Connecticut State Agencies (“Regulations”) promulgated under the Act;

WHEREAS, the Commissioner, through the Securities and Business Investments Division (“Division”) of the Department of Banking (“Department”), has conducted an investigation pursuant to Section 36b-26 of the Act into the activities of John J. Lynch (“Respondent”) to determine if he has violated, is violating or is about to violate provisions of the Act or Regulations (“Investigation”);

WHEREAS, Respondent is an individual residing in Reading, Pennsylvania, and the former owner and control person of JM Financial Solutions LLC (“JM Financial”), a Connecticut limited liability company formed by Respondent on December 5, 2013 and dissolved by him on December 31, 2019. JM Financial and Respondent were previously located at 50 Jeremiah Road, Sandy Hook, Connecticut 06482 until April 2019 when Respondent relocated to Pennsylvania. JM Financial was in the business of preparing tax returns. Respondent is not and has not been registered in any capacity under the Act;

WHEREAS, Woodbridge Group of Companies, LLC (d/b/a Woodbridge Wealth) ("Woodbridge") is a Delaware limited liability company formed on December 11, 2014 and based in California. From approximately 2012 through 2017, Woodbridge offered and sold interests in multiple investment funds, including, but not limited to, Woodbridge Mortgage Investment Fund 3, LLC ("Fund 3"), Woodbridge Mortgage Investment Fund 3A, LLC ("Fund 3A"), Woodbridge Mortgage Investment Fund 4, LLC ("Fund 4") and Woodbridge Commercial Bridge Loan Fund 2, LLC ("Fund 2") (collectively "Woodbridge Funds");

WHEREAS, the Woodbridge Funds each filed with the SEC a securities registration exemption pursuant to Rule 506 of Regulation D on September 19, 2014; October 30, 2015; November 21, 2016; and November 22, 2016, respectively;

WHEREAS, Fund 3A filed a Notice of Sale of Securities pursuant to Rule 506 of Regulation D with the Department, effective May 13, 2016;

WHEREAS, Fund 4 filed a Notice of Sale of Securities pursuant to Rule 506 of Regulation D with the Department effective October 4, 2017;

WHEREAS, neither Fund 2 nor Fund 3 filed a Notice of Sale of Securities pursuant to Rule 506 of Regulation D with the Department. The interests in Fund 2 and Fund 3 constitute securities within the meaning of Section 36b-3(19) of the Act, which securities were not registered under Section 36b-16 of the Act nor were they the subject of a filed exemption claim or claim of covered security status;

WHEREAS, on December 20, 2017, the Securities and Exchange Commission ("SEC") filed a *Complaint for Injunctive and Other Relief* in the United States District Court for the Southern District of Florida against Woodbridge, Robert H. Shapiro (Woodbridge's owner and control person), and multiple Woodbridge affiliates. (*Securities and Exchange Commission v. Robert H. Shapiro, et al.*, Case No. 1:17-cv-24624, S.D.Fla.) (the "Florida Action"). The SEC alleged, in pertinent part, that:

Beginning in July 2012 through December 4, 2017, Defendant Robert H. Shapiro ("Shapiro") used his web of more than 275 Limited Liability Companies to conduct a massive Ponzi scheme raising more than \$1.22 billion from over 8,400 unsuspecting investors nationwide through fraudulent unregistered securities offerings. Shapiro promised investors they would be repaid from the high rates of

interest Shapiro's companies were earning on loans the companies were purportedly making to third-party borrowers. However, nearly all the purported third-party borrowers were actually limited liability companies owned and controlled by Shapiro, which had no revenue, no bank accounts, and never paid any interest under the loans.

WHEREAS, on December 27, 2018, the court in the Florida Action entered a *Final Judgment as to Debtor Defendants*, ordering Woodbridge, Shapiro and its affiliates to disgorge \$892,173,765 to the SEC to distribute through a “fair fund”. (*SEC v. Shapiro, et al.*, December 27, 2018, ECF No. 159) The purpose of the “fair fund” is to reimburse investors who purchased investment funds sold by Woodbridge, including the Woodbridge Funds;

WHEREAS, the Commissioner, as a result of the Investigation, has obtained evidence, based on information identified by Woodbridge to the Commissioner, that, from approximately June 2016 to approximately November 2017, Respondent, through JM Financial, offered and sold approximately \$65,000 in the Woodbridge Funds to three individuals (“Woodbridge Investors”). Respondent received \$2,583.33 in total remuneration from Woodbridge (“remuneration”);

WHEREAS, the Commissioner, as a result of the Investigation, has obtained evidence that during the time Respondent was offering and selling interests in the Woodbridge Funds, Respondent was not registered as an agent of issuer of Woodbridge under the Act;

WHEREAS, Respondent maintains that it was his understanding, based on Woodbridge’s representations, that the Woodbridge Funds were not securities and did not need any securities registration;

WHEREAS, the Commissioner, as a result of the Investigation, has reason to believe that a basis exists under Section 36b-27 of the Act for the initiation of administrative proceedings seeking the entry of an order to cease and desist, an order to provide disgorgement against Respondent and an order imposing fine;

WHEREAS, Section 36b-31(a) of the Act, provides, in relevant part, that “[t]he commissioner may from time to time make . . . such . . . orders as are necessary to carry out the provisions of sections 36b-2 to 36b-34, inclusive”;

WHEREAS, Section 36b-31(b) of the Act, provides, in relevant part, that “[n]o . . . order may be made . . . unless the commissioner finds that the action is necessary or appropriate in the public interest or for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of sections 36b-2 to 36b-34, inclusive”;

WHEREAS, an administrative proceeding initiated under Section 36b-27 of the Act would constitute a “contested case” within the meaning of Section 4-166(4) of the General Statutes of Connecticut;

WHEREAS, Section 4-177(c) of the General Statutes of Connecticut and Section 36a-1-55(a) of the Regulations provide that a contested case may be resolved by consent order, unless precluded by law;

WHEREAS, without holding a hearing and without trial or adjudication of any issue of fact or law, and prior to the initiation of any formal proceeding, the Commissioner and Respondent reached an agreement, the terms of which are reflected in this Consent Order, in full and final resolution of the matters described herein;

WHEREAS, Respondent expressly consents to the Commissioner’s jurisdiction under the Act and to the terms of this Consent Order;

WHEREAS, the issuance of this Consent Order is necessary or appropriate in the public interest or for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of the Act.

AND WHEREAS, Respondent, through his execution of this Consent Order, specifically assures the Commissioner that none of the violations alleged in this Consent Order shall occur in the future.

II. CONSENT TO WAIVER OF PROCEDURAL RIGHTS

WHEREAS, Respondent, through his execution of this Consent Order, voluntarily waives the following rights:

1. To be afforded notice and an opportunity for a hearing within the meaning of Sections 36b-27 and Section 4-177(a) of the General Statutes of Connecticut;

2. To present evidence and argument and to otherwise avail himself of Sections 36b-27 and Section 4-177c(a) of the General Statutes of Connecticut;
3. To present his position in a hearing in which he is represented by counsel;
4. To have a written record of the hearing made and a written decision issued by a hearing officer; and
5. To seek judicial review of, or otherwise challenge or contest the matters described herein, including the validity of this Consent Order.

III. ACKNOWLEDGEMENT OF THE COMMISSIONER'S ALLEGATIONS

WHEREAS, Respondent, through his execution of this Consent Order, acknowledges, without admitting or denying, the following allegations of the Commissioner:

1. From approximately June 2016 to approximately November 2017, Respondent violated Section 36b-16 of the Act by offering and selling securities that were not registered under Section 36b-16 of the Act nor were they the subject of a filed exemption claim or claim of covered security status;
2. From approximately June 2016 to approximately November 2017, Respondent violated Section 36b-6(a) of the Act by transacting business as an unregistered agent of issuer of Woodbridge; and
3. A basis exists under Section 36b-27 of the Act for the entry of an order to cease and desist, an order to provide disgorgement of remuneration and an order imposing fine;

IV. CONSENT TO ENTRY OF SANCTIONS

WHEREAS, Respondent, through his execution of this Consent Order consents to the Commissioner's entry of a Consent Order imposing on them the following sanctions:

1. Respondent either directly or through any person, organization, entity or other device, shall cease and desist from engaging in conduct constituting or which would constitute a violation of the Act or any regulation or order under the Act including, without limitation, the offer and/or sale of securities in violation of Section 36b-16 of the Act and acting as an unregistered agent of issuer in violation of Section 36b-6(a) of the Act;
2. Respondent shall disgorge \$2,583.33 in remuneration (as identified by Woodbridge to the Commissioner) Respondent received from Woodbridge in connection with Respondent's sales of Woodbridge Funds, in accordance with the following:

No later than the date of the entry of this Consent Order, Respondent shall provide documentation to the Division evidencing that he has remitted \$2,583.33 in good funds to his legal counsel ("Counsel") for the purpose of depositing such funds into Counsel's client fund

account (“Account”) and facilitating the disbursement through Counsel of remuneration received by Respondent from Woodbridge to the Woodbridge Investors.

No later than fourteen (14) days following the date of the entry of the Consent Order, Respondent shall forward to the Woodbridge Investors, or their estate, a copy of this Consent Order, together with written notice, preapproved by the Division Director, stating that the Woodbridge Investors, or their estate, are entitled to the disgorgement of remuneration to Respondent from Woodbridge from the Account if they respond within thirty (30) days and provide Respondent with disbursement instructions sufficient to make payment. Respondent shall make all reasonable efforts to confirm that the contact and address information for each Woodbridge Investor is up-to-date. Respondent, through his Counsel shall immediately notify the Division if Respondent is unable to locate one or more Woodbridge Investor notwithstanding the use of reasonable due diligence;

No later than fifty (50) days following the entry of this Consent Order, Respondent, through Counsel, shall disburse to the Woodbridge Investors the monies in the Account and provide written proof of disbursement to the Commissioner, including a copy of the check or wire transfer to each Woodbridge Investor. If one or more of the Woodbridge Investors cannot be located despite a diligent search, fails to provide sufficient disbursement instructions, fails to timely respond to the notice or unequivocally declines disbursement in writing, Respondent shall immediately notify the Division in writing; and

3. No later than the date this Consent Order is entered by the Commissioner, Respondent shall remit to the Department, by cashier’s check, certified check or money order made payable to “Treasurer, State of Connecticut”, the sum of three thousand five hundred dollars (\$3,500), which shall constitute an administrative fine.

V. CONSENT ORDER

NOW THEREFORE, the Commissioner enters the following:

1. The Sanctions set forth above be and are hereby entered;
2. Entry of this Consent Order by the Commissioner is without prejudice to the right of the Commissioner to take enforcement action against Respondent based upon a violation of this Consent Order or the matters underlying its entry if the Commissioner determines that compliance with the terms herein is not being observed or if any representation made by Respondent set forth herein is subsequently determined to be untrue;
3. Nothing in this Consent Order shall be construed as limiting the Commissioner’s ability to take enforcement action against Respondent based upon evidence of which the Division was unaware on the date hereof relating to a violation of the Act or any regulation, rule or order adopted or issued under the Act;
4. Respondent shall not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any allegation referenced in this Consent Order or create the impression that this Consent Order is without factual basis;

5. Respondent shall not take any position in any proceeding brought by or on behalf of the Commissioner, or to which the Commissioner is a party, that is inconsistent with any part of this Consent Order. However, nothing in this Consent Order affects Respondent's testimonial obligations or right to take any legal or factual position in litigation, arbitration, or other legal proceedings in which the Commissioner is not a party;
6. Neither this Consent Order nor anything related to it shall toll any statutes of limitations for private civil claims of any Woodbridge Investor or limit any Woodbridge Investor from instituting or participating in any private claim against Respondent; and
7. This Consent Order shall become final when entered.

So ordered at Hartford, Connecticut,
this 6th day of August 2020.

_____/s/_____
Jorge L. Perez
Banking Commissioner

CONSENT TO ENTRY OF ORDER

I, John J. Lynch, state that I have read the foregoing Consent Order, that I know and fully understand its contents; that I agree freely and without threat or coercion of any kind to comply with the terms and conditions stated herein; and that I consent to the entry of this Consent Order.

_____/s/_____
John J. Lynch

Date: 7/31/2020