

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, MAY 26, 2016

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COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. SEC-2015-00053

DAVID WEBB,
G4i CAPITAL PARTNERS, INC.,
Defendants

ORDER

On November 9, 2015, the State Corporation Commission ("Commission") entered a Rule to Show Cause ("Rule") against David Webb ("Webb") and G4i Capital Partners, Inc. ("G4i Partners" and collectively "Defendants"), among others, based upon allegations made by the Commission's Division of Securities and Retail Franchising ("Division") arising out of its investigation of the Defendants. Specifically, the Division alleged that the Defendants had violated §§ 13.1-502 (2), 13.1-502 (3), 13.1-504 and 13.1-507 of the Virginia Securities Act ("Act"), § 13.1-501 *et seq.* of the Code of Virginia ("Code").

Among other things, the Rule directed the Defendants to file a responsive pleading, scheduled a hearing ("Hearing") and assigned the matter to a hearing examiner ("Hearing Examiner"). Webb filed an answer to the Rule on December 11, 2015. G4i Partners did not file a responsive pleading through counsel, as required by Rule 5 VAC 5-20-30 of the Commission's Rules of Practice and Procedure, 5 VAC 5-20-10 *et seq.*

During the course of its investigation and the proceedings, the Division subpoenaed the Defendants' banking records, interviewed and obtained documents from investors and other witnesses, served discovery upon the Defendants, and conducted other independent research regarding the Defendants' activities. Based on its analysis of this information and its overarching

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investigation, the Division intended to present the following evidence at the Hearing, among other items:¹

(1) The Defendants sold at least ten promissory notes called "Secured Commercial Contract Loan[s]" ("Secured Notes") to at least eight Virginia investors ("Virginia Investors") between January 2012 and February, 2013.

(2) The Secured Notes are securities, as defined by § 13.1-501 of the Act.

(3) The Secured Notes were not registered as required with the Division for sale in Virginia, nor were they exempt from registration.

(4) Webb was not registered with the Division to offer or sell securities within Virginia, nor was he exempt from registration. Further, G4i Partners employed two unregistered agents, Webb and Ronald S. Black ("Black") to offer and sell its securities.

(5) The Defendants promoted G4i Partners as a financier who partnered with and provided loans to private, federal contractors, including G4i Development, Inc. ("G4i Development"), by pooling capital obtained through the investors' purchases of the Secured Notes, including the Virginia Investors' purchases.

(6) The Defendants established and maintained websites, including the website www.governmentcontractfunding.com, to offer and sell the Secured Notes. Through this website, and other marketing tactics, the Defendants touted the Secured Notes as "one of the absolute safest, most secure, high yield investments that you're going to find anywhere."²

¹ In addition to each of the statements identified below, the Division intended to present evidence supporting each of the allegations contained in the Rule. Doc. Con. Cen. No. 151120055.

² See www.governmentcontractfunding.com website, Attachment C to the Rule.

(7) The Defendants promised investors varying rates of return on the Secured Notes, ranging from 12.05 to 21.07% interest annually, depending on the amount and term of the investments. Each of the Virginia Investors' Secured Notes provided for payment of 17.64% interest annually over a two year term. Each of the Virginia Investors expected to receive their respective principal back upon conclusion of the two year term.

(8) Between September 2011 and February 2013, the Defendants sold approximately \$6.6 million in Secured Notes to at least 72 investors, including the Virginia Investors. The Virginia Investors invested a total of \$522,000 in the Secured Notes. During this time frame, the Defendants paid the investors total interest of \$832,090.

(9) The Defendants entered into a Secured Line of Credit Promissory Note providing G4i Development a loan of up to \$8,333,000 ("Financing Note"), charging G4i Development 8.75% interest on amounts loaned pursuant to the Financing Note.

(10) Between September 2011 and February 2013, the Defendants loaned G4i Development approximately \$3.175 million on a rolling basis, but collected only \$76,599 in interest payments from G4i Development.

(11) When offering and selling the Secured Notes, the Defendants did not provide the investors, including the Virginia Investors, a copy of the Financing Note and did not discuss the Financing Note's terms with the Virginia Investors.

(12) Further, when offering and selling the Secured Notes, the Defendants failed to inform investors, including the Virginia Investors, that G4i Partners and G4i Development were separate entities who had entered into the Financing Note.

(13) Additionally, despite promising that the Secured Notes were one of the "absolute safest" investments, the Defendants failed to disclose that the Financing Note lacked any

collateral agreement providing a security interest to G4i Partners and its investors. The Defendants also failed to disclose that G4i Development had few, if any, tangible, recoverable assets to secure the Secured Notes. Despite informing investors to the contrary, the Defendants failed to even file a Uniform Commercial Code ("UCC") statement with the Commission until April 2013.

(14) Also, when offering and selling the Secured Notes, the Defendants failed to disclose to investors, including the Virginia Investors, that Defendant Webb was previously involved in several failed funding deals, including failed deals through Webb's company, Results Capital, Inc.

(15) Moreover, when offering and selling the Secured Notes, the Defendants failed to inform investors, including the Virginia Investors, that the Defendants had been the subject of at least two other state regulatory actions. Specifically, California and Arizona issued cease and desist actions against the Defendants in 2011 and 2012, respectively, asserting the Defendants had offered and sold unregistered securities in violation of those states' laws.

(16) Between September 2011 and February 2013, the Defendants' only sources of revenues or cash flow were: (a) the \$6.6 million in investor funding; (b) the \$76,599 interest payments from G4i Development; and (c) approximately \$79,000 of contributions from Webb.

(17) Based upon a review of the Defendants' bank records, approximately \$590,000 of investor funds were used to pay the Defendants' investors from prior failed business deals, including investors of Results Capital, Inc. An additional \$805,000 was used for purported business expenses, but mostly on Webb's personal expenses, such as pet sitters, SAT prep courses and college admission fees, yoga and pilates club membership, luxury personal grooming products, landscaping services, and multiple other personal expenditures and cash

withdrawals. Moreover, an additional \$832,000 was used to pay G4i Partners' investors their interest payments.

(18) In general, the Virginia Investors received interest payments on their Secured Notes until approximately October 2013. The Virginia Investors have not received any additional payments since then and have not recovered or received a return of their principal investments.

(19) In total, the Defendants have failed to return \$522,000 in principal to the eight Virginia Investors. Further, the Defendants have accrued over \$200,000 in unpaid interest to the Virginia Investors on the Secured Notes.

Accordingly, based upon this anticipated evidence, the Division intended to prove at the Hearing that each of the Defendants committed ten violations of § 13.1-507 of the Act in that they offered and sold at least ten securities that were not registered under the Act nor exempt from registration. The Division further intended to allege at the Hearing that Defendant Webb also committed ten violations of § 13.1-504 A of the Act by selling the securities without being duly registered with the Division as an agent of the issuer, G4i Partners, and that G4i Partners committed ten violations of § 13.1-504 B of the Act by employing unregistered agents (*i.e.*, Webb and Black) for each of the ten sales of its securities to the Virginia Investors.

Additionally, the Division intended to allege at the Hearing that each of the Defendants had committed at least 50 violations³ of § 13.1-502 (2) of the Act (five misrepresentations or omissions contained within each of the ten sales of securities) by misrepresenting or failing to disclose when offering and selling the Secured Notes that: (a) G4i Capital was separate and distinct from G4i Development; (b) the Defendants had been subject to at least two prior state

³ As the case progressed through the discovery phase, the Division uncovered additional alleged violations beyond those asserted in the Rule.

securities regulatory actions; (c) the interest rate on the Financing Note was insufficient to cover the interest payments due investors under the Secured Notes; (d) that Webb had been involved in prior, unsuccessful funding deals; and (e) by asserting that the Secured Notes were secured by applicable UCC filings when they were not. Moreover, the Division intended to allege at the Hearing that each of the Defendants had committed at least ten violations of § 13.1-502 (3) of the Act by misappropriating investor funds and engaging in a transaction, practice or course of business that operated as a fraud or deceit upon the Virginia Investors.

If the provisions of the Act are violated, the Commission is authorized by § 13.1-519 of the Act to issue temporary or permanent injunctions, by § 13.1-518 A of the Act to impose costs of investigation, by § 13.1-521 A of the Act to impose certain monetary penalties, by § 13.1-521 C of the Act to order a defendant to make rescission and restitution, and by § 12.1-15 of the Code to settle matters within its jurisdiction.

After reviewing and assessing the Division's anticipated evidence and allegations, the Defendants made an offer of settlement to the Commission wherein the Defendants agree to the entry of judgment against them based upon the following terms and conditions:

(1) The Defendants admit the Division's allegations pursuant to §§ 13.1-504 A, 13.1-504 B of the Act and 13.1-507 of the Act, but neither admit nor deny the Division's remaining allegations. The Defendants also admit to the Commission's jurisdiction and authority to enter this Order.

(2) The Defendants agree to the imposition of a civil penalty of \$600,000 pursuant to § 13.1-521 A of the Act. The penalty will be waived if the Defendants, jointly and severally, make restitution to the eight Virginia Investors by (a) making payment of \$10,000, on a pro rata basis, to the Virginia Investors within 30 days of the entry of this Order; and (b) making an

additional payment of \$150,000, on a pro rata basis, to the Virginia Investors within three years of the entry of this Order.

(3) The Defendants agree to a permanent bar prohibiting the Defendants from conducting any securities business in or from the Commonwealth of Virginia, including as investment advisors, investment advisor representatives, issuers, agents of the issuer, broker-dealers or broker-dealer agents.

(4) The Defendants agree not to violate the Act in the future.

(5) The Defendants agree to provide each Virginia Investor a copy of this Order within 30 days of its entry.

The Division has recommended that the Commission accept the offer of settlement of the Defendants.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendants, and the recommendation of the Division, is of the opinion that the Defendants' offer should be accepted.

Accordingly, IT IS ORDERED THAT:

(1) The offer of the Defendants in settlement of the matter set forth herein is hereby accepted;

(2) Judgment shall be entered jointly and severally against the Defendants as follows:

(a) The Defendants admit the Division's allegations pursuant to §§ 13.1-504 and 13.1-507 of the Act, but neither admit nor deny the Division's remaining allegations. The Defendants also admit to the Commission's jurisdiction and authority to enter this Order.

(b) A civil penalty of \$600,000 shall be imposed pursuant to § 13.1-521 A of the Act. The penalty will be waived if the Defendants, jointly and severally, make restitution to the

eight (8) Virginia Investors by (a) making payment of \$10,000, on a pro rata basis, to the Virginia Investors within 30 days of the entry of this Order; and (b) making an additional payment of \$150,000, on a pro rata basis, to the Virginia Investors within three (3) years of the entry of this Order.

(c) The Defendants are permanently barred from conducting any securities business in or from the Commonwealth of Virginia, including as investment advisors, investment advisor representatives, issuers, agents of the issuer, broker-dealers or broker-dealer agents.

(d) The Defendants will not violate the Act in the future.

(3) The Defendants shall provide a copy of this Order to each Virginia Investor within 30 days of the entry of this Order.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

John B. Russell, Jr., Esquire, John B. Russell, Jr. & Associates, PLC, 2621 Promenade Parkway, Suite 102, Midlothian, Virginia 23113; David Webb, 512 Overlook Drive, North Palm Beach, Florida 33408; G4i Capital Partners, Inc., c/o The Company Corporation, Registered Agent, 2711 Centreville Road, Suite 400, Wilmington, Delaware 19808; and a copy shall be delivered to the Commission's Office of General Counsel and Division of Securities and Retail Franchising.

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ADMISSION AND CONSENT

David Webb and G4i Capital Partners, Inc. (collectively, "Defendants") admit to the Division of Securities and Retail Franchising's ("Division") allegations pursuant to §§ 13.1-504 A and 13.1-507 of the Virginia Code as contained in the Rule to Show Cause ("Rule") issued by the State Corporation Commission ("Commission") on November 9, 2015, and to the jurisdiction of the Commission as to the party and subject matter hereof but, neither admitting nor denying the remaining allegations made herein by the Division in the Rule, hereby consent to the form, substance and entry of the foregoing Order.

The Defendants further state that no offer, tender, threat or promise of any kind whatsoever has been made by the Commission or any member, subordinate, employee, agent or representative thereof in consideration of the foregoing Order.

G4i Capital Partners, Inc.

Date: 5.2.16

By: David Webb
David Webb, President
DAVID WEBB
David Webb

Date: 5.2.16

SEEN: John B. Russell, Jr., Esq.