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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING) Order No.: S-13-1192-16-CO01
Whether there has been a violation of the)
Securities Act of Washington by:) CONSENT ORDER
James Brian Hill;) AS TO JAMES BRIAN HILL AND SOUND LEASING
Sound Leasing Corporation,) CORPORATION
Respondents.)

INTRODUCTION

Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division of the Department of Financial Institutions (“Securities Division”) and Respondents James Brian Hill and Sound Leasing Corporation, do hereby enter into this Consent Order in settlement of the matters alleged herein. Respondents James Brian Hill and Sound Leasing Corporation neither admit nor deny the Findings of Fact and Conclusions of Law as stated below.

FINDINGS OF FACT

Respondents

1. Sound Leasing Corporation (Sound Leasing) is a Washington State corporation with its principal place of business in Newcastle, Washington. Sound Leasing was formed in October 2002. Sound Leasing is currently inactive. Sound Leasing was in the business of leasing technology equipment to other companies.
2. James Brian Hill (Hill) was sole owner and Chief Executive Officer of Sound Leasing. Hill resides in Bellevue, Washington.

Nature of the Offering: Sound Leasing Promissory Notes

Summary

3. From 2002-2012, Hill and Sound Leasing raised at least \$2,180,000 from twenty-five investors through the sale of promissory notes. At least one of these investors was an unaccredited and unsophisticated investor. Each promissory note was negotiated separately and had different terms. Initially, these promissory notes had a typical term of three years, but after the three year term ended, Sound Leasing would renew the notes on a month-to-month basis. Eventually, all of Sound Leasing's outstanding notes became due upon demand. Sound Leasing did not have sufficient capital to cover the contingency that all of the investors would redeem their notes at the same time. In early 2013, Sound Leasing began defaulting on its interest payments to investors. After Sound Leasing began to default on its payments, investors asked for their principal investment back, but Sound Leasing did not have the necessary funds to pay back investors.

4. Sound Leasing operated as a debenture company. Sound Leasing is considered a debenture company because it issued promissory notes to investors and used the proceeds of these notes to operate its equipment leasing business. Sound Leasing did not register its promissory note offering and did not notice file for an exemption from registration. Had Sound Leasing registered its offering with the Securities Division, Sound Leasing would have been subject to state laws and rules designed to protect investors including provisions uniquely designed to protect investors of debenture companies. Some of these provisions include rules governing disclosure of financial statements to investors, setting liquid capital requirements, preventing self-dealing, and limiting promissory note terms.

Sound Leasing Promissory Note Offering

5. Sound Leasing leased technology and light manufacturing equipment to early stage companies. Sound Leasing would purchase equipment and then lease that equipment to a small business at a profit. Sound Leasing would also deduct the depreciation of the equipment on its annual tax filings. Typically,

1 Sound Leasing leased its equipment to small businesses for a three year term. At the end of the lease term,
2 Sound Leasing would offer the small business an opportunity to renew the lease or to purchase the
3 equipment at a discount. If the small business did not wish to renew or purchase the equipment, Sound
4 Leasing would take possession of the equipment and attempt to lease it to another company or sell it in the
5 open market.

6 6. Sound Leasing funded its operations primarily through bank financing, but also by issuing
7 promissory notes to private individuals.

8 7. Sound Leasing received financing from banks in various ways including a line of credit, selling lease
9 contracts to the bank at a discount, and bank loans. Sound Leasing's bank financing was always secured by
10 the financed equipment, which lowered the bank's risk in lending these funds. Generally, banks required
11 Sound Leasing to tie specific equipment lease revenue to the bank financing, further lowering the bank's
12 risk by assuring that the bank financing would be paid back from the revenue earned from the equipment
13 leases.

14 8. Sound Leasing received financing from private investors by issuing promissory notes that promised
15 an annual interest rate ranging from nine to fourteen percent and a loan term that was typically three years.
16 Under the terms of the promissory notes, Sound Leasing was required to make monthly interest payments to
17 investors. Sound Leasing was also required to pay back the principal loan amount in a balloon payment at
18 the end of the term; however, in practice, at the end of note term, Sound Leasing would automatically
19 extend the note from month-to-month. Sound Leasing's notes to private individuals did not contain the same
20 safeguards from risk that the bank financing included. For instance, the notes Sound Leasing issued to
21 investors were unsecured, unlike the bank financing, which was secured by the equipment. Further, the
22 money Sound Leasing received from investors was not tied to a specific lease contract, which subjected the
23 noteholders to higher risk because there was no assurance that the revenue Sound Leasing earned from its
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1 equipment leases would be more than the interest it owed on the promissory notes. Also, a substantial
2 portion of the lease revenue was already encumbered in the bank financing.

3 9. Hill was solely responsible for securing financing for Sound Leasing and selling the Sound Leasing
4 promissory notes to investors. Hill told promissory note holders that Sound Leasing would repay them from
5 the profits Sound Leasing earned from its equipment financing business. Hill and Sound Leasing failed to
6 provide potential investors with any written materials regarding Sound Leasing's business or its financial
7 condition. Hill and Sound Leasing failed to discuss the financial condition of Sound Leasing with potential
8 investors. Hill and Sound Leasing failed to ask potential investors about their prior investment experience or
9 their net worth. Hill and Sound Leasing failed to disclose Sound Leasing's banking arrangements with
10 investors including that much of the equipment and lease revenue was encumbered. Hill and Sound Leasing
11 failed to disclose any risks relating to the investment in Sound Leasing promissory notes to potential
12 investors.

13 10. Sound Leasing held many highly illiquid assets including warrants, options, and stock grants that
14 Sound Leasing accepted, in lieu of cash, from the start-up companies as payment for the equipment leases.
15 Over the years, Sound Leasing also made direct investments in some of these same start-up companies.
16 When Hill used Sound Leasing funds to invest in illiquid securities and accepted illiquid securities in lieu of
17 cash, he put at risk Sound Leasing's ability to timely pay back investors because he limited Sound Leasing's
18 access to liquid funds. Hill and Sound Leasing failed to disclose to investors that in addition to its
19 equipment leasing business, Sound Leasing would also invest funds into start-up companies. Hill and Sound
20 Leasing failed to disclose to investors that Sound Leasing accepted highly illiquid warrants, options, and
21 stock grants from companies as payment for equipment leases, rather than a more liquid asset such as cash.
22 Hill and Sound Leasing failed to disclose to investors that Sound Leasing held less than \$100,000 in liquid
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1 assets. Hill and Sound Leasing failed to disclose to potential investors that Sound Leasing's low liquidity
2 could result in an inability to repay investors.

3 11. Beginning in 2004, in addition to his salary, Hill began taking monetary advances from Sound
4 Leasing. The amount of these advances ranged from \$500 to \$125,000, but was typically between \$1,000
5 and \$10,000. Generally, Hill took advances multiple times a month. Sometimes, Hill paid back these
6 advances as if they were loans. At other times, Hill reclassified his advances as "income" or as a
7 "distribution" from Sound Leasing at the end of the year. When Hill used Sound Leasing funds for himself
8 and borrowed funds, he jeopardized Sound Leasing's ability to pay back investors because he was draining
9 working capital from the company. Hill and Sound Leasing failed to disclose to potential investors that Hill
10 would take monetary advances from Sound Leasing. Hill and Sound Leasing failed to enter into any written
11 agreements governing these advances including any agreement that would limit the frequency or amount of
12 advances or set any kind of repayment schedule. Hill and Sound Leasing failed to disclose to investors that
13 there was no formal written agreement governing these advances. Hill and Sound Leasing failed to disclose
14 to potential investors that the reclassification of Hill's advances to income or a distribution could have a
15 significant negative impact on Sound Leasing's ability to remain solvent.
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17 12. Generally, the notes Sound Leasing issued to investors had a term of three years. During that three
18 year term, Sound Leasing made monthly interest payments to investors, but did not pay any money towards
19 the principal of the loan. Once a promissory note reached its maturity date, Sound Leasing would
20 automatically extend the term of the note in one month increments and continue to pay the monthly interest
21 payments without paying down any of the outstanding principal. At the same time Sound Leasing was
22 rolling over these notes from month-to-month, Sound Leasing was also retiring the equipment leases that the
23 promissory notes helped to fund. Without new revenue coming in from these equipment leases, Sound
24 Leasing's ability to meet its debt obligations to noteholders was seriously threatened. As of September 28,
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1 2010, Sound Leasing had twenty-seven matured promissory notes, which were payable upon demand,
2 totaling over \$1.4 million. At that time, Sound Leasing did not have enough assets to cover these notes. Hill
3 and Sound Leasing failed to disclose to at least one investor the risk that prior investors could demand their
4 principal and cause Sound Leasing to become insolvent.

5 *Rules Governing Debenture Companies*

6 13. The Securities Act of Washington requires securities offerings to be registered with the Securities
7 Division or meet an exemption to registration. These registration requirements help the Securities Division
8 to protect the investing public and promote confidence in the capital markets. Sound Leasing did not register
9 its promissory note offering or notice file an exemption to registration.

10 14. The Securities Act of Washington includes provisions designed specifically to protect investors in
11 debenture companies. Sound Leasing was a debenture company. Pursuant to RCW 21.20.705, a debenture
12 company includes an issuer raising funds through the offer and sale of promissory notes to Washington
13 State residents and using the raised funds to engage in the business of leasing personal property to third
14 parties. Here, Sound Leasing raised funds through the offer and sale of promissory notes to Washington
15 State residents and used those funds to engage in the business of leasing technology equipment to start-up
16 businesses.

17 15. The Securities Division was unaware that Sound Leasing was acting as a debenture company and
18 was, therefore, unable to enforce rules designed to protect investors. Had Sound Leasing registered its
19 securities with the Securities Division, Sound Leasing would have been subject to annual review by the
20 Securities Division and would have been required to file audited financial statements. Sound Leasing also
21 would have been required to send a summary of these annual financial statements to investors. Additionally,
22 Sound Leasing would have been required to comply with provisions of the Securities Act designed to help
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1 ensure the financial health and solvency of debenture companies, a few of which are described in further
2 detail below.

3 16. The Securities Act of Washington requires debenture companies to meet certain capital
4 requirements. Pursuant to RCW 21.20.710, a debenture company with outstanding notes totaling from \$1 to
5 \$1 million shall have a net worth of at least \$200,000 and must hold at least \$100,000 of it in cash or a
6 comparable liquid asset. The purpose of capital requirements is to ensure the debenture company remains in
7 sound financial condition and has adequate operating funds. Sound Leasing, at no moment in its operating
8 history, had a liquid net worth of \$100,000.

9 17. The Securities Act of Washington prohibits a director, officer, or controlling person of a debenture
10 company from using any of the funds held by the debenture company for himself or borrowing any of the
11 funds held by the debenture company. RCW 21.20.720(2). The purpose of these prohibitions is to prevent
12 control persons from under-capitalizing the debenture company and putting investor funds at risk. Hill
13 repeatedly borrowed and used funds from Sound Leasing.

14 18. The Securities Act of Washington prohibits a debenture company from issuing promissory notes that
15 are payable on demand or that accrue interest beyond the maturity date of the promissory note. RCW
16 21.20.725. This provision helps to ensure that a registered debenture company is able to service its debt to
17 promissory note investors because it prevents the debenture company from falling behind on its debt
18 repayment obligations.

19 19. In early 2013, Sound Leasing was no longer able to service its debt to investors and began to default
20 on its interest payments totaling over \$15,000 per month. Some of the events contributing to Sound
21 Leasing's default to its promissory note investors include holding illiquid assets, Hill draining the company
22 of working capital, and Sound Leasing deciding not to link individual promissory notes to specific
23 equipment leases. At the time Sound Leasing began defaulting on its monthly interest payments to investors,
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1 Sound Leasing owed principal amounts totaling over \$1.6 million due and payable to investors. Sound
2 Leasing was unable to pay these principal amounts back to investors.

3 Registration Status

4 20. Respondent Sound Leasing Corporation is not currently registered to sell securities in the state of
5 Washington and has not previously been so registered. There is no notification of exemption on file with
6 the state of Washington.

7 21. Respondent James Brian Hill is not currently registered as a securities salesperson or broker-dealer
8 in the state of Washington and has not previously been so registered.

9 Based upon the above Findings of Fact, the following Conclusions of Law are made:

10 **CONCLUSIONS OF LAW**

11 1. The offer or sale of promissory notes as described above constitute the offer and/or sale of a security
12 as defined in RCW 21.20.005(14) and (17).

13 2. The offer and/or sale of said securities is in violation of RCW 21.20.140 because no registration for
14 such an offer and/or sale is on file with the Securities Administrator, state of Washington.

15 3. James Brian Hill and Sound Leasing Corporation violated RCW 21.20.010 because, as set forth in
16 the Tentative Findings of Fact, in connection with the offer, sale or purchase of any security, directly or
17 indirectly, James Brian Hill and Sound Leasing Corporation made misstatements of material facts or
18 omitted to state material facts necessary in order to make the statements made, in the light of circumstances
19 under which they were made, not misleading.

20 4. James Brian Hill violated RCW 21.20.040 by offering or selling said securities while not registered
21 as a securities salesperson or broker-dealer in the state of Washington.

22 Based upon the foregoing and finding it in the public interest:

CONSENT ORDER

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IT IS AGREED AND ORDERED that Respondents James Brian Hill and Sound Leasing Corporation, their agents, and employees each shall cease and desist from violating RCW 21.20.140, the securities registration section of the Securities Act of Washington.

IT IS FURTHER AGREED AND ORDERED that Respondent James Brian Hill, his agents, and employees each shall cease and desist from violating RCW 21.20.040, the securities salesperson and broker-dealer registration section of the Securities Act of Washington.

IT IS FURTHER AGREED AND ORDERED that Respondent James Brian Hill and Sound Leasing Corporation, their agents, and employees each shall cease and desist from violating RCW 21.20.010, the anti-fraud section of the Securities Act of Washington.

IT IS FURTHER AGREED AND ORDERED that Respondents James Brian Hill and Sound Leasing Corporation shall be jointly and severally liable for and shall pay a fine of \$1,500 on or before the entry of this Consent Order.

IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Consent Order.

IT IS FURTHER AGREED that Respondents James Brian Hill and Sound Leasing Corporation entered into this Consent Order freely and voluntarily and with a full understanding of its terms and significance.

IT IS FURTHER AGREED that in consideration of the foregoing, Respondents James Brian Hill and Sound Leasing Corporation waive their right to a hearing and to judicial review of this matter pursuant to RCW 21.20.440 and Chapter 34.05 RCW.

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WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

Signed this 30 day of January 2017.

Signed by:

Sound Leasing Corporation

/s/

James Brian Hill
Chief Executive Officer

Signed by:

/s/

James Brian Hill, Individually

Approved as to form by:

/s/

Marlo DeLange, Attorney for James Brian Hill
WSBA # 27080

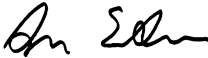
SIGNED and ENTERED this 31st day of January 2017.



William M. Beatty
Securities Administrator

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Approved by:



Suzanne Sarason
Chief of Enforcement

Presented by:



Brian J. Guerard
Financial Legal Examiner

Reviewed by:



Jack McClellan
Financial Legal Examiner Supervisor