COMMONWEALTH OF KENTUCKY
PUBLIC PROTECTION CABINET
DEPARTMENT OF FINANCIAL INSTITUTIONS
DIVISION OF SECURITIES
AGENCY CASE NO. 2010-AH- 033
ADMINISTRATIVE ACTION NO. 10-PP-0172

IL BRIDGE FUND, LLC PETITIONER

V.

DEPARTMENT OF FINANCIAL INSTITUTIONS RESPONDENT

AGREED ORDER

BACKGROUND AND FACTUAL FINDINGS

1. Respondent, the Department of Financial Institutions (the "DFI") is the public agency of Kentucky state government charged with the enforcement of KRS Chapter 292, the Kentucky Securities Act (the "Act").

2. Petitioner, IL Bridge Fund, LLC ("Bridge Fund"), is a limited liability company incorporated under the laws of the State of Ohio with its principal offices located at 100 Tri-County Parkway, Suite 410, Cincinnati, Ohio 45246. Angelo M. Sferrazza is the owner and President of the Bridge Fund during all time periods relevant to this Order. The Company purports to provide bridge funding to middle market emerging and existing companies through secured short-term lending.

3. On February 4, 2010, the DFI, Division of Securities (the "Division"), received information that a number of individuals, several of whom were members of a Lexington, Kentucky church, had that same day been solicited by individuals purporting to represent the Bridge Fund to invest in that entity, through the form of unsecured promissory notes.

4. One of these individuals informed the Division that he had attended a meeting at the church of a friend on February 4, 2010. The meeting was allegedly arranged by Doug Pelfrey. It was attended by two church members, the pastor and two friends of the pastor, one of whom was the aforementioned individual while the other was a financial consultant. The Bridge Fund's agents represented that they were raising funds for the Bridge Fund by offering and selling unsecured promissory notes that paid 9%, 12%, and 15% return on investment on one year, three year and five year notes, respectively. The agents suggested that the interest could be funneled back to the church and asked the pastor to recommend the investment to the members of his congregation. None of the individuals acting on behalf of the Bridge Fund and identified at the church meeting are registered as a broker-dealer, broker-dealer agent, or issuer agent with the Division of Securities. Neither the Bridge Fund nor any of the individuals acting on its behalf at the church meeting had any substantive, pre-existing relationship with any potential investors present at the meeting.

5. Witnesses to the meeting told a DFI investigator that the Bridge Fund's agents also stated at the meeting that this investment was without risk and that investors could not lose money even if all the loans being made by the Bridge Fund went bad.

6. Following its initial contact by one of the meeting attendees, the Division commenced an investigation into the Bridge Fund.

7. According to offering materials circulated by the Bridge Fund, the Bridge Fund (sometimes referred to herein as the "Company") is an Ohio limited liability company which allegedly commenced operations in 2008.

8. The offering documents dated October, 2009 state that the Company is offering up to $3,000,000 of unsecured Promissory Notes (the "Promissory Notes" or "Notes") to accredited

investors. The Notes would pay interest on a monthly basis and consisted of demand notes and three- and five-year term Notes. The demand Notes were to pay interest at the rate of 10% per annum with interest being paid monthly. The term Notes were to pay interest at the rate of 12% for the three-year term and 15% for the five-year term, again with interest being paid monthly.

9. During the time period of September 10, 2008 through September 20, 2010, the Bridge Fund sold these Notes to at least 56 separate investors in Ohio, Kentucky, Wisconsin, Nebraska, Illinois, Iowa, Connecticut, North Carolina and Georgia for a total amount in excess of $5,400,000.

10. The Bridge Fund filed a Form D Notice of Sale of Securities ("Form D Notice") with the Division on March 16, 2010, requesting an exemption from registration for its Notes offering in Kentucky under KRS 292.327.

11. The Form D Notice stated that the Total Offering Amount would be $3,000,000, with $1,149,000 previously sold and $1,851,000 remaining to be sold.

12. Between September 10, 2008 and March 9, 2010 and prior to the date the Form D Notice was filed with the Division, the Bridge Fund had sold Notes in excess of $2,500,000.

13. The Form D Notice states that the date of the first sale was September 10, 2008. Prior counsel for the Company represented to the Division that the first sale in Kentucky was made on January 1, 2010. Later information furnished by that same counsel showed that the first sale in Kentucky occurred on November 18, 2009.

14. The Form D Notice further states that the issuer did not intend for the offering to last more than one year. On the date of filing, the offering had already exceeded one year.

15. From the date the Form D Notice was filed on March 16, 2010 through September 10, 2010, the Bridge Fund sold additional Notes in excess of $2,457,000.

16. The duration of the offer, the previously sold amount, the amount remaining to be sold and the total offering amount are material and relevant facts.

17. Between November 18, 2009 and September 1, 2010, the Bridge Fund sold seven (7) Notes totaling $675,000 to four (4) Kentucky investors.

18. Prior to May 5, 2010, the Bridge Fund maintained an internet web site, www.ilbridgefund.com, wherein it solicited potential investors from the general public on its "Investor Registration" webpage with the following:

> The IL BRIDGE FUND invites you to be part of our Investor/Lender network. We are seeking Investor[s] who are interested in participating the following opportunities to include:
> -- The IL Bridge Fund "Promissory Note Program" – (Our Unique Featured Investment Opportunity!) Investors choose from one of three Promissory Notes. The Promissory Notes include: 10% Demand Promissory Note or 12% 3-Year Promissory Note or 15% 5-Year Promissory Note. Investor interest paid monthly.
> * All Promissory Notes secured by marketable assets of the IL Bridge Fund's portfolio of loans.

By soliciting potential investors through its webpage, the Bridge Fund engaged in general solicitation.

19. KRS 292.330(1) provides that it is unlawful for any person to transact business in this state as a broker-dealer or agent, unless the person is registered under KRS Chapter 292 (the Kentucky Securities Act, the "Act").

20. KRS 292.340 provides that it is unlawful for any person to offer or sell any security in this state, unless the security is registered under KRS Chapter 292, or the security or transaction is exempt under KRS Chapter 292, or the security is a covered security.

21. KRS 292.310(6) defines a covered security as any security that is a covered security under Section 18(b) of the Securities Act of 1933 or rules or regulations promulgated thereunder. That Section includes as a covered Security, a security sold pursuant to Rule 506 of federal Regulation D.

22. Regulation D requires that all offers and sales of securities must comply with certain conditions in order to rely on the exemption provided under Rule 506 of that regulation. A failure to comply with a significant condition of Regulation D will result in the loss of the claimed exemption. Offering or selling securities by engaging in general solicitation is prohibited under Regulation D and will result in the loss of the claimed exemption.

23. KRS 292.327(2) provides that the Commissioner of the Department of Financial Institutions shall require the filing of, with respect to any security that is a covered security under Section 18(b)(4)(D) of the Securities Act of 1933 a notice on SEC Form D, a two hundred fifty dollar ($250) filing fee, and a consent to service of process singed by the issuer not later than fifteen (15) days after the first sale of such covered security in this state.

24. KRS 292.327(4) permits the Commissioner to issue a stop order suspending the offer and sale of a covered security, except a covered security under Section 18(b)(1) of the Securities Act of 1933, upon a finding that the order is necessary or appropriate in the public interest for the protection of investors, and there is a failure to comply with any condition established under KRS 292.327.

25. On May 4, 2010, the Commissioner issued a Stop Order Suspending the Sale of Securities against the Bridge Fund in Case No. 2010-AH-033 (the "Stop Order").

26. The Stop Order was entered based in part on the finding that the Bridge Fund was engaged in general solicitation through the internet and through unlicensed broker-dealers and unlicensed agents.

27. The Stop Order was entered based in part on the finding that certain statements made by agents for the Bridge Fund in connection with the solicitation, offer or sale of the Notes were materially false, and misleading in light of the circumstances in which they were made.

28. The Stop Order was entered based in part on the finding that the Notes issued by the Bridge Fund do not qualify as covered securities under Rule 506 of Regulation D.

29. The Stop Order mandated that the Bridge Fund and its agents immediately cease and desist from the offer and sale of additional in the form of Promissory Notes or otherwise in Kentucky or to any Kentucky residents.

30. The Bridge Fund received notice and a copy of the Stop Order in May, 2010, and subsequently appealed. However, until overturned or rescinded, the Stop Order remains in place.

31. Despite receiving notice of the Stop Order in May, 2010, the Bridge Fund sold another Note to a Kentucky investor for $250,000 in September, 2010.

32. KRS 292.470(3) provides that whenever it appears to the Commissioner that any person has engaged or is about to engage in any act or practice constituting a violation of any provision of KRS Chapter 292 or any rule or order under this chapter, the Commissioner may in his or her discretion issue a final order, after notice and an opportunity for a hearing, containing findings of fact and conclusions of law, directing any person or persons found to have engaged in, or about to be engaged in, activity that constitutes a violation of this chapter or any rule or order under this chapter to (a) cease and desist from the activity; (b) perform any other reasonable mandates directed by the Commissioner pursuant to an appropriate remedy fashioned by the Commissioner and reasonably calculated to carry out the provisions of this chapter; or (c) pay fines assessed under KRS 292.500(14) and costs assessed under KRS 2929.500(15).

33. Since February, 2011, the Bridge Fund has rescinded all Notes with Kentucky investors and returned their initial investments to them.

34. For the purpose of resolving this matter without further litigation or adversary proceedings, the DFI and the Bridge Fund have agreed to compromise and settle all claims directly or

indirectly relating to or arising from the solicitation, offer and/or sale of the Notes in accordance with the terms set forth herein.

AGREEMENT AND ORDER

1. The Bridge Fund, its affiliates, officers, agents, employees, and all other persons and entities in active concert with them, shall immediately and permanently CEASE AND DESIST from the offer and sale of unsecured Promissory Notes or other securities by the IL Bridge Fund, LLC in Kentucky or to any Kentucky residents. This Cease and Desist Order shall remain in effect until rescinded or modified by the Commissioner.

2. While the Bridge Fund neither admits nor denies the Background and Factual Findings herein, it agrees to pay a civil penalty or fine in the amount of Ten Thousand Dollars ($10,000.00) for the aforestated alleged violations, which fine shall be made payable to the "Kentucky State Treasurer" in the form of a certified check and mailed to the Department of Financial Institutions, Attn: William Owsley, 1025 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601, on or before the date of execution of this Agreed Order.

3. By signing below, the parties acknowledge they have read the foregoing Agreed Order, know and fully understand its contents, and that they are authorized to enter into and execute this Agreed Order and legally bind their respective parties.

4. This Agreed Order will constitute the Final Order on this matter and settlement of Administrative Action No. 10-PPC-0172.

ENTERED THIS 6th DAY OF June, 2011.

Charles A. Vice
Commissioner
Department of Financial Institutions

CONSENTED TO:

Shonita Bossier
Director
Division of Securities

Dated: June, 6, 2011

Angelo M. Sferrazza
President and Owner
IL Bridge Fund, LLC

Dated: June, 2, 2011