

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

IN THE MATTER OF DETERMINING) Order No. S-14-1583-15-SC01
Whether there has been a violation of the)
Securities Act of Washington by:) STATEMENT OF CHARGES AND
) NOTICE OF INTENT TO ENTER ORDER TO CEASE
Southern Hospitality, LLC,) AND DESIST, TO IMPOSE FINES, AND TO CHARGE
MGI Real Estate Investments, LLC) COSTS
Jody L. Marshall,)
)
Respondents.)

THE STATE OF WASHINGTON TO: Southern Hospitality, LLC
MGI Real Estate Investments, LLC
Jody L. Marshall

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the state of Washington has reason to believe that Respondents Southern Hospitality, LLC; MGI Real Estate Investments, LLC; and Jody L. Marshall have each violated the Securities Act of Washington, Chapter 21.20 RCW. These violations justify the entry of an order of the Securities Administrator against each respondent to cease and desist from such violations under RCW 21.20.390, to impose fines under RCW 21.20.395, and to charge costs under RCW 21.20.390. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondents

1. Southern Hospitality, LLC (“Southern Hospitality”) was a Mississippi limited liability company that was formed on September 17, 2012. On December 20, 2014, Southern Hospitality was administratively dissolved for failure to make required filings. Between approximately October 2012 and March 2014, Southern Hospitality owned a hotel in Mississippi.

1 2. MGI Real Estate Investments, LLC (“MGI Real Estate”) was a Nevada limited liability
2 company that was formed on September 14, 2012. On September 30, 2013, the company’s registration was
3 revoked for failure to make required filings. MGI was formed to act as Southern Hospitality’s manager, and
4 it owned 70% of Southern Hospitality.

5 3. Jody L. Marshall (“Marshall”) is a resident of Nevada. Marshall was a manager of Southern
6 Hospitality and a managing member of MGI Real Estate.

7 **Nature of the Offering**

8 *Overview*

9 4. Between August and September 2013, Marshall, Southern Hospitality, and MGI Real Estate
10 (collectively, “the Respondents”) offered and sold a \$100,000 promissory note investment to a Washington
11 investor. The Washington investor was elderly and had retired several years earlier. To purchase the note,
12 the Washington investor used funds from his self-directed individual retirement account (“IRA”).

13 5. Marshall and MGI Real Estate represented to the Washington investor that the investment
14 funds would be used to complete renovations at a hotel in Mississippi, which was owned by Southern
15 Hospitality. The renovations would enable the hotel to house students from a university located near the
16 hotel. Marshall, Southern Hospitality, and MGI Real Estate failed to disclose to the investor material
17 information related to the hotel and the investment. Within four months of the Washington investor
18 investing in the promissory note, Marshall and his business partner closed the hotel. Soon thereafter,
19 Southern Hospitality lost ownership of the hotel in foreclosure.
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21 *The Offers*

22 6. In August 2013, the Washington investor attended a three-day seminar in Seattle related to
23 investing in real estate. Shortly after attending the seminar, the Washington investor received an e-mail
24 from Marshall, who described himself as the investor’s “dedicated Real Estate Investment Consultant.”
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1 Marshall explained that the company hosting the seminar had asked Marshall to provide the investor with a
2 complimentary one-on-one business consultation.

3 7. Over the next week, Marshall and the investor spoke on the phone multiple times. Marshall
4 reviewed real estate that the Washington investor identified as potential investment properties, and Marshall
5 pointed out “red flags” with the properties. Although the company hosting the seminar did not authorize its
6 consultants to solicit seminar attendees for investments, Marshall also offered the Washington investor an
7 investment in Marshall’s company, Southern Hospitality.

8 8. Southern Hospitality owned a hotel that was located in Jackson, Mississippi. The hotel had
9 been purchased in October 2012 for \$2.2 million. The hotel and related property were Southern
10 Hospitality’s only assets. In connection with the purchase of the hotel, Southern Hospitality raised funds
11 from investors and borrowed \$1.87 million from the company that was selling the hotel (“Company A”).
12 Southern Hospitality secured the \$1.87 million loan by granting a deed of trust against the hotel for the
13 benefit of Company A.

14 9. Marshall told the Washington investor that the hotel was in the process of entering into a
15 lease to house students from Jackson State University (“JSU”). Marshall told the Washington investor that
16 the hotel needed particular renovations to act as a dormitory for students, and that these upgrades would
17 need to be completed before the hotel could enter into a lease with JSU. Marshall represented that Marshall
18 and his business partner had started the upgrades, and that the investor’s funds would be used to complete
19 the upgrades. Marshall stated that, because the hotel was working on entering into a lease with JSU, “time
20 is of the essence.”

21 10. Marshall offered the Washington investor two investment options: an equity option of 100
22 shares of Southern Hospitality at a price of \$1,000 per share, and a debt option of a \$100,000 promissory
23 note that paid 15% interest. Marshall provided some offering documents with the offers, including a
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1 “Property Package” describing the hotel as a potential investment. Under the terms of the promissory note,
2 Southern Hospitality would make monthly interest-only payments of \$1,250, and it would repay the
3 principal after one year. The promissory note also included a pre-payment penalty that purportedly
4 guaranteed the investor a “\$15,000 interest return.” To secure the promissory note, Southern Hospitality
5 would grant a deed of trust against the hotel for the benefit of the Washington investor, which would be
6 subordinate to Company A’s deed of trust.

7 11. In September 2013, the Washington investor chose to invest through the secured promissory
8 note option. Marshall and his business partner signed the promissory note as managers of Southern
9 Hospitality. On September 17, 2013, \$100,000 was wired from the investor’s IRA to a bank account in the
10 name of MGI Real Estate, the manager and majority owner of Southern Hospitality. While Marshall,
11 Southern Hospitality, and MGI Real Estate provided the investor with some offering documents, they failed
12 to disclose material information related to the investment.

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14 *Failure to Disclose Material Information*

15 12. The Respondents misrepresented the financial condition of the hotel to the Washington
16 investor. Marshall provided the investor with approximately nine months of the hotel’s profit and loss
17 statements, which showed a net profit in several of the months covered by the statements. In reality, after
18 taking into account the hotel’s liabilities, the hotel was not making sufficient revenue to meet its costs.
19 Among these liabilities were state property taxes, which totaled more than \$70,000 a year. The statements
20 also failed to disclose that Southern Hospitality was the subject of a state tax lien for failure to pay sales
21 taxes due in December 2012, and that it had failed to pay additional sales taxes due in May 2013.

22 13. In addition, at the time the Respondents solicited the Washington investor, the hotel had
23 insufficient funds to pay its power bill and its loan payment to Company A, which together totaled more
24 than \$20,000. The day before the Respondents received the investor’s funds, the delinquent power bill was
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1 paid, which resulted in an overdraft. The next day, \$13,900 of the investor's funds was used to cover the
2 overdraft. At the time the Washington investor was solicited, the Respondents failed to disclose that the
3 hotel was earning insufficient revenue to meet its costs.

4 14. The Respondents made misleading statements and failed to disclose material information
5 related to the use of the investor's funds. Marshall and MGI Real Estate represented to the investor that the
6 investor's funds would be used to renovate the hotel. In reality, Marshall and his partner used the bulk of
7 the investor's funds to pay for costs not associated with renovating the hotel.

8 15. Between September 20, 2013 and October 9, 2013, Marshall and his business partner used
9 approximately \$36,000 of the investor's funds to pay three months of loan payments to Company A. In
10 addition, between September 23, 2013 and December 7, 2013, Marshall and his partner transferred a total of
11 \$41,700 of the investor's funds to the hotel's business checking account. In this account, the Washington
12 investor's funds were commingled with revenue from operating the hotel. These funds were used for hotel
13 operating expenses such as payroll, hotel maintenance, cable, telephones, waste management, and pest
14 control. The funds were also used for travel expenses such as rental cars, gas, food, hotels, and airlines.

15 16. The Respondents failed to disclose material information related to the likelihood of entering
16 into a lease with JSU. Marshall and MGI Real Estate represented that they were in the process of
17 negotiating a lease with JSU, and that they were in the process of renovating 57 rooms to house these
18 students. The Respondents failed to disclose that JSU was considering other hotels in which to house
19 students, including a hotel that was already housing students for the fall semester. The Respondents failed
20 to disclose that the university would only house students in a hotel if the entire hotel was housing students,
21 which would increase the renovation costs to more than \$1,000,000. The Respondents also failed to
22 disclose that any lease agreement with JSU would have to be approved by the university's board of trustees,
23 and that the board of trustees could deny the lease even if the university had agreed to its terms.
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1 17. The Respondents failed to disclose additional material information related to entering into a
2 lease with JSU. The Respondents failed to disclose how long it would take to negotiate the lease with JSU,
3 how long it would take to renovate the hotel for JSU students, and whether they would need to raise
4 additional funds to complete the renovation. The Respondents also failed to disclose whether the hotel was
5 profitable enough to continue operating if the lease was delayed, or if the hotel did not enter into a lease
6 with JSU.

7 18. The Respondents failed to disclose material information related to the prior business
8 experience of Marshall. In his first e-mail to the Washington investor, Marshall stated that he had “been
9 investing in real estate full time for over eight years” and owned “322 hotel rooms/keys.” The Respondents
10 failed to disclose that Marshall filed for Chapter 13 bankruptcy in 2011, which resulted in a dismissal in
11 2012. The Respondents also failed to disclose that Marshall filed for Chapter 13 bankruptcy again on
12 September 16, 2013, the day before the Washington investor’s funds were wired to the MGI Real Estate
13 bank account.

14 19. The Respondents failed to disclose material information related to the prior business
15 experience of Marshall’s business partner. While the “Property Package” provided some disclosure
16 regarding the prior experience of Marshall’s partner, it failed to disclose that Marshall’s partner had filed for
17 Chapter 7 bankruptcy in 2009, which resulted in a discharge of his debts in 2010. Many of these debts were
18 related to commercial real estate development and some were secured promissory notes, the same type of
19 investment that was sold to the Washington investor.
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21 20. The Respondents failed to disclose the general and specific risks of investing in a secured
22 promissory note. While the offering documents contained some risk disclosures related to an equity
23 investment in Southern Hospitality, there were no risk disclosures related to the promissory note investment.
24 The Respondents also failed to disclose any risks related to investing in a note secured by a subordinate
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1 deed of trust. These risks included the loss of the investment's security, and possibly the investment, if
2 Company A foreclosed on its deed of trust.

3 21. The Respondents failed to disclose material information related to the risk of foreclosure by
4 Company A. Under Company A's deed of trust, Southern Hospitality was required to comply with certain
5 terms. Failure to comply with the terms of the deed of trust would cause Southern Hospitality to be in
6 default under the deed of trust, which would allow Company A to foreclose on the property. Among other
7 things, Southern Hospitality was required to deposit funds into an escrow account each month for payment
8 of the hotel's liability insurance and state property taxes. Southern Hospitality was also required to receive
9 written permission from Company A before Southern Hospitality granted an interest in the hotel to another
10 party.

11 22. At the time the Respondents offered and sold the promissory note, Southern Hospitality was
12 not in compliance with Company A's deed of trust. Among other things, Southern Hospitality had not
13 deposited any funds into the escrow account for payment of the hotel's liability insurance and property
14 taxes. While Southern Hospitality made some direct payments to the insurance company and the state tax
15 collector, it failed to pay the entire amount that was due. Southern Hospitality also failed to request written
16 permission from Company A before granting the deed of trust for the benefit of the Washington investor.
17 At the time the investor was offered and sold the investment, the Respondents failed to disclose that
18 Southern Hospitality was not in compliance with Company A's deed of trust. The Respondents also failed
19 to disclose the increased risk of foreclosure resulting from failures to comply with Company A's deed of
20 trust.
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22 *Foreclosure of the Hotel*

23 23. In or around October 2013, Company A served Marshall, his business partner, and Southern
24 Hospitality with a notice of multiple defaults under the deed of trust. Southern Hospitality did not cure
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1 these defaults, and Marshall did not notify the Washington investor that Marshall and Southern Hospitality
2 had received notice of these defaults. In November and December 2013, the Washington investor received
3 the interest payments due under the promissory note, which totaled \$2,500. The source of funds for the
4 interest payments was the business account in which the investor's funds had been commingled.

5 24. In January 2014, Marshall and his business partner closed the hotel. On January 29, 2014,
6 Company A filed a *Petition for Declaration of Default and Appointment of Receiver* in Hinds County,
7 Mississippi. In the petition, Company A stated that Southern Hospitality was in default under the deed of
8 trust for, among other things, failing to transfer funds into an escrow account for payment of liability
9 insurance and property taxes, failing to maintain liability insurance on the hotel, failing to pay the 2013
10 property taxes, ceasing operation of the hotel, and granting a deed of trust for the benefit of the Washington
11 investor without seeking or receiving written permission from Company A. Due to the defaults under the
12 deed of trust, a trustee's sale of the hotel occurred in or around March 2014.

13 25. By March 2014, the Washington investor had made multiple attempts to contact Marshall
14 because the investor had not received any interest payments since December 2013. In or around March
15 2014, Marshall told the Washington investor that the hotel had been foreclosed upon and that Southern
16 Hospitality was unable to make payments on the promissory note. The Washington investor has not
17 received any other payments from his investment.

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

20 **CONCLUSIONS OF LAW**

21 1. The offer of the debt and equity investments as described above, and the sale of a debt
22 investment as described above, constitutes the offer or sale of a security as defined by RCW 21.20.005(14)
23 and RCW 21.20.005(17).

1 2. Southern Hospitality, LLC; MGI Real Estate Investments, LLC; and Jody L. Marshall have
2 each violated RCW 21.20.010 because, as set forth in the Tentative Findings of Fact, in connection with the
3 offer and sale of a security, the Respondents made untrue statements of material fact or omitted to state
4 material facts necessary to make the statements made, in light of the circumstances under which they were
5 made, not misleading.

6 **NOTICE OF INTENT TO ORDER RESPONDENTS TO CEASE AND DESIST**

7 Pursuant to RCW 21.20.390(1), and based upon the above Tentative Findings of Fact and
8 Conclusions of Law, the Securities Administrator intends to order that Respondents Southern Hospitality,
9 LLC; MGI Real Estate Investments, LLC; and Jody L. Marshall each shall cease and desist from violations
10 of RCW 21.20.010.

11 **NOTICE OF INTENT TO IMPOSE FINES**

12 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of
13 Law, the Securities Administrator intends to order that Respondents Southern Hospitality, LLC; MGI Real
14 Estate Investments, LLC; and Jody L. Marshall shall be jointly and severally liable for and shall pay an
15 administrative fine of \$5,000.

16 **NOTICE OF INTENT TO CHARGE COSTS**

17 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of
18 Law, the Securities Administrator intends to order that Respondents Southern Hospitality, LLC; MGI Real
19 Estate Investments, LLC; and Jody L. Marshall shall be jointly and severally liable for and shall pay the
20 costs, fees, and other expenses incurred in the administrative investigation and hearing of this matter, in an
21 amount no less than \$2,750.
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AUTHORITY AND PROCEDURE

This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject to the provisions of Chapter 34.05 RCW. The respondents, Southern Hospitality, LLC; MGI Real Estate Investments, LLC; and Jody L. Marshall, may each make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this Order. If a respondent does not make a hearing request in the time allowed, the Securities Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and to enter a permanent order to cease and desist as to that respondent, to impose any fines sought against that respondent, and to charge any costs sought against that respondent.

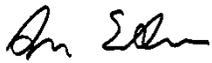
Signed and Entered this 28th day of July 2015.



William M. Beatty
Securities Administrator

Presented by:

Approved by:



Suzanne Sarason
Chief of Enforcement



Holly Mack-Kretzler
Financial Legal Examiner

Reviewed by:



Robert Kondrat

Financial Legal Examiner Supervisor

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