In the Matter of

THOMAS R. STANLEY, II,

Respondent.

ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-
AND-DESIST PROCEEDINGS
PURSUANT TO SECTION 8A OF
THE SECURITIES ACT OF 1933,
SECTIONS 15(b) AND 21C OF THE
SECURITIES EXCHANGE ACT OF
1934, AND SECTION 9(b) OF THE
INVESTMENT COMPANY ACT OF
1940, MAKING FINDINGS, AND
IMPOSING REMEDIAL
SANCTIONS AND A CEASE-AND
DESIST ORDER

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in
the public interest that public administrative and cease-and-desist proceedings be, and hereby
are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Sections
15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), and Section 9(b) of the
Investment Company Act of 1940 (“Investment Company Act”), against Thomas R. Stanley, II
(“Stanley” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer
of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the
purpose of these proceedings and any other proceedings brought by or on behalf of the
Commission, or to which the Commission is a party, and without admitting or denying the
findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Sections 15(b) and 21C of the Securities Exchange Act of 1934, and Section 9(b) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds that:

Summary

1. This matter concerns the offer and sale of unregistered securities by Respondent Thomas Stanley, who raised funds from investors for the purchase, remodel, and operation of apartment complexes and other properties. Beginning in 2009 and continuing until early 2014, Stanley, through a number of limited liability companies ("LLCs") and corporations (collectively “the E2E Entities”), offered and sold 120 promissory notes to 68 investors and raised at least $7.62 million. In most cases, Stanley used these funds to purchase multi-unit apartment complexes in which the noteholders were to receive an ownership interest through a conversion option on their promissory notes and to fund repairs and remodeling of these properties. In addition, Stanley formed an entity that purportedly would loan funds to individuals to purchase, remodel, and resell single-family houses. Stanley, without telling investors, frequently commingled funds among his entities in order to prop up his property projects. Stanley also used investor funds to purchase a restaurant and a yacht for his own use. Stanley made public solicitations of the promissory notes without registering the notes with the Commission. Stanley also acted as an unregistered broker-dealer by soliciting investors in the E2E Entities.

Respondent

2. Respondent Stanley is 49 years old and a resident of Stuart, Florida. Stanley is the President of Education to Equity, Inc. ("Education to Equity"), High Rise Investments, LLC, ("High Rise"), and Prosperous Properties and Investments, LLC ("Prosperous Property"). Education to Equity and High Rise are the managing members of numerous limited liability companies that raised funds through investors for the purchase, remodeling, and operation of apartment complexes. Prosperous Property is Stanley’s building and remodeling company. Stanley is not registered with the Commission in any capacity.

Stanley’s Businesses

3. From 2009 to 2014 (the “relevant period”), Stanley created and operated a series of LLCs and corporations that he used to purchase, remodel, and operate apartment complexes. Through his entities, Stanley purchased seven apartment complexes. The entities and the properties are as follows:

b. Beverly Terrace, LLC, purchased Beverly Terrace, a 40-unit apartment complex located in Anderson, in August 2010 for $310,000. Beverly Terrace, LLC was incorporated in Illinois in August 2010.

c. 2251 Ransdell, LLC (“2251 Ransdell”), purchased Garfield Park, a 40-unit apartment complex located in Indianapolis, Indiana in August 2011 for $580,000. 2251 Ransdell was incorporated in Illinois in July 2011.

d. 3600 Western, LLC (“3600 Western”), purchased Turtle Creek, a 129-unit apartment complex located in Connersville, Indiana in October 2011 for $1.95 million. 3600 Western was incorporated in Illinois in April 2010.

e. E2E 1, LLC (“E2E 1”), purchased Stonewall Place (“Stonewall”), a 121-unit apartment complex located in Indianapolis, in September 2011 for $690,000, and purchased Courtyards at Roselawn Park (“Courtyards”), a 138-unit apartment complex located next door to Stonewall, in December 2012 for $1.37 million. Stanley deemed Stonewall and Courtyards to be one apartment complex, which he renamed Harmony Park. E2E 1 was incorporated in Indiana in August 2011.


4. Under his business model, Stanley identified run-down properties in Indiana and Florida that needed remodeling and repairs. Stanley then solicited investors in Illinois and Indiana to fund his purchase and remodeling of the properties and issued unregistered securities, in the form of promissory notes, to the investors in exchange for their contributions.

5. Stanley solicited potential investors through various means, including: (i) recruiting friends and business acquaintances; (ii) engaging in general public advertising through street signs and other general solicitation; (iii) promoting the investment opportunities through a radio show he operated; and (iv) holding seminars open to the public where he solicited and signed up investors for his various projects. Stanley did not limit his solicitation to accredited investors, and some of the investors who invested did not meet the qualifications of being an accredited investor.

6. Stanley personally handled most aspects of the solicitations of investors for his various entities and solicited investors on multiple occasions during the relevant period. This included recruitment of investors, issuing and collecting promissory notes, and handling customer funds.
7. Stanley used investor funds primarily to purchase the apartment complexes and/or to fund remodeling and repair costs associated with rehabbing the buildings. Stanley primarily did the rehab work himself, and the entities that owned the apartment complexes paid Stanley’s construction company, Prosperous Property, for these services.

**The Promissory Notes**

8. Beginning in 2009 and continuing until early 2014, Stanley, through the various entities he controlled, offered and sold securities in the form of promissory notes. In total, Stanley sold 120 promissory notes to 68 investors and raised at least $7.62 million for six different entities. Stanley actively engaged in soliciting investors to purchase the promissory notes. He also provided advice to potential investors about the merit of the investments and handled money to be invested.

9. In most cases, Stanley used these funds to purchase multi-unit apartment complexes in which the noteholders were to receive an ownership interest through a conversion option on their promissory notes, to fund repairs and remodeling of these properties, and to set up an entity that purportedly would loan funds to individuals to purchase, remodel, and resell single-family houses.

10. On some occasions, the issuer of the promissory notes was the LLC that owned the property. At other times, the holding company and managing member of the LLC that held the property, either Education to Equity or High Rise, issued the notes. In a few instances, investors purchased notes issued by Stanley’s construction company, Prosperous Property, which did not own any of the apartment buildings. Stanley did not provide investors with any prospectuses or offering documents and did not take steps to verify that the investors met the requirements to be accredited investors. He simply had the investors execute a short promissory note agreement and transfer funds to one of the E2E Entities’ bank accounts.

11. The promissory notes purported to be secured by the assets of the issuing entity, including the underlying property being purchased by the entity. While the securities sold were promissory notes, Stanley solicited investors on the concept that they would gain an investment stake in the underlying property through a conversion feature in the promissory notes. Under the terms of the promissory notes, if both parties agreed, the note could be converted into a *pro rata* equity share of a “future property,” which Stanley explained to investors would be the property being purchased by the issuer of the notes (or in the case of notes issued by a holding company, the property purchased by its subsidiary).

12. According to Stanley, the purpose of the promissory notes was not to earn interest. Rather, the investor and Stanley intended to exercise the conversion option at some point after the purchase of the investment property that was the subject of the note. In fact, some of the promissory notes did not have an interest rate attached to them. Many of Stanley’s investors did not understand the mechanics of the promissory note and, based on their conversations with Stanley, they thought they were investing directly in one of the properties selected by Stanley for purchase.
13. While many investors purchased promissory notes that were not issued by the LLC that held the property; i.e. Education to Equity, High Rise, or Prosperous Property, investors were led to believe, based on Stanley’s representations, that, regardless of who issued the note, he or she had invested in the apartment complex that secured the note, and only in that property. The terms in many of the promissory notes gave the managing member of the issuer (Stanley) full discretion to use the funds for any business need, including property and equipment purchase, remodeling, and payment of expenses, bonuses, acquisition fees, and ownership bonuses. However, Stanley never gave any indication to any investors that he would use their funds for anything other than that particular property.

**Stanley Repeatedly Commingled Investor Funds**

14. Under the terms of most of the promissory notes, the note proceeds were supposed to be used to fund the operations of the LLC that issued the notes. In his communications with investors, Stanley represented that he would use their funds to purchase, renovate, and operate the apartment complexes in which the investors believed they were investing.

15. While Stanley did use note proceeds for these purposes, he also continuously commingled investor funds through transfers among his various entities in order to support struggling properties that needed additional funding. In particular, when Stanley suffered from a series of misfortunes at certain of his properties, including a fire, a gas leak, and a water pipe burst due to extreme winter conditions, he transferred funds from other LLCs to help address these financial challenges. Stanley did not tell investors that he may commingle their funds with other entities or that their investments may be used to fund projects at apartment complexes in which the investors had no security interest or potential for a convertible ownership interest. He instead treated his various projects as part of one business and failed to maintain separation of interests among his various LLCs.

16. For example, from 2010 to 2014, Stanley funded projects on the Arbor Village property by transferring $376,000 from other E2E Entities to Arbor Village. These transfers included proceeds received from promissory notes issued by Garfield Park, Education to Equity, and another entity created by Stanley, E2E Private Money, LLC (“Private Money”). By diverting investors’ funds from Garfield Park, Private Money, and Education to Equity, Stanley deprived those investors of the benefit of having their funds used for projects in which they had a security interest and potential convertible ownership interest. Instead, Stanley propped up a struggling Arbor Village property that inured to the benefit of different investors.

17. Similarly, when Stanley purchased Beverly Terrace Apartments in August 2010, he used investor funds from 3600 Western, a different E2E entity with no stake in the apartment building, to fund the purchase. Stanley never disclosed to the 3600 Western investors that their investment proceeds would be diverted to a different entity. Then, in October 2011, 3600 Western purchased Turtle Creek apartment complex, partially funding the purchase by transferring the funds from Beverly Terrace’s bank account to Turtle Creek’s bank account. Stanley did not disclose this transaction to Beverly Terrace investors.
18. In 2011, Stanley sold 23 promissory notes for a total of $1.16 million for the purchase and repair of Stonewall by issuing promissory notes from E2E 1 and Education to Equity, the holding company and managing member of E2E 1, as well as Prosperous Property. Stanley deposited all of the funds in Prosperous Property’s bank account and never transferred the funds to E2E 1 or Education to Equity. Due to Stanley’s commingling and the depositing of the funds through his construction company, Prosperous Property, it is impossible to tell how much of the $1.16 million was used to repair and remodel Stonewall as opposed to other projects.

**Stanley Misrepresented His Track Record to New Investors**

19. Stanley’s track record in remodeling the apartments after they were purchased was haphazard at best. Some of the buildings were located in economically depressed, high-crime neighborhoods and quickly fell into disrepair. Some of the apartment complexes were never completely repaired.

20. While Stanley did make attempts to rehab the buildings, his businesses began failing due to mismanagement and other problems such as tenant evacuations due to gas leaks and water leaks and Stanley’s failure to maintain livable conditions such as running water.

21. Stanley continued to prop up his projects by raising additional investor funds. In his solicitations of new investors, Stanley claimed to have a successful track record in real estate investments and to have never suffered a loss. He never mentioned the issues he had with certain of his properties or his need to commingle investor funds in order to support struggling projects.

22. In some cases, Stanley’s failure to remodel the properties could be attributed to his commingling of funds. For example, in 2012, Stanley sold ten promissory notes issued by Beverly Terrace for a total of $687,000, purportedly to be used to remodel the Beverly Terrace Apartments so that they could be converted to condominiums and sold. Stanley, however, transferred nearly $200,000 of investor proceeds to other E2E Entities and third parties in order to support other projects and obligations. Stanley never completed the needed repairs on the Beverly Terrace Apartments and, as a result, the building was never occupied.

**Stanley’s Sale of Promissory Notes to Private Money Investors**

23. In addition to raising funds to purchase rental properties, Stanley offered and sold promissory notes issued by Private Money, which he created in June 2012. He represented to potential investors in Private Money that he would use their funds to purchase single-family houses jointly with third parties. In one example that Stanley included in his promotional materials, Private Money would provide 80 percent of the purchase price and loan the remaining 20 percent to a third party who would be responsible for remodeling the house so that it could be sold at a profit. Private Money and the third party would then share in the profits.

24. Stanley solicited investors in Private Money by holding seminars at his office and at a restaurant. He also posted signs along public roadways advertising Private Money. The invitations to the seminars and the promotional materials contained representations such as “we have the safest investment on the market,” and “being a ‘private lender’, we are very liquid with one more major difference – we have great returns!”

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25. Neither Stanley nor any of the promotional materials ever stated that Private Money would engage in any other type of transaction other than the type described above.

26. From July to November of 2012, Stanley sold nine promissory notes issued by Private Money to seven investors for a combined total of $490,000. Stanley, however, transferred most of the funds to other E2E entities. Private Money purchased only one house, which Stanley later sold to repay the principal to a Private Money noteholder. Stanley used the remaining funds to support his other properties.

**Stanley Used Funds from Ravenwood Investors to Purchase a Yacht**

27. In early December 2011, Stanley sold seven promissory notes, for a combined total of $800,000, to raise funds for the purchase of Ravenwood.

28. Two weeks before Stanley’s purchase of Ravenwood, Stanley used $269,000 of the Ravenwood investors’ funds to purchase a yacht. Stanley claimed that the funds constituted a “closing fee” he was entitled to for arranging the Ravenwood transaction.

29. Stanley did not disclose the payment to him of the “closing fee” to the Ravenwood investors. The fee was also never disclosed in the closing documents for the Ravenwood purchase or in any other document.

**Stanley Used Investor Funds to Purchase and Operate a Restaurant**


31. Stanley claimed that the purchase of the restaurant was meant to be an investment for the noteholders of Private Money. Private Money investors, however, did not know either that Stanley had even bought a restaurant, or that he used investor funds for this transaction. Moreover, none of the promotional materials for Private Money indicated that investor funds would be used for anything other than purchasing and reselling houses.

32. Following the purchase of Chillin’ the Most, Stanley used additional investor funds from the other E2E Entities to support the restaurant.

33. In June 2014, Stanley sold the restaurant for approximately $31,000. While he distributed these funds among the Private Money investors, it fell far short of the amounts used from investors to fund the restaurant’s operations.
Violations

34. As a result of the conduct described above, Respondent Stanley willfully violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities.

35. As a result of the conduct described above, Respondent Stanley willfully violated Sections 5(a) and 5(c) of the Securities Act, which prohibit offering to sell, selling, and delivering after sale to the public, or offering to sell or to buy through the use or medium of any prospectus or otherwise, certain securities, as to which no registration statement was or is in effect or on file with the Commission, and for which no exemption was or is available.

36. As a result of the conduct described above, Respondent Stanley willfully violated Section 15(a) of the Exchange Act, which prohibits a person from effecting any transactions in, or inducing or attempting to induce the purchase or sale of, securities unless registered with the Commission as a broker or dealer.

IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest, to impose the sanctions agreed to in Respondent’s Offer.

Accordingly, pursuant to Section 8A of the Securities Act, Sections 15(b) and 21C of the Exchange Act, and Section 9(b) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent shall cease and desist from committing or causing any violations and any future violations of Sections 5(a), 5(c), and 17(a) of the Securities Act, and Sections 10(b) and 15(a) of the Exchange Act and Rule 10b-5 thereunder.

B. Respondent be, and hereby is:

barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization;

prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter; and

barred from participating in any offering of a penny stock, including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock.
C. Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission Order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

D. Respondent shall pay disgorgement of $7,617,873 and prejudgment interest of $768,471 to the Securities and Exchange Commission. Payment of disgorgement and prejudgment interest shall be made in the following installments:

1. $300,000 prior to, or no later than ten days after, the date of this Order;
2. $300,000 no later than three months after the date of this Order;
3. $300,000 every three months thereafter; and
4. The remaining balance of all disgorgement and prejudgment interest no later than three years from the date of this Order.

The Commission will hold funds paid pursuant to this paragraph in an account at the United States Treasury pending a decision whether the Commission, in its discretion, will seek to distribute funds or, transfer them to the general fund of the United States Treasury, subject to Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600.

E. The amount of disgorgement, prejudgment interest, and post-judgment interest required to be paid pursuant to this Order shall be offset by any amount of funds repaid to investors pursuant to a final judgment entered on January 28, 2016 in a private lawsuit, *Rhonda Lorenz-Pignato, et al. v. Thomas R. Stanley II, et al.*, Ill. 18th J. Cir., Case No. 2014 CH 853 (Filed May 6, 2014) (the “Private Litigation”), requiring the Respondent to repay all of the investors in the E2E Entities their principal investments plus prejudgment interest of ten percent per annum and any post-judgment interest, by January 28, 2018. Payments made pursuant to the Private Litigation will apply to the required payments of this Order in first-in-time order, such that any Private Litigation payments would first apply to satisfy the payment requirement due ten days after the entry of the Order, followed by the next required payment in time.

F. Respondents shall, after the final payment of disgorgement and prejudgment interest as provided in Paragraph IV.D., and in no event later than three years after the entry of this Order, pay a civil money penalty in the amount of $250,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3).
G. If any payment of disgorgement, prejudgment interest, or civil penalty is not made by the date the payment is required by this Order, the entire outstanding balance of disgorgement, prejudgment interest, and civil penalties, plus any additional interest accrued pursuant to SEC Rule of Practice 600 and/or pursuant to 31 U.S.C. 3717, shall be due and payable immediately, without further application.

Payment of disgorgement, prejudgment interest, and civil penalties must be made in one of the following ways:

1. Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

2. Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

3. Respondent may pay by certified check, bank cashier’s check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

   Enterprise Services Center
   Accounts Receivable Branch
   HQ Bldg., Room 181, AMZ-341
   6500 South MacArthur Boulevard
   Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Thomas Ralph Stanley, II as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Jeffrey A. Shank, Assistant Regional Director, Division of Enforcement, Securities and Exchange Commission, 175 W. Jackson Blvd., Suite 900, Chicago, Illinois 60604.

H. Regardless of whether the Commission in its discretion orders the creation of a Fair Fund for the penalties ordered in this proceeding, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, he shall not argue that he is entitled to, nor shall he benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent’s payment of a civil penalty in this action (“Penalty Offset”). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that he shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a “Related Investor Action” means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

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V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondent, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields
Secretary