

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10686 / September 17, 2019

ADMINISTRATIVE PROCEEDING
File No. 3-19461

<p>In the Matter of</p> <p>BRITT J. HAUGLAND,</p> <p>Respondent.</p>

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) against Britt J. Haugland (“Haugland” 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 her 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 Cease-and-Desist Proceedings, Pursuant to Section 8A of the Securities Act of 1933, 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 finds¹ that:

SUMMARY

1. This matter arises out of fraudulent conduct concerning Cobalt Sports Capital, LLC ("Cobalt"), a private company located in Greenwood Village, Colorado. From January 2014 through October 2016, Cobalt raised approximately \$25 million from debt investors for the stated purpose of making loans to professional athletes, sports agencies, and related entities. Instead of using the money solely for the stated purpose, Cobalt also used the investor funds to make higher-risk loans to certain cash-strapped startup portfolio companies of a private fund, Impact Opportunities Fund, L.P. ("IOF"), managed by one of the Cobalt principals. Ultimately, each of the portfolio companies failed, resulting in significant losses to debt investors in Cobalt. As a Cobalt employee, Haugland assisted the two principals of Cobalt in a scheme to conceal Cobalt's loans to the portfolio companies from its debt investors.

RESPONDENT

2. **Haugland**, age 29, is a resident of Denver, Colorado. From approximately mid-2014 through the beginning of 2017, Haugland was a vice president of business and portfolio management for Cobalt.

OTHER RELEVANT ENTITIES

3. **IOF**, a Delaware limited partnership, is a private fund formed in 2011.

4. **Cobalt** is a Colorado limited liability company formed in 2011 to make loans to athletes, sports agencies, and related entities. Cobalt formed Cobalt Corporate Credit, LLC ("CCC") and Cobalt Sports Capital II, LLC ("Cobalt II") as wholly-owned subsidiaries in January 2014 and February 2016, respectively. Since October 2016, Cobalt and its subsidiaries have been in receivership.

BACKGROUND

5. Formed in 2011, IOF is a private fund that invested in the debt and equity of various private companies. By the end of 2012, IOF raised approximately \$30 million and invested that capital in several startup portfolio companies, including an equity investment in Cobalt in 2011.

6. Cobalt, formed in December 2011, provided short-term loans to athletes, sports agencies, and related entities that typically paid Cobalt an annual interest rate of 18% and a one-

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

time origination fee of 3%. Cobalt financed its lending operations through the issuance of debt in the form of promissory notes to investors that paid an annual return of 10%.

7. By the end of 2013, many of IOF's startup portfolio companies were struggling to maintain sufficient cash flow to continue their operations. As a result, the principals of Cobalt used Cobalt's debt proceeds to make loans to those portfolio companies (the "Portfolio Companies"). Cobalt did not disclose the significant shift of its lending business to its debt investors. To facilitate the loans from Cobalt to the Portfolio Companies, in January 2014, the two Cobalt principals formed CCC, a wholly-owned subsidiary of Cobalt. CCC then made loans to the Portfolio Companies using Cobalt's debt proceeds as its primary source of capital.

8. Unlike Cobalt's loans to athletes, sports agencies, and related entities that typically bore annual rates of 18% and one-time origination fees of 3%, the CCC loans bore lower annual rates between 10% and 14% and one-time origination fees of 2%.

9. Without disclosure to the Cobalt debt investors, Cobalt, through CCC, lent over \$15 million to the Portfolio Companies for the years 2014, 2015, and 2016. A receiver who was appointed over Cobalt's operations in October 2016 has determined that all of the outstanding loans that Cobalt, through CCC, made to the Portfolio Companies are uncollectible and that Cobalt is insolvent.

THE SCHEME TO DEFRAUD COBALT'S DEBT INVESTORS

10. Beginning in January 2014, the principals of Cobalt presented Cobalt as a company that primarily made loans to athletes, while concealing the existence of CCC and the fact that Cobalt's debt proceeds were being used to fund CCC's loans to the struggling Portfolio Companies.

11. Starting in approximately mid-2014, Haugland provided assistance in the scheme by helping draft and disseminating multiple material misstatements to debt investors and prospective investors through emails and documents, including several versions of a Cobalt PowerPoint deck and quarterly reports issued to the Cobalt debt investors. Haugland knew or should have known that Cobalt's decks and quarterly reports concealed from debt investors the existence of CCC and misled investors by making it appear that Cobalt lent investor funds primarily to athletes, sports agencies, and related entities, even as Cobalt's loans to the Portfolio Companies would end up constituting more than half of the funds raised from the debt investors.

12. Additionally, Haugland knew or should have known that Cobalt's decks falsely represented the rates at which Cobalt lent debt investors' funds. For example, in 2015, Cobalt, through CCC, charged most of the Portfolio Companies a 10% annual rate on their loans (the same annual return due to Cobalt debt investors), while Cobalt's decks only disclosed that Cobalt's loans "yield 12.0% - 18.0% annual interest rates."

13. It would have been important to a reasonable investor that Cobalt, through CCC, was using investor funds to make loans to the Portfolio Companies. Among other things, investors

agreed to invest in Cobalt based on representations from its principals that Cobalt made loans primarily to athletes with guaranteed contracts from professional sports teams, which significantly lowered the risk of default. On the other hand, and unknown to debt investors, Cobalt's loans to the Portfolio Companies carried significant risk of default as they were struggling startup companies.

14. Haugland assisted the principals' scheme to defraud the Cobalt debt investors by helping draft Cobalt's decks and quarterly reports and through her emails to investors, all of which included information that Haugland knew or should have known was materially false and misleading. For example, while Haugland stated in an email to prospective investors that Cobalt sought to fund a growing pipeline of professional baseball players loans, she knew or should have known, based on her emails with the Cobalt principals, that the principals intended to use those proceeds to also lend money to one of the Portfolio Companies.

15. Furthermore, Haugland assisted the principals' scheme to conceal from debt investors that Cobalt used some of its debt proceeds to pay the principal or interest payments due to other debt investors. For example, an email between Haugland and the Cobalt principals demonstrates that she knew or should have known that funds from an investor, who understood its funds would be used to make loans to athletes, would in fact be used to pay off another Cobalt debt investor.

The Concealment of Cobalt's Loans (through CCC) to the Portfolio Companies from an Independent Auditor Engaged to Review Cobalt's Loan Portfolio

16. In 2016, Cobalt, through CCC, continued to make loans to the struggling Portfolio Companies. In early 2016, an entity representing a significant number of debt investors in Cobalt engaged an independent auditor to conduct a limited business review of Cobalt's loan portfolio to confirm, among other things, that Cobalt was using the investors' funds as represented. Haugland assisted Cobalt's principals in responding to the auditor's requests for information.

17. Among other things, the auditor requested detail from Cobalt of all loans outstanding as of December 31, 2015. In response, Haugland assisted the principals in providing the auditor only with a listing of all loans from Cobalt's *sports and entertainment-related* loan portfolio, concealing Cobalt's CCC loan portfolio, which recorded the loans to the Portfolio Companies, and by that time constituted over 50% of Cobalt's total use of its debt proceeds. Haugland knew or should have known that the information provided to the auditor was materially misleading because it omitted the loans made by CCC.

The Concealment of Cobalt II's Formation and Its Material Impact on Cobalt's Lending Operations

18. In February 2016, the principals of Cobalt formed Cobalt II, another wholly-owned subsidiary of Cobalt, to make all future loans to athletes, sports agencies, and related entities, while Cobalt stopped making such loans. Cobalt II issued its own senior debt, which had priority over

Cobalt's equity investment. Haugland knew or should have known of Cobalt II's formation and the resulting change to Cobalt's lending business.

19. After Cobalt II's formation and the resulting change in Cobalt's lending business, the principals of Cobalt continued to raise money through Cobalt's debt offerings while portraying Cobalt as "a specialty finance company that provides lending solutions primarily to professional athletes." Cobalt instead used this money to make additional loans to the struggling Portfolio Companies and to pay principal or interest due to other Cobalt debt investors.

20. Haugland assisted the principals' scheme to defraud the Cobalt debt investors by helping draft Cobalt's decks and quarterly reports and through her emails to investors, all of which omitted disclosure of the formation of Cobalt II and included information that Haugland knew or should have known was materially false and misleading.

VIOLATIONS

21. As a result of the conduct described above, Haugland was a cause of the Cobalt principals' violations of Section 17(a)(3) of the Securities Act, which makes it unlawful for any person in the offer or sale of securities to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser.

IV.

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

Accordingly, pursuant to Section 8A of the Securities Act, it is hereby ORDERED that:

A. Respondent Haugland cease and desist from committing or causing any violations and any future violations of Section 17(a)(3) of the Securities Act.

B. Respondent Haugland shall, within 360 days of the entry of this Order, pay a civil money penalty in the amount of \$15,000 to the Receiver in *Randel Lewis v. Tyler Tysdal, et al.*, Case No. 2018CV30684 (Denver Dist. Ct.) for distribution to the harmed Cobalt and Cobalt II senior debt investors pursuant to the distribution plan approved by the court in that matter. Interest shall accrue on the civil penalty pursuant to 31 U.S.C. § 3717 thirty days from the Order date until the penalty and post-order interest are paid in full. All payments shall be applied to the principle balance until the final payment, at which time Respondent will contact the Commission staff to determine the amount of the final payment, and all post-order interest will be paid at that time to the Commission for turnover to the U.S. Treasury. If Respondent fails to make any payment by the date agreed and/or in the amount agreed according to the schedule set forth above, all outstanding payments under this Order, including post-order interest, minus any payments made, shall become due and payable immediately at the discretion of the staff of the Commission without further application to the Commission.

Payment to the Receiver must be made in one of the following ways:

1. Respondent may transmit payment electronically to the Receiver's Account; detailed ACH transfer/Fedwire instructions upon request; or
2. Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to Cobalt Sports Capital, LLC and hand-delivered or mailed to:

Cobalt Sports Capital, LLC
Attn: Stephanie Drew
RubinBrown LLP
1900 16th Street, Suite 300
Denver, CO 80202

If, after discharge of the Receiver, payment in full has not been made, Respondent shall send her payments to the Commission. In addition, payments of post-order interest must be made to the Commission for turnover to the U.S. Treasury. Payments to the Securities & Exchange Commission may 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 Britt J. Haugland as a Respondent in these proceedings and identifying the file number of these proceedings. A copy of the cover letter and check or money order must be sent to: Ian S. Karpel, Esq., Assistant Regional Director, U.S. Securities and Exchange Commission, Byron G. Rogers Federal Building, 1961 Stout Street, Suite 1700, Denver, CO 80294.

C. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended, a Fair Fund is created for distribution of the civil money penalties referenced in paragraph IV.B above. 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, she shall not argue that she is entitled to, nor shall she benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of civil penalties in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that she 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 amounts of the civil penalties imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against a 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.

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.

Vanessa A. Countryman
Secretary