

1 **THE STATE OF WASHINGTON**
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**
3 **SECURITIES DIVISION**

4
5 **IN THE MATTER OF DETERMING**
6 Whether there has been a violation
7 of the Securities Act of Washington by Resource
8 Development International, LLC securities
9 salespersons:

10 James Eugene Edwards; David Eugene Edwards;
11 Steve Wayne Bastrom; Earl Hubert Dangelmaier;
12 Edward Morris Harris; Larry Paul Johnson;
13 Thomas Mark Krabbenhoft; Richard Albert
14 Labadie; Sharyn Kae Meenderinck; William
15 Joseph Slaney; and James Ronald Smith;

16 Respondents.

Order No.: S-00-050-05-SC01

**STATEMENT OF CHARGES AND NOTICE
OF INTENT TO ENTER AN ORDER TO
CEASE AND DESIST, IMPOSE FINES, AND
CHARGE COSTS**

17 **THE STATE OF WASHINGTON TO:**

18 James Eugene Edwards
19 David Eugene Edwards
20 Steve Wayne Bastrom
21 Earl Hubert Dangelmaier
22 Edward Morris Harris
23 Larry Paul Johnson
24 Thomas Mark Krabbenhoft
25 Richard Albert Labadie
26 Sharyn Kae Meenderinck
27 William Joseph Slaney
28 James Ronald Smith

29 **STATEMENT OF CHARGES**

30 Please take notice that the Securities Administrator of the state of Washington has reason to
31 believe that Respondents, James Eugene Edwards, David Eugene Edwards, Steve Wayne Bastrom,
32 Earl Hubert Dangelmaier, Edward Morris Harris, Larry Paul Johnson, Thomas Mark Krabbenhoft,

33 **STATEMENT OF CHARGES AND NOTICE OF**
34 **INTENT TO ENTER AN ORDER TO CEASE AND**
35 **DESIST, IMPOSE FINES, AND CHARGE COSTS**

1

Department of Financial Institutions
Securities Division
P.O. Box 9033
Olympia, WA 98507-9300

1 Richard Albert Labadie, Sharyn Kae Meenderinck, William Joseph Slaney, and James Ronald Smith,
2 have violated the Securities Act of Washington and that their violations justify the entry of an order of
3 the Securities Administrator to cease and desist from such violations, imposing fines, and collecting
4 costs pursuant to RCW 21.20.390 and RCW 21.20.395. The Securities Administrator finds as follows:
5

6
7 TENTATIVE FINDINGS OF FACT

8 Respondents

- 9 1. James Eugene Edwards (“J. Edwards”) acted as President of Resource Development
10 International, LLC (“RDI”). J. Edwards resided in University Place, Washington. J. Edwards
11 offered and sold prime bank investments to at least eleven people during the investment
12 offering, as described below.
- 13 2. David Eugene Edwards (“D. Edwards”) is father to J. Edwards and, with J. Edwards, controlled
14 RDI. D. Edwards resided in Tacoma, Washington. D. Edwards offered and sold prime bank
15 investments to at least three people during the investment offering, as described below.
- 16 3. Steve Wayne Bastrom (“Bastrom”), while acting as an agent for RDI, offered and sold prime
17 bank investments to at least eight people during the investment offering, as described below.
18 Bastrom was a Washington licensed securities salesperson until August 16, 1999. Bastrom is
19 currently a Washington licensed insurance agent and entered into a Stipulation and Order
20 Levying a Fine with the state of Washington Office of the Insurance Commissioner on
21 September 2, 2004 with regard to this matter. Bastrom resides in Federal Way, Washington.
- 22 4. Earl Hubert Dangelmaier (“Dangelmaier”), while acting as an agent for RDI, offered and sold
23 prime bank investments to at least two people during the investment offering, as described
24 below. Dangelmaier was a Washington licensed securities salesperson until December 9, 2002.
25
26

1 Dangelmaier is currently a Washington licensed insurance agent and resides in Bellingham,
2 Washington.

3 5. Edward Morris Harris (“Harris”), while acting as an agent for RDI offered and sold prime bank
4 investments to at least one person during the investment offering, as described below. Harris
5 was a Washington licensed investment adviser in 1994 and was a Washington licensed
6 securities salesperson until April 29, 1997. Harris is currently a Washington licensed insurance
7 agent and resides in Spanaway, Washington.
8

9 6. Larry Paul Johnson (“Johnson”), while acting as an agent for RDI, offered and sold prime bank
10 investments to at least three people during the investment offering, as described below.
11 Johnson was a Washington licensed insurance agent until June 17, 2002 and resided in Colville,
12 Washington at the time of the investment offering described below.

13 7. Thomas Mark Krabbenhoft (“Krabbenhoft”), while acting as an agent for RDI, offered and sold
14 prime bank investments to at least one person during the investment offering, as described
15 below. Krabbenhoft was a Washington licensed securities salesperson from November 19,
16 1999 until June 24, 2004. Krabbenhoft is currently a Washington licensed insurance agent and
17 resides in Bellingham, Washington.
18

19 8. Richard Albert Labadie (“Labadie”), while acting as an agent for RDI, offered and sold prime
20 bank investments to at least seven people during the investment offering, as described below.
21 Labadie resides in Bellingham, Washington.

22 9. Sharyn Kae Meenderinck (“Meenderinck”), while acting as an agent for RDI, offered and sold
23 prime bank investments to at least nine people during the investment offering, as described
24 below. Meenderinck is currently a Washington licensed insurance agent and resides in
25 Everson, Washington.
26

1 10. William Joseph Slaney (“Slaney”), while acting as an agent for RDI, offered and sold prime
2 bank investments to at least four people during the investment offering, as described below.
3 Slaney was a Washington licensed securities salesperson until June 5, 1996. Slaney’s
4 Washington insurance agent license expired on July 22, 2000. Slaney resided in Auburn,
5 Washington at the time of the investment offering described below.
6

7 11. James Ronald Smith (“Smith”), while acting as an agent for RDI, offered and sold prime bank
8 investments to at least six people during the investment offering, as described below. Smith
9 was a Washington licensed securities salesperson until April 19, 1996 and resided in
10 Montesano, Washington at the time of the investment offering described below.

11 Other Entities

12 12. Resource Development International, LLC (“RDI”) was a Nevada limited liability company,
13 last doing business in Tacoma, WA. RDI was owned and controlled by J. Edwards and D.
14 Edwards. The LLC dissolved in August 2000, however RDI continued operating until going
15 into receivership on March 25, 2002.
16

17 Prior Litigation History

18 13. The United States Securities and Exchange Commission filed a civil action against D. Edwards,
19 J. Edwards, RDI, and various other persons on March 25, 2002 in the U.S. District Court for
20 the Northern District of Texas (Dallas Division) [SEC v. Resource Development International,
21 et al., 3:02-CV-0605-R]. In its complaint, the SEC alleged that the Edwards' RDI prime bank
22 investment scheme had raised approximately \$98 million from more than 1,300 investors
23 nationwide, targeting persons seeking to invest retirement funds. In the course of marketing the
24 RDI trading program, defendants D. Edwards and J. Edwards acted as unregistered broker-
25 dealers. The complaint further alleged that the defendants falsely claimed to investors, among
26 other things, that their money would be used in Europe to trade financial instruments with "top
27

1 25" or "top 50" banks in a program sponsored by the Federal Reserve and global organizations,
2 generating annual returns of 48 to 120 percent with complete safety of principal. In reality, the
3 prime bank program marketed to investors does not exist and investor funds have been
4 misappropriated for personal and unauthorized uses, including making Ponzi payments. The
5 complaint alleged that tens of millions of dollars collected by the defendants could not be
6 accounted for and that J. Edwards and D. Edwards diverted funds to buy property and a home
7 for their personal use.
8

9 14. A Receiver was appointed on March 25, 2002 for D. Edwards, J. Edwards, RDI, and various
10 other persons in the SEC civil suit.

11 15. D. Edwards, J. Edwards, Harris, and other individuals were held in contempt for failure to
12 appear and failure to turn over assets to the receiver.

13 16. On November 17, 2004, D. Edwards and J. Edwards were convicted by a Santa Clara County,
14 California jury, of 16 counts of fraudulently selling or offering an investment security, six
15 counts of first-degree burglary, and one count of conspiracy. The counts were based on their
16 leadership roles in running the Resource Development International prime bank scheme.
17

18 17. On February 17, 2005, Santa Clara County (California) Superior Court Judge Rene Navarro,
19 sentenced J. Edwards and D. Edwards each to 27 years and 8 months in state prison for their
20 conviction by a jury for their roles in running a fraudulent prime bank scheme.
21

22 Nature of Offering

23 18. From at least January 1999 through at least March 2002, RDI was run by J. Edwards and D.
24 Edwards as a prime bank investment scheme/program which raised approximately \$98 million
25 from more than 1300 investors nationwide by selling prime bank notes.

26 19. RDI employed a large number of sales people or "facilitators" throughout the United States to
27 market the RDI prime bank program. Respondents, RDI sales people or "facilitators" operating

1 in the state of Washington, were purportedly paid a commission of at least two, and often four,
2 percent (4%) per month of the total principal they collected from investors.

3 20. Respondents told investors that investors would earn enormous returns at no risk to their
4 investment principal. The RDI prime bank notes promised investors annual returns of 48
5 percent per year to 120 percent per year. Investors were told that their funds were pooled with
6 those of other investors and used by a trader to conduct numerous trades with top 25 and top 50
7 European banks in financial instruments such as standby letters of credit, treasuries, prime bank
8 guarantees, and medium term notes. Investors' principal was allegedly deposited in a foreign
9 bank account and allegedly remained secure because it only had to be "scanned" to facilitate its
10 use by the trader.
11

12 21. Respondents told investors that the RDI prime bank program was conducted with the
13 knowledge and sponsorship of the Federal Reserve and international organizations, including
14 the International Monetary Fund and the United Nations. The alleged purpose of these high-
15 yield programs was to provide funds to support humanitarian and infrastructure projects
16 abroad; a substantial portion of the "returns" from trading activity were allocated to this
17 altruistic purpose.
18

19 22. Respondents sold RDI prime bank notes to at least fifty-three Washington residents for a total
20 investment of at least \$6,661,000.
21

22 Misrepresentations and Omissions

23 23. Respondents, the RDI sales people, or "facilitators," promoted the RDI prime bank program
24 utilizing recognized "prime bank" descriptions. The prime bank instruments were described as
25 involving highly secretive and confidential programs in which a highly selective group of
26 "intermediary traders" bought and sold "medium term notes" through "top world banks,"
27 primarily in Europe. Investors were told that these programs were established and monitored

1 by the Federal Reserve and involved the World Bank and the International Monetary Fund.
2 Investment principal was promised to always be secure because it would merely sit in an
3 account under Edwards' control and be used only as collateral. Investors were further told that,
4 after the trader was compensated, 50 percent of the remaining profit was reserved for
5 "humanitarian" causes. Investors were told that they could expect returns in excess of 10
6 percent and 4 percent per month depending on when they invested with RDI.

7
8 24. No such programs were established and monitored by the Federal Reserve, the World Bank,
9 and/or the International Monetary Fund. These types of programs were the subject of an
10 October 21, 1993, a June 11, 1996, and a May 20, 2002 Investment Scheme Advisory issued by
11 the Board of Governors of the Federal Reserve System warning the public about these illegal
12 schemes which often utilize language including "prime banks," "top world banks," "top 25
13 European banks," "humanitarian," and "medium term notes."

14
15 25. Funds collected on behalf of RDI were not used to conduct European trading programs, as
16 represented.

17
18 26. Respondents failed to disclose material information, including but not limited to, the financial
19 condition of RDI, management's experience and track record in similar ventures, and general
20 and specific risks associated with the investment.

21
22 27. Respondents failed to disclose the Securities Division's Summary Order to Cease and Desist
23 (Order # SDO-39-98) issued against J. Edwards on May 18, 1998 in which J. Edwards was
24 charged with fraud in connection with the offer and sale of unregistered securities and was
25 charged with offering and selling securities while not registered as a securities salesperson in
26 the state of Washington.

Registration Status

1
2 28. The offering of RDI prime bank notes was not registered with the Washington state Department
3 of Financial Institutions.

4 29. J. Edwards, D. Edwards, Johnson, Labadie, and Meenderinck are not currently registered to
5 offer or sell securities in the state of Washington and have not previously been so registered.
6

7 30. Harris, Slaney, and Smith were not registered to offer or sell securities at the time RDI prime
8 bank securities were offered and sold. Harris had a limited license to offer or sell mutual fund
9 and variable contract products until April 29, 1997. Slaney had a limited license to offer or sell
10 mutual fund and variable contract products until June 5, 1996. Smith had a limited license to
11 offer or sell mutual fund and variable contract products until April 19, 1996.

12 31. Bastrom was registered as an Investment Adviser Representative until August 20, 1996.

13 Bastrom had a limited license to offer or sell mutual fund and variable contract products on
14 behalf of his broker/dealer employer, Cadaret, Grant & Co., Inc., in the state of Washington
15 until August 16, 1999. The RDI prime bank notes were not an approved investment product of
16 Cadaret, Grant & Co., Inc.
17

18 32. Dangelmaier had a limited license to sell or offer direct participation programs and mutual fund
19 and variable contract products on behalf of his broker/dealer employer, NYLife Securities Inc.,
20 until December 9, 2002. The RDI prime bank notes were not an approved investment product
21 of NYLife Securities Inc.

22 33. Krabbenhoft had a limited license to offer or sell mutual fund and variable contract products on
23 behalf of his broker/dealer employer, NYLife Securities Inc., from November 19, 1999 until
24 June 24, 2004. The RDI prime bank notes were not an approved investment product of NYLife
25 Securities Inc.
26

1 34. None of the Respondents were licensed as a securities salesperson in the state of Washington to
2 offer or sell RDI prime bank notes.

3
4 Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:

5 CONCLUSIONS OF LAW

- 6
- 7 1. The offer and/or sale of RDI prime bank notes and investments described above constitutes the
8 offer and/or sale of a security as defined in RCW 21.20.005(10) and (12).
 - 9 2. The offer and/or sale of said securities was made in violation of RCW 21.20.010 because
10 Respondents made untrue statements of material fact and/or omitted to state material facts
11 necessary in order to make the statements made, in light of the circumstances under which they
12 were made, not misleading.
 - 13 3. The offer and/or sale of said securities is in violation of RCW 21.20.140 because no
14 registration for such offer and/or sale is on file with the Securities Administrator of the state of
15 Washington.
 - 16 4. The offer and/or sale of said securities was made in violation of RCW 21.20.040 because
17 Respondents, James Eugene Edwards, David Eugene Edwards, Edward Morris Harris, Larry
18 Paul Johnson, Richard Albert Labadie, Sharyn Kae Meenderinck, William Joseph Slaney, and
19 James Ronald Smith, offered and sold said securities while not being registered as broker-
20 dealers or securities salespersons in the state of Washington.
 - 21 5. The offer and/or sale of said securities was made in violation of RCW 21.20.040 because
22 Respondents, Steve Wayne Bastrom, Earl Hubert Dangelmaier, and Thomas Mark
23 Krabbenhoft, sold said securities beyond the scope of their limited licenses.
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26
27

- e. Respondent Larry Paul Johnson shall be liable for and pay a fine of \$20,000.
- f. Respondent Thomas Mark Krabbenhoft shall be liable for and pay a fine of \$20,000.
- g. Respondent Richard Albert Labadie shall be liable for and pay a fine of \$30,000.
- h. Respondent Sharyn Kae Meenderinck shall be liable for and pay a fine of \$20,000.
- i. Respondent William Joseph Slaney shall be liable for and pay a fine of \$20,000.
- j. Respondent James Ronald Smith shall be liable for and pay a fine of \$30,000.

NOTICE OF INTENT TO CHARGE COSTS

Pursuant to RCW 21.20.390, based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondents, James Eugene Edwards, David Eugene Edwards, Steve Wayne Bastrom, Earl Hubert Dangelmaier, Edward Morris Harris, Larry Paul Johnson, Thomas Mark Krabbenhoft, Richard Albert Labadie, Sharyn Kae Meenderinck, William Joseph Slaney, and James Ronald Smith, shall be jointly and severally liable for and pay the costs, fees, and other expenses incurred in the conduct of the administrative investigation and hearing of this matter of at least \$25,000.

CONTINUING INVESTIGATION

The Securities Division is continuing to investigate this matter, including the practices of Respondents, to determine the full extent of the violations of the Securities Act that may have occurred.

AUTHORITY AND PROCEDURE

This Order is entered pursuant to the provisions of RCW 21.20.110, RCW 21.20.390, and RCW 21.20.395 and is subject to the provisions of RCW 21.20.120 and Chapter 34.05 RCW. Each of

1 the Respondents may make a written request for a hearing as set forth in the NOTICE OF
2 OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this Order.

3 If a Respondent does not request a hearing, the Securities Administrator intends to adopt the
4 foregoing Tentative Findings of Fact and Conclusions of Law as final, and enter a permanent cease and
5 desist order against that Respondent, as well as imposing fines and costs described above.
6

7
8 Dated this 14th day of April, 2005.

9
10 

11 _____
12 MICHAEL STEVENSON
13 Securities Administrator

14 Approved by:

15 

16 _____
17 Martin Cordell
18 Chief of Enforcement

19 Presented by:

20 

21 _____
22 Dylan Waits
23 Financial Legal Examiner