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

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IN THE MATTER OF DETERMINING) Order Number S-08-041-09-SC01
Whether there has been a violation of the)
Securities Act of Washington by:) STATEMENT OF CHARGES AND NOTICE
) OF INTENT TO ENTER AN ORDER TO
Brothers Northwest Investments, Inc.; South J) CEASE AND DESIST AND TO IMPOSE A
Street, LLC; Bruce Schmidt; Jared Smidt; and) FINE
Geoff McPherson,)
Respondents)

THE STATE OF WASHINGTON TO: Brothers Northwest Investments, Inc.
South J Street, LLC
Bruce Schmidt
Jared Smidt
Geoff McPherson

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STATEMENT OF CHARGES

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Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, Brothers Northwest Investments, Inc.; South J Street, LLC; Bruce Schmidt; Jared Smidt; and Geoff McPherson, have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 to cease and desist from such violations and under RCW 21.20.395 to impose a fine. The Securities Administrator finds as follows:

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TENTATIVE FINDINGS OF FACT

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Respondents

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1. Brothers Northwest Investments, Inc. (“Brothers Northwest”) is a Washington corporation that was incorporated on June 14, 2001. Its principal place of business was located

1 in Tacoma, Washington. The company's primary business purpose was to develop and sell
2 real estate for a profit.

3 2. South J Street, LLC ("South J Street") is a Washington limited liability company that
4 was formed on June 17, 2005. Its principal place of business was located in Tacoma,
5 Washington. South J Street was formed to build a four-plex at 704 South J Street in Tacoma,
6 Washington.
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8 3. Bruce Schmidt ("Schmidt") is a Washington resident. From 2001 through 2007,
9 Bruce Schmidt was President of Brothers Northwest. Schmidt is also a managing member of
10 South J Street.
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12 4. Jared Smidt ("Smidt") is a Washington resident. From 2001 through 2006, Jared
13 Smidt was Vice President of Brothers Northwest.

14 5. Geoff McPherson ("McPherson") is a Washington resident and a managing member
15 of South J Street, LLC.
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17 Offer and Sale of Brothers Northwest Promissory Notes and Joemma Beach Deeds of Trust

18 6. One of Brothers Northwest's primary real estate development projects was to build
19 and sell single family homes in a housing development called Joemma Beach Farms, located in
20 Washington. During 2005 and 2006, Brothers Northwest, Bruce Schmidt, and Jared Smidt
21 each personally solicited prospective investors to purchase promissory notes and deeds of trust,
22 in order to finance the construction of the homes. During 2005 and 2006, Brothers Northwest,
23 Schmidt, and Smidt each offered and sold to at least four Washington investors more than
24 \$200,000 worth of Brothers Northwest promissory notes and deeds of trust against lots in
25

1 Joemma Beach Farms. The promissory notes generally had a six-month term with a 24%
2 annual interest rate. Brothers Northwest, Schmidt, and Smidt each represented that investor
3 funds would be pooled together to fund the construction of single family homes on the
4 individual lots that were subject to the deeds of trust. Brothers Northwest, Schmidt, and Smidt
5 each represented that Brothers Northwest would share in the profits from the sale of the homes.
6 The investors did not participate in the business activities of Brothers Northwest and they had
7 no control over the use of their invested funds. The investors were each relying upon Brothers
8 Northwest, Schmidt, and Smidt to generate a return on their investment. To date, none of the
9 investments have been repaid.
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12 Misrepresentations or Omissions Regarding Brothers Northwest Notes and Joemma Beach
13 Deeds of Trust

14 7. When offering and selling the Brothers Northwest promissory notes and Joemma
15 Beach deeds of trust, Brothers Northwest, Bruce Schmidt, and Jared Smidt each represented to
16 investors that their investments would be “very secure” because Brothers Northwest was
17 building homes with a profit margin of \$70,000 to \$80,000 each. Brothers Northwest,
18 Schmidt, and Smidt each failed to disclose to investors that there could be significant delays in
19 completing and selling the homes. Brothers Northwest, Schmidt, and Smidt each failed to
20 disclose to investors that there could be significant cost overruns for completing the homes.
21 Brothers Northwest, Schmidt, and Smidt each failed to disclose to investors that Brothers
22 Northwest might have inadequate capital to complete the homes. Brothers Northwest,
23 Schmidt, and Smidt each failed to give the investors financial information about Brothers
24 Northwest, including financial statements for Brothers Northwest. Brothers Northwest,
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1 Schmidt, and Smidt each failed to give some of the investors title information about the
2 property that was to secure their investments, including a title insurance policy. Brothers
3 Northwest, Schmidt, and Smidt each failed to disclose to investors the risks of having a
4 subordinated deed of trust. Brothers Northwest, Schmidt, and Smidt each failed to disclose
5 that the investors could lose the entire amount of their investment if the investors did not have
6 adequate real property security for their investments.
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8 Offer and Sale of Brothers Northwest Promissory Note and Deed of Trust

9 8. During 2006, in order to finance the construction of a four-plex at 704 South J Street
10 in Tacoma, Washington, Bruce Schmidt personally solicited a Washington investor to purchase
11 a \$150,000 Brothers Northwest promissory note and deed of trust. The promissory note had a
12 four-month term and was to pay 24% annual interest. Schmidt and Brothers Northwest each
13 represented that the investor's funds would be used to build a four-plex on the property.
14 However, the four-plex was never built and the promissory note has never been repaid.
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16 Misrepresentations and Omissions Regarding Brothers Northwest Promissory Note and Deed
17 of Trust
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19 9. When offering and selling the Brothers Northwest promissory note and deed of trust,
20 Brothers Northwest and Bruce Schmidt each represented that the investor's promissory note
21 was secured by a deed of trust against real property located at 704 South J Street in Tacoma,
22 Washington. Brothers Northwest and Schmidt each failed to disclose that Brothers Northwest
23 did not own the property that was subject to the deed of trust. Brothers Northwest and Schmidt
24 each failed to disclose that South J Street, LLC, an LLC in which Bruce Schmidt was a
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1 managing member, actually owned the property that was subject to the deed of trust. Brothers
2 Northwest and Schmidt each failed to give the investor any financial information for Brothers
3 Northwest, including financial statements. Brothers Northwest and Schmidt each failed to give
4 the investor title information about the property, including a title insurance policy. Brothers
5 Northwest and Schmidt each failed to disclose that the investment was unsecured and that the
6 investor could lose the entire amount of the investment.
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8 Offer and Sale of South J Street, LLC Promissory Notes and Deeds of Trust

9 10. During 2006, South J Street, Bruce Schmidt, and Geoff McPherson, each personally
10 solicited investments from two investors and Jared Smidt personally solicited an investment
11 from one of the investors. The investments were supposed to finance the construction of a
12 four-plex at 704 South J Street in Tacoma, Washington. South J Street, LLC, Schmidt, and
13 McPherson each offered and sold a \$150,000 promissory note and deed of trust to a
14 Washington investor. South J Street, LLC, Schmidt, McPherson, and Smidt each offered and
15 sold a \$200,000 promissory note and deed of trust to a Washington investor. The \$150,000
16 promissory note had a term of four months and was to pay 12% annual interest. The \$200,000
17 promissory note had a term of approximately ten weeks and was to pay a return of 25% of the
18 principal amount invested. South J Street, LLC, Schmidt, McPherson, and Smidt each
19 represented that the promissory notes were fully secured by a deed of trust against the real
20 property located at 704 South J Street in Tacoma, Washington. South J Street, LLC, Schmidt,
21 McPherson, and Smidt each represented that the investors' funds would be used to build a
22 four-plex on the property. However, the four-plex was never built. To date, the investor with
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1 the \$200,000 note has only been repaid \$70,000 and the investor with the \$150,000 note has
2 never been repaid.

3 Misrepresentations and Omissions

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5 11. When offering and selling the South J Street, LLC promissory notes and deeds of
6 trust, South J Street, Schmidt, McPherson, and Smidt each failed to give the investors any
7 financial information, including financial statements for South J Street. South J Street,
8 Schmidt, McPherson, and Smidt each failed to give the investors title information about the
9 property, including a title insurance policy. South J Street, Schmidt, McPherson, and Smidt
10 each failed to disclose that the real property that was to secure the investments had a 2006 tax
11 assessed value of \$36,500. South J Street, LLC, Schmidt, McPherson, and Smidt each failed to
12 disclose that the investors could lose the entire amount of their investment if South J Street,
13 Schmidt, McPherson, and Smidt never perfected the investors' real property security interests.
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15 Based upon the Tentative Findings of Fact, the following Conclusions of Law are
16 made:
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18 **CONCLUSIONS OF LAW**

19 1. The offer or sale of the investments described in the Tentative Findings of Fact
20 constitutes the offer or sale of a security, as defined in RCW 21.20.005(10) and (12), whether
21 in the form of a note, an investment contract, or an evidence of indebtedness.
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23 2. Brothers Northwest, South J Street, Bruce Schmidt, Jared Smidt, and Geoff
24 McPherson have each violated RCW 21.20.010, the anti-fraud provision of the Securities Act
25 of Washington, by making untrue statements of material fact or by omitting to state material
facts necessary in order to make the statements made, in the light of the circumstances under
which they were made, not misleading.

1 **NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST**

2 Pursuant to RCW 21.20.390(1), and based upon the Tentative Findings of Fact and
3 Conclusions of Law, the Securities Administrator intends to order that Brothers Northwest
4 Investments, Inc.; South J Street, LLC; Bruce Schmidt; Jared Smidt; Geoff McPherson, and
5 their agents and employees, each shall cease and desist from violations of RCW 21.20.010.
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8 **NOTICE OF INTENT TO IMPOSE A FINE**

9 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and
10 Conclusions of Law, the Securities Administrator intends to order that Bruce Schmidt shall be
11 liable for and shall pay a fine of \$10,000.
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14 **AUTHORITY AND PROCEDURE**

15 This Statement of Charges is entered pursuant to the provisions of chapter 21.20 RCW
16 and is subject to the provisions of chapter 34.05 RCW. The respondents, Brothers Northwest
17 Investments, Inc.; South J Street, LLC; Bruce Schmidt; Jared Smidt; and Geoff McPherson,
18 may each make a written request for a hearing as set forth in the NOTICE OF
19 OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this
20 order.
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24 If a respondent fails to make a timely hearing request, the Securities Administrator
25 intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final against

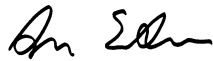
1 that respondent and to enter a permanent order to cease and desist and impose any fines sought
2 against the respondent.

3 Dated and Entered this 29th day of June, 2009
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7 MICHAEL E. STEVENSON
8 Securities Administrator

9 Approved by:

Presented by:

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13 Suzanne E. Sarason
14 Chief of Enforcement

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17 Janet So
18 Financial Legal Examiner

19 Reviewed by:

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21 Martin Cordell
22 Financial Legal Examiner Supervisor
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