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

IN THE MATTER OF DETERMINING
whether there has been a violation
of the Securities Act of Washington by:

Strategic I, LLC;
Strategic IV, LLC;
SAAM Realty, LLC;
Edward R. Zumwalt,

Respondents.

Order Number S-09-020-12-SC01

STATEMENT OF CHARGES AND
NOTICE OF INTENT TO ISSUE AN
ORDER TO CEASE AND DESIST,
IMPOSE FINES, AND RECOVER COSTS

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THE STATE OF WASHINGTON TO:

Strategic I, LLC
Strategic IV, LLC
SAAM Realty, LLC
Edward R. Zumwalt

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STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that the Respondents Strategic I, LLC; Strategic IV, LLC; SAAM Realty, LLC; and Edward R. Zumwalt have violated the Securities Act of Washington and that the violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 against each to cease and desist from such violations and to charge costs, and under RCW 21.20.395 to impose a fine. The Securities Administrator finds as follows:

1 **TENTATIVE FINDINGS OF FACT**

2 Respondents

3 1. Strategic I, LLC (“Strategic I”) was a Washington limited liability company formed on
4 November 8, 2006. Strategic I was administratively dissolved on March 3, 2008.

5 2. Strategic IV, LLC (“Strategic IV”) was a Washington limited liability company formed on
6 September 19, 2007. Strategic IV was dissolved on approximately July 28, 2008.

7 3. SAAM Realty, LLC (“SAAM Realty”) was a Washington limited liability company formed on
8 May 21, 2006. SAAM Realty was a real estate brokerage firm with a principal place of business in Port
9 Orchard, Washington. SAAM Realty was dissolved on approximately July 28, 2008.

10 4. Edward R. Zumwalt (“Zumwalt”) is an individual residing in Gig Harbor, Washington. Zumwalt
11 was a co- founder of Strategic I, Strategic IV and SAAM Realty.

12 Other Related Party

13 5. Strategic Asset Acquisition & Management LLC (“SAAM LLC”) was a Washington limited
14 liability company formed on April 8, 2006. SAAM LLC was the Manager of Strategic I and Strategic
15 IV. SAAM LLC was dissolved on approximately July 28, 2008. Zumwalt was the Chairman and CEO
16 of SAAM LLC.

17 Nature of the Conduct

18 *Introduction*

19 6. Beginning in approximately November 2006, Respondent Zumwalt presented investments in
20 Strategic I to an investment club in Port Orchard, Washington. Zumwalt was allowed to solicit the
21 investment club members due to an arrangement he made with the owners of the club, one of whom was
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1 an acquaintance of his. Zumwalt later offered investments in Strategic IV and SAAM Realty to at least
2 one member of the investment club. From approximately November 2006 through February 2008,
3 Zumwalt sold more than \$500,000 worth of investments in Strategic I, Strategic IV, and SAAM Realty
4 to 14 investors, including 13 Washington residents.

5 *Strategic I, LLC*

6 7. From November 2006 through May 2007, Zumwalt raised \$456,000 from 14 investors through
7 the sale of LLC units in Strategic I. Zumwalt presented the membership units as a commercial real
8 estate investment. According to offering materials, Strategic I would use investor funds to acquire and
9 operate commercial real estate properties in Kitsap County, King County, or Pierce County, Washington.
10 The offering materials further stated that Strategic I was seeking to raise up to \$5 million dollars. The
11 minimum investment amount was \$25,000.

12 8. In exchange for being able to present the investment opportunity to club members, the club
13 owners were given ownership interests in SAAM LLC (the manager of Strategic I) and SAAM Realty,
14 the company that would provide property management services to Strategic I. The ownership interests
15 entitled the club owners to a portion (according to their ownership interest) of the companies'
16 management fees. It also entitled them to a portion of Strategic I's profits that SAAM LLC was to
17 receive.

18 9. Zumwalt solicited investors at investment club meetings. On at least three occasions, Zumwalt
19 gave a general presentation to the members regarding real estate investment trusts. During the
20 presentation, Zumwalt told club members that he was putting together a private placement in
21 commercial real estate and invited interested members to meet with him for additional information.

1 Several club members contacted Zumwalt for further information. In addition, at least one club member
2 that heard about the investment referred their relative to Zumwalt.

3 10. A referral fee was given to one of the investment club owners who referred additional investors
4 that were not club members. In January 2007, this owner referred his friend and a relative to Respondent
5 Zumwalt to discuss the investment in Strategic I. The club owner received a total of \$650 for the two
6 referrals, which constituted 1% of the amount the individuals invested.

7 11. Zumwalt met with potential investors for “question-and-answer” sessions regarding the
8 investment. Zumwalt represented to one investor that the return on this investment would be “high and
9 fast,” and that he could receive a 75% return in three years. Zumwalt told another investor that the
10 return would be “quick and substantial.”

11 12. Investors received a Private Placement Memorandum for Strategic I that was dated November 9,
12 2006. According to the Private Placement Memorandum, the objective was to target a “7.5% annual
13 cash yield” and a “15% internal rate of return[.]”

14 13. Investors wrote checks payable to either “Strategic I” or “SAAM LLC.” Zumwalt signed the
15 subscription agreements as the “Manager / CEO” of SAAM LLC.

16 14. By May or June 2007, the offering failed to reach its \$5 million dollar goal. In approximately
17 June 2007, investors received a “Notice of Substantial Changes to the Offering of Limited Liability
18 Company Units.” According to the Notice, the offering was being reduced in size from \$5 million to
19 \$1.6 million, and the proceeds of the offering were to be invested in residential real estate, rather than
20 commercial real estate.

1 15. According to the Notice, investors had several options with respect to their investment. Investors
2 could continue their original investment or revoke it and receive their investment funds back. Investors
3 could also choose to revise their original offering amount and subscribe for a different number of shares.

4 16. Investors received a Revised Private Placement Memorandum (“Revised PPM”). According to
5 the Revised PPM, the objective was to target a “10% annual appreciation yield” and a “15% internal rate
6 of return[.]”

7 17. In June 2007, 12 investors invested \$366,000 in the revised offering. The majority of the
8 investors continued their original investment. Two investors declined to invest in the revised offering,
9 and received their investment funds back. Two other investors decreased the amount of their
10 investment, and received the difference back.

11 18. In approximately August 2007, Zumwalt decided to discontinue the offering. This was due to a
12 conflict, which started several months before, between Zumwalt and the owners of the investment club.
13 Zumwalt had not purchased any residential real estate properties for Strategic I. Beginning in
14 approximately August 2007, Zumwalt repaid nine investors their original investment principal. One
15 investor was not repaid any of her principal back and two investors received a partial payment. To date,
16 approximately \$76,000 has not been repaid to the three investors.

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18 *Strategic IV, LLC and SAAM Realty, LLC*

19 19. In the fall of 2007, after the failure of Strategic I, Zumwalt decided to create a new real estate
20 investment offering named Strategic IV. Zumwalt had a partner who contributed capital and was going
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1 to be active in the management of the project. In September 2007, Zumwalt and his partner formed
2 Strategic IV, LLC.

3 20. Zumwalt presented LLC units in Strategic IV as a commercial real estate investment. According
4 to offering materials, Strategic IV would use investor funds to acquire and operate improved mini-
5 storage and RV parking properties located in Washington. The Strategic IV offering was for up to
6 \$625,000, with a minimum expected investment amount of \$5,000. SAAM LLC was the manager of
7 Strategic IV.

8 21. In September 2007, Zumwalt offered an investment in Strategic IV to at least one Washington
9 resident who had previously invested in Strategic I. Zumwalt sent the resident an email informing her
10 that investments were available in Strategic IV and that Strategic I investors would receive a credit of
11 \$5,000 in the new venture. Zumwalt invited the resident to contact him for further details and a copy of
12 the Private Placement Memorandum.

13 22. Zumwalt later provided the resident with a Private Placement Memorandum for Strategic IV that
14 was dated October 1, 2007. According to the Private Placement Memorandum, the objective was to
15 target a “10% annual appreciation yield” and a “15% internal rate of return[.]”

16 23. In October 2007, the resident invested in Strategic IV and provided Zumwalt with a check for
17 \$60,000 that was made payable to “Strategic IV LLC.”

18 24. By late 2007, no mini-storage or RV parking properties had been purchased by Strategic IV.
19 After Zumwalt’s partner withdrew his investment funds, Zumwalt ceased offering LLC units in Strategic
20 IV.

1 25. Zumwalt later offered the resident a partnership interest in his real estate brokerage firm, SAAM
2 Realty. In approximately February 2008, the resident rolled over her \$60,000 investment in Strategic IV
3 into a new investment in SAAM Realty. The investor was entitled to a share of the profits in SAAM
4 Realty, but did not participate in the day-to-day operations or decision making of the business.

5 26. In July 2008, SAAM Realty went out of business. The resident received a Schedule K-1 showing
6 that her investment was lost in full.

7 Registration Status

8 27. Respondents Strategic I, LLC; Strategic IV, LLC; and SAAM Realty, LLC were not registered to
9 sell securities in the State of Washington during the relevant period.

10 28. Respondent Edward R. Zumwalt is not currently registered as a securities salesperson or broker-
11 dealer in the State of Washington and was not registered during the relevant period.

12 Misrepresentations and Omissions

13 29. The Respondents failed to disclose to the Strategic I investors that if the offering was not
14 completed, and investment capital was returned to investors, that the funds may not be returned on a pro
15 rata basis.

16 30. The Respondents failed to provide a reasonable basis for the profit projections that were included
17 in the Strategic I and Strategic IV Private Placement Memorandums.

18 31. Respondent Zumwalt failed to provide a reasonable basis for the profit projections, and
19 limitations on the profit projections, that he told at least one Strategic I investor.

1 32. The Respondents failed to disclose material information regarding the partnership interest in
2 SAAM Realty, LLC, including, but not limited to: financial statements, operational history, prior
3 performance information, and the specific risks involved.

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

6 **CONCLUSIONS OF LAW**

7 1. The offer and sale of the LLC units and the partnership interest, as described above, constitute
8 the offer and sale of securities as defined in RCW 21.20.005(14) and (17).

9 2. The offer and sale of said securities violated RCW 21.20.140 because no registration for such
10 offer and sale is on file with the Securities Administrator.

11 3. Edward R. Zumwalt violated RCW 21.20.040 by offering or selling said securities while not
12 registered as a securities salesperson or broker-dealer in the State of Washington.

13 4. The offer or sale of said securities was made in violation of RCW 21.20.010 because, as set
14 forth in the Tentative Findings of Fact, Strategic I, LLC; Strategic IV, LLC; SAAM Realty, LLC; and
15 Edward R. Zumwalt each made untrue statements of material facts or omitted to state material facts
16 necessary in order to make the statements made, in light of the circumstances under which they were
17 made, not misleading.

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19 **NOTICE OF INTENT TO ISSUE AN ORDER TO CEASE AND DESIST**

20 Pursuant to RCW 21.20.390(1), and based upon the above Tentative Findings of Fact and
21 Conclusions of Law, the Securities Administrator intends to order that the Respondents Strategic I, LLC;

1 Strategic IV, LLC; SAAM Realty, LLC; and Edward R. Zumwalt shall cease and desist from violations
2 of RCW 21.20.040, RCW 21.20.140 and RCW 21.20.010.

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4 **NOTICE OF INTENT TO IMPOSE FINES**

5 Pursuant to RCW 21.20.395, and based upon the above Tentative Findings of Fact and
6 Conclusions of Law, the Securities Administrator intends to order that:

- 7 1. Respondent Strategic I, LLC shall be liable for and pay a fine of \$10,000;
8 2. Respondent Strategic IV, LLC shall be liable for and pay a fine of \$5,000;
9 3. Respondent SAAM Realty, LLC shall be liable for and pay a fine of \$5,000; and
10 4. Respondent Edward R. Zumwalt shall be liable for and pay a fine of \$15,000.

11 **NOTICE OF INTENT TO CHARGE COSTS**

12 Pursuant to RCW 21.20.390(5), and based upon the above Tentative Findings of Fact and
13 Conclusions of Law, the Securities Administrator intends to order that the Respondents Strategic I, LLC;
14 Strategic IV, LLC; SAAM Realty, LLC; and Edward R. Zumwalt shall be liable for and pay the
15 Securities Division the costs, fees and other expenses incurred in the conduct of the investigation of this
16 matter in an amount not less than \$2,500.

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18 **AUTHORITY AND PROCEDURE**

19 This Statement of Charges is entered pursuant to the provisions of RCW 21.20.390 and RCW
20 21.20.395, and is subject to the provisions of RCW 21.20.440 and RCW 34.05. The Respondents may
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1 make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND
2 OPPORTUNITY FOR HEARING accompanying this Statement of Charges.

3 If a Respondent does not request a hearing, the Securities Administrator intends to adopt the above
4 Tentative Findings of Fact and Conclusions of Law as final, enter a final cease and desist order, and
5 impose the fines and costs sought as to the Respondent.

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7 DATED AND ENTERED this 14th day of March, 2013.

8 By:

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11 _____
12 William M. Beatty
13 Securities Administrator

14 Approved by:

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16 _____
17 Suzanne Sarason
18 Chief of Enforcement

Presented by:

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20 _____
21 Bridgett Fisher
22 Enforcement Attorney

23 Reviewed by:

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25 _____
26 Robert Kondrat
27 Financial Legal Examiner Supervisor