

1 **FINDINGS OF FACT**

2 Respondents

3 1. Gregory Pinneo (“Pinneo”) is a Washington resident. Pinneo acted as managing member of East
4 Edgar Partners, LLC; Franklin Avenue Partners, LLC; Yale Avenue Partners, LLC; and 2344-2345
5 Franklin Twins, LLC.

6 2. East Edgar Partners, LLC (“East Edgar Partners”) is a Washington limited liability company
7 formed on February 8, 2006. East Edgar Partners owns a 12-unit apartment building located in Seattle,
8 Washington.

9 3. Franklin Avenue Partners, LLC (“Franklin Avenue Partners”) is a Washington limited liability
10 company formed on July 7, 2006. Franklin Avenue Partners owns a 6-unit apartment building located in
11 Seattle, Washington.

12 4. Yale Avenue Partners, LLC (“Yale Avenue Partners”) is an inactive Washington limited liability
13 company formed on March 26, 2007. Yale Avenue Partners owned a 6-unit apartment building located in
14 Seattle, Washington.

15 5. 2344-2345 Franklin Twins, LLC (“Franklin Twins”) is a Washington limited liability company
16 formed on April 24, 2008. Franklin Twins owns two apartment buildings: a 3-unit building and a 6-unit
17 building located in Seattle, Washington.

18 Nature of the Conduct

19 *Background*

20 6. From approximately December 2005 through October 2008, Pinneo raised approximately \$4.5
21 million through the offer and sale of interests in East Edgar Partners, Franklin Avenue Partners, Yale
22 Avenue Partners, and Franklin Twins to approximately 76 investors, the majority of whom were
23 Washington residents. Each limited liability company (“LLC”) owned one apartment building located in
24 Seattle, Washington, except for Franklin Twins, which owned two apartment buildings. All apartment
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1 buildings, except for one, were initially owned by Pinneo. Pinneo transferred his interest in the property to
2 each LLC via quitclaim deed.

3 7. Pinneo sold LLC interests that they owned. Other than amounts intended to provide a reserve for
4 operating and other expenses for the LLC, the payments for the LLC interests went to the Pinneos. Pinneo
5 did not disclose to all investors that they were purchasing his interests and their funds would be going to
6 him. A few investors thought their funds would be used to pay down the mortgage on the building.
7 According to Pinneo, investor funds were deposited into each LLC's bank account and then withdrawn as
8 a distribution to the individual selling the shares.

9 8. Investors received a percentage ownership in an LLC that was proportional to the amount of their
10 investment. The great majority of investors did not actively participate in the management of the
11 apartment complexes. The apartment complexes were to be managed by Pinneo or other third party for a
12 fee of 7% of incoming rents. The investors relied upon Pinneo and other third parties to generate a return
13 on their investment.

14 9. Pinneo typically solicited family and friends, some of whom he met through their participation in
15 real estate and motivational seminars he had taught, to invest in his various LLCs. Several investors
16 indicated that they trusted Pinneo and considered him a mentor. Not all investors were accredited or
17 experienced in making real estate investments. Pinneo did not screen investors for net worth, income, or
18 investment experience. He usually arranged one-on-one meetings with prospective investors, during which
19 he would go over a binder of information concerning the investment opportunity.

20 *East Edgar Partners, LLC Offering*

21 10. From approximately December 2005 through March 2008, Pinneo raised approximately \$2.3
22 million from approximately 32 investors through the offer and sale of interests in East Edgar Partners. At
23 least 11 investors purchased interests in East Edgar Partners prior to its formation on February 8, 2006.
24 The offering materials provided to these investors failed to disclose the fact that the entity had not yet
25 been formed, or about Pinneo's intentions to form the entity.

1 11. Investors who purchased their interests in 2006 paid \$27,404 for a 1% interest in East Edgar
2 Partners. The price was increased to \$30,239 per 1% interest in 2007. Investors typically received a binder
3 of documents prior to investing, which included a document entitled “Partnership Opportunity 100 East
4 Edgar,” a partnership agreement, tenant list, and insurance documents.

5 12. The offering materials described the building as having “a strong equity position.” A page entitled
6 “Current Financials” illustrated how Pinneo calculated the value of the building. The scheduled annual
7 rent for the building was calculated to be \$207,960. Pinneo used an expense ratio of 25% of the scheduled
8 annual rent to arrive at a net operating income of \$155,970. He then used an income approach to value and
9 a capitalization rate of 3.13% to calculate the current value of the building to be approximately
10 \$4,975,000. The expense ratio Pinneo used was an estimate. He did not look back at previous financial
11 statements to view what the actual expenses were. The offering materials failed to disclose that the
12 expense ratio or net operating income were projections or estimates. The offering materials further failed
13 to disclose that for valued year 2005, the King County Department of Assessments assessed the taxable
14 total value of the property to be \$1,602,000. Pinneo failed to explain why the value he calculated was so
15 much greater than the tax assessed value. He did not provide any reasonable basis for his purported value.

16 13. According to the offering materials, there was \$2,235,000 worth of debt on the property. Pinneo
17 subtracted that debt from the value he calculated for the building to arrive at \$2,740,500 as the equity
18 available in the building.

19 14. The offering materials represented that the management’s plan was to hold the building long-term.
20 The plan was to update the building in a few years and increase rents, make additional principal payments,
21 and pay monthly dividends to investors once the building was owned free and clear. The offering
22 materials also contained two different expansion ideas Pinneo had for the building, Phase I and Phase II.
23 Phase I was a plan that involved converting the apartments into corporate housing. The offering materials
24 projected that the gross annual income for the first year would be \$660,600, with a net annual positive
25 cash flow of \$200,000. The materials further projected that if the additional positive cash flow was used to

1 make additional principal payments, the debt on the property would be paid off in less than ten years, and
 2 nearly \$500,000 would be available for distribution to the investors each year based on a percentage
 3 ownership basis, “assuming increases in revenues offset rising operation costs, taxes, and insurance.”
 4 Phase II involved the construction and rental of houseboats. The offering materials projected that if the 8
 5 units were rented out 4 nights per week at \$150 per night, it would generate income of \$19,200 per month,
 6 with a net monthly income of \$11,000. The offering materials failed to disclose whether any permits
 7 would be required for the construction and rental of houseboats, or for the conversion of apartment units
 8 into corporate housing. Pinneo testified that he did not know if permits were required, and he was not sure
 9 if the area was zoned for the changes. The offering materials projected that \$765,000 would be required to
 10 complete Phase I, but failed to disclose how the LLC would obtain additional funds.

11 15. At least one investor did not have the funds to immediately invest in East Edgar Partners. The
 12 investor borrowed \$27,404 from Pinneo to purchase a 1% interest. The investor was to pay 3% interest on
 13 the borrowed funds. Another investor took out money from a credit line on his home in order to invest.

14 16. Data from the East Edgar Partners’ income and expense sheet showed that, from January 2006
 15 through October 2006, the building experienced negative cash flow in eight out of the ten months:

	Total Income (Rental & laundry income, security & pet deposit)	Expenses (Includes maintenance, mortgage payments, & property taxes)	Net Income
January 2006	\$ 16,156.84	\$ 19,879.29	\$ (3,722.45)
February 2006	\$ 15,110.34	\$ 20,902.76	\$ (5,792.42)
March 2006	\$ 19,065.05	\$ 19,026.41	\$ 38.64
April 2006	\$ 14,559.50	\$ 28,498.71	\$ (13,939.21)
May 2006	\$ 16,448.55	\$ 21,002.09	\$ (4,553.54)
June 2006	\$ 16,747.50	\$ 20,309.09	\$ (3,561.59)
July 2006	\$ 16,134.50	\$ 19,966.43	\$ (3,831.93)
August 2006	\$ 15,371.00	\$ 20,837.06	\$ (5,466.06)
September 2006	\$ 18,491.35	\$ 18,202.59	\$ 288.76
October 2006	\$ 14,534.07	\$ 31,661.32	\$ (17,127.25)

1 17. In a letter dated March 10, 2006, East Edgar Partners informed investors that half yearly property
2 taxes were due in April, and there was not enough money in the account to cover the full bill of
3 approximately \$8,000. Investors were requested to send in their share of the \$8,000 by April 15. Another
4 letter dated May 10, 2006 represented that investors would have to cover any monthly shortfalls because
5 the reserve money had been used up. The letter anticipated shortfalls of approximately \$4,500 in May,
6 \$3,000 in June, and \$2,500 in July. In an email dated November 24, 2006, East Edgar anticipated that
7 investors would need to continue to fund the building through the first and second quarter of 2007.

8 18. Pinneo testified that investors have been required to make capital contributions, and there were
9 months when East Edgar was dependent upon additional capital contributions from investors to stay
10 current on its expenses. Pinneo failed to provide prospective investors with financial statements for the
11 apartment building. He also failed to disclose to at least some individuals that the building was
12 experiencing negative cash flow and capital contributions were being required.

13 19. As of December 2010, no dividends or profits had been paid to any investors.

14 *Franklin Avenue Partners, LLC Offering*

15 20. From approximately July 2006 through November 2006, Pinneo raised approximately \$900,000
16 from approximately 17 investors through the offer and sale of interests in Franklin Avenue Partners.
17 Investors typically received several documents prior to investing, including “2338 Franklin Avenue East,
18 Seattle, WA Partnership Opportunity,” “Highlights of the 2338 Franklin Avenue East Model and
19 Expandability,” “Average Monthly Income/Expense,” “Average Annual Income/Expense,” a rent roll list,
20 a partnership agreement, information concerning existing financing on the building, and insurance
21 information. Investors who invested through a self-directed IRA were also required to a sign a
22 subscription agreement. The “Average Monthly Income/Expense” document represented that the building
23 generated a monthly net income of \$211. An investor could purchase a 5% interest for \$50,000. \$868.70
24 of the investor’s funds was to go towards a cash reserve account.
25

1 21. The offering documents represented that the building was currently valued at \$1,650,000, and
2 there was \$667,374 worth of debt on the property. Pinneo testified that he arrived at that value by looking
3 at similar buildings in the area, their value, and the capitalization rate the buildings were selling at. The
4 offering materials failed to provide any reasonable basis for Pinneo's purported value. The offering
5 materials further failed to disclose that for valued year 2006, the King County Department of Assessments
6 assessed the taxable total value of the property to be \$947,000. Pinneo failed to explain why the value he
7 calculated was so much greater than the tax assessed value.

8 22. According to the document entitled "Highlights of the 2338 Franklin Avenue East Model and
9 Expandability," the current value of the building, if converted into condominium units at \$375 to \$400 per
10 square foot, was approximately \$2,069,687 to \$2,215,000. The document further went on that the LLC
11 remained open to the condominium conversion possibility and would consider selling the units as
12 condominiums when they could be sold for \$500 per square foot, which would result in a net conversion
13 value of approximately \$2,796,250. The offering materials failed to provide a reasonable basis for such
14 projections. The offering materials further failed to disclose whether any permits would be required, or
15 how the LLC would obtain financing necessary for such a conversion.

16 23. As of December 2010, no dividends or profits had been paid to any investors.

17 *Yale Avenue Partners, LLC Offering*

18 24. From approximately April 2007 through June 2007, Pinneo raised approximately \$630,000 from
19 approximately 13 investors through the offer and sale of interests in Yale Avenue Partners. Investors
20 typically received several documents prior to investing, including "2311 Yale Avenue East, Seattle, WA
21 Membership Opportunity," "Highlights of the 2311 Yale Avenue East Model and Expandability,"
22 "Average Monthly Income/Expense," a rent roll list, information concerning current financing on the
23 building, insurance information, and LLC agreement. Investors who invested through a self-directed IRA
24 were also required to sign a subscription agreement. The offering materials showed the building to be
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1 operating at a monthly net loss of \$2,424. At least one investor was told that the “rent has nowhere to go
2 but up.”

3 25. The offering materials listed the current value of the building as \$1,720,000. The offering materials
4 further represented that there was \$1,087,000 worth of debt on the property. Pinneo subtracted the loans
5 on the building from the current value to arrive at \$633,000 as the total equity in the building. He retained
6 10% ownership for him and his wife, and made 90% of the equity, or \$569,700, available for sale. An
7 investor could purchase a 5% interest in Yale Avenue Partners for \$35,000. Of that, \$3,350 was to go
8 towards a cash reserve account.

9 26. Pinneo calculated the value of the building by using an expense ratio of 35.85% of the total annual
10 gross scheduled income to arrive at an annual net operating income of \$54,193. He then used a
11 capitalization rate of 3.15% to arrive at a total value of \$1,720,000. The offering materials failed to
12 disclose that for valued year 2007, the King County Department of Assessments assessed the taxable total
13 value of the property to be \$782,000. The offering materials further failed to explain why the value Pinneo
14 calculated was so much greater than the tax assessed value.

15 27. The offering materials represented that the investment plan was to hold the building in its current
16 state and consider redeveloping the site into condominium or townhouse units when the land value
17 reached \$500,000 per unit. The materials further represented that “[u]ntil that time, the anticipated
18 appreciation of land in this area makes this investment a sure winner.”

19 28. The materials represented that all underlying debt on the property was personally signed by Pinneo
20 and his wife, and they alone would continue to be responsible for the LLC’s debts. However, the monthly
21 mortgage payments were made from the LLC’s operating account, and the two promissory notes were
22 secured by deeds of trust against the building owned by Yale Avenue Partners, so a default on the notes
23 could mean that the building could be foreclosed upon.

24 29. The offering materials represented that the cash reserve, which was calculated to be \$67,000 in the
25 beginning, would be good for 27 months. However, a letter from Pinneo to the investors, dated October

1 2008, stated that Yale Avenue Partners' working capital account was getting low and requested a capital
2 contribution of \$500 per 5% of ownership interest to pay for the second half property tax payment. Pinneo
3 indicated in the same letter that "[o]ur investment on Yale is doing great." Pinneo testified that Yale
4 Avenue Partners would not have requested a capital contribution had there been any funds remaining in its
5 cash reserve account. Capital contributions were also requested in December 2008 and March 2009. As of
6 December 2010, Yale Avenue Partners was dependent upon capital contributions to stay current on its
7 expenses.

8 30. On or about April 22, 2011, a Notice of Trustee's Sale was recorded with the King County
9 Recorder's Office, and the building owned by Yale Avenue Partners was subsequently sold at a Trustee's
10 Sale on or about July 29, 2011 for \$756,000.

11 *2344-2345 Franklin Twins, LLC Offering*

12 31. From approximately April 2008 through October 2008, Pinneo offered and sold approximately
13 \$708,000 worth of LLC interests in Franklin Twins to approximately 36 investors. Unlike the other LLCs,
14 Franklin Twins owned two apartment buildings, which were initially owned by Pinneo and another
15 individual. They each quitclaimed their interests in the buildings to Franklin Twins. Each retained 10%
16 ownership in the LLC, and the remaining 80% was made available for sale.

17 32. Investors typically received several documents prior to investing, including "2344-2345 Franklin
18 Twins LLC Membership Opportunity," "Membership Game Plan for Franklin Twins LLC," "Income and
19 Expense for the Franklin Twins," rent roll list, LLC agreement, insurance information, information
20 concerning current financing on the two buildings, and a subscription agreement if they invested through a
21 self-directed IRA. A 1% interest in Franklin Twins cost \$13,880 to purchase. Of that amount, \$1,120 was
22 to be deposited into a reserve account. The offering materials show that the two buildings were operating
23 at a loss of \$500 per month. The materials represented that the reserve account, which was calculated to be
24 over \$113,000 in the beginning, was "intended to carry the negative and any unforeseen expenses until
25 such time as rent raises will result in a positive cash flow on the building."

1 33. The offering materials listed the current value of both buildings as \$3,225,000. Pinneo arrived at
2 the current value by using an annual net operating income of \$117,360 and a capitalization rate of 3.63%.
3 The offering materials failed to disclose that for valued year 2008, the King County Department of
4 Assessments assessed the taxable total value of both buildings as \$1,669,000. The offering materials
5 further failed to explain why the value Pinneo calculated was so much greater than the tax assessed value.

6 34. The offering materials represented that the investment plan for the buildings was a long term hold,
7 but there were several other possibilities for the buildings, such as converting into condominiums,
8 building additional units, or replacing both buildings with high-end condominiums. The materials failed to
9 disclose whether additional funds would be required for such conversions or how the LLC would obtain
10 the funds. The offering materials further indicated that positive cash flow would go towards paying down
11 the principal, and the buildings would become “a life long annuity” once they were free and clear. The
12 offering materials described the model as “fool proof in that the long term financing is in place, and we
13 are in the crossroads of consistent and predictable demand.”

14 35. Investors were requested to make a capital contribution around September or October 2010
15 because there weren't enough funds left in the reserve account to do major capital improvements on the
16 building.

17 Materially Misleading Omissions

18 36. Respondents failed to provide material information to all investors, including but not limited to:
19 complete financial statements, a full representation of company history, and prior performance
20 information and results of operations for the buildings involved.

21 37. Respondents failed to provide any property appraisal information for the real property owned by
22 each of the LLCs.

23 38. Respondents failed to disclose material information concerning the risks involved, including but
24 not limited to: risks arising from changes in the real estate regulatory environment, from possible
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1 environmental liabilities, and from ownership of real property, such as liability for injury to persons and
2 property occurring on the real property.

3 Registration Status

4 39. Gregory Pinneo is not currently registered as a securities salesperson or broker-dealer in the State
5 of Washington and has not previously been so registered.

6 40. East Edgar Partners, LLC is not currently registered to sell its securities in the State of Washington
7 and has not previously been so registered.

8 41. Franklin Avenue Partners, LLC is not currently registered to sell its securities in the State of
9 Washington and has not previously been so registered.

10 42. Yale Avenue Partners, LLC is not currently registered to sell its securities in the State of
11 Washington and has not previously been so registered.

12 43. 2344-2345 Franklin Twins, LLC is not currently registered to sell its securities in the State of
13 Washington and has not previously been so registered.

14 Based upon the Findings of Fact, the following Conclusions of Law are made:

15 **CONCLUSIONS OF LAW**

16 1. The offer or sale of the limited liability company interests described above constitutes the offer or
17 sale of a security as defined in RCW 21.20.005(14) and (17).

18 2. The offer or sale of said securities violated RCW 21.20.140 because no registration for such offer
19 or sale is on file with the Securities Administrator.

20 3. Respondent Gregory Pinneo violated RCW 21.20.040 by offering or selling said securities while
21 not registered as a securities salesperson or broker-dealer in the state of Washington.

22 4. The offer or sale of said securities violated RCW 21.20.010 because Respondents Gregory Pinneo;
23 East Edgar Partners, LLC; Franklin Avenue Partners, LLC; Yale Avenue Partners, LLC; and 2344-2345
24 Franklin Twins, LLC, in connection with the offer or sale of said securities, omitted to state material facts

1 necessary to make the statements made, in light of the circumstances under which they were made, not
2 misleading.

3 **CONSENT ORDER**

4 Based upon the foregoing and finding it in the public interest:

5 IT IS HEREBY AGREED AND ORDERED that Respondents, Gregory Pinneo and Yale Avenue
6 Partners, LLC, shall each cease and desist from any violation of RCW 21.20.010, RCW 21.20.040, and
7 RCW 21.20.140.

8 IT IS FURTHER AGREED AND ORDERED that Respondent, Gregory Pinneo, shall be liable for
9 and shall pay a fine in the amount of \$3,000 prior to the entry of this Consent Order.

10 IT IS FURTHER AGREED AND ORDERED that Respondent, Gregory Pinneo, shall be liable for
11 and shall pay investigative costs of \$3,000 prior to the entry of this Consent Order.

12 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Consent
13 Order

14 IT IS FURTHER AGREED that in consideration of the foregoing, Respondents, Gregory Pinneo
15 and Yale Avenue Partners, LLC, hereby waive their right to a hearing and to judicial review of this
16 matter pursuant to RCW 21.20.440 and Chapter 34.05 RCW.

17 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

18 Signed this 30th day of March, 2013

19 Signed by:

20 /s/ Gregory Pinneo
21 Gregory Pinneo, Individually

1 Signed by:

2 Yale Avenue Partners, LLC

3
4 By:


5 /s/ Gregory Pinneo
6 Gregory Pinneo, Managing Member

7 SIGNED and ENTERED this 4th day of April, 2013

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11 WILLIAM M. BEATTY
12 Securities Administrator

13 Approved by:

14 

15
16 Suzanne E. Sarason
17 Chief of Enforcement

18 Presented by:

19 

20 Janet So
21 Enforcement Attorney

22 Reviewed by:

23 

24 Robert Kondrat
25 Financial Legal Examiner Supervisor