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

IN THE MATTER OF DETERMINING ) Order No.: S-16-1943-17-CO01  
Whether there has been a violation of the )  
Securities Act of Washington by: ) CONSENT ORDER  
)  
Masters United 12 LLC; )  
United Partners – Ballard LLC; )  
United Partners – Bellevue LLC; )  
United Partners – Kent LLC; )  
United Partners – Kirkland LLC; )  
United Partners – Mercer Island LLC; )  
United Partners – Mill Creek LLC; )  
United Partners – Redmond LLC; )  
Kris Eszlinger; )  
Preston Ducati, )  
)  
)  
Respondents. )

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**INTRODUCTION**

Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division of the Department of Financial Institutions (“Securities Division”) and Respondents Masters United 12 LLC; United Partners – Ballard LLC; United Partners – Bellevue LLC; United Partners – Kent LLC; United Partners – Kirkland LLC; United Partners – Mercer Island LLC; United Partners – Mill Creek LLC; United Partners – Redmond LLC; Kris Eszlinger; and Preston Ducati (collectively “Respondents”), do hereby enter into this Consent Order in settlement of the matters alleged herein. Respondents neither admit nor deny the Findings of Fact and Conclusions of Law as stated below.

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**FINDINGS OF FACT**

**Respondents – Securities Act**

1. Masters United 12 LLC (“Masters United 12”) is a Washington limited liability company formed on July 29, 2005, with its principal place of business in the Seattle metropolitan area. As described

1 further below, Masters United 12 is the 50% owner of seven Seattle-area martial arts studios, which operate  
2 under the trade name of Z-Ultimate Self-Defense Studios. Masters United 12 earns money through the  
3 operation of the United Partners entities described below.

4 2. United Partners – Ballard LLC is a Washington limited liability company, originally formed  
5 on January 13, 2010, with its principal place of business in Seattle, Washington. The company operates as a  
6 martial arts studio in the Ballard neighborhood of Seattle.

7 3. United Partners – Bellevue LLC is a Washington limited liability company, originally formed  
8 on September 9, 2005, with its principal place of business in Bellevue, Washington. The company operates  
9 as a martial arts studio in Bellevue.

10 4. United Partners – Kent LLC is a Washington limited liability company, originally formed on  
11 January 24, 2005, with its principal place of business in Kent, Washington. The company operates as a martial  
12 arts studio in Kent.

13 5. United Partners – Kirkland LLC is a Washington limited liability company, originally formed  
14 on January 24, 2005, with its principal place of business in Kirkland, Washington. The company operates as  
15 a martial arts studio in Kirkland.

16 6. United Partners – Mercer Island LLC is a Washington limited liability company, originally  
17 formed on October 9, 2008, with its principal place of business in Mercer Island, Washington. The company  
18 operates as a martial arts studio in Mercer Island.

19 7. United Partners – Mill Creek LLC is a Washington limited liability company, originally  
20 formed on September 9, 2005, with its principal place of business in Mill Creek, Washington. The company  
21 operates as a martial arts studio in Mill Creek.

22 8. United Partners – Redmond LLC is a Washington limited liability company, originally formed  
23 on January 24, 2005, with its principal place of business in Redmond, Washington. The company operates as  
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1 a martial arts studio in Redmond. The seven Washington studios listed above will be collectively referred to  
2 as “the United Partners LLCs.”

3 9. Kris Eszlinger (“Eszlinger”) is a California resident and the sole member and manager of  
4 Masters United 12 LLC.

5 10. Preston Ducati (“Ducati”) is a Washington resident and a martial arts instructor for the seven  
6 Washington-based United Partners LLCs described above. In addition to his individual instructor duties,  
7 Ducati trains other instructors for the various United Partners LLCs, both in teaching martial arts and in the  
8 day-to-day operations of studios. Ducati also discussed investments in Washington-based United Partners  
9 LLCs with potential investors.

10 **Other Entities (Non-Respondents)**

11 11. Z-Ultimate Self-Defense Studios LLC (“Z-Ultimate”) is a California LLC, originally formed  
12 on March 8, 2010, with its principal place of business in Huntington Beach, California. Martial arts studios  
13 under the Z-Ultimate brand operate in six states. Z-Ultimate licenses its trademark and trade name to these  
14 studios, including the seven United Partners LLCs listed above. Z-Ultimate does not have a direct ownership  
15 or contractual relationship with the United Partners LLCs other than the licensing arrangement, although  
16 members of the Z-Ultimate leadership, including Eszlinger, hold ownership interests in various United  
17 Partners entities through the Masters United entities.

18 12. United Studios of Self-Defense, Inc. (“USSD”) is a California corporation, originally  
19 incorporated on October 28, 1988, with its principal place of business in Irvine, California. The seven  
20 Washington-based United Partners LLCs operated under a USSD trademark and trade name license until  
21 September 2010, when Eszlinger and other former members of USSD leadership left USSD and changed  
22 many USSD-branded studios to Z-Ultimate-branded studios.  
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### USSD / Z-Ultimate Background

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2 13. Between 2005 and 2010, Eszlinger and Masters United 12 founded the seven United Partners  
3 LLCs described above, with Masters United 12 holding a 50% ownership interest in each LLC. The United  
4 Partners LLCs operated under the USSD brand name until September 2010.

5 14. No later than April 2010, several members of the USSD management, including Eszlinger,  
6 became dissatisfied with USSD's top leadership, and began planning to change many USSD studios to a  
7 newly created brand, Z-Ultimate, which would not be affiliated with USSD. Masters United 12 sold or  
8 otherwise transferred interests in two of the Washington-based United Partners LLCs (Mercer Island and Mill  
9 Creek) to two Washington investors in July 2010, while the planning for the change was in progress. In  
10 September 2010, Eszlinger and other members of the USSD management notified investors, for the first time,  
11 that they were changing approximately 100 USSD locations and affiliates (including Masters United 12 and  
12 the seven Washington-based United Partners LLCs) to Z-Ultimate studios. Since then, the seven Washington-  
13 based United Partners LLCs have operated under a licensing arrangement with Z-Ultimate, with Eszlinger  
14 continuing to hold a 50% ownership interest in each LLC through Masters United 12.  
15

### Securities Violations

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17 15. From 2005 to 2014, both before and after the United Partners LLCs changed to Z-Ultimate  
18 studios, the Respondents offered and sold investments in the form of membership interests in the seven  
19 Washington-based United Partners LLCs to nineteen investors, twelve of whom resided in Washington. Each  
20 United Partners LLC was 50% owned by Masters United 12 and 50% owned by investors, who would  
21 collectively invest between \$100,000 and \$200,000 for their interest in a United Partners LLC. These LLC  
22 membership interests entitled the investor to a portion of the profit for the LLC, in proportion to the investor's  
23 ownership percentage. Eszlinger was the manager and sole principal of Masters United 12, and Ducati was  
24 primarily responsible for discussions with Washington investors. The investors' money was generally used  
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1 for the opening and initial operating costs of the location. When seeking investors, the Respondents generally  
2 offered the investment to individuals enrolled in the instructor training program, to adult students who took  
3 classes at the studios, or to parents of children taking classes at the studios. While some investors were  
4 instructors with USSD or Z-Ultimate, a substantial majority were passive investors who neither played nor  
5 expected to play any management role in the studios. In offering and selling these interests, the Respondents  
6 provided a generalized disclosure of the risks associated with investing in any business, but in many cases did  
7 not adequately explain the specific risks associated with investments in the United Partners LLCs.

8 16. While offering and selling interests in the United Partners LLCs from 2005 to 2010, in a  
9 document styled as a "USSD Investment Guide," the Respondents gave potential investors profit projections  
10 under two scenarios: a studio with 150 students (called a "Mega 150"), or with 300 students ("Mega 300").  
11 For the "Mega 150" scenario, the Respondents projected an investment return of \$73,710 per year on an  
12 investment of \$100,000. For the "Mega 300" scenario, the Respondents projected an investment return of  
13 \$157,248 per year on an investment of \$100,000. Ducati used these projections in discussions with investors  
14 for at least the first three United Partners LLCs, in Redmond, Kent, and Kirkland. Although the document  
15 contained a disclaimer that investors' results could be different from these projections and that past  
16 performance does not guarantee future performance, the Respondents did not provide at least one potential  
17 investor with a reasonable basis for the projections, particularly information about whether they were  
18 consistent with actual results from existing studios, or how many existing studios had between 150 and 300  
19 students. In some cases, the Respondents provided potential investors with actual financial statements for the  
20 United Partners LLCs, but in some cases they did not.

22 17. At least two Washington investors obtained their LLC interests in or around July 2010, while  
23 Eszlinger and others were planning their disassociation from USSD and changes of the seven Washington  
24 studios, among others, to Z-Ultimate studios. Eszlinger, Masters United 12, and the United Partners LLCs did  
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1 not inform either prospective or existing United Partners LLC investors of the planned change or the risks,  
2 such as litigation and associated costs, which could result from changing studios from USSD to Z-Ultimate.  
3 Since the Z-Ultimate leadership's departure from USSD, USSD and Z-Ultimate, along with the leadership of  
4 both companies, have been involved in litigation in California, involving claims and counterclaims for breach  
5 of contract, trade secrets, civil conspiracy, and breach of fiduciary duty. The litigation has proceeded on two  
6 parallel tracks, with a jury trial on tort claims and a related arbitration involving breach-of-contract claims  
7 against the USSD defendants. In October 2012, an arbitrator ruled in favor of Eszlinger and other USSD  
8 principals on their breach-of-contract claims. The parties also went to a jury trial on the tort claims in 2012,  
9 in which the jury initially found for USSD and its leadership on several claims. The jury verdict was later  
10 overturned by the trial judge; the judge's verdict is currently on appeal. Investors in various United Partners  
11 LLCs, including the two Washington residents mentioned above who acquired their interests in July 2010,  
12 also sued Z-Ultimate's principals for breach of contract for changing the studios from USSD to Z-Ultimate.  
13 United Partners – Mercer Island LLC and United Partners – Mill Creek LLC settled with the Washington  
14 investors in May 2015.

15  
16 18. The Respondents also did not disclose to investors certain specific risks associated with  
17 investing in the United Partners LLCs. For instance, the United Partners LLCs classify instructors as  
18 independent contractors, rather than as employees. In January 2014, several instructors filed a class action  
19 lawsuit in Colorado against Z-Ultimate and many of the United Partners LLCs, arguing that the companies  
20 had misclassified them and that they were actually employees under federal law. The lawsuit was settled in  
21 July 2017. The Respondents did not disclose to investors the risks associated with classifying instructors as  
22 independent contractors, and the potential impact on the business and finances of the United Partners LLCs if  
23 they were required to classify instructors as employees.

#### 24 Registration Status

1 19. Masters United 12 LLC, the United Partners LLCs, Eszlinger, and Ducati are not, and have  
2 never been, registered to sell securities in the state of Washington, and have never filed a claim of exemption  
3 from registration.

4 20. Masters United 12 LLC, Eszlinger, and Ducati are not, and have never been, registered as  
5 securities salespersons or broker-dealers in the State of Washington.

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

7 **CONCLUSIONS OF LAW**

8 1. Respondents Masters United 12 LLC; United Partners – Ballard LLC; United Partners –  
9 Bellevue LLC; United Partners – Kent LLC; United Partners – Kirkland LLC; United Partners – Mercer Island  
10 LLC; United Partners – Mill Creek LLC; United Partners – Redmond LLC; Kris Eszlinger; and Preston  
11 Ducati’s offer and sale of the United Partners LLC membership interests described above constitute the offer  
12 and sale of a security as defined in RCW 21.20.005(14) and (17).

13 2. Respondents Masters United 12 LLC; United Partners – Ballard LLC; United Partners –  
14 Bellevue LLC; United Partners – Kent LLC; United Partners – Kirkland LLC; United Partners – Mercer Island  
15 LLC; United Partners – Mill Creek LLC; United Partners – Redmond LLC; Kris Eszlinger; and Preston Ducati  
16 violated RCW 21.20.140 because Respondents offered and/or sold securities for which no registration is on  
17 file with the Securities Administrator.

18 3. Respondents Kris Eszlinger and Preston Ducati have each violated RCW 21.20.040 by offering  
19 and/or selling said securities while unregistered as securities salespersons or broker-dealers in the state of  
20 Washington.

21 4. Respondent Masters United 12 LLC has violated RCW 21.20.040 by offering and/or selling  
22 said securities while unregistered as a broker-dealer in the state of Washington.  
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1 IT IS FURTHER AGREED AND ORDERED that Respondents Masters United 12 LLC; United  
2 Partners – Ballard LLC; United Partners – Bellevue LLC; United Partners – Kent LLC; United Partners –  
3 Kirkland LLC; United Partners – Mercer Island LLC; United Partners – Mill Creek LLC; United Partners –  
4 Redmond LLC; Kris Eszlinger; and Preston Ducati shall be jointly and severally liable for and shall pay a fine  
5 of \$2,500 on or before the entry of this Consent Order.

6 IT IS FURTHER AGREED AND ORDERED that Respondents Masters United 12 LLC; United  
7 Partners – Ballard LLC; United Partners – Bellevue LLC; United Partners – Kent LLC; United Partners –  
8 Kirkland LLC; United Partners – Mercer Island LLC; United Partners – Mill Creek LLC; United Partners –  
9 Redmond LLC; Kris Eszlinger, and Preston Ducati shall be jointly and severally liable for and shall pay  
10 investigative costs of \$2,500 on or before entry of this Consent Order.

11 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Consent Order.

12 IT IS FURTHER AGREED that Respondents Masters United 12 LLC; United Partners – Ballard LLC;  
13 United Partners – Bellevue LLC; United Partners – Kent LLC; United Partners – Kirkland LLC; United  
14 Partners – Mercer Island LLC; United Partners – Mill Creek LLC; United Partners – Redmond LLC; Kris  
15 Eszlinger, and Preston Ducati enter into this Consent Order freely and voluntarily and with a full  
16 understanding of its terms and significance.

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18 IT IS FURTHER AGREED that this Consent Order does not constitute, and is not intended to be used  
19 as, an admission of or evidence of any fault, omission or liability of any Respondents in any civil, criminal,  
20 arbitration, or administrative proceeding, except as follows: the Securities Division may rely on the terms of  
21 this Consent Order in any proceeding to enforce the terms of this Consent Order.

22 IT IS FURTHER AGREED that this Consent Order is not intended to create any private right or  
23 remedy against any Respondents in favor of any person or entity, or limit any defense that any Respondent  
24 may have against any claim or action involving any actual or alleged public or private right or remedy.  
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1 IT IS FURTHER AGREED that this Consent Order does not restrict, bar, or prevent Respondents  
2 from conducting business in Washington State, opening new studios, or offering future investment  
3 opportunities, provided Respondents do so in compliance with Washington law.

4 IT IS FURTHER AGREED that in consideration of the foregoing, Respondents Masters United 12  
5 LLC; United Partners – Ballard LLC; United Partners – Bellevue LLC; United Partners – Kent LLC; United  
6 Partners – Kirkland LLC; United Partners – Mercer Island LLC; United Partners – Mill Creek LLC; United  
7 Partners – Redmond LLC; Kris Eszlinger, and Preston Ducati waive their right to a hearing and to judicial  
8 review of this matter pursuant to RCW 21.20.440 and Chapter 34.05 RCW.

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

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11 Signed this 20th day of December, 2017.

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14 Signed by:

15 Masters United 12 LLC

16  
17 /s  
Kris Eszlinger  
18 Manager

19 United Partners – Ballard LLC

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21 /s  
Kris Eszlinger, Masters United 12 LLC  
22 Manager

23 United Partners – Bellevue LLC

24  
25 /s



1 Signed by:

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3 /s  
Preston Ducati, Individually

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6 Approved as to form by:

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8 /s  
Christopher Emch, WSBA #26457  
9 Attorney for Respondents Masters United 12  
LLC, Kris Eszlinger, and Preston Ducati

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SIGNED and ENTERED this 18th day of January, 2018.

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*William M. Beatty*

William M. Beatty  
Securities Administrator

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18 Approved by:

Presented by:

19

*Suzanne Sarason*

*Adam N. Yeaton*

20

Suzanne Sarason  
Chief of Enforcement

Adam N. Yeaton  
Financial Legal Examiner

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22 Reviewed by:

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*Jack McClellan*

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Jack McClellan  
Financial Legal Examiner Supervisor

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CONSENT ORDER