# 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:

Order No. S-21-3094-22-CO01

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CONSENT ORDER

2014 Yale Partners, LLC, Edson Fessenden Gallaudet III,

Respondents

### INTRODUCTION

Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division and Respondents 2014 Yale Partners, LLC and Edson Fessenden Gallaudet III do hereby enter into this Consent Order in settlement of the matters alleged herein. Respondents 2014 Yale Partners, LLC and Edson Fessenden Gallaudet III neither admit nor deny the Findings of Fact and Conclusions of Law as stated below.

## FINDINGS OF FACT

### **Respondents and Related Entity**

- 2014 Yale Partners, LLC ("Yale Partners") is a Washington entity formed on June 13, 2017 1. with its principal place of business in Seattle, Washington. Yale Partners was formed to purchase land located at 2014 Yale Avenue in Seattle and to build six townhouses for resale at a profit.
- 2. Build Urban LLC ("Build Urban") was a Washington entity formed on August 7, 2009 and administratively dissolved on June 3, 2021. Build Urban was a real property developer and the managing member of Yale Partners. In July 2020, several of Build Urban's real property development projects, including the Yale Partners project, were placed in receivership. Consequently, although Build Urban participated in the offer and sale of the Yale Partners LLC membership offering, Build Urban is not being named as a Respondent in this Consent Order.

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3. Edson Fessenden Gallaudet III ("Gallaudet") resides in Seattle, Washington. Gallaudet was the managing member of Build Urban.

# **Background Information**

4. A Colorado investor and Gallaudet were friends from college, where they both attended the University of Colorado. In 2013, they met to discuss real property investments. The investor financed two separate real property development loans to Build Urban and Gallaudet that were successfully repaid with returns of approximately 20% each.

# Yale Partners LLC Membership Offering

- 5. In June 2017, Gallaudet asked the investor if he would like to buy a 33% membership interest in Yale Partners. Gallaudet explained that Yale Partners was planning to build six townhouses in Seattle. Gallaudet said that for an \$820,000 investment, the investor would receive a 1/3 share of the profits from the sale of the townhouses. Gallaudet represented that the project would take two years to complete.
- 6. Gallaudet and Yale Partners provided the investor with an LLC operating agreement, a subscription agreement, and a pro forma financial statement for the Yale Partners project. The pro forma financial statement indicated that the land would have an acquisition cost of \$2.2 million. The total project costs were estimated at \$4,372,323. The estimated net sales price was \$5,385,450. The investor's 1/3 share of the projected net profits was estimated at approximately \$330,000, for an estimated annual return of approximately 20%.
- 7. In July 2017, the Colorado investor wire transferred \$820,000 to the Build Urban bank account (a Washington bank account) to invest in Yale Partners. The money was to be used for the purchase of the Seattle land and for construction costs for the Yale Partners townhouse development project. Instead, within 90 days after investing, the investor's funds were gone. Without the investor's knowledge or consent, Build

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Urban used the \$820,000 investment to pay for Build Urban's business expenses, including payments to other Build Urban real property development projects.

- 8. The land for the Yale Partners project was not even purchased until more than a year later. In August 2018, the land was purchased for \$2.2 million using commercial financing that was secured by a first position deed of trust for \$3,835,000. (Presumably, the lender advanced the additional \$1,635,000 to pay for building construction costs.) The land was also subject to a second position deed of trust for \$500,000 from the land seller.
- 9. Eventually, the Yale Partners project was completed and the townhouses were sold by the receiver. Although the Yale Partners project was sold for close to the projected sales price and the acquisition and construction costs were close to the projected costs, the investor lost all of their investment.

#### **Omissions of Material Fact**

10. When offering and selling the Yale Partners membership interest, Gallaudet and Yale Partners failed to disclose to the investor that Gallaudet had experienced a prior business failure as a building contractor, which resulted in Gallaudet filing for personal bankruptcy in September 2011. (Gallaudet would file for bankruptcy a second time in June 2021.) Gallaudet and Yale Partners failed to disclose that Gallaudet was commingling funds for different Build Urban building projects in a single bank account and was not separately accounting for those funds. Gallaudet and Yale Partners also failed to disclose that Build Urban had a serious cash flow problem.

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

### **CONCLUSIONS OF LAW**

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

2. Yale Partners and Gallaudet violated RCW 21.20.010, the anti-fraud section of the Securities Act of Washington, by making untrue statements of material fact or omitting to state material facts necessary to make the statements made, in light of the circumstances in which they were made, not misleading. Yale Partners and Gallaudet also violated RCW 21.20.010 by engaging in an act, practice, or course of business that operated as a fraud or deceit.

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

### **CONSENT ORDER**

IT IS AGREED AND ORDERED that Respondents Yale Partners, LLC and Edson Fessenden Gallaudet III, and their agents and employees, shall each cease and desist from violating RCW 21.20.010, the anti-fraud section of the Securities Act of Washington.

IT IS AGREED AND ORDERED that Respondent Edson Fessenden Gallaudet III shall be liable for and shall pay a fine in the amount of \$5,000. An initial payment of \$1,000 shall be due prior to the entry of the Consent Order. The remaining balance of \$4,000 shall be paid in installments of \$1,000 per month. Each installment shall be due by the 15th day of each successive month.

IT IS AGREED that Respondents Yale Partners, LLC and Edson Fessenden Gallaudet III each enters into this Consent Order freely and voluntarily and with a full understanding of its terms and significance.

IT IS AGREED that the Securities Division has jurisdiction to enter this order.

IT IS AGREED that in consideration of the foregoing, the Respondents each waive their right to a hearing and to judicial review of this matter pursuant to Chapter 34.05 RCW.

### WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

Signed this20	th day of	EJanuary	y, 2022
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1	Signed by:
2	Yale Partners, LLC
3	_/s/ Edson Fessenden Gallaudet III
4	Manager Manager
<ul><li>5</li><li>6</li></ul>	Signed by:
7 8 9	_/s/ Edson Fessenden Gallaudet III Individually
10	Approved as to form by:
11 12 13	
14 15	SIGNED and ENTERED this 4th day of February, 2022
16 17	Millian
18	William M. Beatty Securities Administrator
19	Approved by:  Presented by:
20	A. 1 1 Sent D
21	Brian J. Guerard  Janet So
22	Chief of Enforcement Financial Legal Examiner
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