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

IN THE MATTER OF DETERMINING) Order No.: S-15-1669-16-CO01
Whether there has been a violation of the)
Securities Act of Washington by:) CONSENT ORDER
Mark Adolf;) AS TO MARK ADOLF; ANITA ADOLF; SISTERS
Anita Adolf;) LODGE HOLDINGS LLC; PINNACLE ALLIANCE
Sisters Lodge Holdings LLC, f/k/a Lodge at) GROUP LLC;
McKenzie Meadow Village LLC;)
Pinnacle Alliance Group LLC;)
Respondents.)

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INTRODUCTION

12 Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division of the Department
13 of Financial Institutions (“Securities Division”) and Respondents Mark Adolf, Anita Adolf, Sisters Lodge
14 Holdings LLC f/k/a Lodge at McKenzie Meadow Village LLC; and Pinnacle Alliance Group LLC, do
15 hereby enter into this Consent Order in settlement of the matters alleged herein. Respondents Mark Adolf,
16 Anita Adolf, Sisters Lodge Holdings LLC f/k/a Lodge at McKenzie Meadow Village LLC; and Pinnacle
17 Alliance Group LLC, neither admit nor deny the Findings of Fact and Conclusions of Law as stated below.

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FINDINGS OF FACT

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Respondents

1. Sisters Lodge Holdings LLC, f/k/a Lodge at McKenzie Meadow Village LLC (“the Lodge”),
is an Oregon limited liability company formed on December 8, 2010, with its principal place of business in
Sisters, Oregon. The Lodge was formed for the purpose of constructing a senior housing facility to be
located in Sisters.

1 senior housing facility located in the central Oregon town of Sisters, financed with \$8.7 million in debt in
2 addition to the \$2 million raised from investors. The Respondents told investors that their money would be
3 used for various costs associated with the project, but generally did not tell investors that much of the
4 money would be spent immediately, rather than being kept in escrow until they secured lending for the
5 project. Despite conversations with potential lenders over approximately the last six years, Respondents
6 have been unable to obtain debt financing for the project. Construction on the Lodge project has not begun.
7 As a result of the Lodge's failure to secure debt financing and loss of the original site, another company has
8 now begun a competing senior housing project in Sisters, to be located on the site originally proposed for
9 the Lodge.

10 8. The Adolfs raised money for the Lodge by selling "Class A" LLC shares in the company.
11 Generally, they sold Class A shares for \$40,000 each, although they sold half-shares for \$20,000 to some
12 investors. Some investors also bought multiple \$40,000 shares. Combined, the investors purchased a total of
13 50 Class A shares for \$2 million. The Adolfs, through Pinnacle Holdings, also received 50 "Class B" shares
14 which allowed them to receive half of the Lodge's operating profits, although these shares did not have
15 some of the voting rights associated with the Class A shares.
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17 9. Initially, the Adolfs approached family friends and business associates in person, over the
18 phone, or through email, to raise the money for the Lodge. They also asked several investors to locate other
19 potential investors. Several of these referrals later invested in the Lodge.

20 10. In discussions with potential investors, the Respondents generally provided three documents:
21 a six-page executive summary, an operating agreement, and a share subscription agreement. In the executive
22 summary, the Respondents provided only a generalized disclosure of the risks associated with investing in
23 any business, and failed to adequately explain the specific risks associated with the Lodge, particularly (1)
24 the risks associated with an inability to secure loan financing for the Lodge; (2) the fact that the Lodge did
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1 not actually own the site on which it proposed to build its facility; and (3) certain fees which the Adolfs
2 would take from the project. The Respondents also included financial projections in the executive summary
3 such as a 300% return on investment for investors, but failed to provide a reasonable basis for the
4 projections.

5 11. Over approximately the last five years, Mark Adolf has lulled investors by sending numerous
6 emails claiming that lenders were interested in the Lodge and that the project was on track. In the emails,
7 Mark Adolf blamed various causes for his inability to secure financing, such as the Dodd-Frank Act, bank
8 mergers, and lenders pulling back from rural areas. During this time, he failed to inform investors about
9 significant ongoing problems with the Lodge. For instance, he failed to inform investors in August 2013 that
10 the purchase and sale agreement for the proposed site for the Lodge had expired. He also failed to inform
11 investors that a competing facility was being planned at the site formerly planned for the Lodge, or that
12 Pinnacle was suing the company involved with the new facility for allegedly stealing his designs for the
13 Lodge.

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15 Specific Failures to Disclose

16 12. The Respondents failed to adequately disclose certain fees which they would receive from
17 the investors regardless of the success of the Lodge. The executive summary provided to investors included
18 an estimated \$10.7 million in total construction costs and stated that “a Development Fee for owner and
19 investor representation and oversight of design, development, and construction” would be included in the
20 costs, but did not disclose the \$350,000 in fees which would go to the Adolfs, through Pinnacle,
21 immediately after they had finished raising money from investors.

22 13. Additionally, the operating agreement provided for a “project management fee” equal to
23 2.25% of the total development budget, with the fee totaling \$194,996. Of this amount, 25% (or \$48,749)
24 was to be paid “at the closing of the construction financing of the property,” with the remainder to be paid
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1 “as development proceeds in proportion to the work completed.” Through Pinnacle, Mark Adolf paid
2 \$48,749 to himself and Anita Adolf for the first 25% fee immediately after the Lodge had finished raising
3 money from investors, even though the Lodge had not closed construction financing on the property yet.
4 Mark Adolf misrepresented to investors the circumstances under which he would withdraw this fee by
5 claiming that he would take the fee “at the close of construction financing,” but taking it when construction
6 financing had not yet closed.

7 14. In the offering documents, the Respondents failed to disclose that they had not secured the
8 necessary \$8.7 million loan for the Lodge, and failed to disclose the risk that they would not be able to do
9 so. When the Respondents began raising money from investors in July 2011, at least five lenders (Wells
10 Fargo, U.S. Bank, Bank of the Cascades, Washington Federal, and Old West Federal Credit Union) had
11 already indicated that they were unlikely to provide debt financing for the Lodge. Additionally, in the
12 executive summary, the Respondents claimed that the Lodge had “secured a commitment . . . for a 70% loan
13 guarantee by the Federal USDA,” but failed to disclose that this did not mean that the company had a legally
14 binding commitment for a loan. The Respondents failed to disclose to investors that several lenders had
15 already rejected the project, and that although they were in talks with additional lenders, they did not yet
16 have a legally binding commitment from any lender. The Respondents also failed to disclose that much of
17 the investors’ money would be used immediately after the close of financing to compensate various parties
18 (including the Adolfs themselves), and that as a result, they would likely be unable to return investors’
19 money if the project fell through.
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21 15. The Respondents also failed to disclose several issues with the proposed land site for the
22 Lodge to investors. Originally, the Respondents planned to build the Lodge on a five-acre property located
23 just outside the Sisters area. However, none of the Respondents actually owned the planned site. Rather,
24 they had an unexecuted purchase-and-sale agreement with three families who owned the land, contingent on
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1 securing loan financing for the Lodge. The families had agreed to give the Lodge an 80% discount on the
2 price at which they had previously marketed the land. While the Adolfs were raising money for investors,
3 the agreement was set to expire on October 31, 2011. The families agreed several times to extend the
4 agreement, but in approximately August 2013, after the Respondents' continued failure to secure debt
5 financing for the Lodge, the purchase and sale agreement expired and the families refused to agree to
6 another extension. The Respondents were unable to secure a new site for the Lodge until late 2015. The
7 Respondents failed to disclose to investors that the Lodge did not actually own the land, that the purchase
8 and sale agreement would expire in late 2011, and that the landowners were not legally obligated to agree to
9 an extension of the purchase and sale agreement. The Respondents also failed to disclose the risks
10 associated with the fact that the Lodge did not own the land, such as the potential loss of the offered 80%
11 discount, the increased costs associated with finding a new site, or the potential need to redesign the plans
12 for the Lodge. As a result of the Respondents' failure to secure debt financing and loss of the original site,
13 another company, Ageia Health Services, has now begun a competing senior housing project in Sisters, to
14 be located on the site originally proposed for the Lodge.
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16 16. During discussions about whether to invest in the Lodge, some investors had questions about
17 the viability of investing in a small rural market. To demonstrate the viability of the Sisters market, the
18 Respondents provided some investors with a market feasibility study conducted by a former business
19 associate of Mark Adolf's. However, during Mark Adolf's discussions with potential lenders, both a private
20 lender and a government agency expressed concerns about the feasibility study. For instance, the private
21 lender was concerned that the study made overly generous assumptions about the geographic market for the
22 facility and whether the facility would be affordable for residents. The government agency expressed
23 concerns that the study did not meet its agency guidelines for such studies. The Respondents continued to
24 provide the investors with the study, without disclosing the potential issues raised by the private lender and
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1 the government agency. In providing the study to investors, the Respondents also failed to disclose any
2 information about the person or company which had performed the study, such as the fact that the company
3 performing the study was newly created and had little to no track record with such studies.

4 17. For investors who invested through an IRA or 401(k) (approximately half of the total
5 number), Pinnacle contracted with Jewett to assist the investors with the process. Jewett received 5% of the
6 money which those investors invested in the Lodge (for instance, \$2,000 for an investor who had bought
7 one \$40,000 share). The Respondents failed to disclose Jewett's 5% fee to investors.

8 "General Partners"

9 18. Although the Respondents claimed that investors were "general partners" in the Lodge, most
10 investors neither played nor expected to play any genuine role in the company's operations. The operating
11 agreement for the Lodge expressly states that the company is not intended to be a partnership or joint
12 venture for any purpose other than federal income taxes. The operating agreement also names Pinnacle (and
13 therefore Mark Adolf) as the manager, and gives the manager sole authority over essentially all matters
14 relating to the Lodge's everyday operations. Of the thirty-three investors, only one had any business
15 experience relating to senior housing facilities.
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17 19. The operating agreement also made it functionally impossible for the investors to remove
18 Pinnacle and Mark Adolf as the manager of the project. First, the agreement requires a vote of at least 90%
19 of the investors to remove the manager. Second, even if the investors met the 90% removal threshold, they
20 could only remove Pinnacle and Mark Adolf "for cause." The agreement severely limits the definition of
21 "cause," essentially including only felony fraud, embezzlement, or theft; a material breach of the operating
22 agreement; or a bankruptcy by the Lodge. Thus, even if the investors unanimously agreed that Pinnacle and
23 Mark Adolf were poorly managing the Lodge and wanted to remove them, they could not do so without first
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1 demonstrating “cause.” As a result of the operating agreement’s distribution of power and their functional
2 inability to remove Pinnacle as manager, the investors depended on Mark Adolf for the Lodge’s success.

3 Failure to Comply with Regulation D, Rule 506

4 20. The Lodge claimed an exemption from registration for its offering under Regulation D, Rule
5 506 and WAC 460-44A-506. At the time of the Lodge’s offering, Regulation D, Rule 506 prohibited an
6 issuer or any person acting on behalf of an issuer from offering or selling securities by any form of general
7 solicitation.

8 21. The Adolfs and Pinnacle solicited investments in the Lodge through referrals from other
9 investors. The Adolfs and Pinnacle did not have a preexisting relationship with approximately six Lodge
10 investors before these referrals. The Adolfs’ and Pinnacle’s solicitation of these six investors, without
11 having a preexisting relationship sufficient to ascertain the investors’ financial status, constituted general
12 solicitation.

13 22. At the time of the Lodge’s offering, in order to be accredited, an investor was required to
14 make at least \$200,000 per year (\$300,000 combined with their spouse), or have a net worth of over
15 \$1,000,000. The Adolfs did not ask investors about their income or net worth before they invested. During
16 testimony before the Securities Division, however, Mark Adolf estimated that approximately twenty of the
17 thirty-three investors in the Lodge did not meet the income or net worth thresholds for accreditation.

18 23. In addition to the bar on general solicitation, Regulation D, Rule 502(b) requires an issuer to
19 provide unaccredited investors with specific information relating to the business in order to qualify for an
20 exemption. The issuer must provide unaccredited investors with financial information (such as an audited
21 balance sheet, an income statement, and a cash flow statement), and an offering circular with non-financial
22 information (such as the risk factors of the business, the use of any proceeds to the issuer, and a description
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1 of the material physical properties held by the issuer). The Adolfs and Pinnacle failed to provide the
2 unaccredited investors with the information required by Rule 502(b).

3 Registration Status

4 24. The Lodge is not currently registered to sell its securities in the state of Washington and has
5 not previously been so registered.

6 25. Mark Adolf, Anita Adolf, and Pinnacle are not currently registered securities salespersons or
7 broker-dealers in the state of Washington, and have not previously been so registered.

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

10 **CONCLUSIONS OF LAW**

11 1. The offer and/or sale of the Lodge shares, as described above, constitutes the offer and/or
12 sale of a security as defined in RCW 21.20.005(14) and (17).

13 2. Respondents Mark Adolf, Anita Adolf, Pinnacle Alliance Group LLC, and Sisters Lodge
14 Holdings LLC f/k/a Lodge at McKenzie Meadow Village LLC have each violated RCW 21.20.140,
15 because, as set forth in the Findings of Fact, Respondents offered and/or sold securities for which no
16 registration is on file with the Securities Administrator, and for which no valid claim of exemption exists.

17 3. Respondents Mark Adolf, Anita Adolf, and Pinnacle Alliance Group LLC have each violated
18 RCW 21.20.040 by offering and/or selling said securities while not being registered as a securities
19 salesperson or broker-dealer in the state of Washington.

20 4. Respondents Mark Adolf, Anita Adolf, Pinnacle Alliance Group LLC, and Sisters Lodge
21 Holdings LLC f/k/a Lodge at McKenzie Meadow Village LLC have each violated RCW 21.20.010,
22 because, as set forth in the Findings of Fact, Respondents made untrue statements of material fact or omitted
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1 to state material facts necessary to make the statements made, in light of the circumstances in which they
2 were made, not misleading.

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

4 **CONSENT ORDER**

5 IT IS AGREED AND ORDERED that Respondents Mark Adolf, Anita Adolf, Pinnacle Alliance
6 Group LLC, and Sisters Lodge Holdings LLC f/k/a Lodge at McKenzie Meadow Village LLC, and their
7 agents and employees, each shall cease and desist from violating RCW 21.20.140, the securities registration
8 section of the Securities Act of Washington.

9 IT IS FURTHER AGREED AND ORDERED that Respondents Mark Adolf, Anita Adolf, and
10 Pinnacle Alliance Group LLC, and their agents and employees, each shall cease and desist from violating
11 RCW 21.20.040, the securities salesperson and broker-dealer registration section of the Securities Act of
12 Washington.

13 IT IS FURTHER AGREED AND ORDERED that Respondents Mark Adolf, Anita Adolf, Pinnacle
14 Alliance Group LLC, and Sisters Lodge Holdings LLC f/k/a Lodge at McKenzie Meadow Village LLC, and
15 their agents and employees, each shall cease and desist from violating RCW 21.20.010, the anti-fraud
16 section of the Securities Act of Washington.

17 IT IS FURTHER AGREED AND ORDERED that Respondents Mark Adolf and Anita Adolf shall
18 be jointly and severally liable for and shall pay a fine of \$10,000 on or before the entry of this Consent
19 Order.

20 IT IS FURTHER AGREED AND ORDERED that Respondents Mark Adolf and Anita Adolf shall
21 be liable for and shall pay investigative costs of \$5,000 on or before entry of this Consent Order.

22 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Consent Order.
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IT IS FURTHER AGREED that Respondents Mark Adolf, Anita Adolf, Pinnacle Alliance Group LLC, and Sisters Lodge Holdings LLC f/k/a Lodge at McKenzie Meadow Village LLC enter into this Consent Order freely and voluntarily and with a full understanding of its terms and significance.

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

IT IS FURTHER AGREED that this Consent Order is not intended to create any private right or remedy against any Respondent in favor of any person or entity, or limit any defense that any Respondent may have against any claim or action involving any actual or alleged public or private right or remedy.

IT IS FURTHER AGREED that in consideration of the foregoing, Respondents Mark Adolf, Anita Adolf, Pinnacle Alliance Group LLC, and Sisters Lodge Holdings LLC f/k/a Lodge at McKenzie Meadow Village LLC waive their right to a hearing and to judicial review of this matter pursuant to RCW 21.20.440 and Chapter 34.05 RCW.

WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

Signed this __6th____ day of _January_____, 2017

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Signed by:

Sisters Lodge Holdings LLC, f/k/a Lodge at McKenzie Meadow Village LLC

_____/s_____

Mark Adolf
Manager

Pinnacle Alliance Group LLC

_____/s_____

Mark Adolf
President

Signed by:

_____/s_____

Mark Adolf, Individually

Signed by:

_____/s_____

Anita Adolf, Individually

Approved as to form by:

_____/s_____

Kevin Sali, Attorney for Respondents
WSBA #43900

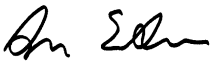
1 SIGNED and ENTERED this 11th day of January, 2017.

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6 _____
William M. Beatty
Securities Administrator

7 Approved by:

Presented by:

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10 _____
Suzanne Sarason
Chief of Enforcement

11 _____
Adam N. Yeaton
Financial Legal Examiner

12 Reviewed by:

13 

14 _____
Jack McClellan
Financial Legal Examiner Supervisor