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:

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IRA Wealth, Inc. and Patrick Warren Rice,

Respondents

Order Number S-15-1634-15-SC01

STATEMENT OF CHARGES AND NOTICE OF INTENT TO ENTER AN ORDER TO CEASE AND DESIST, REVOKE EXEMPTIONS, IMPOSE A FINE, AND CHARGE COSTS

THE STATE OF WASHINGTON TO:

IRA Wealth, Inc.
Patrick Warren Rice

INTRODUCTION

Please take notice that the Securities Administrator of the state of Washington has reason to believe that Respondents, IRA Wealth, Inc. and Patrick Warren Rice, have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.325 to revoke exemptions, under RCW 21.20.390 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:

TENTATIVE FINDINGS OF FACT

Respondents

IRA Wealth, Inc. is an inactive Washington corporation that was incorporated on September
 24, 2004. From at least 2004 through 2007, IRA Wealth, Inc. was the managing member of ID 02 LLC.

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Securities Division
P.O. Box 9033
Olympia, WA 98507-9033
360-902-8760

2. Patrick Warren Rice ("Rice") is a Washington resident. From at least 2004 through 2007, Rice was the sole officer and director of IRA Wealth, Inc. During that time, Rice held himself out to prospective investors as an expert on IRA real estate investments.

Related Company

3. ID 02 LLC ("ID 02") is a Washington limited liability company that was formed on December 22, 2006. Initially, the company's primary business purpose was to purchase a 50% undivided tenant-in-common ownership interest in 38 lots that were located in a residential subdivision, Tammany View Subdivision Phase 3 ("Tammany View"), near Lewiston, Idaho. Over time, the company planned to exchange all or some of its interests in Tammany View for other real properties that would be acquired through a series of 1031 exchange transactions. At the end of five years, the company planned to liquidate its real properties and distribute the proceeds to its members.

Prior Enforcement Order

4. On April 6, 2005, the Securities Division entered into a Consent Order with Rice and one of his previous businesses, IRA Resource Associates Inc., to cease and desist from violations of the registration and the anti-fraud provisions of the Securities Act of Washington. In about 2001, Rice offered and sold individual retirement account investments in Washington real estate development projects to at least 35 clients, who invested over \$2.8 million.

Offering of ID 02 Limited Liability Company Membership Interests

5. During 2007, Rice and IRA Wealth, Inc. offered and sold \$2,150,000 worth of limited liability company membership interests in ID 02 to approximately 35 investors, including several Washington residents. Many of the investors were introduced to Rice through retirement planning seminars, where Rice gave presentations about using IRA funds to purchase real estate investments. When soliciting the investments, Rice gave prospective investors a confidential offering memorandum that described the ID

02 investment. Rice also contacted prospective investors through e-mail communications about the investment.

- 6. The ID 02 membership interests were sold for \$43,000 each and were purchased with individual retirement account funds. The investor funds were pooled together and were used to purchase a one-half interest in the Tammany View property and to pay operating costs. During 2007, the investors did not participate in the management of ID 02. At that time, the Respondents had exclusive management and control over the company's day-to-day operations. IRA Wealth, Inc. or its affiliates were to receive organizational fees of \$100,000 "for its services in connection with locating and securing the investment opportunity in the Subdivision and the formation and initial organization of the Company..."
- 7. When offering and selling ID 02 limited liability company membership interests, the Respondents represented that when paying distributions, the investors would first receive their initial capital contributions, plus a "priority return" of 12% per annum on the amount of their initial capital contributions. Thereafter, the investors would receive 40% of the total returns, and IRA Wealth, Inc., as the manager of the LLC, would receive 60% of the total returns.

Misrepresentations and Omissions

- 8. When offering and selling the ID 02 limited liability company membership interests, Respondents misrepresented to investors that \$500,000 of the \$2,000,000 property purchase price for the Tammany View subdivision would be set aside in a holdback account until road surfacing and the installation of a community water system was completed. Instead, ID 02 transferred the \$500,000 immediately at the closing of the property purchase to the other 50% property owner. The road surfacing and the community water system were never completed.
- 9. On May 15, 2007, Rice directed his assistant to send an e-mail message to prospective investors. In the message, Rice represented to investors that instead of having 38 lots, the Tammany View

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property would have about 70 lots. Rice also represented in the e-mail that the current appraised value of the lots would increase from \$4,978,000 to close to \$7,000,000. The Respondents failed to disclose to investors that the cost for developing the additional lots was estimated to be a minimum of \$720,000. The Respondents failed to disclose to investors that the company was not raising any additional funds to cover the additional development costs, so the development project was inadequately capitalized. The Respondents also failed to disclose the risk to investors that the additional lots might not be approved and that the development process might not be completed.

- When offering and selling ID 02 limited liability company membership interests, the Respondents represented to investors that the appraised value of the Tammany View property was \$4,993,300 (per the property appraisal report), subject to completion of road surfacing and the installation of an underground community water service. The appraised value was based on the subdivision's "prospective bulk sales value." The Respondents failed to disclose to investors the "as is" property value, rather than the "as completed" value of the property.
- When offering and selling ID 02 limited liability company membership interests, Respondents failed to disclose to investors risks associated with tenant-in-common real property ownership. Respondents failed to disclose to investors that the sale or refinance of any real properties held by ID 02 as a tenant-in-common investment would require the unanimous consent of the tenant-incommon property owners, including the other 50% owner of the Tammany View property.
- When offering and selling ID 02 limited liability company membership interests, Respondents represented to investors that "since 1986 Patrick W. Rice has been at the forefront of IRA investing with real-estate related products," but Respondents failed to disclose to investors that Rice had filed for personal bankruptcy in 1999.

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13. When offering and selling ID 02 limited liability company membership interests, the Respondents failed to disclose to investors that Rice was subject to a 2005 Consent Order from the Securities Division to cease and desist from violations of the Securities Act of Washington.

Registration Status

- 14. The offering of limited liability company membership interests in ID 02 is not currently and has not previously been registered in the state of Washington, and no notice of claim of exemption for the offering is on file with the Securities Administrator of the state of Washington.
- 15. IRA Wealth, Inc. and Patrick Warren Rice are not currently registered as a securities salesperson or broker-dealer in the state of Washington and have not previously been so registered.

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

CONCLUSIONS OF LAW

- 1. The offer and sale of the limited liability company membership interests described above constitute the offer and sale of a security, as defined in RCW 21.20.005(14) and RCW 21.20.005(17), in the form of an investment contract.
- 2. IRA Wealth, Inc. and Patrick Warren Rice have each violated RCW 21.20.140 because the Respondents have each offered or sold securities for which no registration is on file with the Securities Administrator.
- 3. IRA Wealth, Inc. and Patrick Warren Rice have each violated RCW 21.20.040 by offering and selling said securities while not being registered as a securities salesperson or broker dealer in the state of Washington.
- 4. IRA Wealth, Inc. and Patrick Warren Rice have each violated RCW 21.20.010 because, when offering or selling said securities, the Respondents each made untrue statements of a material fact or

omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

NOTICE OF INTENT TO ORDER RESPONDENTS TO CEASE AND DESIST

Pursuant to RCW 21.20.390, and based on the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondents, IRA Wealth, Inc. and Patrick Warren Rice, shall each cease and desist from any violation of RCW 21.20.010, RCW 21.20.040, and RCW 21.20.140.

NOTICE OF INTENT TO REVOKE EXEMPTIONS

Pursuant to RCW 21.20.325, and based on the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that the exemptions from registration set forth in RCW 21.20.320(1), (9), (16) and (17) will be revoked with respect to any securities offered or sold by Respondent, Patrick Warren Rice.

NOTICE OF INTENT TO IMPOSE A FINE

Pursuant to RCW 21.20.395, and based on the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondent, Patrick Warren Rice, shall be liable for and shall pay a fine of \$20,000.

NOTICE OF INTENT TO CHARGE COSTS

Pursuant to RCW 21.20.390, and based on the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondent, Patrick Warren Rice, shall be liable for and shall pay costs, fees, and other expenses incurred in the administrative investigation and hearing of this matter, in an amount of not less than \$5,000.

AUTHORITY AND PROCEDURE

This Statement of Charges is entered pursuant to the provisions of chapter 21.20 RCW and is subject to the provisions of chapter 34.05 RCW. Respondents, IRA Wealth, Inc. and Patrick Warren Rice, may each make a written request for a hearing on the Statement of Charges, as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this Statement of Charges.

Signed and Entered this 1st day of June , 2015

WILLIAM M. BEATTY Securities Administrator

Presented by:

Janet So

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Financial Legal Examiner

Approved by:

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Suzanne E. Sarason Chief of Enforcement

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Reviewed by:

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Robert Kondrat

Financial Legal Examiner Supervisor

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DEPARTMENT OF FINANCIAL INSTITUTIONS Securities Division P.O. Box 9033 Olympia, WA 98507-9033 360-902-8760