

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

IN THE MATTER OF DETERMINING) Order No. S-15-1634-15-FO01
Whether there has been a violation of the)
Securities Act of Washington by:) ENTRY OF FINDINGS OF FACT AND
IRA Wealth, Inc. and Patrick Warren Rice,) CONCLUSIONS OF LAW AND FINAL ORDER TO
Respondents) CEASE AND DESIST, REVOKE EXEMPTIONS,
) IMPOSE A FINE, AND CHARGE COSTS
)

THE STATE OF WASHINGTON TO: IRA Wealth, Inc.
Patrick Warren Rice

On June 1, 2015, the Securities Administrator of the state of Washington issued Statement of Charges and Notice of Intent to Enter an Order to Cease and Desist, Revoke Exemptions, Impose a Fine, and Charge Costs (“Statement of Charges), Order No. S-15-1634-15-SC01. The Statement of Charges, together with a Notice of Opportunity to Defend and Opportunity for Hearing (“Notice of Opportunity for Hearing”) and an Application for Adjudicative Hearing (“Application for Hearing”) were served on Respondents, IRA Wealth, Inc. and Patrick Warren Rice, on June 3, 2015. The Notice of Opportunity for Hearing advised Respondents, IRA Wealth, Inc. and Patrick Warren Rice, that a written application for an administrative hearing on the Statement of Charges must be received within twenty days from the date of receipt of the notice. Respondents, IRA Wealth, Inc. and Patrick Warren Rice, each failed to request an administrative hearing within twenty days of receipt of the Statement of Charges and Notice of Opportunity for Hearing, either on the Application for Hearing provided, or otherwise.

The Securities Administrator therefore will adopt as final the following Findings of Fact and Conclusions of Law as set forth in the Statement of Charges and enter a final order against the Respondents to cease and desist from violations of the Securities Act, and revoke exemptions, and impose the fines and costs sought in the Statement of Charges.

1 The Securities Administrator makes the following Findings of Fact and Conclusions of Law:

2 **FINDINGS OF FACT**

3 **Respondents**

4 1. IRA Wealth, Inc. is an inactive Washington corporation that was incorporated on September
5 24, 2004. From at least 2004 through 2007, IRA Wealth, Inc. was the managing member of ID 02 LLC.

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

9 **Related Company**

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

17 **Prior Enforcement Order**

18 4. On April 6, 2005, the Securities Division entered into a Consent Order with Rice and one of
19 his previous businesses, IRA Resource Associates Inc., to cease and desist from violations of the
20 registration and the anti-fraud provisions of the Securities Act of Washington. In about 2001, Rice offered
21 and sold individual retirement account investments in Washington real estate development projects to at
22 least 35 clients, who invested over \$2. 8 million.

23 **Offering of ID 02 Limited Liability Company Membership Interests**

1 5. During 2007, Rice and IRA Wealth, Inc. offered and sold \$2,150,000 worth of limited liability
2 company membership interests in ID 02 to approximately 35 investors, including several Washington
3 residents. Many of the investors were introduced to Rice through retirement planning seminars, where
4 Rice gave presentations about using IRA funds to purchase real estate investments. When soliciting the
5 investments, Rice gave prospective investors a confidential offering memorandum that described the ID
6 02 investment. Rice also contacted prospective investors through e-mail communications about the
7 investment.

8 6. The ID 02 membership interests were sold for \$43,000 each and were purchased with
9 individual retirement account funds. The investor funds were pooled together and were used to purchase a
10 one-half interest in the Tammany View property and to pay operating costs. During 2007, the investors
11 did not participate in the management of ID 02. At that time, the Respondents had exclusive management
12 and control over the company's day-to-day operations. IRA Wealth, Inc. or its affiliates were to receive
13 organizational fees of \$100,000 "for its services in connection with locating and securing the investment
14 opportunity in the Subdivision and the formation and initial organization of the Company...."

15 7. When offering and selling ID 02 limited liability company membership interests, the
16 Respondents represented that when paying distributions, the investors would first receive their initial
17 capital contributions, plus a "priority return" of 12% per annum on the amount of their initial capital
18 contributions. Thereafter, the investors would receive 40% of the total returns, and IRA Wealth, Inc., as
19 the manager of the LLC, would receive 60% of the total returns.
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21 **Misrepresentations and Omissions**

22 8. When offering and selling the ID 02 limited liability company membership interests,
23 Respondents misrepresented to investors that \$500,000 of the \$2,000,000 property purchase price for the
24 Tammany View subdivision would be set aside in a holdback account until road surfacing and the
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1 installation of a community water system was completed. Instead, ID 02 transferred the \$500,000
2 immediately at the closing of the property purchase to the other 50% property owner. The road surfacing
3 and the community water system were never completed.

4 9. On May 15, 2007, Rice directed his assistant to send an e-mail message to prospective
5 investors. In the message, Rice represented to investors that instead of having 38 lots, the Tammany View
6 property would have about 70 lots. Rice also represented in the e-mail that the current appraised value of
7 the lots would increase from \$4,978,000 to close to \$7,000,000. The Respondents failed to disclose to
8 investors that the cost for developing the additional lots was estimated to be a minimum of \$720,000. The
9 Respondents failed to disclose to investors that the company was not raising any additional funds to cover
10 the additional development costs, so the development project was inadequately capitalized. The
11 Respondents also failed to disclose the risk to investors that the additional lots might not be approved and
12 that the development process might not be completed.

13 10. When offering and selling ID 02 limited liability company membership interests, the
14 Respondents represented to investors that the appraised value of the Tammany View property was
15 \$4,993,300 (per the property appraisal report), subject to completion of road surfacing and the installation
16 of an underground community water service. The appraised value was based on the subdivision's
17 "prospective bulk sales value." The Respondents failed to disclose to investors the "as is" property value,
18 rather than the "as completed" value of the property.

19 11. When offering and selling ID 02 limited liability company membership interests,
20 Respondents failed to disclose to investors risks associated with tenant-in-common real property
21 ownership. Respondents failed to disclose to investors that the sale or refinance of any real properties
22 held by ID 02 as a tenant-in-common investment would require the unanimous consent of the tenant-in-
23 common property owners, including the other 50% owner of the Tammany View property.
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1 12. When offering and selling ID 02 limited liability company membership interests,
2 Respondents represented to investors that “since 1986 Patrick W. Rice has been at the forefront of IRA
3 investing with real-estate related products,” but Respondents failed to disclose to investors that Rice had
4 filed for personal bankruptcy in 1999.

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

8 **Registration Status**

9 14. The offering of limited liability company membership interests in ID 02 is not currently and
10 has not previously been registered in the state of Washington, and no notice of claim of exemption for the
11 offering is on file with the Securities Administrator of the state of Washington.

12 15. IRA Wealth, Inc. and Patrick Warren Rice are not currently registered as a securities
13 salesperson or broker-dealer in the state of Washington and have not previously been so registered.

14 Based upon the above Findings of Fact, the following Conclusions of Law are made:
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16 **CONCLUSIONS OF LAW**

17 1. The offer and sale of the limited liability company membership interests described above constitute
18 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
19 an investment contract.

20 2. IRA Wealth, Inc. and Patrick Warren Rice have each violated RCW 21.20.140 because the
21 Respondents have each offered or sold securities for which no registration is on file with the Securities
22 Administrator.

1 3. IRA Wealth, Inc. and Patrick Warren Rice have each violated RCW 21.20.040 by offering and
2 selling said securities while not being registered as a securities salesperson or broker dealer in the state of
3 Washington.

4 4. IRA Wealth, Inc. and Patrick Warren Rice have each violated RCW 21.20.010 because, when
5 offering or selling said securities, the Respondents each made untrue statements of a material fact or
6 omitted to state a material fact necessary in order to make the statements made, in light of the
7 circumstances under which they were made, not misleading.

8 **FINAL ORDER**

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

10 IT IS HEREBY ORDERED that Respondents, IRA Wealth, Inc. and Patrick Warren Rice, and their
11 agents and employees each shall cease and desist from offering and/or selling securities in any manner in
12 violation of RCW 21.20.140, the registration section of the Securities Act of Washington.

13 IT IS FURTHER ORDERED that Respondents, IRA Wealth, Inc. and Patrick Warren Rice, and their
14 agents and employees each shall cease and desist from offering and/or selling securities in any manner in
15 violation of RCW 21.20.040, the salesperson registration section of the Securities Act of Washington.

16 IT IS FURTHER ORDERED that Respondents, IRA Wealth, Inc. and Patrick Warren Rice, and their
17 agents and employees each shall cease and desist from violating RCW 21.20.010, the anti-fraud section of
18 the Securities Act of Washington.

19 IT IS FURTHER ORDERED that, pursuant to RCW 21.20.325 and based on the above Findings of
20 Fact and Conclusions of Law, the exemptions from registration set forth in RCW 21.20.320(1), (9), (16), and
21 (17) shall be revoked with respect to any securities offered or sold by Respondent, Patrick Warren Rice.

22 IT IS FURTHER ORDERED that Respondent, Patrick Warren Rice, shall be liable for and pay a fine
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IT IS FURTHER ORDERED that Respondent, Patrick Warren Rice, shall be liable for and shall pay costs in the amount of \$5,000.

AUTHORITY AND PROCEDURE

This FINAL ORDER is entered pursuant to the provisions of RCW 21.20.390, and is subject to the provisions of Chapter 34.05 RCW. Respondents have the right to petition the superior court for judicial review of this agency action under the provisions of RCW 34.05. For the requirements for Judicial Review, see RCW 34.05.510 and sections following. Pursuant to RCW 21.20.395, a certified copy of this Order may be filed in Superior Court. If so filed, the clerk shall treat the Order in the same manner as a Superior Court judgment as to the fine, and the fine may be recorded, enforced, or satisfied in like manner.

WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.


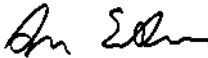
SIGNED and ENTERED this 26th day of June, 2015



William M. Beatty
Securities Administrator

Approved by:

Presented by:



Suzanne Sarason
Chief of Enforcement

Janet So
Financial Legal Examiner

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FINAL ORDER

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