STATE OF OREGON
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
DIVISION OF FINANCE AND CORPORATE SECURITIES

BEFORE THE DIRECTOR OF THE DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

In the Matter of: **Richard G. Thomas,** **Respondent.**	**S-12-0029-1** **ORDER TO CEASE AND DESIST, ORDER ASSESSING CIVIL PENALTY, AND CONSENT TO ENTRY OF ORDER**

WHEREAS, the Director of the Department of Consumer and Business Services for the State of Oregon (hereinafter "the Director"), acting by the authority of the Oregon Securities Law, Oregon Revised Statutes Chapter 59, has conducted an investigation of Richard G. Thomas ("Thomas"), including an investigation of his clients' investments in a private placement known as Santa Barbara Villa Rose Investors, LLC ("Villa Rose LLC"); and

WHEREAS Thomas has cooperated with the Director in providing information concerning that investigation, including but not limited to, providing information identifying all of Thomas's clients who invested in the Villa Rose LLC private placement; and

WHEREAS, following such investigation of Thomas and the investments by his clients in the Villa Rose LLC private placement, the Director has concluded that violations of Oregon law have occurred; and

WHEREAS Thomas, without admitting or denying the findings of fact and conclusions of law stated hereinafter, wishes to resolve and settle this matter with the Director;

NOW THEREFORE, as evidenced by the signature(s) subscribed on this Order, Thomas

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387

hereby CONSENTS to entry of this Order upon the Director's Findings of Fact and Conclusions of Law as stated hereinafter.

I.

FINDINGS OF FACT

The Director FINDS that:

A. Parties

1. Thomas was, at all times material herein, a broker-dealer salesperson (CRD #1817420) licensed by the State of Oregon. Thomas conducts business from 10220 SW Greenburg Road, Suite 330, Portland, Oregon 97223 and 20 Basin Street, Suite 103, Astoria, Oregon 97103.

2. Thomas was, at all times material herein, affiliated with SII Investment, Inc. ("SII") (CRD#2225), a broker-dealer licensed by the State of Oregon. SII conducts business from 5555 Grande Market Drive, P.O. Box 5097, Appleton, Wisconsin 54912.

3. Villa Rose LLC is a Delaware limited liability company formed for the purpose of acquiring a 30-unit senior housing facility located at 2120 Santa Barbara Street, Santa Barbara, California 93105 (the "Villa Rose Property").

B. Santa Barbara Villa Rose Investors, LLC

4. Villa Rose LLC, through a Private Placement, sought $8,500,000 from investors to purchase the Villa Rose Property. Investors could purchase Notes and/or preferred membership interests ("Preferred Interests") in Villa Rose LLC.

5. The Notes for Villa Rose LLC were 8.0% participating, subordinated, unsecured notes. The minimum purchase for the Notes was $25,000. Villa Rose LLC sought to raise $5,000,000 from the sale of Notes.

6. The Preferred Interests in Villa Rose LLC were sold in increments of $1,000, with a minimum purchase of $50,000. Villa Rose LLC sought to raise $3,500,000 from the sale of Preferred Interests.

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7. On page iii of the Villa Rose LLC Private Placement Memorandum ("PPM") prepared for potential Villa Rose LLC investors it states, in bold and in all caps, that "**THE SECURITIES OFFERED HEREBY ARE HIGHLY SPECULATIVE. AN INVESTMENT IN THE SECURITIES INVOLVES SUBSTANTIAL INVESTMENT RISK**." Additionally, the first sentence in the Risk Factors section of the Villa Rose LLC PPM states "Purchase of the Securities involves a high degree of risk and is suitable only for persons of substantial financial means who have no need for liquidity in, and who can afford a complete loss of, their investment."

C. Investors

8. In 2007 Thomas solicited and sold securities issued by Villa Rose LLC to SII clients.

a. Investors LR and CR

9. LR and CR were, at all times material herein, residents of Oregon. LR and CR are husband and wife.

10. In 2007, Thomas solicited LR and CR to invest in Villa Rose LLC.

11. LR and CR assert that Thomas recommended that they use the equity in their home to pay for the investment in Villa Rose LLC; they further assert that Thomas explained to them that the dividends to be paid by Villa Rose LLC would exceed the monthly mortgage payments on their residence.

12. On July 10, 2007, LR and CR signed a New Account Form/Application ("New Account Form") with SII. On SII's New Account Form investors are asked to rank the following investment objectives: tax advantaged, income, growth, and speculation. LR and RR ranked speculation as their lowest investment objective. Additionally, on the New Account Form, LR and CR state that they have a moderate investment risk tolerance.

13. On July 10, 2007, LR and CR signed the Private Placement Suitability, Statement of Acknowledgement and Transmittal Form ("Private Placement Form") with SII. On SII's Private Placement Form, which must be completed by an investor for each prospective Private

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Placement investment, investors are asked to state their investment objectives for the particular purchase and are given the choices of income, growth, speculation, and tax advantaged. LR and CR state that their investment objectives for the Villa Rose LLC investment are income, growth, and tax advantaged. LR and CR did not list speculation as an investment objective for the Villa Rose LLC investment. Additionally, on the Private Placement Form, LR and CR state that they have a moderate risk tolerance for the Villa Rose LLC investment.

14. On or about August 9, 2007, LR and CR obtained a cash-out mortgage on their primary residence.

15. On or about August 20, 2007, LR and CR used $200,000 of the funds received from the cash-out mortgage to purchase 200 Preferred Interests of Villa Rose LLC.

16. Thomas received a $5,201 commission for selling the Villa Rose LLC investment to LR and CR.

b. *Investors ME and ME*

17. ME and ME were, at all times material herein, residents of Oregon. ME and ME are husband and wife.

18. On or about February 2, 2004, ME and ME signed a New Account Form with SII. ME and ME ranked speculation as their lowest investment objective. Additionally, on the New Account Form, ME and ME state that they have a moderate investment risk tolerance. In all subsequent New Account Forms signed by ME and ME, speculation was listed as their lowest investment objective and their risk tolerance was listed as moderate.

19. In 2007, Thomas solicited ME and ME to invest in Villa Rose LLC.

20. ME and ME assert that Thomas recommended that they use the equity in their home to pay for the investment in Villa Rose LLC; and further assert that Thomas explained to them that the dividends to be paid by Villa Rose LLC would exceed the monthly mortgage payments on their residence.

21. On July 11, 2007, ME and ME signed the Private Placement Form with SII. ME and ME

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state that their investment objectives for the Villa Rose LLC investment are income, growth, and tax advantaged. ME and ME did not list speculation as an investment objective for the Villa Rose LLC investment. Additionally, on the Private Placement Form, ME and ME state that they have a moderate risk tolerance for the Villa Rose LLC investment.

22. On or about August 14, 2007, ME and ME obtained a cash-out mortgage on their primary residence of approximately $192,000 to pay for the Villa Rose LLC investment.

23. On or about August 20, 2007, ME and ME invested $200,000 in 200 Preferred Interests of Villa Rose LLC.

24. Thomas received a $5,201.00 commission for selling the Villa Rose LLC investment to ME and ME.

II.

CONCLUSIONS OF LAW

The Director CONCLUDES that:

25. The Villa Rose LLC investments sold by Thomas, as described in the Findings of Fact, meet the definition of a "security" under ORS 59.015(19)(a).

26. Thomas was, at all times material herein, licensed in Oregon as a "salesperson", as defined by ORS 59.015(18)(a).

27. Thomas, in order to fulfill his obligation as a salesperson under OAR 441-205-0140, is required to have reasonable grounds to believe that the recommendation that a customer purchase a particular security is suitable for such customer on the basis of information furnished by such customer after reasonable inquiry concerning the customer's investment objectives, financial situation and needs and any other information known by Thomas.

28. Thomas engaged in unfair or unethical practices in connection with the sale of a security, in violation of ORS 59.205(2) and OAR 441-205-0140, by selling Preferred Interests in Villa Rose LLC to LR and CR. Thomas lacked reasonable grounds to believe that the highly

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speculative nature of the Villa Rose LLC investment would be suitable based on the investment objectives, financial situation and needs of LR and CR.

29. Thomas engaged in unfair or unethical practices in connection with the sale of a security, in violation of ORS 59.205(2) and OAR 441-205-0140, by selling Preferred Interests in Villa Rose LLC to ME and ME. Thomas lacked reasonable grounds to believe that the highly speculative nature of the Villa Rose LLC investment would be suitable based on the investment objectives, financial situation and needs of ME and ME.

III.

ORDERS

NOW, THEREFORE, THE DIRECTOR ISSUES THE FOLLOWING ORDERS:

Order to Cease and Desist

30. Pursuant to the authority of ORS 59.245, the Director hereby ORDERS Thomas to CEASE AND DESIST from:

a. Recommending to any customer the purchase, sale or exchange of any security, without reasonable grounds to believe that the recommendation is suitable for such customer on the basis of the information furnished by such customer after reasonable inquiry concerning the customer's investment objectives, financial situation and needs, in violation of ORS 59.205(2) and OAR 441-205-0140; and

b. Violating any of the provisions of the Oregon statutes regulating securities, Oregon Revised Statutes Chapter 59, and Oregon Administrative Rules Chapter 441.

Order Assessing Civil Penalty

31. Pursuant to the authority of ORS 59.995, the Director may assess a CIVIL PENALTY in any amount determined by the Director of not more than $20,000 for each violation of ORS Chapter 59 and any rule or order of the Director of the Department of Consumer and Business Services. Pursuant to this provision, the Director hereby assesses Thomas a CIVIL PENALTY

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in the amount of $40,000 (forty thousand dollars) for two violations of ORS 59.205(2) and OAR 441-205-0140 for selling securities without reasonable grounds to believe that the investment would be suitable based on the investment objectives, financial situation and needs of his customer.

32. The Director agrees to SUSPEND the collection of the $40,000 (forty thousand dollars) CIVIL PENALTY assessed herein providing that Thomas complies with all of the following terms and conditions:

a. Within 30 days from the effective date of this Order, Thomas shall provide investors LR and CR with $5,201.00, which represents the commission Thomas received for selling the Villa Rose LLC investment to LR and CR, and provide proof satisfactory to DFCS of the payment to LR and CR.

b. Within 30 days from the effective date of this Order, Thomas shall provide investors ME and ME with $5,201.00, which represents the commission Thomas received for selling the Villa Rose LLC investment to ME and ME, and provide proof satisfactory to DFCS of the payment to ME and ME.

c. Within 30 days from the effective date of this Order, Thomas shall pay $5,000 (five thousand dollars) to the Department of Consumer and Business Services for the Consumer Financial Education Account.

d. Thomas shall comply with all terms and conditions set out in this Order and commit no new violations of the Oregon statutes regulating securities, Oregon Revised Statutes Chapter 59, and Oregon Administrative Rules Chapter 441.

33. If Thomas complies with all of the terms and conditions set out in this Order and commits no new violations during the five-year period from the effective date of this Order, the Director WAIVES the collection of the suspended CIVIL PENALTY assessed herein.

34. The Director reserves the right to immediately impose the suspended CIVIL PENALTY upon a determination that Thomas has violated any term of this Order.

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35. The entry of this Order in no way limits further remedies which may be available to the Director under Oregon law.

IT IS SO ORDERED.

Dated this 30th day of May, 2012, at Salem, Oregon.

PATRICK M. ALLEN, Director
Department of Consumer and Business Services

/s/ David Tatman
David C. Tatman, Administrator
Division of Finance and Corporate Securities

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CONSENT TO ENTRY OF ORDER

I, Richard G. Thomas, state that I have read the foregoing Order and that I know and fully understand the contents hereof; that I neither admit nor deny the findings of fact and conclusions of law in the foregoing Order; that I deny the assertions made by LR and CR, and ME and ME, as set forth in paragraphs 11 and 20 above; that I execute this consent as a compromise and settlement of the matter referred to in the Order; that I have been advised of my right to a hearing, and that I have been represented by counsel in this matter; that I voluntarily consent to the entry of this Order without force or duress, expressly waiving any right to a hearing in this matter; that I understand that the Director reserves the right to take further action against me to enforce this Order or to take appropriate action upon discovery of other violations of the Oregon Securities Law; and that I will fully comply with the terms and conditions stated herein.

I understand that this Order is a public document.

By: /s/ Richard G. Thomas
Richard G. Thomas

State of Oregon

County of Clatsop

Signed or attested before me on May 17 2012 by Richard G. Thomas.

/s/ Dana B. Lewis
Signature of Notary Public

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