

1 **STATE OF WASHINGTON**
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**
3 **SECURITIES DIVISION**

4 IN THE MATTER OF DETERMINING) Order No. S-12-0974-13-SC01
5 Whether there has been a violation of the)
6 Securities Act of Washington by:) STATEMENT OF CHARGES AND NOTICE OF
7 David Patrick Thomas,) INTENT TO ENTER AN ORDER TO CEASE AND
8) DESIST, TO DENY FUTURE REGISTRATIONS,
9) TO IMPOSE A FINE, AND TO CHARGE
10) COSTS
11)
12 Respondent)

13 THE STATE OF WASHINGTON TO: David Patrick Thomas (CRD #2853166)

14 **STATEMENT OF CHARGES**

15 Please take notice that the Securities Administrator of the state of Washington has reason to believe
16 that Respondent, David Patrick Thomas, has violated the Securities Act of Washington and has engaged in
17 dishonest or unethical practices in the securities business. The Securities Administrator believes that these
18 violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 to cease and
19 desist from such violations, under RCW 21.20.110 to deny future securities registration applications,
20 under RCW 21.20.110 and RCW 21.20.395 to impose a fine, and under RCW 21.20.390 to charge costs.

21 The Securities Administrator finds as follows:

22 **TENTATIVE FINDINGS OF FACT**

23 Respondent

24 1. During 2010, David Patrick Thomas (“Thomas”) was a Washington resident. From
25 September 27, 2007 until December 15, 2010, Thomas was a registered securities salesperson and a
registered investment adviser representative for SII Investments, Inc. From 1997 through 2007,
Thomas was employed as a registered representative for other securities broker-dealer firms. Thomas

1 is not currently registered with the Washington Securities Division in any capacity. Thomas has
2 Central Registration Depository (“CRD”) number 2853166.

3 Offering of LLC Membership Interests

4 2. From at least March 2010 through October 2010, Thomas offered and sold LLC membership
5 interests totaling \$235,000 to at least four Washington investors. The membership interests were
6 issued by Chadbourn Partners, LLC (“Chadbourn Partners”), a Florida limited liability company that
7 was formed on April 15, 2010. The membership interests were never distributed through and were
8 not recorded on the books and records of SII Investments, Inc., Mr. Thomas’s registered securities
9 broker-dealer.

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11 3. When soliciting the LLC investments, Thomas represented to investors that their funds
12 would be pooled together and used by Chadbourn Partners to acquire a securities broker-dealer firm.
13 Thomas represented that the broker-dealer would expand its operations and be very profitable.
14 Thomas gave investors a private placement memorandum which showed that Chadbourn was
15 offering \$1,500,000 worth of LLC membership interests, for a 30% ownership interest in Chadbourn
16 Partners, in order to finance the acquisition and the operation of the securities broker-dealer. Thomas
17 gave investors a written subscription agreement for the investment. In some cases, Thomas gave
18 investors income projections which showed that Chadbourn Partners would have a net income of
19 \$1,949,000 for 2010.

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21 4. When soliciting the LLC investments, Thomas represented that the investors’ only role was
22 to supply capital for the company’s business operations. Thomas represented to investors that
23 Chadbourn Partner’s management team would be solely responsible for operating the business and
24 generating the return on the investment. Thomas represented to investors that Thomas would be in
25 charge of directing Chadbourn Partner’s investment adviser activities and that he would be

1 compensated for that activity. The investors were brokerage and investment adviser clients of
2 Thomas who trusted him and relied upon his advice and purported expertise when making their
3 investment decisions. To date, the investors have not received any return on their LLC membership
4 interest investments.

5 Offering of Debentures

6 5. During 2010, Thomas offered and sold debentures totaling more than \$200,000 to at least
7 four Washington investors. The debentures were issued by Chadbourn Partners, LLC. The
8 debentures had a term of approximately five years. The debentures had a stated annual interest rate
9 of 8.25%, with interest payments due semi-annually. The debentures were never distributed through
10 and were not recorded on the books and records of SII Investments, Inc., Mr. Thomas's registered
11 securities broker-dealer.
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13 6. When soliciting the debenture investments, Thomas represented to investors that the
14 investors' only role was to supply capital for the company's business operations. Thomas
15 represented to investors that Chadbourn Partner's management team would be solely responsible for
16 operating the business and generating the return on the investment. Thomas represented to investors
17 that Thomas would be in charge of directing Chadbourn Partner's investment adviser activities and
18 that he would be compensated for that activity. The investors were brokerage and investment adviser
19 clients of Thomas who trusted him and relied upon his advice and purported expertise when making
20 their investment decisions. To date, the investors have been receiving timely interest payments on
21 their debenture investments.
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23 Misrepresentations or Omissions

24 7. When offering and selling the Chadbourn Partners, LLC membership interests and
25 debentures, Thomas misrepresented or failed to disclose to investors material information about the

1 investments. Thomas failed to disclose to investors that his securities broker-dealer, SII Investments,
2 Inc., had never approved the offer or sale of any investments issued by Chadbourn Partners. Thomas
3 failed to disclose to investors that the predecessor corporation for Chadbourn Partners, Chadbourn
4 Securities, Inc., had failed to file quarterly reports on time and was subject to a 2001 disciplinary
5 order from the National Association of Securities Dealers. Thomas failed to disclose to investors that
6 Chadbourn Securities, Inc. was also subject to a 2003 disciplinary order from the National
7 Association of Securities Dealers for a series of alleged rule violations, including the understatement
8 of total assets and net capital, failing to make timely reports, and failing to maintain accurate books
9 and records. Thomas failed to disclose to investors that Thomas had filed for bankruptcy in 2000.
10 Thomas failed to disclose to investors that there was no minimum amount of required capital to
11 ensure that there was adequate funding to acquire and to operate a securities broker-dealer. Thomas
12 failed to disclose any reasonable basis for the projected net income for Chadbourn Partners. Thomas
13 failed to provide financial statements for the specific broker-dealer that would be acquired. Thomas
14 failed to disclose other material risks of the investment, including economic risks, market risks,
15 competition, regulatory requirements, and legal risks associated with the operations of securities
16 broker-dealers.
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18 Securities Registration Status

19 8. Chadbourn Partners, LLC is not now and never has been registered to sell its securities in the
20 state of Washington.
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1 Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:

2 **CONCLUSIONS OF LAW**

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

5 2. David Patrick Thomas offered and sold unregistered securities in violation of RCW
6 21.20.140, the securities registration section of the Securities Act of Washington. Such conduct is a
7 ground, pursuant to RCW 21.20.110(1)(b), to deny any investment adviser, broker-dealer, investment
8 adviser representative, or securities salesperson registrations that David Patrick Thomas may seek in
9 the future.

10 3. David Patrick Thomas made untrue statements of material fact or omitted to state
11 material facts necessary in order to make the statements made, in the light of the circumstances under
12 which they are made, not misleading, in violation of RCW 21.20.010, the anti-fraud section of the
13 Securities Act of Washington. Such conduct is a ground, pursuant to RCW 21.20.110(1)(b), to deny
14 any investment adviser, broker-dealer, investment adviser representative, or securities salesperson
15 registrations that David Patrick Thomas may seek in the future.

16 4. By effecting securities transactions not recorded on the regular books or records of the
17 broker-dealer that he represented, David Patrick Thomas has engaged in a dishonest or unethical
18 practice as defined at WAC 460-22B-090(2). Such conduct is a ground, pursuant to RCW
19 21.20.110(1)(g), to deny any investment adviser, broker-dealer, investment adviser representative, or
20 securities salesperson registrations that Thomas may seek in the future.

21 **NOTICE OF INTENT TO ORDER RESPONDENT TO CEASE AND DESIST**

22 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of
23 Law, the Securities Administrator intends to order that Respondent, David Patrick Thomas, and his
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1 agents and employees, each shall cease and desist from any violation of RCW 21.20.010, RCW
2 21.20.110, and RCW 21.20.140.

3 **NOTICE OF INTENT TO DENY FUTURE REGISTRATIONS**

4 Pursuant to RCW 21.20.110, and based upon the Tentative Findings of Fact and Conclusions of
5 Law, the Securities Administrator intends to order that any future securities registration applications
6 of Respondent, David Patrick Thomas, as an investment adviser, broker-dealer, investment adviser
7 representative, or securities salesperson, shall be denied.

8 **NOTICE OF INTENT TO IMPOSE A FINE**

9 Pursuant to RCW 21.20.110 and RCW 21.20.395, and based upon the Tentative Findings of
10 Fact and Conclusions of Law, the Securities Administrator intends to order that Respondent, David
11 Patrick Thomas, shall be liable for and shall pay a fine of \$40,000.

12 **NOTICE OF INTENT TO CHARGE COSTS**

13 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of
14 Law, the Securities Administrator intends to order that Respondent, David Patrick Thomas, shall be
15 liable for and shall pay investigative costs of \$10,000.

16 **AUTHORITY AND PROCEDURE**

17 This Statement of Charges is entered pursuant to the provisions of chapter 21.20 RCW and is
18 subject to the provisions of chapter 34.05 RCW. Respondent, David Patrick Thomas, may make a
19 written request for hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND
20 OPPORTUNITY FOR HEARING accompanying this Statement of Charges. If the respondent does
21 not make a hearing request in the time allowed, the Securities Administrator intends to adopt the
22 Tentative Findings of Fact and Conclusions of Law as final and to enter a permanent order to cease
23 and desist against the respondent, to deny any future securities registration applications made by the
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respondent, to impose any fine sought against the respondent, and to charge any costs sought against the respondent.

WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

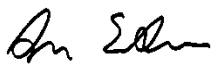
SIGNED and ENTERED this 11th day of March, 2013



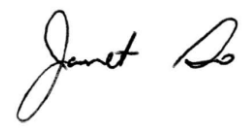
WILLIAM M. BEATTY
Securities Administrator

Approved by:

Presented by:



Suzanne E. Sarason
Chief of Enforcement



Janet So
Enforcement Attorney

Reviewed by:



Robert Kondrat
Financial Legal Examiner Supervisor