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10
11 **UNITED STATES DISTRICT COURT**
12 **DISTRICT OF NEVADA**

13 UNITED STATES SECURITIES AND
14 EXCHANGE COMMISSION,

15 Plaintiff,

16 vs.

17 MICHAEL B. ZIPPRICH,
18 AMERICA’S REHAB
19 CAMPUSES, LLC,
20 AMERICA’S REHAB
21 CAMPUSES – ARIZONA, LLC,
22 and
23 ARIZONA REHAB CAMPUS, LLC,
24 Defendants.

Case No. 20-cv-02308

COMPLAINT

JURY TRIAL DEMANDED

25 Plaintiff, the United States Securities and Exchange Commission (“SEC”),
26 alleges as follows:

27 **JURISDICTION AND VENUE**

28 1. The SEC brings this action pursuant to authority conferred on it by
Section 20(b) of the Securities Act of 1933 (the “Securities Act”) [15 U.S.C. § 77t(b)]
and Sections 21(d) and 21(e) of the Securities Exchange Act of 1934 (the “Exchange
Act”) [15 U.S.C. §§ 78u(d) and 78u(e)] to restrain and enjoin the Defendants from

1 engaging in the acts, practices, and courses of business described in this Complaint
2 and acts, practices, and courses of business of similar purport and object. The SEC
3 seeks permanent injunctions, disgorgement of ill-gotten gains derived from the
4 conduct alleged in the Complaint plus prejudgment interest thereon, and civil
5 penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and
6 Section 21(d)(3) of the Exchange Act [15 U.S.C. §§ 78u(d)(3)].

7 2. The Court has jurisdiction over this action pursuant to Sections 20(b),
8 20(d)(1), and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b), 77t(d)(1), and 77v(a)],
9 and Sections 21(d)(1), 21(d)(3)(A), 21(e), and 27(a) of the Exchange Act [15 U.S.C.
10 §§ 78u(d)(1), 78u(d)(3)(A), 78u(e), and 78aa(a)].

11 3. Defendants have, directly or indirectly, made use of the means or
12 instrumentalities of interstate commerce or of the mails in connection with the
13 transactions, acts, practices, and courses of business alleged in this Complaint.

14 4. Venue is proper in this district pursuant to Section 22(a) of the Securities
15 Act [15 U.S.C. § 77v(a)] and Section 27(a) of the Exchange Act [15 U.S.C. §
16 78aa(a)] because certain of the transactions, acts, practices, and courses of business
17 constituting violations of the federal securities laws occurred within this district,
18 including Defendants raising money through a Las Vegas-based lending company,
19 referred to as Company A in this Complaint. In addition, Defendant Michael B.
20 Zipprich, on behalf of the other Defendants, sent documents to Nevada to be
21 distributed to investors and potential investors (some of whom resided in Nevada) by
22 Company A in connection with the securities offerings described herein, and he also
23 traveled to Las Vegas to meet with Company A's principals to discuss at least one of
24 the offerings.

25 SUMMARY

26 5. Between October 2016 and May 2019 (the "Relevant Period"), the
27 Defendants – Michael B. Zipprich and entities associated with his drug addiction
28 rehabilitation business, America's Rehab Campuses, LLC ("ARC") – violated the

1 registration and antifraud provisions of the federal securities laws. Zipprich raised
2 over \$28 million for ARC’s business from hundreds of investors through the offer
3 and sale of securities issued by ARC’s two subsidiaries, America’s Rehab Campuses
4 – Arizona, LLC (“ARC-AZ”) and Arizona Rehab Campus, LLC (“ARC-Op”),
5 without registering those offerings with the Commission. Moreover, in connection
6 with these offerings, the Defendants defrauded investors out of nearly \$10 million by,
7 among other things, deceiving those investors about how they intended to use the
8 investors’ money.

9 6. Zipprich represented to investors that the bulk of their money would be
10 used for the renovation of ARC’s drug addiction rehabilitation facility in Tucson,
11 Arizona (the “Tucson Facility”). However, Zipprich concealed from investors that he
12 had improperly diverted money from other real estate development projects he
13 controlled to cover cost overruns at the Tucson Facility, and that he planned to use
14 the new funds raised by ARC’s subsidiaries to repay the other projects that he had
15 wrongly raided.

16 7. In connection with the securities offerings by ARC’s subsidiaries,
17 Zipprich also made false and misleading statements to investors regarding his
18 creditworthiness as a guarantor of the investments, the value of the collateral securing
19 the investments, and ARC’s financial condition.

20 8. Currently, investors in the ARC subsidiaries are owed at least \$18
21 million.

22 9. Throughout the Relevant Period, Zipprich was the sole manager and
23 majority owner of ARC, ARC-AZ, and ARC-Op, and he controlled them.

24 10. As a result of the conduct described in this Complaint, Defendants
25 violated and, unless restrained and enjoined, will continue to violate the antifraud
26 provisions of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)] and Section
27 10(b) of the Exchange Act [15 U.S.C. §§ 78j(b)] and Rule 10b-5 thereunder [17
28 C.F.R. § 240.10b-5], and Defendants Zipprich, ARC-AZ, and ARC-Op further

1 violated the registration provisions of Sections 5(a) and 5(c) of the Securities Act [15
2 U.S.C. §§ 77e(a) and 77e(c)].

3 **DEFENDANTS**

4 11. **Michael B. Zipprich**, age 62, is a resident of Paradise Valley, Arizona.
5 Zipprich is a real estate developer primarily involved in the construction and sale of
6 condominium units and single family homes and lots. He is also the Chief Executive
7 Officer (“CEO”), founder, and sole manager of ARC. Zipprich entered into a tolling
8 agreement to toll the running of any statute of limitations against him from July 10,
9 2020, through January 10, 2021.

10 12. **America’s Rehab Campuses, LLC (“ARC”)** is an Arizona limited
11 liability company with its principal place of business in Scottsdale, Arizona. ARC is
12 a holding company for various entities created to own and operate drug addiction
13 rehabilitation facilities across the United States. Zipprich owns 100% of ARC and is
14 its CEO, founder, and sole manager. ARC owns 97% of ARC-AZ and ARC-Op,
15 which constitute the bulk of ARC’s active business. Neither ARC nor its securities
16 have ever been registered with the SEC in any capacity.

17 13. **America’s Rehab Campuses – Arizona, LLC (“ARC-AZ”)** is an
18 Arizona limited liability company with its principal place of business in Scottsdale,
19 Arizona. During the Relevant Period, ARC-AZ owned the Tucson Facility’s real
20 estate, which was leased to ARC-Op. Zipprich, through ARC, owns 97% and is the
21 sole manager of ARC-AZ. Neither ARC-AZ nor its securities have ever been
22 registered with the SEC in any capacity.

23 14. **Arizona Rehab Campus, LLC (“ARC-Op”)** is an Arizona limited
24 liability company with its principal place of business in Scottsdale, Arizona. ARC-
25 Op operates the Tucson Facility. Zipprich, through ARC, owns 97% and is the sole
26 manager of ARC-Op. Neither ARC-Op nor its securities have ever been registered
27 with the SEC in any capacity.
28

1
2 **RELATED PARTIES**

3 15. **Company A** is a Nevada corporation with its principal place of business
4 in Las Vegas, Nevada. Company A is a mortgage broker and, during the Relevant
5 Period, was in the business of facilitating real estate-related lending transactions,
6 primarily through the offer and sale of debt securities issued by other borrowing
7 entities. Company A’s president, founder, and 40% owner is **Individual 1**.
8 Company A’s executive in charge of its investor solicitation efforts and sales force,
9 and who also owned 30% of the company, is **Individual 2**.

10 16. **Company B** is a Nevada limited liability company with its principal
11 place of business in Las Vegas, Nevada. Company B was created in conjunction with
12 the Debt Conversion Offering described below, which provided a vehicle for
13 investors to convert their interests in ARC-related notes into an ownership interest in
14 the Tucson Facility’s real estate through a 97% ownership stake in ARC-AZ.
15 Individual 1 is the sole manager of Company B.

16 **FACTS**

17 **I. Zipprich’s Prior Dealings with Company A**

18 17. Prior to the unregistered and fraudulent offerings that are the subject of
19 this complaint, from 2014 through October 2016, Zipprich raised millions of dollars
20 from investors for at least six separate real estate development projects unrelated to
21 ARC.

22 18. Zipprich-related entities funded their projects by issuing fractional
23 interests in promissory notes. Company A, acting as a broker for Zipprich and his
24 entities, offered these interests to investors across the United States through a
25 network of internal sales staff and external sales agents.

26 19. In connection with its fundraising efforts on behalf of Zipprich, it was
27 Company A’s customary practice to prepare and distribute to potential investors in
28 the debt securities a written summary for each project (the “Loan Summary”). The

1 Loan Summary generally described: the terms of the note; the project financed; the
2 collateral; and Zipprich's background. Prior to October 2016, Zipprich signed and
3 certified as true multiple of these Loan Summaries.

4 20. As a result of his dealings with Company A, Zipprich was aware or
5 should have been aware of the manner in which Company A solicited investors to
6 purchase fractional interests in the promissory notes offered by his entities.

7 **II. The Illegal Offerings**

8 21. As described more fully below, Zipprich and his entities raised money
9 and obtained debt relief through four securities offerings that are the subject of this
10 lawsuit:

- 11 • The "1st Deed Note Offering". From October 2016 to March 2017, ARC-
12 AZ offered and sold through Company A fractional interests in a
13 promissory note issued by ARC-AZ to approximately 165 investors, raising
14 \$13 million. The 1st Deed Note Offering violated the registration provisions
15 of the federal securities laws.
- 16 • The "2nd Deed Note Offering". From December 2017 to August 2018,
17 ARC-AZ offered and sold through Company A fractional interests in a
18 promissory note issued by ARC-AZ to approximately 123 investors, raising
19 approximately \$5.7 million. The 2nd Deed Note Offering was fraudulent
20 and also violated the registration provisions of the federal securities laws.
- 21 • The "Reg. D Offering". From August to September 2018, ARC-AZ and
22 ARC-Op offered and sold through Company A equity interests in ARC-AZ
23 and ARC-Op to approximately 19 investors, raising another \$4 million.
24 This offering was fraudulent and also violated the registration provisions of
25 the federal securities laws.
- 26 • The "Debt Conversion Offering". From January 2019 to May 2019, a
27 newly-created company managed by the president of Company A
28 (Company B) offered and sold equity units to approximately 247 investors

1 in return for their ARC-related note interests, through which ARC reduced
2 its debt burden by approximately \$13.9 million. The Debt Conversion
3 Offering was fraudulent.

4 **III. ARC's October 2016 Unregistered Offering: The 1st Deed Note Offering**

5 22. Beginning in October 2016, Zipprich sought investors to fund ARC, his
6 new drug addiction treatment business.

7 23. Between at least October 2016 and March 2017, Zipprich and ARC's
8 subsidiary, ARC-AZ, offered and sold approximately \$13 million of interests in a
9 note (the "1st Deed Note") issued by ARC-AZ and secured by the Tucson Facility's
10 real estate to approximately 165 investors in multiple states. As he had in the past,
11 Zipprich used Company A to help solicit the investors. Company A, on behalf of
12 Zipprich and ARC-AZ and with Zipprich's knowledge, prepared and distributed to
13 investors and potential investors (via mail or email) a Loan Summary that described
14 the investment (the "1st Deed Note Loan Summary").

15 24. The 1st Deed Note Loan Summary stated that the offering proceeds
16 would be used to acquire a hotel and renovate it into a drug addiction treatment
17 facility, the Tucson Facility, and to create reserve accounts to cover the Tucson
18 Facility's start-up costs and interest carry. The 1st Deed Note Loan Summary was
19 signed and certified as true by Zipprich on behalf of ARC-AZ and himself as
20 guarantor.

21 25. Pursuant to this offering, Zipprich and ARC-AZ raised \$13 million from
22 approximately 165 investors in multiple states.

23 **IV. Zipprich's Improper Diversion of Investor Funds to Support ARC's**
24 **Tucson Facility**

25 26. By approximately May 2017, ARC experienced financial difficulties and
26 cost overruns at the Tucson Facility that depleted the reserve accounts that had been
27 established as a result of the 1st Deed Note Offering.

28 27. In order to continue operating the Tucson Facility, including to make

1 payroll and interest payments to the 1st Deed Note investors, Zipprich used investor
2 funds from other real estate development projects he managed. Zipprich's diversion
3 of funds raised for other projects to cover expenses associated with the Tucson
4 Facility was improper and not a use disclosed in the Loan Summary for those projects
5 or otherwise disclosed to investors at the time Zipprich raised the funds for those
6 projects.

7 28. By mid-October 2017, Zipprich's improper diversion of investor funds
8 had grown to several million dollars. On October 19, 2017, Zipprich sent Company
9 A's president, Individual 1, a schedule showing that the cumulative improper
10 transfers from other projects to fund ARC's Tucson Facility exceeded \$4.3 million.
11 On November 28, 2017, Zipprich received an email from ARC's chief financial
12 officer showing that the improper transfers had grown to over \$4.7 million. By the
13 end of 2017, ARC had incurred nearly \$6 million in operating losses. Zipprich knew
14 of these losses.

15 29. Zipprich was aware or should have been aware that the diversion and use
16 of funds to cover operating expenses associated with ARC's Tucson Facility was
17 improper because it was inconsistent with the Loan Summaries that had been
18 provided to investors for those projects. In addition, this diversion of funds put those
19 projects at greater risk by depleting the funding for the other projects.

20 30. For example, between May and November 2017, Company A helped
21 raise funds for two ARC expansion projects independent of the Tucson Facility.
22 These projects were a new drug addiction rehabilitation facility to be constructed in
23 Midland, Texas and a medical office building to be constructed on land adjacent to
24 the Tucson Facility. To finance these two projects, Zipprich offered and sold,
25 through Company A, approximately \$5.2 million of note interests in two ARC
26 subsidiaries to approximately 143 investors. Construction on these two projects was
27 never commenced, and in contravention of the Loan Summaries for these projects
28 (which Zipprich signed and certified as true), Zipprich improperly used over \$2.5

1 million of the offering proceeds for these projects to cover expenses associated with
2 the Tucson Facility.

3 **V. The Fraudulent and Unregistered 2nd Deed Note Offering**

4 31. In an attempt to reverse the improper transfers, Zipprich used Company
5 A to assist ARC with a new note offering to raise funds to repay the other projects.

6 32. Starting around December 2017 and continuing through August 2018,
7 Zipprich and ARC's subsidiary, ARC-AZ, offered and sold approximately \$5.7
8 million of interests in a note (the "2nd Deed Note") issued by ARC-AZ and secured by
9 the Tucson Facility's real estate to approximately 123 investors in multiple states. As
10 he had in the past, Zipprich used Company A to help solicit the investors. Company
11 A, on behalf of Zipprich and ARC-AZ and with Zipprich's knowledge, prepared and
12 distributed to investors and potential investors (via mail or email) a Loan Summary
13 that described the investment (the "2nd Deed Note Loan Summary").

14 33. Zipprich approved and, as sole manager of the issuer ARC-AZ, was
15 ultimately responsible for the accuracy of the 2nd Deed Note Loan Summary. Indeed,
16 similar to the 1st Deed Loan Summary, the 2nd Deed Loan Summary contained a
17 certification bearing Zipprich's signature, both on behalf of ARC-AZ and for himself
18 as guarantor, which stated: "I certify that all of the above information contained in the
19 above Loan Summary is true and correct. . . ."

20 34. In connection with this offering, Zipprich and ARC-AZ made multiple
21 false and misleading statements.

22 **A. 2nd Deed Note Offering: False and Misleading Statement Regarding**
23 **the Use of Proceeds**

24 35. The 2nd Deed Note Loan Summary deceived potential investors about the
25 true purpose of the offering and served to cover-up the misuse of proceeds from
26 previous offerings.

27 36. The 2nd Deed Note Loan Summary described the use of investor
28 proceeds as follows: "The subject loan is for continued renovation of the property

1 [the Tucson Facility].”

2 37. A reasonable investor would have understood from this disclosure that
3 funds raised in the 2nd Deed Note Offering would only be used for renovation of the
4 Tucson Facility. A reasonable investor would have understood from the 2nd Deed
5 Note Loan Summary that repayment of prior transfers from other projects was not an
6 intended use of their investments.

7 38. The statement in the 2nd Deed Note Loan Summary regarding the use of
8 proceeds was false and misleading because Zipprich intended to and subsequently did
9 use the monies raised in the 2nd Deed Note Offering for a variety of uses unrelated to
10 the renovation of the Tucson Facility.

11 39. In fact, on January 19, 2018, before the 2nd Deed Note Offering was
12 complete, Zipprich met with Individual 1 and Individual 2 and jointly developed a
13 budget showing that over \$3 million of the proceeds from the 2nd Deed Note Offering
14 would be used to repay transfers from other projects, as well as to make ARC’s
15 payroll and to establish interest reserves for several other projects unrelated to ARC’s
16 business. Funds were subsequently used consistent with this plan, which was not
17 disclosed to investors.

18 40. The statement regarding the use of proceeds of the 2nd Deed Note
19 Offering was false and misleading when made and Zipprich and ARC-AZ knew or
20 were reckless in not knowing, and should have known, that the statement regarding
21 use of proceeds in the 2nd Deed Note Loan Summary was false and misleading.

22 41. Zipprich and ARC-AZ omitted to state material facts that were necessary
23 to render their statement regarding use of proceeds not misleading. These omissions
24 include that Zipprich and ARC-AZ intended to and subsequently did use proceeds
25 from the 2nd Deed Note Loan Offering for the repayment of transfers from other
26 projects and for other uses unrelated to renovating the Tucson Facility.

27 42. The false and misleading statement regarding the use of proceeds was
28 material to investors because, among other things, investors believed their

1 investments would be used to further the stated business goal of renovating the
2 Tucson Facility in order to create profits, when, in reality, Zipprich used their money
3 to return funds to other projects, which created a substantial financial risk and would
4 have called into question the integrity of ARC's management.

5 **B. 2nd Deed Note Offering: False and Misleading Statement Regarding**
6 **Zipprich's Creditworthiness**

7 43. Zipprich personally guaranteed the 2nd Deed Note. The 2nd Deed Note
8 Loan Summary contained a certification bearing Zipprich's signature, as guarantor,
9 which stated: "I certify that . . . I have sufficient income, liquidity and cash flow to
10 make the proposed payments as well as all my other obligations." (Emphasis
11 added.)

12 44. A reasonable investor would have understood from Zipprich's
13 certification that he personally had the financial ability to cover the payment terms of
14 the subject loan and all of his other outstanding debt obligations.

15 45. This certification of Zipprich's creditworthiness was false and
16 misleading because Zipprich was unable to pay all of his debt obligations as they
17 became due. Prior to the 2nd Deed Note Offering, Zipprich defaulted on an
18 approximately \$7 million home loan secured by his residence due to his inability to
19 pay. Zipprich remained in default of the home loan at the time of the 2nd Deed Note
20 Offering.

21 46. This certification of Zipprich's creditworthiness was false and
22 misleading when made, and Zipprich and ARC-AZ knew or were reckless in not
23 knowing, and should have known, that his certification was false and misleading.
24 Zipprich knew or was reckless in not knowing, and should have known, his own
25 home loan was in default due to his inability to pay.

26 47. Zipprich omitted to state material facts necessary to render his statement
27 regarding his creditworthiness not misleading. These omissions include that Zipprich
28 did not disclose that he was in default on his home loan.

1 48. The certification of Zipprich’s creditworthiness was material to investors
2 because when assessing the risk of the investment, a reasonable investor would have
3 wanted to know of Zipprich’s multi-million dollar home loan default, which reflects
4 an inability to satisfy his personal guaranties on the note interests. Indeed, on its
5 website, Company A described such personal guaranties as being “essential” to
6 “every” note interest offering.

7 **C. 2nd Deed Note Offering: False and Misleading Statements**
8 **Regarding the Value of Collateral**

9 49. The 2nd Deed Note Loan Summary stated that the collateral value for the
10 2nd Deed Note was \$91.5 million, and explained that the value of the collateral was
11 based on a purported third-party valuation of “the property securing this loan.”

12 50. A reasonable investor would have understood from these statements
13 regarding collateral for the 2nd Deed Note that the notes were secured by real estate
14 that was worth \$91.5 million.

15 51. These statements regarding collateral for the 2nd Deed Note were false
16 and misleading. The collateral value provided to investors in the Loan Summary was
17 not based on an appraisal of the real estate securing the loan (the Tucson Facility), but
18 was based on an overall valuation of ARC’s business. Moreover, unlike the 1st Deed
19 Note Loan Summary, the 2nd Deed Note Loan Summary did not disclose the
20 acquisition cost of the property (approximately \$8.2 million), which was substantially
21 less than the \$91.5 million collateral value provided.

22 52. The statements in the Loan Summary regarding the collateral value for
23 the 2nd Deed Note were false and misleading when made, and Zipprich and ARC-AZ
24 knew or were reckless in not knowing, and should have known, that those statements
25 were false and misleading.

26 53. Zipprich and ARC-AZ omitted to state material facts that were necessary
27 to render their representation regarding the value of collateral not misleading. These
28 omissions include the failure to state that the collateral value provided to investors

1 was ARC's enterprise valuation, not a valuation of ARC's Tucson Facility.

2 54. The false and misleading statements about the 2nd Deed Note collateral
3 value were material to investors because a reasonable investor would have wanted to
4 know that the third-party valuation was, in fact, not based on the real estate securing
5 the loan, but was instead estimating ARC's enterprise value.

6 **VI. The Fraudulent and Unregistered \$4 Million Regulation D Offering**

7 55. Zipprich's practice of diverting funds raised from investors in other
8 projects to keep ARC afloat continued into 2018. Between December 2017 and July
9 2018, Zipprich transferred at least another \$1.3 million from other projects to fund
10 ARC's Tucson Facility.

11 56. On July 26, 2018, after receipt of the majority of investor money raised
12 in the 2nd Deed Note Offering, Zipprich was given a schedule from ARC's CFO that
13 showed that ARC's Tucson Facility still owed millions to various other projects
14 Zipprich managed and from which he had improperly transferred money.

15 57. By this time, ARC had incurred additional losses and had accumulated
16 losses in excess of \$7.3 million on a cash basis.

17 58. To further conceal his diversion of funds, from mid-August to late
18 September 2018, Zipprich raised \$4 million for ARC by offering and selling equity in
19 ARC's subsidiaries, ARC-AZ and ARC-Op, to 19 investors in multiple states. The
20 equity sold to the investors through this offering constituted an aggregate three
21 percent ownership stake in ARC-AZ and ARC-Op. As Individual 1 wrote to Zipprich
22 in an August 16, 2018 email, the purpose of the Reg. D Offering was to "allow us to
23 replenish the money borrowed by ARC from various other deals to fund ARC's
24 shortfalls."

25 59. Zipprich used Company A to solicit investors for the Reg. D Offering.
26 In connection with the Reg. D Offering, Company A, on behalf of Zipprich, ARC,
27 ARC-AZ, and ARC-Op and with Zipprich's knowledge, distributed to investors and
28 potential investors (via mail or email) an offering memorandum that described the

1 investment (the “Offering Memo”).

2 60. Zipprich reviewed, edited, approved, and, as sole manager of the issuers
3 and CEO of ARC, was ultimately responsible for the accuracy of the Offering Memo,
4 which was attributed to ARC.

5 61. In connection with this offering, Zipprich and ARC made false and
6 misleading statements.

7 **A. Reg. D Offering: False and Misleading Statement Regarding the**
8 **Use of Proceeds**

9 62. The Offering Memo described the securities offered and stated that the
10 proceeds of the offering were to be used “for continued renovation of the property
11 [the Tucson Facility] as well as the available credit lines which will cover the lapse in
12 timing delays of payments from insurance companies.”

13 63. A reasonable investor would have understood from this statement that
14 their investments would be used for future renovations to or operating expenses of
15 the Tucson Facility. A reasonable investor would not have understood from this
16 statement that their investment would be used to return funds that Zipprich had
17 previously and improperly diverted from other projects or to pay commissions to
18 Company A in connection with the Reg. D Offering.

19 64. This statement regarding the use of proceeds of the Reg. D Offering was
20 false and misleading because Zipprich and ARC (through its subsidiaries) intended
21 to, and subsequently did, use approximately half of the Reg. D Offering proceeds to
22 pay down existing liabilities, including at least \$2.1 million of the improperly
23 diverted funds from other projects, as well as to pay an undisclosed six percent
24 commission of approximately \$240,000 to Company A.

25 65. This statement regarding the use of proceeds of the Reg. D Offering was
26 false and misleading when made, and Zipprich and ARC knew or were reckless in not
27 knowing, and should have known, that the use of proceeds language in the Offering
28 Memo was false and misleading.

1 66. Zipprich and ARC omitted to state material facts that were necessary to
2 render their statement regarding the intended use of proceeds not misleading. These
3 omissions include that Zipprich and ARC intended to use proceeds to repay funds
4 previously diverted from other projects and to pay an undisclosed commission to
5 Company A.

6 67. The false and misleading statement regarding the use of proceeds was
7 material to investors. A reasonable investor would want to know of Zipprich's actual
8 intended use of the funds, the improper diversion of funds that had occurred and its
9 magnitude, and that Company A was being paid to sell the offering (and the amount
10 of its compensation) because these uses increase the risk that Zipprich, ARC-AZ, and
11 ARC-Op would be unable to repay their investment and call into question the
12 integrity of ARC's management.

13 **B. Reg. D Offering: Misleading Statement Regarding Projected Profits**

14 68. On behalf of Zipprich, ARC, ARC-AZ, and ARC-Op, Company A also
15 sent excerpts from the Offering Memo – including a chart stating that investors could
16 expect an average annual rate of return of 17.95% “based off the ARC LLC projected
17 budget” – via blast email to over 350 potential investors.

18 69. A reasonable investor would have understood from the Offering Memo
19 chart that ARC was expected to have an annual return of 17.95% and would not have
20 understood that, to date, ARC had experienced substantial operating losses that called
21 into question those projected returns.

22 70. Zipprich and ARC did not provide any information concerning ARC's
23 historical operating losses (*e.g.*, financial statements) to investors or ensure that
24 Company A did so in connection with the Reg. D Offering.

25 71. The statement about the expected average annual return was misleading
26 because Zipprich and ARC did not disclose to investors that ARC had substantial,
27 multi-million dollar operating losses.

28 72. The statement about the expected average annual return was misleading

1 when made, and Zipprich and ARC knew or were reckless in not knowing, and
2 should have known, that the statement was misleading.

3 73. Zipprich and ARC omitted to state material facts that were necessary to
4 render the statement regarding the expected average annual return not misleading.
5 The omissions include ARC's history of operating losses.

6 74. The false and misleading statement about the expected average annual
7 return was material as a reasonable investor would have wanted to know that ARC
8 had experienced substantial operating losses that called into question those projected
9 returns when determining whether to invest.

10 **VII. The Fraudulent Debt Conversion Offering**

11 75. In January 2019, ARC was still unable to generate and collect sufficient
12 revenues to meet its debt obligations, and its subsidiary, ARC-AZ, defaulted on its
13 notes, including the 1st Deed Note and 2nd Deed Note.

14 76. Zipprich formulated a restructuring plan with Individual 1 and Individual
15 2 to reduce ARC's debt burden, which, at this point, required interest payments to
16 investors holding \$24 million in notes. The plan involved a debt-for-equity offering
17 that allowed investors to convert their interests in the defaulted notes of ARC-AZ (as
18 well as another ARC subsidiary, America's Rehab Campuses – Texas, LLC (“ARC-
19 TX”)) into equity in a newly-created entity, Company B, which was managed by
20 Individual 1.

21 77. From January to May 2019, Zipprich and ARC solicited ARC-AZ and
22 ARC-TX note investors into their debt-for-equity restructuring plan.

23 78. Approximately 247 investors in multiple states agreed to convert their
24 defaulted ARC-related note interests to Company B equity, thereby reducing ARC's
25 debt burden (through its subsidiaries) by approximately \$13.9 million.

26 79. To solicit investors for the Debt Conversion Offering, Company A, on
27 behalf of Zipprich and ARC and with Zipprich's knowledge, distributed (via mail or
28 email) a brochure for ARC (the “Marketing Deck”) to over 300 investors in the ARC-

1 AZ and ARC-TX notes. In addition, Zipprich, Individual 1 and Individual 2 held a
2 series of conference calls for the investors in the ARC-AZ and ARC-TX notes to
3 discuss, among other things, the Debt Conversion Offering.

4 80. Zipprich reviewed and approved and, as CEO and sole manager of ARC,
5 was ultimately responsible for the accuracy of the Marketing Deck, which was
6 attributed to ARC. And Zipprich personally made statements on the conference calls
7 with investors in the ARC-AZ and ARC-TX notes.

8 81. In connection with the Debt Conversion Offering, Zipprich and ARC
9 misled the Company B investors regarding ARC's financial condition. For example,
10 the Marketing Deck appended a third-party valuation that showed an "enterprise
11 valuation" for ARC of \$55.8 million to \$65.8 million and reflected millions of dollars
12 of anticipated profits for the four following years.

13 82. In addition, during a January 31, 2019 conference call that Zipprich
14 conducted (along with Individuals 1 and 2) with approximately 200 ARC-AZ and
15 ARC-TX investors, Zipprich indicated that ARC would become a profitable business
16 and attractive investment. Among other misleading statements, in the January 31,
17 2019 conference call, Zipprich explicitly stated that ARC is "a successful business."

18 83. Furthermore, in connection with the Debt Conversion Offering, Zipprich
19 indicated that the cause of ARC's current financial difficulties – including its inability
20 to make payments on the 1st Deed Note and 2nd Deed Note – was insurance
21 companies recently and improperly withholding payments. For example, the
22 Marketing Deck stated that, beginning in October 2018, "insurance companies have
23 withheld claims payments for a multitude of erroneous reasons."

24 84. These statements regarding ARC's financial health and the reasons for
25 its current financial difficulties were false and misleading because Zipprich failed to
26 disclose that, in reality, ARC's financial difficulties were caused, in significant part,
27 by its need to make repayments to his other projects.

28 85. Notably, the Reg. D Offering Memo disclosed that one of the purposes

1 for that offering was to provide “available credit lines which will cover the lapse in
2 timing delays of payments from insurance companies.” Rather than build the
3 reserves as indicated in the Reg. D Offering Memo – which would have addressed the
4 insurance payment issue that Zipprich pointed to in connection with the Debt
5 Conversion Offering as the cause of ARC’s difficulties – ARC used over half of the
6 \$4 million of Reg. D Offering proceeds to pay back the improper transfers from other
7 projects. This misuse of investor funds was a substantial factor contributing to
8 ARC’s financial difficulties. Neither the existence of these improper transfers nor
9 ARC’s misuse of the Reg. D Offering proceeds were disclosed to the Company B
10 investors before they agreed to take an equity position.

11 86. Based on the representations by Zipprich and ARC regarding ARC’s
12 financial health and the reasons for its current financial difficulties, a reasonable
13 investor would have understood that Company B was associated with a solid business
14 with anticipated multi-million dollar profits and not a business that had been
15 compromised by Zipprich’s prior misuse of investor funds.

16 87. The statements regarding ARC’s financial health and the reasons for its
17 current financial difficulties were false and misleading when made, and Zipprich and
18 ARC knew or was reckless in not knowing, and should have known, that the
19 statements were false and misleading.

20 88. Zipprich and ARC omitted to state material facts that were necessary to
21 render the statements regarding ARC’s financial health and the reasons for its current
22 financial difficulties not misleading. These omissions include information
23 concerning the prior misuse of investors’ funds.

24 89. The misleading statements about ARC’s financial condition were
25 material because a reasonable investor would want to know that Zipprich and ARC
26 (through its subsidiaries) had previously misused investor funds as that misuse would
27 make it more difficult for ARC to be profitable and would have called into question
28 the integrity of ARC’s management.

1 **VIII. The Four Offerings Described Above Were Offerings of Securities.**

2 90. ARC-AZ, ARC-Op, and Company B offered and sold investments that
3 are “securities” as defined in Section 2(a)(1) of the Securities Act and Section
4 3(a)(10) of the Exchange Act [15 U.S.C. §§ 77b(a)(1) and 78c(a)(10)].

5 91. Section 2(a)(1) of the Securities Act and Section 3(a)(10) of the
6 Exchange Act define “security” to include, among other things, any “note” or
7 “investment contract.”

8 92. The securities offered and sold by ARC-AZ and ARC-Op included the
9 following:

- 10 a. For the 1st Deed Note Offering, ARC-AZ offered and sold
11 interests in a note issued by ARC-AZ to approximately 165
12 investors. These note interests are securities in the form of
13 “notes” and “investment contracts” as they involved a pooled
14 investment of money intended to generate passive profits for the
15 investors to be derived solely from the efforts of ARC-AZ and its
16 managers.
- 17 b. For the 2nd Deed Note Offering, ARC-AZ offered and sold
18 interests in a note issued by ARC-AZ to approximately 123
19 investors. These note interests are securities in the form of
20 “notes” and “investment contracts” as they involved a pooled
21 investment of money intended to generate passive profits for the
22 investors to be derived solely from the efforts of ARC-AZ and its
23 managers.
- 24 c. For the \$4M Reg. D Offering, ARC-AZ and ARC-Op offered and
25 sold equity interests in ARC-AZ and ARC-Op to approximately
26 19 investors. These equity interests are “investment contracts” as
27 they involved a pooled investment of money intended to generate
28 passive profits for the investors to be derived solely from the

1 efforts of ARC-AZ, ARC-Op, and their managers.

2 93. For the Debt Conversion Offering, Company B offered and sold equity
3 units in Company B to approximately 247 investors. The Company B equity interests
4 offered and sold in the Debt Conversion Offering are “investment contracts” as they
5 involved a pooled investment of assets (namely, interests in ARC-AZ and ARC-TX
6 notes) intended to generate passive profits for the investors to be derived solely from
7 the efforts of Company B and its managers, and therefore are “securities” under the
8 Securities Act and Exchange Act.

9 **IX. Unregistered Securities Transactions**

10 94. Sections 5(a) and (c) of the Securities Act, 15 U.S.C. § 77e(a) and (c),
11 make it unlawful for any person, directly or indirectly, to use interstate commerce or
12 the mails, to send a security unless a registration statement is in effect as to the
13 security, or to offer to sell a security unless a registration statement has been filed as
14 to such security. A registration statement is transaction specific. Each offer and sale
15 of a security must either be made under a registration statement or fall under a
16 registration exemption.

17 95. As detailed above, from October 2016 through September 2018 in
18 connection with the 1st Deed Note Offering, 2nd Deed Note Offering, and the Reg. D
19 Offering, Zipprich, ARC-AZ, and ARC-Op offered and sold securities when no
20 registration statement was filed or in effect for the transactions.

21 96. Zipprich was an indirect seller or a necessary participant and substantial
22 factor in the securities offerings identified above. Among other things, Zipprich, as
23 the CEO, sole manager, founder, and controlling owner of ARC (which, in turn,
24 controlled ARC-AZ and ARC-Op), helped arrange the offerings with Company A’s
25 principals and signed, certified, prepared, and/or approved the offering materials
26 (including the 1st Deed Note Loan Summary, 2nd Deed Note Loan Summary, and Reg.
27 D Offering Memo) that were distributed to investors through Company A. Zipprich’s
28 execution of the investment documents on behalf of the issuers, ARC-AZ, and ARC-

1 Op, was also required to complete the issuance of the securities. As such, Zipprich's
2 actions were integral to the success of the offerings.

3 97. No registration statement was filed or in effect with the SEC pursuant to
4 the Securities Act concerning the ARC-AZ or ARC-Op securities described herein,
5 and no exemption from registration existed with respect to those securities offerings.

6 98. Zipprich, ARC-AZ, and ARC-Op offered and sold securities using the
7 means or instruments of interstate commerce, including, but not limited to, telephone,
8 email, and the mails.

9 **X. The Defendants Knowingly or Recklessly, and Negligently, Made and**
10 **Disseminated Material Misrepresentations and Omissions and Engaged in**
11 **Deceptive Acts.**

12 99. As set forth above, Zipprich, ARC, and ARC-AZ knowingly or
13 recklessly, and negligently, made and disseminated through Company A false and
14 misleading statements to investors and potential investors in the 2nd Deed Note, Reg.
15 D Offering, and Debt Conversion Offering. In particular:

- 16 a. On or about November 28, 2017, Zipprich approved the 2nd Deed
17 Note Loan Summary on behalf of ARC-AZ and himself as
18 guarantor, which bear his signature certifying as true the 2nd Deed
19 Note Loan Summary that, as previously alleged, contained
20 statements he knew or was reckless in not knowing, and should
21 have known, were false and misleading. Zipprich also knew or
22 was reckless in not knowing, and should have known, that the 2nd
23 Deed Loan Summary would be distributed to investors with his
24 certification by Company A prior to the sale of the securities in
25 the 2nd Deed Note Offering.
- 26 b. On or about August 10, 2018, Zipprich reviewed, edited, and
27 approved the Reg. D Offering Memo (attributed to ARC) that, as
28 previously alleged, contained statements he knew or was reckless

1 in not knowing, and should have known, were false and
2 misleading. Zipprich also knew or was reckless in not knowing,
3 and should have known, that the Offering Memo would be
4 distributed to investors by Company A prior to the sale of the
5 securities in the Reg. D Offering.

6 c. On or about February 5, 2019, ARC prepared and Zipprich
7 approved the Debt Conversion Marketing Deck (attributed to
8 ARC) that, as previously alleged, contained statements he knew or
9 was reckless in not knowing, and should have known were
10 misleading. Zipprich also knew or was reckless in not knowing,
11 and should have known, that the Marketing Deck would be
12 distributed to investors by Company A prior to the sale of the
13 securities in the Debt Conversion Offering. In early 2019,
14 Zipprich also participated in conference calls directly with
15 investors and potential investors.

16 100. In addition, Zipprich, ARC, ARC-AZ, and ARC-Op defrauded investors
17 by orchestrating the 2nd Deed Note Offering and Reg. D Offering with the intention of
18 using, and then actually using, proceeds raised from new investors to conceal the
19 improper diversion of funds from unrelated projects (and other investors) by
20 Zipprich. Zipprich knew or was reckless in not knowing, and should have known,
21 that such actions were deceptive.

22 101. Zipprich, as CEO, sole manager, founder, and controlling owner of ARC
23 (which, in turn, controlled ARC-AZ and ARC-Op), had the power to act and did act
24 on behalf of ARC, ARC-AZ, and ARC-Op and, thus, his actions alleged herein, as
25 well as his state of mind, is imputed to ARC, ARC-AZ, and ARC-Op.

26 **XI. Zipprich Was a Control Person of ARC, ARC-AZ, and ARC-Op.**

27 102. Zipprich had significant control over ARC, ARC-AZ, and ARC-Op
28 during the time period relevant to this Complaint.

1 103. Zipprich, as CEO, sole manager, founder, and controlling owner of ARC
2 (which, in turn, controlled ARC-AZ and ARC-Op), exercised control over the
3 management, general operations, and policies of ARC, ARC-AZ, and ARC-Op, as
4 well as the specific activities upon which their violations are based.

5 **FIRST CLAIM FOR RELIEF**

6 **(Defendants Zipprich, ARC, and ARC-AZ)**

7 **Violations of Section 10(b) of the Exchange Act and Rule 10b-5**
8 **[15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5]**

9 104. The SEC realleges and incorporates by reference above paragraphs
10 1 through 103.

11 105. During the Relevant Period, each of the Defendants, directly or
12 indirectly, in connection with the purchase or sale of a security, and by the use of
13 means or instrumentalities of interstate commerce, of the mails, or of the facilities of
14 a national securities exchange, knowingly and recklessly: (a) employed devices,
15 schemes, or artifices to defraud; (b) made untrue statements of a material fact or
16 omitted to state a material fact necessary in order to make the statements made, in the
17 light of the circumstances under which they were made, not misleading; and (c)
18 engaged in acts, practices, or courses of business which operated or would operate as
19 a fraud or deceit upon other persons.

20 106. By engaging in the conduct described above, each of the Defendants
21 violated, and unless restrained and enjoined will continue to violate, Section 10(b) of
22 the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §
23 240.10b-5].

24 **SECOND CLAIM FOR RELIEF**

25 **(Alternatively, Against Defendant Zipprich)**

26 **Control Person Liability under Section 20(a) of the Exchange Act [15 U.S.C. §**
27 **78t(a)] for Violations of Section 10(b) of the Exchange Act and Rule 10b-5**
28 **[15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5]**

107. The SEC realleges and incorporates by reference above paragraphs

1 1 through 103.

2 108. As alleged above, Defendants ARC, ARC-AZ, and ARC-Op violated
3 Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder
4 [17 C.F.R. § 240.10b-5].

5 109. During the Relevant Period, Defendant Zipprich, as CEO, sole manager,
6 founder, and controlling owner of ARC (which, in turn, controlled ARC-AZ and
7 ARC-Op), exercised control over the management, general operations, and policies of
8 ARC, ARC-AZ, and ARC-Op, as well as the specific activities upon which their
9 violations are based.

10 110. By reason of the foregoing, Defendant Zipprich is liable as a control
11 person under Section 20(a) of the Exchange Act [15 U.S.C. § 78t(a)] for ARC's,
12 ARC-AZ's, and ARC-Op's violations of Section 10(b) of the Exchange Act [15
13 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

14 **THIRD CLAIM FOR RELIEF**

15 **(All Defendants)**

16 **Violations of Sections 17(a) of the Securities Act**

17 **[15 U.S.C. § 77q(a)]**

18 111. The SEC realleges and incorporates by reference above paragraphs
19 1 through 103.

20 112. During the Relevant Period, each of the Defendants, directly or
21 indirectly, in the offer or sale of securities by the use of means or instruments of
22 transportation or communication in interstate commerce or by use of the mails,
23 knowingly, recklessly, and negligently: (a) employed devices, schemes, or artifices to
24 defraud; (b) obtained money or property by means of untrue statements of a material
25 fact or by omitting to state a material fact necessary in order to make the statements
26 made, in light of the circumstances under which they were made, not misleading; and
27 (c) engaged in transactions, practices, or courses of business which operated or would
28 operate as a fraud or deceit upon the purchaser.

1 113. By engaging in the conduct described above, each of the Defendants
2 violated, and unless restrained and enjoined will continue to violate, Section 17(a) of
3 the Securities Act [15 U.S.C. § 77q(a)].

4 **FOURTH CLAIM FOR RELIEF**
5 **(Defendants Zipprich, ARC-AZ, and ARC-Op)**
6 **Violations of Sections 5(a) and 5(c) of the Securities Act**
7 **[15 U.S.C. §§ 77e(a) and 77e(c)]**

8 114. The SEC realleges and incorporates by reference above paragraphs
9 1 through 103.

10 115. During the Relevant Period, Defendants Zipprich, ARC-AZ, and ARC-
11 Op, directly or indirectly, singly or in concert: (a) made use of any means or
12 instruments of transportation or communication in interstate commerce or of the
13 mails to sell, through the use or medium of a prospectus or otherwise, securities,
14 including, but not limited to, those identified in Paragraph 92, as to which no
15 registration statement has been in effect and for which no exemption from registration
16 has been available; (b) for the purpose of sale or for delivery after sale, carried or
17 caused to be carried through the mails or in interstate commerce, by any means or
18 instruments of transportation, securities, including, but not limited to, those identified
19 in Paragraph 92, as to which no registration statement has been in effect and for
20 which no exemption from registration has been available; and (c) made use of any
21 means or instruments of transportation or communication in interstate commerce or
22 of the mails to offer to sell, through the use of medium of any prospectus or
23 otherwise, securities, including, but not limited to, those identified in Paragraph 92,
24 as to which no registration statement has been in effect and for which no exemption
25 from registration has been available.

26 116. By engaging in the conduct described above, Defendants Zipprich,
27 ARC-AZ, and ARC-Op violated, and unless restrained and enjoined will continue to
28 violate, Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

FIFTH CLAIM FOR RELIEF

(Alternatively, Against Defendant Zipprich)

Aiding and Abetting Violations of Sections 5(a), 5(c), and 17(a) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), and 77q] and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder [15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5]

117. The SEC realleges and incorporates by reference above paragraphs 1 through 103.

118. As alleged above, Defendants ARC, ARC-AZ, and ARC-Op violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

119. As alleged above, Defendants ARC, ARC-AZ, and ARC-Op violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

120. As alleged above, Defendants ARC-AZ and ARC-Op violated Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

121. During the Relevant Period, Defendant Zipprich knowingly or recklessly provided substantial assistance to ARC, ARC-AZ, and ARC-Op in furtherance of their violations alleged above.

122. By engaging in the conduct described above, Defendant Zipprich aided and abetted and, unless restrained and enjoined, will continue to aid and abet violations of Sections 5(a), 5(c), and 17(a) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), and 77q] and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder [15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5].

PRAYER FOR RELIEF

WHEREFORE, the SEC demands a jury trial on all issues triable to a jury and respectfully requests that the Court:

I.

Issue findings of fact and conclusions of law that each of the Defendants committed the alleged violations.

II.

Issue judgments, in forms consistent with Rule 65(d) of the Federal Rules of Civil Procedure, permanently enjoining:

Defendants Zipprich, ARC-AZ, and ARC-Op from violating Sections 5(a), 5(c), and 17(a) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), and 77q(a)] and Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]; and

Defendant ARC from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)] and Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

III.

Order each of the Defendants to disgorge all ill-gotten gains received during the period of violative conduct and pay prejudgment interest on such ill-gotten gains.

IV.

Order each of the Defendants to pay civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

VI.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

VII.

Grant such other and further relief as this Court may determine to be just and necessary.

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Dated: December 21, 2020

/s/ Terry R. Miller

Terry R. Miller
Attorney for Plaintiff
Securities and Exchange Commission