

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

4 IN THE MATTER OF DETERMINING) Order No. S-05-158-06-FO01
5 whether there has been a violation of the)
6 Securities Act of Washington by:)
7 HOPE INVESTMENTS, INC.,)
THOMAS ALAN WELTER, and)
MICHAEL J. INMAN,)
Respondents.)

8 THE STATE OF WASHINGTON TO: Hope Investments, Inc.

9
10 On June 19, 2006, the Securities Administrator of the State of Washington issued Statement of Charges,
11 Order Number S-05-158-06-SC01, against Respondents Hope Investments, Inc., Thomas Alan Welter, and
12 Michael J. Inman.

13 On June 24, 2006, the Statement of Charges, together with a Notice of Opportunity to Defend and
14 Opportunity for hearing, hereinafter referred to as the "Notice of Opportunity for Hearing" and an
15 Application for Adjudicative Hearing, hereinafter referred to as the "Application for Hearing", were
16 served on Hope Investments, Inc. The Notice for Opportunity for Hearing advised Hope Investments, Inc.
17 that a written application for an administrative hearing on the Statement of Charges must be received
18 within twenty days from the date of receipt of the notice.

19 On July 11, 2006, Respondent Welter submitted an Application for Hearing on behalf of Respondent
20 Hope. However, he signed the Application "Thomas Alan Welter, as myself only." Because he had not
21 signed the Application in his capacity as an officer or former officer of the corporation, the Securities
22 Division contact Respondent Welter to ascertain whether he intended to request a hearing on behalf of Hope.
23 On July 12, 2006, Respondent Welter submitted an application for Hearing on his own behalf, indicating that

1 he had filed the incorrect Application on July 11. He did not file an Application on behalf of Hope, and
2 disclaimed any authority to do so. Accordingly, Hope Investments, Inc. failed to request an administrative
3 hearing within twenty days of receipt of the Statement of Charges and Notice of Opportunity for Hearing,
4 either on the Application for Hearing provided or otherwise.

5 The Securities Administrator makes the following findings of fact and conclusions of law:

6 **FINDINGS OF FACT**

7 1. Hope Investments, Inc. ("Hope") is an inactive Washington for-profit corporation incorporated on
8 September 18, 1997. Hope filed annual reports with the Secretary of State's Office through September 29,
9 2004, becoming an inactive corporation when it failed to file its annual report by September 30, 2005.
10 During all times material to this action, Hope maintained its principal place of business in Federal Way,
11 King County, Washington.

12 2. Thomas Alan Welter ("Welter") was the President of Hope from 1997 through 2005. Welter
13 currently resides in Federal Way, and at all times material to this matter was a resident of Federal Way,
14 King County, Washington.

15 4. Michael J. Inman ("Inman") was the Vice President of Hope from 1997 through 2003. Inman
16 currently resides in Colville, Washington.

17 5. Gerald Dobbins ("Dobbins") owned and operated Fidelity Secured Deposit Corporation ("FSDC"),
18 a California firm purportedly specializing in the authentication and valuation of historical bonds.

19 ***II. HISTORICAL RAILROAD BOND FRAUD***

20 6. During the late 1990s, gold-backed historical railroad bonds, once valid obligations of American
21 railroads, became common vehicles for securities fraud. Though they have some value as collectibles,
22 historical railroad bonds are worthless as securities. In 1933, Congress rendered such gold clauses
23 unenforceable, and the original issuers no longer exist. Promoters of the fraud typically obtained third-

1 party valuations showing bond prices in the thousands of dollars. However, a 2003 pricing guide assessed
2 the price of the bonds frequently used in frauds at between \$25 and \$700 each.¹

3 7. In addition to misrepresenting the price, a typical valuation falsely overstated the value of the
4 bonds by assuming that, notwithstanding the unenforceability of the gold clauses, and the defunct and
5 bankrupt status of the bonds' issuers, some person or entity was obligated to redeem the bonds in gold.
6 Promoters falsely claimed that bonds were worth millions of dollars.

7 8. Promoters also used the fraudulent valuations to claim the bonds could be used in prime-bank
8 redemption programs that would generate hundreds of millions in returns. In fact, there were no bond
9 redemption programs generating high yield returns.²

10 9. On January 21, 1998, the U.S. Securities and Exchange Commission ("SEC") announced a civil
11 injunctive action against Daniel Schneider and others for the fraudulent sale of historical railroad bonds.
12 On February 13, 1998, U.S. District Court Judge William F. Downes granted the SEC's motion for an
13 injunction, finding, in part, that Schneider was reckless in relying on bond valuations prepared by Dobbins.³

14 10. On March 10, 1998, the SEC announced their second civil injunctive action involving historical
15 railroad bonds. Dobbins and FSDC were prohibited from preparing and distributing fraudulent
16 authentication and valuation documents relating to bonds based in part on findings that the valuations
17 provided by Dobbins misrepresented material facts. Between June 1998 and January 1999, the SEC filed
18 three other cases involving the sale of more than \$15 million in historical railroad bonds, including a third
19 case involving Dobbins and FSDC.⁴

21 ¹ Terry Cox, *Collectible Stocks and Bonds of North American Railroads* (2nd ed., TCox & Associates, Inc.) (2003).

22 ² *Historical Bond Fraud*, U.S. Dept. of the Treasury, Bureau of the Public Debt, www.publicdebt.treas.gov/cc/ccphony.htm

23 ³ Litigation Release 15622, SEC v. Daniel E. Schneider, et al., Civil Action No. 98-CV-0014-D (USDC Wyo.) (1998).

24 ⁴ Litigation Release 15665, SEC v. Gerald A. Dobbins et al., Civil Action No. 98-229 (USDC C.D. Ca.) (1998); Litigation
25 Release 15787, SEC v. Albert E. Carter et al., Civil Action No. 98CV-0440B (USDC Utah) (1998); Litigation Release 16000,
SEC v. Two-Thirds International, Inc. et al., Civil Action No. 98-1324-Civ. ORL-18A (USDC M.D. Fla. / Orlando) (1998); and
Litigation Release 16028, SEC v. Michael A. Huxley et al., Civil Action No. F99-5045 AWI (USDC E.D. Cal. / Fresno) (1999).

1 **III. NATURE OF THE OFFERING**

2 11. During 1997 and 1998 Respondent Hope offered and sold whole or fractional interests in historical
3 railroad bonds linked to high-yield prime-bank bond redemption programs. Hope used gold-backed
4 railroad bonds issued by the Mad River and Lake Erie Railroad Co. (the “Mad River bonds”). The price
5 of the bonds as collectibles ranged from \$40 to \$300.

6 12. Hope used authentications and valuations provided by Dobbins and FDSC stating the bonds were
7 authentic, were priced at thousands of dollars each, and were worth millions of dollars in gold. Hope
8 further claimed that through high-yield bond redemption programs operated in Europe, investors would
9 receive millions of dollars in return for nominal investments.

10 13. Respondent Hope maintained contact with investors through 2003, lulling them into a false sense
11 of security with claims that the bond redemption program was going to produce the promised returns. In
12 fact, the bonds were never redeemed or sold, and none of the investors ever recovered their principal.

13 **A. Offers and Sales by Hope: Kennedy**

14 14. In September 1997, Hope was incorporated as the entity through which the bonds would be offered
15 and sold to investors. In December 1997, Inman wrote to a Washington investor, Mr. Kennedy, stating
16 that they had funds for a bond purchase, were looking for investors in an historical bond, and that if Mr.
17 Kennedy or other investors were interested they would have to move quickly.

18 15. Hope sent Mr. Kennedy a joint venture agreement (“the Hope JVA”) dated December 22, 1997.
19 Besides Mr. Kennedy there were five other investors participating in the investment, four from Minnesota
20 and one from Arizona. Pursuant to the Hope JVA, the investors were purchasing an interest in one Mad
21 River bond that would be placed in a high yield bond redemption program. Hope was responsible for
22 acquiring the bond, placing it in safekeeping with FSDC, and placing the bond in the redemption program.
23 According to Dobbins, the Mad River bond was valued at \$526 million.

1 16. The Hope JVA stated that Hope anticipated the bond would be redeemed around January 15th,
2 1998. The proceeds of the redemption were to be received by Hope in two installments, the first in March
3 1998 and the second in March 1999. In the event the redemption did not occur within 120 days, the bond
4 would be sold at current market value. Gross proceeds from the redemption were to be split two ways,
5 with 30% for the redemption and the balance going to Hope and the other investors. Of the 70% going to
6 investors, Hope was to receive 35% and the other investors a declining percentage based on their
7 fractional investment in the bond purchased. Mr. Kennedy was to receive a 6.5% share.

8 17. Hope instructed Mr. Kennedy to wire funds to a brokerage account in New York held in the name
9 of Hope Investments, Inc., attention Thomas A. Welter or Michael J. Inman. On December 24, 1997, Mr.
10 Kennedy wired \$4,000 to Hope as instructed. The Mad River bond was never redeemed or sold, and none
11 of the investors ever recovered their principal.

12 18. Inman testified that the Hope JVA was created by Welter, and that Hope used the Hope JVA a
13 number of times with other Washington investors. Inman was not able to identify any other Washington
14 investors, and claimed that all records relating to Hope in his possession had been lost or destroyed.
15 Welter refused to answer any questions relating to the Hope JVA, asserting his right to refuse to answer
16 questions relating to the document on the grounds that the answers would tend to incriminate him. Welter
17 claimed that all documents relating to Hope had been lost or destroyed.

18 B. Offers and Sales by Hope: Mirkes

19 19. On February 24, 1998, Hope sent a six-page fax to David Parker of Texas. The fax, addressed to
20 Mr. Parker "for Jim Mirkes," included a message signed by Welter instructing Mr. Parker to review the
21 attached joint venture agreement with Jim Mirkes and return a signed copy.

22 20. The joint venture agreement referenced in the message ("the Welter JVA") was similar to the Hope
23 JVA described above. Dated February 24, 1998, the Welter JVA was between Hope and just two

1 investors, Mr. Parker and Mr. Mirkes. Pursuant to the Welter JVA, the investors were paying \$30,000 to
2 purchase one Mad River bond that would be placed in a high yield bond redemption program. Hope was
3 responsible for securing the bond, placing it in a redemption program, and distributing proceeds from the
4 redemption to the investors. Hope did not provide a specific redemption date, but indicated that if the
5 redemption did not occur within 180 days, the bond would be sold at current market value. Gross profits
6 from the redemption were to be split with between the investors, with Hope to receive 36%, Mr. Mirkes
7 38%, and Mr. Parker 26%.

8 21. The Welter JVA directed Mr. Mirkes and Mr. Parker to wire funds to a Key Bank account in
9 Federal Way, Washington, held in the name of Hope Investments, Inc., Tom Welter, President. On or
10 about February 24, 1998, Mr. Mirkes signed the Welter JVA and wired \$30,000 to Hope as instructed.
11 Though identified as an investor, Mr. Parker did not invest in the bond or redemption program.

12 22. An attachment to the Welter JVA charted the "Estimated Pay Out Schedule." If entered into the
13 high-yield bond redemption program, Hope estimated Mr. Mirkes would receive \$22.8 million; Mr. Parker
14 \$15.6 million; and Hope \$21.6 million. In the event the bond did not get in a redemption program, the
15 chart showed the bond had a "Quick Sale/Trade Value" of \$10 million.

16 23. Hope provided Mr. Mirkes with a copy of a FSDC "Presentation" dated November 10, 1997 that
17 concluded the three Mad River bonds owned by Hope were authentic and valued at \$562,593,792 per
18 bond. The Mad River bond was never redeemed or sold, and Mr. Mirkes never recovered his principal.

19 C. Lulling

20 24. During 1999 Hope sent two letters to investors, claiming in April 1999 that the bond funds would
21 be received later that month. In October 1999, Hope claimed that it expected that the transfer of funds
22 would be completed on or about November 15, 1999.

23 25. In January 2000, Hope sent investors a news release issued by the U.S. Treasury concerning a

1 buyback of Federal debt. Hope claimed that bonds similar to those held by Hope had been entered into
2 redemption programs in anticipation of the buyback. In May 2000, Hope claimed that “the Fed” had
3 given final approval for sale of the bonds, with a target date of May 18-21. In October 2000, Hope
4 claimed that the bonds had been accepted into a redemption program and that funds would be paid out in
5 7-10 days from initiation of the program.

6 26. In December 2000, Hope claimed the bonds had been placed with a bank, that a line of credit had
7 been established for use in redeeming the bonds, and that after the holiday break Hope would receive a
8 detailed schedule for disbursements.

9 27. In 2001, Hope claimed that Hope’s agent was returning to London to finalize the project and
10 anticipated that funds would be disbursed around May 15, 2001.

11 28. In 2002, Hope claimed that Hope was in the process of getting the bonds back from the agent, and
12 that the bonds would be placed in a trust.

13 29. In 2003, Hope claimed that Hope was still trying to retrieve the bonds from the agent.

14 15 ***IV. MISREPRESENTATIONS AND OMISSIONS***

16 30. Respondent Hope misrepresented the value of the Mad River bonds in that they had no reasonable
17 basis in fact for asserting that the value of the bonds was \$526 million. Furthermore, Hope misrepresented
18 the bond redemption program in that there was no reasonable basis in fact for representing that such
19 programs existed. Finally, Hope misrepresented the potential return on investment, in that there was no
20 reasonable basis in fact for projecting that Mr. Mirkes would receive a return of \$22.8 million, and Mr.
21 Parker \$15.6 million, on a \$30,000 investment.

22 31. Respondent Hope failed to disclose material risks concerning the investment in the Mad River
23 bonds, including but not limited to the risk that the bond authentications and valuations were fraudulent,

1 that no bond redemption program existed, and that there was no cash market for immediate sale of the
2 bonds. Hope also failed to make any disclosures concerning their business background, experience, and
3 financial status.

4 32. Between January 21, 1998 and January 19, 1999, the SEC issued five news releases concerning its
5 enforcement actions involving historical railroad bonds. In November 2000, Mr. Mirkes printed and sent
6 Hope the information from *Historical Bond Fraud* on the U.S. Treasury's web site, including a detailed
7 description of the fraud, copies of the SEC's case against Dobbins,⁵ and a Federal Reserve warning about
8 fraudulent prime bank schemes.⁶ Though Hope knew or should have known that the valuations prepared
9 by Dobbins and FDSC were fraudulent, and that prime bank bond redemption programs did not exist,
10 from April 6, 1999, through May 20, 2003, Hope continued to misrepresent the existence and viability of
11 the historical railroad bond redemption program, failed to disclose the existence of the SEC actions, and
12 failed to disclose that the Mad River bonds had no value beyond that of collectibles.

13 14 **V. REGISTRATION STATUS**

15 33. Respondent Hope Investments, Inc. is not currently registered to offer or sell its securities in the
16 state of Washington, has not previously been so registered, and has no notification of exemption on file.

17
18 Based on the foregoing Findings of Fact, the following Conclusions of Law are made:

19 **CONCLUSIONS OF LAW**

20 1. The offer and sale of the joint venture agreements, historical bonds, or interests in the bonds as
21 described above constitute the offer and sale of securities as defined in RCW 21.20.005(10) and (12).

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23 ⁵ SEC v. Gerald A. Dobbins, et al., <http://www.publicdebt.treas.gov/cc/ccdobns2.txt>

24 ⁶ Board of Governors of the Federal Reserve System, Division of Banking, Supervision and Regulation,
25 <http://www.federalreserve.gov/boarddocs/srletters/1993/SR9361.htm>

1 2. Respondent Hope Investments, Inc. has knowingly or recklessly violated RCW 21.20.010, the anti-
2 fraud provision of the Securities Act of Washington (“the Act”), by making, in connection with the offer
3 or sale of said securities, untrue statements of material fact and by omitting to state material facts
4 necessary in order to make the statements made, in light of the circumstances under which they were
5 made, not misleading.

6 3. Respondent Hope Investments, Inc. has knowingly or recklessly violated RCW 21.20.140, the
7 securities registration provision of the Act, by offering or selling said securities while no registration was
8 on file with the Securities Division.

9 4. Respondent Hope Investments, Inc. has knowingly or recklessly violated RCW 21.20.040, the
10 securities broker-dealer and salesperson registration provision of the Act, by offering and selling said
11 securities while not registered as securities broker-dealers or salespersons in the state of Washington.

12 13 **FINAL ORDER**

14 Based on the foregoing:

15 It is hereby ORDERED that Respondent Hope Investments, Inc. shall cease and desist from violations
16 of RCW 21.20.010, the anti-fraud provision of the Act; RCW 21.20.140, the securities registration
17 provision of the Act; and RCW 21.20.040, the securities broker-dealer and salesperson registration
18 provision of the Act.

19 20 **AUTHORITY AND PROCEDURE**

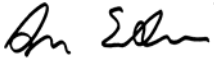
21 This Final Order is entered pursuant to the provisions of RCW 21.20.390 and RCW 21.20.395, and is
22 subject to the provisions of Chapter 34.05 RCW. Respondent has the right to petition the superior court for
23 judicial review of this agency action under the provisions of chapter 34.05 RCW. For the requirements for
24 filing a Petition for Judicial Review, see RCW 34.05.510. Pursuant to RCW 21.20.395, a certified copy of


1 this order may be filed in Superior Court. If so filed, the clerk shall treat the order in the same manner as a
2 Superior Court judgment, and the judgment may be recorded, enforced, or satisfied in like manner.


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4 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

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6 DATED and ENTERED this 24th day of July, 2006.

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10 Approved for entry by:

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12 
13 SUZANNE E. SARASON
14 Program Manager
15 Compliance & Examinations Unit

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17 
18 MICHAEL E. STEVENSON
19 Securities Administrator
20 Presented by:

21
22 
23 ANTHONY W. CARTER
24 Enforcement Attorney
25 Compliance & Examinations Unit