

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

4 IN THE MATTER OF DETERMINING ) Order No. S-05-158-06-SC01  
whether there has been a violation of the )  
Securities Act of Washington by: )  
5 HOPE INVESTMENTS, INC., ) STATEMENT OF CHARGES AND  
THOMAS ALAN WELTER, and ) NOTICE OF INTENT TO ENTER  
6 MICHAEL J. INMAN, ) AN ORDER TO CEASE AND DESIST,  
ORDER RESTITUTION, IMPOSE FINES,  
AND CHARGE COSTS  
7 Respondents. )

8 THE STATE OF WASHINGTON TO: Hope Investments, Inc.  
Thomas Alan Welter  
9 Michael J. Inman

10 **STATEMENT OF CHARGES**

11 Please take notice that the Securities Administrator of the State of Washington has reason to believe  
12 that Respondents, Hope Investments, Inc., Thomas A. Welter, and Michael J. Inman, have each violated  
13 the Securities Act of Washington, and that their violations justify the entry of an order of the Securities  
14 Administrator under RCW 21.20.390 against each to cease and desist from such violations. The Securities  
15 Administrator finds as follows:

16 **TENTATIVE FINDINGS OF FACT**

17 ***I. RESPONDENTS***

18 1. Hope Investments, Inc. ("Hope") is an inactive Washington for-profit corporation incorporated on  
19 September 18, 1997. Hope filed annual reports with the Secretary of State's Office through September 29,  
20 2004, becoming an inactive corporation when it failed to file its annual report by September 30, 2005.  
21 During all times material to this action, Hope maintained its principal place of business in Federal Way,  
22 King County, Washington.

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

4 3. Michael J. Inman (“Inman”) was the Vice President of Hope from 1997 through 2003. Inman  
5 currently resides in Colville, Washington, and at all times material to this matter was a resident of  
6 Washington State. In 1997, Inman conducted business under the name “The Inman Group.”

## 7 ***II. OTHER PARTIES***

8 4. Gerald Dobbins (“Dobbins”) owned and operated Fidelity Secured Deposit Corporation (“FSDC”),  
9 a Huntington Beach, California firm purportedly specializing in the authentication and valuation of  
10 historical bonds.

## 11 ***III. HISTORICAL RAILROAD BOND FRAUD***

12 5. During the late 1990s, gold-backed historical railroad bonds, once valid obligations of American  
13 railroads, became common vehicles for securities fraud. Though they have some value as collectibles,  
14 historical railroad bonds are worthless as securities. In 1933, Congress rendered such gold clauses  
15 unenforceable, and the original issuers no longer exist. Promoters of the fraud typically obtained third-  
16 party valuations showing bond prices in the thousands of dollars. However, a 2003 pricing guide assessed  
17 the price of the bonds frequently used in frauds at between \$25 and \$700 each.<sup>1</sup>

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

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

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

4 8. On January 21, 1998, the U.S. Securities and Exchange Commission (“SEC”) announced a civil  
5 injunctive action against Daniel E. Schneider and others for the fraudulent sale of historical railroad  
6 bonds. On February 13, 1998, U.S. District Court Judge William F. Downes granted the SEC’s motion  
7 for preliminary injunction, finding, in part, that Schneider was reckless in relying on bond valuations  
8 prepared by Dobbins.<sup>3</sup>

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

#### 15 ***IV. NATURE OF THE OFFERING***

16 10. During 1997 and 1998 Respondents offered and sold whole or fractional interests in historical  
17 railroad bonds linked to a prime-bank bond redemption program. Respondents used gold-backed railroad  
18 bonds issued by either the Marietta & North Georgia Railway (the “Marietta bonds”) or the Mad River  
19 and Lake Erie Railroad Co. (the “Mad River bonds”). The price of the bonds as collectibles ranged from  
20 \$40 to \$300.

21 \_\_\_\_\_  
22 <sup>2</sup> *Historical Bond Fraud*, U.S. Dept. of the Treasury, Bureau of the Public Debt, [www.publicdebt.treas.gov/cc/ccphony.htm](http://www.publicdebt.treas.gov/cc/ccphony.htm)

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

24 <sup>4</sup> 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 11. Respondents used authentications and valuations provided by Dobbins and FDSC stating the bonds  
2 were authentic, were priced at thousands of dollars each, and were worth millions of dollars in gold.  
3 Respondents further claimed that through high-yield redemption programs operated in Europe, investors  
4 would receive millions of dollars in return for nominal investments.

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

8 A. Offers by Inman: Kennedy

9 13. In February 1997, Respondent Inman began corresponding with a Washington resident, David  
10 Kennedy, concerning a high-yield investment program involving historical gold-backed railroad bonds.  
11 Respondent Inman sent Mr. Kennedy a document offering various historical bonds for sale. According to  
12 Dobbins and FDSC, the Marietta bonds were priced at \$5,000 and valued at \$3 million.

13 14. In March 1997, Respondent Inman sent Mr. Kennedy a joint venture agreement (“the Inman  
14 JVA”) detailing an investment in the Marietta bonds. The Inman JVA was to be between Respondent  
15 Inman, doing business as The Inman Group, and investors such as Mr. Kennedy. The Inman JVA  
16 describes investors’ roles as limited to investing in the bonds and complying with a non-circumvention  
17 and non-disclosure provision. Other parties were responsible for collecting investor funds, effectuating  
18 the bond redemption program, and disbursing returns to investors.

19 15. The price of each bond was estimated to be \$5,000. If redeemed immediately, Mr. Kennedy would  
20 receive \$2.7 million on his \$5,000 investment. If Mr. Kennedy invested in two bonds for \$10,000, and the  
21 bonds were placed in the European “Trade Redemption Program,” he would net \$3.97 million.

22 16. Based on testimony from Respondent Inman, Mr. Kennedy never invested in this offer, and the  
23 investment in the Marietta bonds never materialized. In the enforcement action brought by the SEC  
24 against Dobbins and FDSC, Dobbins is identified as providing fraudulent valuations for the Marietta bonds.

1 B. Offers and Sales by Hope: Kennedy

2 17. Respondents Welter and Inman decided to try the historical railroad bond program to raise money  
3 for a friend who wanted to start a new business. In September 1997, Welter incorporated Hope as the  
4 entity through which the bonds would be offered and sold to investors.

5 18. In December 1997, Respondent Inman wrote to Mr. Kennedy stating that they had funds for a  
6 bond purchase, were looking for investors in a different historical bond, and that if Mr. Kennedy or other  
7 investors were interested they would have to move quickly.

8 19. Respondents sent Mr. Kennedy a joint venture agreement (“the Hope JVA”) dated December 22,  
9 1997. Besides Mr. Kennedy there were five other investors, four from Minnesota and one from Arizona.  
10 Pursuant to the Hope JVA, the investors were purchasing an interest in one Mad River bond that would be  
11 placed in a high yield bond redemption program. Respondents Hope, Welter, and Inman were responsible  
12 for acquiring the bond, placing it in safekeeping with FSDC, and placing the bond in the redemption  
13 program. According to Dobbins and FDSC, the Mad River bonds were valued at \$526 million.

14 20. Respondents stated they anticipated the bond would be redeemed around January 15<sup>th</sup>, 1998. The  
15 proceeds of the redemption were to be received by Hope in two installments, the first in March 1998 and  
16 the second in March 1999. In the event the redemption did not occur within 120 days, the bond would be  
17 sold at current market value. Gross proceeds from the redemption were to be split two ways, with 30% for  
18 the redemption and the balance going to Hope and the other investors. Of the 70% going to investors,  
19 Hope was to receive 35% and the other investors a declining percentage based on their fractional  
20 investment in the bond purchased. Mr. Kennedy was to receive a 6.5% share.

21 21. Respondents instructed Mr. Kennedy to wire funds to a brokerage account in New York held in the  
22 name of Hope Investments, Inc., attention Thomas A. Welter or Michael J. Inman. On December 24,  
23 1997, Mr. Kennedy wired \$4,000 to Hope as instructed. The Mad River bond was never redeemed or  
24 sold, and none of the investors ever recovered their principal.



1 26. Attachment A to the Welter JVA charted the “Estimated Pay Out Schedule.” If entered into the  
2 bond redemption program, Hope estimated Mr. Mirkes would receive \$22.8 million; Mr. Parker \$15.6  
3 million; and Hope \$21.6 million. In the event the bond did not get in a redemption program, the chart  
4 showed the bond had a “Quick Sale/Trade Value” of \$10 million.

5 27. Respondents provided Mr. Mirkes with a copy of a FSDC “Presentation” dated November 10,  
6 1997 that concluded the three Mad River bonds owned by Respondents were authentic and valued at  
7 \$562,593,792 per bond. The Mad River bond was never redeemed or sold, and Mr. Mirkes never  
8 recovered his principal.

#### 9 *V. LULLING*

10 28. During 1999 Respondent Welter sent two letters to investors, claiming in April 1999 that the bond  
11 funds would be received later that month. In October 1999, Respondent Welter claimed that Hope  
12 expected that the transfer of funds would be completed on or about November 15, 1999.

13 29. In January 2000, Respondent Welter sent investors a news release issued by the U.S. Treasury  
14 concerning a buyback of Federal debt. Respondent Welter claimed that bonds similar to those held by  
15 Hope had been entered into redemption programs in anticipation of the buyback. In May 2000,  
16 Respondent Welter claimed that “the Fed” had given final approval for sale of the bonds, with a target  
17 date of May 18-21. In October 2000, Respondent Welter claimed that the bonds had been accepted into a  
18 redemption program and that funds would be paid out in 7-10 days from initiation of the program.

19 30. In December 2000, Respondent Welter claimed the bonds had been placed with a bank, that a line  
20 of credit had been established for use in redeeming the bonds, and that after the holiday break Hope would  
21 receive a detailed schedule for disbursements.

22 31. In 2001, Respondent Welter claimed that Hope’s agent was returning to London to finalize the  
23 project and anticipated that funds would be disbursed around May 15, 2001.

1 32. In 2002, Respondent Welter claimed that Hope was in the process of getting the bonds back from  
2 the agent, and that the bonds would be placed in a trust.

3 33. In 2003, Respondent Welter claimed that Hope was still trying to retrieve the bonds from the agent.

4 ***VI. MISREPRESENTATIONS AND OMISSIONS***

5 34. Respondent Inman misrepresented the price and value of the Marietta bond in that he had no  
6 reasonable basis in fact for asserting that the price of the bond was \$5,000 or that the value of the bond  
7 was \$3 million. Furthermore, Respondent Inman misrepresented the bond redemption program in that he  
8 had no reasonable basis in fact for representing that such programs existed. Finally, Respondent Inman  
9 misrepresented the potential return on investment in that he had no reasonable basis in fact for projecting a  
10 return of \$2.7 million on a \$5,000 investment, or a \$3.97 million return on a \$10,000 investment.

11 35. Respondent Inman failed to disclose material risks concerning the investment in the Marietta bond,  
12 including but not limited to the risk that the bond authentication and valuation were fraudulent, that no  
13 bond redemption program existed, and that there was no cash market for immediate sale of the bond.

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

21 37. Respondents Hope, Welter, and Inman failed to disclose material risks concerning the investment  
22 in the Mad River bonds, including but not limited to the risk that the bond authentications and valuations  
23 were fraudulent, that no bond redemption program existed, and that there was no cash market for  
24



1 immediate sale of the bonds. They also failed to make any disclosures concerning their business  
2 background and experience and the financial status of Hope Investments, Inc.

3 38. Between January 21, 1998 and January 19, 1999, the SEC issued five news releases concerning its  
4 enforcement actions involving historical railroad bonds. In November 2000, Mr. Mirkes printed and sent  
5 to Respondent Welter the information from *Historical Bond Fraud* on the U.S. Treasury's web site,  
6 including a detailed description of the fraud, copies of the SEC's case against Dobbins,<sup>5</sup> and a Federal  
7 Reserve warning about fraudulent prime bank schemes.<sup>6</sup> Though they knew or should have known that  
8 the bond redemption programs and the valuations prepared by Dobbins and FDSC were fraudulent, from  
9 April 6, 1999, through May 20, 2003, Respondents Hope and Welter continued to misrepresent the  
10 continued existence and viability of the historical railroad bond redemption program.

11 39. Though they knew or should have known that the bond redemption programs and the valuations  
12 prepared by Dobbins and FDSC were fraudulent, from April 6, 1999, through May 20, 2003, Respondents  
13 Hope and Welter failed to disclose the existence of the SEC actions or that the Mad River bonds had no  
14 value beyond that of collectibles.

#### 15 **VII. REGISTRATION STATUS**

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

18 41. Respondent Thomas Alan Welter is not currently registered as a broker-dealer or securities  
19 salesperson in the state of Washington and has not previously been so registered.

20 42. Respondent Michael J. Inman is not currently registered as a broker-dealer or securities  
21 salesperson in the state of Washington and has not previously been so registered.

#### 22 **VIII. SUBPOENA RESPONSE**

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

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

1 43. On October 18, 2005, the Securities Division issued a subpoena to Respondent Welter, which was  
2 served October 27, 2005. Respondent Welter refused to produce documents or appear for testimony.

3 44. On January 6, 2006, King County Superior Court Judge Brian D. Gain ordered Respondent Welter  
4 to produce the subpoenaed documents and appear and give testimony. Respondent Welter did not produce  
5 any documents, but appeared and gave testimony on February 24, 2006 and March 10, 2006. Respondent  
6 Welter refused to answer many questions on the grounds that his answers would tend to incriminate him.

7  
8 Based on the Tentative Findings of Fact, the following Conclusions of Law are made:

9 **CONCLUSIONS OF LAW**

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

12 2. Respondents Hope Investments, Inc., Thomas Alan Welter, and Michael J. Inman have each  
13 knowingly or recklessly violated RCW 21.20.010, the anti-fraud provision of the Securities Act of  
14 Washington (“the Act”), by making, in connection with the offer or sale of said securities, untrue  
15 statements of material fact and by omitting to state material facts necessary in order to make the  
16 statements made, in light of the circumstances under which they were made, not misleading.

17 3. Respondents Hope Investments, Inc., Thomas Alan Welter, and Michael J. Inman have each  
18 knowingly or recklessly violated RCW 21.20.140, the securities registration provision of the Act, by  
19 offering or selling said securities while no registration was on file with the Securities Division.

20 4. Respondents Hope Investments, Inc., Thomas Alan Welter, and Michael J. Inman have each  
21 knowingly or recklessly violated RCW 21.20.040, the securities broker-dealer and salesperson registration  
22 provision of the Act, by offering and selling said securities while not registered as securities broker-  
23 dealers or salespersons in the state of Washington.

24 **NOTICE OF INTENT TO ORDER RESPONDENTS TO CEASE AND DESIST**

1 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions  
2 of Law, the Securities Administrator intends to order that Respondents, Hope Investments, Inc., Thomas  
3 Alan Welter, Michael J. Inman, their officers, directors, employees, partners, agents, affiliates,  
4 subsidiaries, and successors, shall each cease and desist from violations of RCW 21.20.010, the anti-  
5 fraud provision of the Act; RCW 21.20.140, the securities registration provision of the Act; and RCW  
6 21.20.040, the securities broker-dealer and salesperson registration provision of the Act.

7 **NOTICE OF INTENT TO ORDER RESTITUTION**

8 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions  
9 of Law, the Securities Administrator intends to order that Respondents Hope Investments, Inc., Thomas  
10 Alan Welter, and Michael J. Inman shall be jointly and severally liable for and shall pay restitution to  
11 Mr. Kennedy and Mr. Mirkes in the amounts of \$4,000 and \$30,000, respectively.

12 **NOTICE OF INTENT TO IMPOSE FINES**

13 Pursuant to RCW 21.20.395, based upon the above Tentative Findings of Fact and Conclusions of Law,  
14 and upon their knowing or reckless violations of the Act, the Securities Administrator intends to order that  
15 Respondents Hope Investments, Inc., Thomas Alan Welter, and Michael J. Inman shall be jointly and  
16 severally liable for and shall pay a fine to the State of Washington in the amount of \$10,000.

17 **NOTICE OF INTENT TO CHARGE COSTS**

18 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions  
19 of Law, the Securities Administrator intends to order that Respondents Hope Investments, Inc. and  
20 Thomas Alan Welter shall be jointly and severally liable for and shall pay the costs, fees, and other  
21 expenses incurred in the conduct of the administrative investigation, administrative hearing, or other  
22 court proceeding relating to this matter. As of June 2006, these costs total approximately \$30,000.

23  
24 **CONTINUING INVESTIGATION**

1 In light of Respondent Welter's refusal to produce documents and his subsequent refusal to answer  
2 questions under oath, the Securities Division is continuing to investigate the practices of Respondents  
3 Welter and Hope Investments, Inc. to determine the full extent of the violations of the Securities Act that  
4 may have occurred in this matter.

5  
6 **AUTHORITY AND PROCEDURE**

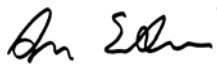
7 This Statement of Charges is entered pursuant to the provisions of RCW 21.20.390 and RCW  
8 21.20.395, and is subject to the provisions of Chapter 34.05 RCW. The Respondents may each make a  
9 written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND  
10 OPPORTUNITY FOR HEARING accompanying this Order. If a Respondent does not request a hearing,  
11 as to that Respondent, the Securities Administrator intends to adopt the foregoing Tentative Findings of  
12 Fact and Conclusions of Law as final, and enter a final order against that Respondent enjoining future  
13 violations of the Securities Act, ordering restitution, imposing fines, and charging costs.

14  
15 DATED and ENTERED this 19th day of June, 2006.

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17 

18 MICHAEL E. STEVENSON  
19 Securities Administrator  
Presented by:

20 Approved for entry by:

21 

22 SUZANNE E. SARASON  
23 Program Manager  
Compliance & Examinations

24 

25 ANTHONY W. CARTER  
Enforcement Attorney  
Compliance & Examinations