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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING
whether there has been a violation of the
Securities Act of Washington by:

HOPE INVESTMENTS, INC.,
THOMAS ALAN WELTER, and
MICHAEL J. INMAN,

Respondents.

Order Number S-05-158-06-CO01

CONSENT ORDER AS TO RESPONDENT
MICHAEL J. INMAN AND VACATING
STATEMENT OF CHARGES
S-05-158-06-SC01 AS TO RESPONDENT
MICHAEL J. INMAN

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INTRODUCTION

On June 19, 2006, the Securities Division, Department of Financial Institutions, State of Washington (“Securities Division”), issued Statement of Charges and Notice of Intent to Enter an Order to Cease and Desist, Order Restitution, Impose Fines, and Charge Costs No. S-05-158-06-SC01 (“Statement of Charges”) against Hope Investments Inc., Thomas Alan Welter, and Michael J. Inman. Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division and Respondent Michael J. Inman enter into this Consent Order in settlement of this matter. Respondent Inman has cooperated with the Division’s investigation into this matter, acknowledges the Securities Division’s jurisdiction and authority to enter this order, and admits to offering and selling unregistered securities in violation of the Securities Act. With that exception, Respondent neither admits nor denies the Findings of Fact and Conclusions of Law that follow.

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FINDINGS OF FACT

I. RESPONDENT

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

1 **II. OTHER PARTIES**

2 2. Hope Investments, Inc. (“Hope”) is an inactive Washington for-profit corporation first authorized
3 to conduct business on September 18, 1997. Hope filed annual reports with the Secretary of State’s Office
4 from 1998 through 2004, becoming an inactive corporation when it failed to file its annual report by
5 September 30, 2005. During all times material to this action, Hope maintained its principal place of
6 business in Federal Way, King County, Washington.

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

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

13 **III. HISTORICAL RAILROAD BOND FRAUD**

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

20 6. In addition to misrepresenting the price, a typical valuation falsely overstated the value of the
21 bonds by assuming that some person or entity was obligated to redeem the bonds in gold. Based on the
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24 ¹ Terry Cox, *Collectible Stocks and Bonds of North American Railroads* (2nd ed., TCox & Associates, Inc.) (2003).

1 valuations, promoters claimed that bonds were worth millions of dollars. In fact, the gold clauses were
2 unenforceable, and the bond issuers were defunct and bankrupt.

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

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

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

17 ***IV. NATURE OF THE OFFERING***

18 10. During 1997 and 1998, Respondents Hope, Welter, and Inman offered and sold whole or
19 fractional interests in historical railroad bonds linked to prime-bank bond redemption programs.
20 Respondents used gold-backed railroad bonds issued by either the Marietta & North Georgia Railway (the

21 _____
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.

24 ⁴ Litigation Release 15665, SEC v. Gerald A. Dobbins et al., Civil Action No. 98-229; Litigation Release 15787, SEC v. Albert E. Carter et al., Civil Action No. 98CV-0440B; Litigation Release 16000, SEC v. Two-Thirds International, Inc. et al., Civil Action No. 98-1324-Civ. ORL-18A; and Litigation Release 16028, SEC v. Michael A. Huxley et al., Civil Action No. F99-5045 AWI.

1 “Marietta bonds”) or the Mad River and Lake Erie Railroad Co. (the “Mad River bonds”). The price of
2 the bonds as collectibles ranged from \$40 to \$300.

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

7 A. Offers by Inman: Kennedy

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

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

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

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

1 B. Offers and Sales by Hope: Kennedy

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

5 17. 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 invest quickly.

8 18. 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 19. Respondents stated they anticipated the bond would be redeemed around January 15th, 1998.
15 The proceeds of the redemption were to be received by Hope in two installments, the first in March 1998
16 and the second in March 1999. In the event the redemption did not occur within 120 days, the bond would
17 be sold at current market value. Gross proceeds from the redemption were to be split two ways, with 30%
18 for 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 20. Respondents instructed Mr. Kennedy to wire funds to a brokerage account in New York held in
22 the 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 25. 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 26. 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. MISREPRESENTATIONS AND OMISSIONS**

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

16 28. Respondent Inman failed to disclose material risks concerning the investment in the Marietta
17 bond, including but not limited to the risk that the bond authentication and valuation were fraudulent, that
18 no bond redemption program existed, and that there was no cash market for immediate sale of the bond.
19 He also failed to make any disclosures concerning his business background and experience or the financial
20 status of Hope Investments, Inc.

21 29. Respondent Inman misrepresented the value of the Mad River bonds in that he had no reasonable
22 basis in fact for asserting that the value of the bonds was \$526 million. Furthermore, Respondent Inman
23 misrepresented the bond redemption program in that he had no reasonable basis in fact for representing
24 that such programs existed. Finally, Respondent Inman misrepresented the potential return on investment,

1 in that he had no reasonable basis in fact for projecting that Mr. Mirkes would receive a return of \$22.8
2 million, and Mr. Parker \$15.6 million, on a \$30,000 investment.

3 30. Respondent Inman failed to disclose material risks concerning the investment in the Mad River
4 bonds, including but not limited to the risk that the bond authentications and valuations were fraudulent,
5 that no bond redemption program existed, and that there was no cash market for immediate sale of the
6 bonds. He also failed to make any disclosures concerning his business background and experience or the
7 financial status of Hope Investments, Inc.

8 **VI. REGISTRATION STATUS**

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

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

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14 Based on the Findings of Fact, the following Conclusions of Law are made:

15 **CONCLUSIONS OF LAW**

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

18 2. Respondent Michael J. Inman has knowingly or recklessly violated RCW 21.20.010, the anti-fraud
19 provision of the Securities Act of Washington (“the Act”), by making, in connection with the offer or sale
20 of said securities, untrue statements of material fact and by omitting to state material facts necessary in
21 order to make the statements made, in light of the circumstances under which they were made, not
22 misleading.

1 3. Respondent Michael J. Inman has knowingly or recklessly violated RCW 21.20.140, the securities
2 registration provision of the Act, by offering or selling said securities while no registration was on file
3 with the Securities Division.

4 4. Respondent Michael J. Inman has knowingly or recklessly violated RCW 21.20.040, the securities
5 broker-dealer and salesperson registration provision of the Act, by offering and selling said securities
6 while not registered as a securities broker-dealer or salesperson in the state of Washington.

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8 **CONSENT ORDER**

9 Based upon the foregoing, IT IS AGREED AND ORDERED that pursuant to RCW 21.20.390,
10 Respondent Michael J. Inman shall cease and desist from offering or selling securities in any manner in
11 violation of RCW 21.20.010, the anti-fraud provision, RCW 21.20.140, the securities registration
12 provision, and RCW 21.20.040, the securities broker-dealer and salesperson registration provision of the
13 Securities Act of Washington.

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15 IT IS FURTHER AGREED AND ORDERED that Respondent shall pay to the Securities Division a
16 fine of \$5,000, with the entire amount suspended based on future compliance with this Order.

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18 IT IS FURTHER AGREED that Respondent will cooperate with the Securities Division's continued
19 investigation and prosecution of this matter, including testifying as necessary.

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21 IT IS FURTHER AGREED that the Division has jurisdiction and authority to enter this Consent Order,
22 and that in consideration of the foregoing, Respondent Michael J. Inman withdraws his hearing request
23 and waives his right to a hearing and to judicial review of this matter pursuant to RCW 21.20.440 and

