

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

4 IN THE MATTER OF DETERMINING) Order No.: S-14-1463-16-CO01
5 Whether there has been a violation of the)
6 Securities Act of Washington by:) CONSENT ORDER
7 Thomas Madden;)
8)
9)
10 Respondent.)
11)

12 **INTRODUCTION**

13 On May 23, 2016, the Securities Administrator of the Securities Division of the Department of Financial
14 Institutions (Securities Division) issued a Statement of Charges and Notice of Intent to Enter Order to Cease and
15 Desist, to Impose Fines, and to Charge Costs (Statement of Charges), Order Number S-14-1463-15-SC01, against
16 Respondent Thomas Madden.

17 Pursuant to the Securities Act of Washington, the Securities Division and Respondent Thomas Madden enter
18 into this Consent Order to settle the allegations described in the Statement of Charges.

19 Respondent Thomas Madden admits to the following Findings of Fact and Conclusions of Law:

20 **FINDINGS OF FACT**

21 Respondent

22 1. Thomas Madden, a Washington resident, earns income through the sale of stock in companies that he consults
23 for. Thomas Madden lived in Washington, until approximately 2012, when he moved to Arizona for work. Thomas
24 Madden holds a Washington driver's license and maintains a home in Washington, which he frequently visits.

25 Related Parties

1. Madden Consulting, Inc. was a Washington corporation through which Thomas Madden offered business
consulting services, which included helping companies raise capital. The company was formed in 1993 and is no
longer active. Thomas Madden acted as the principal of Madden Consulting, Inc.

3. Investor Relations International, Inc. was a Delaware corporation through which Thomas Madden offered
business consulting services, which included helping companies raise capital. The company was formed in 1998 and is
no longer active. Thomas Madden acted as the principal of Investor Relations International, Inc.

4. Madcon Company, Inc. was a Washington corporation through which Thomas Madden offered business
consulting services, which included helping companies raise capital. The company was formed in 1999 and is no
longer active. Thomas Madden acted as the principal of Madcon Company, Inc.

1 Nascent Value, LLC was a Delaware limited liability company through which Thomas Madden offered
2 business consulting services, which included helping companies raise capital. The company was formed in 2008 and is
3 no longer active. Thomas Madden acted as the principal of Nascent Value, LLC.

4 Summit Capital USA, Inc. is an Arizona corporation formed in 2010 for the purpose of providing business
5 consulting services, which include helping companies raise capital. Gregg C. Johnson acts as the principal of Summit
6 Capital USA, and operates a similar Canadian company named, Summit Capital Corp. Thomas Madden served as an
7 officer of the Summit Capital USA until March 2015, when the other officers of the company removed him as a result
8 of the Securities Division's investigation. Thomas Madden continued to work for the company.

9 Overview

10 7. Since 1993, Thomas Madden has acted as a consultant, either independently or through Summit Capital USA,
11 helping client companies, among other things, raise capital. Rather than receive money as compensation for these
12 services, Thomas Madden mostly receives shares in his client companies in exchange for his work. To earn income,
13 Thomas Madden has to sell these shares, which he often does, both here in Washington and outside the state, to
14 members of his church and to his acquaintances. The stock is typically penny stock or high-risk stock.

15 8. In effecting these sales of stock, Thomas Madden acts as a securities broker-dealer, an activity he is not
16 registered for. And in the course of earning approximately \$383,000 from 2011 to 2015 from his securities sales to at
17 least 16 Washington investors, the Securities Division asserts that Thomas Madden both misrepresented and omitted
18 material information. To date, most all of these investors have yet to receive a return on their investment.

19 Thomas Madden's Broker-Dealer Activity

20 *Introduction*

21 9. From approximately 1993 to 2010, Thomas Madden worked as a business consultant, providing his services
22 through four separate companies he owned: Madden Consulting, Inc.; Investor Relations International, Inc.; Madcon
23 Company, Inc.; and Nascent Value, LLC. In approximately 2010, Thomas Madden began working for Summit Capital
24 USA, Inc.

25 10. Thomas Madden's work through or at each of these companies mostly involved helping client companies raise
capital. He typically consulted for newly publicly registered companies with limited operating or financial history.

Client Services Rendered

11. Part of Summit Capital USA's business model includes using publicly registered shell companies and helping
effectuate their merger with private companies, which seek to have their shares of stock publicly traded.¹ Examples of

¹ In the past, at times, Thomas Madden and Summit Capital USA used Donald Stoecklein's services to execute their business plan. In 1995, the SEC entered into a consent order with Donald Stoecklein to resolve the SEC's allegations of Donald Stoecklein's fraudulent sale of stock. Donald Stoecklein failed to pay the disgorgement provided for in the consent order, and in 2015, the SEC filed a lawsuit against Donald Stoecklein, to require Donald Stoecklein to pay the disgorgement.

1 this strategy include their facilitation of Highland Business Corporation's merger with a private company to form
2 Elevate, Inc., a company that purported to sell home security systems; MyOtherCountryClub.com's merger with a
3 private company to form Star Mountain Resources, Inc., a mining company; and Dignyte, Inc.'s merger with a private
4 company to form eWellness Healthcare Corporation, a company that provides telemedicine services.

5 12. Summit Capital USA also helps client companies maintain their registration status with the Securities and
6 Exchange Commission and works with client companies to have shares of the client companies' stock traded on the
7 over-the-counter market. Stock traded on the over-the-counter market is commonly called penny stock. The price per
8 share of this stock is typically less than \$5.00. These stocks are usually thinly-traded and have a low market-
9 capitalization.

10 13. Summit Capital USA relies on Thomas Madden to help these client companies raise capital.

11 *Compensation from Client Companies*

12 14. As compensation for their work, Thomas Madden and the principals of Summit Capital USA, receive shares in
13 their client companies. Additionally, the shares that they, in some instances, owned in the publicly registered shell
14 companies that they worked with are often converted into stock in the surviving company of the merger. Thus, Thomas
15 Madden can typically have two sources of shares in his client companies.

16 15. To earn income from his work, Thomas Madden personally sells the shares that he owns or claims to own in
17 client companies, rather than selling the shares through a registered broker-dealer. The money that he earns from these
18 sales has been the sole source of Thomas Madden's income.

19 *Method and Solicitation of Sales*

20 16. Thomas Madden has solicited his shares of stock to members of his church, his acquaintances, and friends of
21 his acquaintances.² He typically meets with prospective investors in person or speaks with them over the phone. As
22 part of his sales pitch, Thomas Madden explains that he consults for the company, briefly describes the company's
23 business, and provides investors with instructions on how to purchase his shares.

24 *Stock Purchase Agreements*

25 17. To effectuate these secondary sales of stock, Thomas Madden enters into stock purchase agreements with
investors. In these stock purchase agreements, Thomas Madden represents that he owns the shares of stock to be sold,
that, in most instances, the shares of stock are unrestricted, and that he will transfer the stock to the investor upon
receiving the investor's payment. Thomas Madden instructs investors to make their payments for the stock to him.

² Summit Capital USA's business model creates a conflict of interest between its principals and its client company: Summit
Capital USA's principals have an incentive to sell the shares of stock they own in a client company, rather than a client company's
new issue shares. Summit Capital USA's principals can also sell their shares in a client company at a lower price per-share than
the subscription price per-share of a client company's new issue stock. Both of these factors limit a client company's ability to
raise capital through the public sale of its stock.

18. From approximately 2011 to 2015, Thomas Madden sold stock in this fashion to 16 known Washington residents. Some of the Washington residents to whom Thomas Madden sold stock had never directly purchased stock that was either privately held or that was traded on the over-the-counter market.

19. At least two investors were eighty years old at the time they purchased stock from Thomas Madden and another maxed out his home equity line of credit and took out a personal loan to help finance the purchase of stock from Thomas Madden. Thomas Madden raised approximately \$383,000 from his sale of stock to these Washington residents, and the Securities Division asserts that in the course of doing so, he engaged in the following fraudulent conduct:

Representations About Ownership of Client Company Stock

20. Although Thomas Madden received shares of stock in client companies, at times, he often did not own any or enough of the stock he purported to sell.

21. Corporate records indicate that Thomas Madden never owned shares in Elevate, Inc., Dignyte, Inc., and eWellness Healthcare Corporation at the time that he entered into stock purchase agreements and received payment from at least five Elevate, Inc. investors, two Dignyte, Inc. investors, and four eWellness Healthcare Corporation investors.

22. Thomas Madden took money from these investors, but did not have any stock to transfer to them.

Failure to Execute Orders in Timely Fashion

23. Registered broker-dealers are required to promptly deliver purchased securities. Thomas Madden entered into most all of the Dignyte, Inc. and eWellness Healthcare Corporation stock purchase agreements in 2014, but did not submit the Dignyte, Inc. and eWellness Healthcare Corporation stock purchase agreements to the companies' transfer agent until May 2015, days before his testimony before the Securities Division.

24. For over a year, Dignyte, Inc. and eWellness Healthcare Corporation did not have record that these investors were shareholders in the company. During this period, these investors did not have legal title to shares of stock in either company and did not have the ability to resell any shares they may have owned.

25. Thomas Madden falsely represented to Washington investors that he would transfer their stock upon receiving their payment, and he failed to disclose to these investors the risks associated with significant delays in executing their transactions.

Restricted Status of Stock Sold

26. In the stock purchase agreements that Thomas Madden enters into, he represents that the stock he will transfer to investors is "free trading," or clear of any restrictions on resale.

27. However, the transfer agent for Dignyte, Inc. and eWellness Healthcare Corporation listed all of the shares that Thomas Madden owned in both companies as restricted at the time he entered into stock purchase agreements with the Washington residents described above. Owners of restricted stock have limitations on their ability to resell their stock.

1 28. Thomas Madden falsely represented to these Washington investors that the shares he would sell them were
2 unrestricted.

3 *Arbitrary Pricing of Sales*

4 29. The Washington investors who signed stock purchase agreements with Thomas Madden did not negotiate the
5 price per share that they paid. Rather, Thomas Madden presented the investors with price per share at which they could
6 purchase the shares.

7 30. Registered broker-dealers are required to enter into securities transactions for investors at a price reasonably
8 related to the market price of the security, but Thomas Madden denied investors in the following sales of this
9 protection.

10 31. Star Mountain Resource, Inc.'s stock traded on the over-the-counter market during the time period that
11 Thomas Madden sold his shares in Star Mountain Resources, Inc. to Washington investors. Thomas Madden sold his
12 shares in in the company to one Washington investor for \$0.65 per share, more than double the market price of the
13 stock.

14 32. In 2014 and 2015, Dignyte, Inc.'s and eWellness Healthcare Corporation's stock was not traded on any public
15 exchange. Thomas Madden sold his purported shares in the company to Washington investors from anywhere between
16 \$0.30 to \$1.00 per share, but purchased shares from eWellness Healthcare Corporation at one point during this period,
17 for \$0.13 per share. Notably, on the same day in 2014, Thomas Madden sold one investor shares in Dignyte, Inc. for
18 \$0.50 per share and sold another investor shares in the same shell company for \$1.00 per share.

19 *Further Representations in Connection with Brokerage Sales*

20 33. Thomas Madden sold shares he claimed to own in Elevate, Inc. to a Washington resident. Prior to this sale,
21 Thomas Madden represented that he would be able to double or triple the Washington resident's investment. Thomas
22 Madden explained that 30 days after the Washington resident's purchase of the purported stock, Thomas Madden
23 could then resell the Washington resident's stock for an anticipated two to three times the price that the Washington
24 resident paid for the stock. Thomas Madden failed to disclose to the Washington resident any details about the market
25 for resale of Elevate, Inc. stock, his ability to resell any Elevate, Inc. stock, and the bases and assumptions underlying
his claim that the stock would sell for double or triple the price paid for by the Washington resident. The Washington
resident lost the full value of his investment. Thomas Madden, however, personally repaid the Washington resident
after a number of years.

34. In the course of selling shares he owned or claimed to own in Dignyte, Inc., Thomas Madden represented that
the company would soon merge with eWellness Healthcare Corporation. Although this later happened, at the time that
Thomas Madden entered into stock purchase agreements to sell shares of stock in Dignyte, Inc., Dignyte, Inc. was a
blank check shell company with limited assets. The company did not sell any products, provide any services, or have
any operations. The company, further, had no clear means to provide investors a return on their investment. Thomas

1 Madden failed to disclose to these Washington investors the risks associated with investing in a blank check shell
2 company and that such investments are high-risk and speculative.

3 35. Thomas Madden represented to prospective Dignyte, Inc. and eWellness Healthcare Corporation investors that
4 shares of each company's stock would soon be publicly traded, but he failed to provide investors with any information
5 supporting these representations. Additionally, Thomas Madden failed to disclose that a liquid public market for shares
6 of stock in these companies may never develop.

7 36. Thomas Madden further failed to disclose to investors specific risks associated with investing in penny stock
8 or thinly-traded stock, namely that Summit Capital USA owned a beneficial interest in Star Mountain Resources, Inc.,
9 Dignyte, Inc., and eWellness Healthcare Corporation, and its sale of stock in either company could dramatically affect
10 shares of the price of the company's stock.

11 *Omissions About Past Business Failures and Lawsuits*

12 37. Since Thomas Madden began his consulting work, of his known clients, the stock of six of these companies
13 realized some short-term gains while traded in the over-the-counter market, but their values all ultimately crashed.
14 Two companies that Thomas Madden consulted for where the subject of legal action by the Securities and Exchange
15 Commission, the principals of two other companies misappropriated investor funds, and another company failed.

16 38. In 2007, a Washington resident sued Thomas Madden for defaulting on a promissory note for funds loaned to
17 Thomas Madden for his consulting work. Thomas Madden and Nascent Value, LLC were sued in 2009 over money
18 they owed to investors. And, in approximately 2012, Thomas Madden was the subject of another lawsuit for failing to
19 repay an investor. In each of these three cases, the plaintiffs obtained a judgment against Thomas Madden.

20 39. Thomas Madden failed to disclose to Washington investors that many of his prior stock sales had failed and
21 that he has been sued in connection with his prior sales of stock.

22 Registration Status

23 40. Thomas Madden was previously registered to sell securities in Washington as a broker-dealer representative
24 from 1991 to 1993, but he has not since been registered to sell securities in any capacity in Washington.

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

CONCLUSIONS OF LAW

1. The entry into the stock purchase agreements and the sale of stock, as described above, constitutes the offer
and sale of securities as defined in RCW 21.20.005(14) and (17).

2. Thomas Madden has violated RCW 21.20.040 by offering and selling securities while not registered as a
securities broker-dealer in Washington.

3. The offer and sale of these securities were in violation of RCW 21.20.010 because Thomas Madden made
untrue statements of material fact or omitted to state material facts necessary to make the statements made, in light of
the circumstances under which they were made, not misleading.

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CONSENT ORDER

Based on the foregoing and finding it in the public interest:

IT IS AGREED AND ORDERED that Respondent Thomas Madden shall cease and desist from violating RCW 21.20.040, the securities broker-dealer registration section of the Securities Act of Washington.

IT IS FURTHER AGREED AND ORDERED that Respondent Thomas Madden shall cease and desist from violating RCW 21.20.010, the anti-fraud section of the Securities Act of Washington.

IT IS FURTHER AGREED AND ORDERED that Respondent Thomas Madden shall be liable for and shall pay a fine in the amount of \$4,000.

IT IS FURTHER AGREED AND ORDERED that Respondent Thomas Madden shall be liable for and shall pay investigative costs in the amount of \$8,000.

IT IS FURTHER AGREED AND ORDERED that the payment of these fines and costs as described above shall be made as follows: Respondent Thomas Madden shall pay investigative costs of \$4,000 prior to the entry of this Consent Order, \$4,000 in investigative costs by the close of business on February 1, 2017, and \$4,000 in fines by close of business on June 1, 2017.

IT IS FURTHER AGREED that if Respondent Thomas Madden fails to make any of the scheduled payments described above, the \$4,000 in fines and \$8,000 in costs shall become immediately due and payable, and the Securities Division may seek enforcement of this Consent Order pursuant to RCW 21.20.395.

IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Consent Order.

IT IS FURTHER AGREED that Respondent Thomas Madden entered into this Consent Order freely and voluntarily and with a full understanding of its terms and significance.

IT IS FURTHER AGREED that in consideration of the foregoing, Respondent Thomas Madden waives his right to a hearing and to judicial review of this matter pursuant to RCW 21.20.440 and Chapter 34.05 RCW.

**WILLFUL VIOLATION OF THIS ORDER IN THE STATE OF WASHINGTON IS A CRIMINAL
OFFENSE.**

Signed this ___18th___ day of _____ October _____ 2016.

_____/s/_____
Thomas Madden

SIGNED and ENTERED this 21st day of October 2016.

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William M. Beatty
Securities Administrator

Approved by:



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Chief of Enforcement

Presented by:



Eric Palosaari
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