

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

4 IN THE MATTER OF DETERMINING
5 whether there has been a violation of the
6 Securities Act and Commodity Transactions
7 Act of Washington by:

8 James W. King,

Respondent.

Order Number S-05-119-06-SC01

STATEMENT OF CHARGES AND
NOTICE OF INTENT TO ENTER ORDER
TO CEASE AND DESIST AND TO
IMPOSE FINES AND COSTS

9 THE STATE OF WASHINGTON TO:

James W. King

10
11 **STATEMENT OF CHARGES**

12 Please take notice that the Securities Administrator of the State of Washington has reason
13 to believe that Respondent, James W. King, has violated the Securities Act of Washington and
14 the Commodity Transactions Act of Washington and that the violations justify the entry of an
15 order of the Securities Administrator under RCW 21.20.390 and RCW 21.30.120 against him to
16 cease and desist from such violations and impose fines and costs. The Securities Administrator
17 finds as follows:

18 **TENTATIVE FINDINGS OF FACT**

19 *Respondent*

20 1. James W. King, also known as Ben Muad'Dib, ("King") was the leader of New
21 Gnostic Church, Inc., a Washington nonprofit corporation, ("New Gnostic Church"). King
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24 STATEMENT OF CHARGES AND NOTICE OF
INTENT TO ENTER ORDER TO CEASE AND DESIST
AND TO IMPOSE FINES AND COSTS

1

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 referred to himself as pastor and reverend. King resided in Washington during all times relevant
2 to this matter. King is believed to currently reside in Montana.

3
4 *Background*

5 2. King held New Gnostic Church group meetings every other week in King County
6 and Spokane County. On the average, twenty-five people attended the group meetings in King
7 County and ten to fifteen people attended the group meetings in Spokane County.

8 3. The Church members were tight-knit and sought counsel from King before
9 making important decisions. The church members trusted King and contacted him at all times of
10 the day or night for guidance.

11 4. During group meetings, King spoke about spiritual, emotional, and financial
12 matters. King claimed to have financial expertise. King spoke to the members about financial
13 responsibility and advised members on investing their money.

14 5. During group meetings and at other times, King advised the members to open an
15 offshore trust through Prosper International to shield assets from taxation and litigation, just as
16 he said he had done. King received a commission each time a church member opened a trust.
17 Prosper International Trusts are also called Pill Trusts. King owns Pill Trust # 9206.

18 6. From the time King formed the group until at least 2005, during group meetings
19 and at other times, King advised church members to make investments through their Pill Trust
20 and offered church members investments in gold and shares of Advanced Products, Inc.,
21 Breakpoint Holdings Corporation, and Health Maintenance Centers. In total, King received at
22 least \$189,500 from seven Washington residents.

1
2 *Description of the Conduct relating to the Commodity Transactions Act*

3 Investor A

4 7. Starting in at least the late 1990's, King advised church members to purchase
5 gold. King said that gold was a safe investment and it was guaranteed to increase in value. King
6 told the church members that they could purchase gold through him.

7 8. In 1999, a 72 year old retired King County resident who attended the New
8 Gnostic Church ("Investor A") gave King \$78,000 to purchase gold for her. King told Investor
9 A that gold was a safe investment and guaranteed to increase in value. King did not discuss the
10 risks of investing in gold with Investor A.

11 9. Investor A lived on social security and a small pension. The money Investor A
12 gave King was her life savings. King did not give Investor A any disclosure documents, a
13 receipt, or any other documents evidencing her investment in gold.

14 10. Later, King told Investor A that he had purchased gold coins, not invested in gold.
15 King told Investor A that he would hold on to the coins to keep them safe. When King told
16 Investor A this, Investor A requested he give the coins to her. King told Investor A that he
17 needed to keep the gold coins to make sure they were safe. King told Investor A numerous times
18 that the investment in gold was safe with him and it had increased at least \$40,000 in value.

19 11. Throughout the next couple of years Investor A continued to request the gold
20 coins from King. Finally, in 2002 King gave Investor A a book containing gold coins wrapped
21 in plastic. When he gave Investor A the coins, King told Investor A that her original investment
22 of \$78,000 had increased \$60,000 in value and was worth \$138,000. King also told Investor A
23

1 that there was a \$4,000 commission she had to pay him and that he was keeping \$4,000 of the
2 coins to cover the commission. King had not mentioned the commission up to that point.

3 12. The appraised value of the gold coins King gave Investor A was only \$33,000.
4

5 Investor B

6 13. In 1999, a King County resident who attended New Gnostic Church (“Investor
7 B”) gave King \$5,000 to invest in gold. King told Investor B that gold was a safe investment
8 and guaranteed to increase in value. King did not discuss the risks of investing in gold with
9 Investor B. King did not give Investor B any disclosure documents, a receipt, or any other
10 documents evidencing her investment in gold.

11 14. In 2001, Investor B requested her money back. At first King denied having
12 received any money from Investor B. Later, King told Investor B that he could not refund her
13 money but would instead invest it in silver.

14 15. King did not give Investor B any disclosure documents, a receipt, or any other
15 documents evidencing her investment in silver. King did not discuss the risks of investing in
16 silver with Investor B.

17 16. In 2003, Investor B again requested that King return her investment money. King
18 told her that he could not give her the money because it had been pooled with other investments
19 and the entire investment would have to be cashed out to give her the money.

20 17. In 2004, King told Investor B that the investment in silver was going to be
21 converted into an investment in stocks. King did not give Investor B any disclosure documents,
22 a receipt, a stock certificate, or any other documents evidencing her investment in stocks.
23

1 18. Again in 2005, Investor B requested her money back. Finally, after a local
2 newspaper published an article about King, King gave Investor B a check for \$5,000.

3
4 Investor C

5 19. In 2000, a King County resident who attended the New Gnostic Church (“Investor
6 C”) gave King \$15,000 to invest in gold. King said that gold would increase in value from its
7 then current price of under \$300 an ounce to \$1,000 an ounce. King did not discuss the risks of
8 investing in gold with Investor C. King did not give Investor C any disclosure documents, a
9 receipt, or any other documents evidencing her investment.

10 20. Investor C was a student and performed odd jobs to make money. Investor C was
11 saving to purchase a home. Investor C used her savings of \$5,000 and borrowed \$10,000 in order
12 to invest.

13 21. Some time later, King told Investor C that he had purchased Krugerrand coins
14 with her investment money and that he would keep them buried under the doghouse in his
15 backyard. Up to that point, King failed to tell Investor C that he was purchasing coins.

16 22. Krugerrand coins are South African gold coins. Each coin contains 1 troy ounce
17 of gold.

18 23. Investor C requested that King either give her the coins or return her investment
19 money. King refused to do either. Investor C continued to request that King either give her the
20 coins or return her investment money.

21 24. In 2001, King finally agreed to refund investor C her investment money.
22 However, King gave Investor C only \$7,000 back from her original \$15,000 investment. King
23

1 told Investor C that he kept the rest of the money to cover his fee for the investment. Up until
2 that point, King had not told Investor C that he would charge her a fee for the investment.

3
4 *Description of the Conduct relating to the Securities Act*

5 Investors D & E

6 25. In October 2000, King approached a married couple residing in Whitman County
7 who attended the New Gnostic Church (“Investors D & E”) about investing in Health
8 Maintenance Centers, Inc., also known as Znetix, (“HMC”). King said that HMC was going
9 public soon and when the company did the investment in the company would increase
10 significantly.

11 26. King told Investors D & E that for a small administrative fee he could make an
12 investment in HMC for them. On October 28, 2000, Investors D & E gave King a check for
13 \$75,000 to invest in HMC for them. On the same day King submitted a check for \$75,000 to
14 HMC for an investment in the name of Prosper International Trust #9206/ James King.

15 27. King did not give Investors D & E any documents evidencing their investment,
16 any disclosure documents, or financial statements and did not discuss the risks of investing in
17 HMC.

18 28. HMC never went public. On April 9, 2001, the Department of Financial
19 Institutions entered a Summary Order to Cease and Desist against HMC alleging that the offer
20 and sale of the HMC securities violated the registration and anti-fraud provisions of the
21 Securities Act of Washington. In January 2003, the Securities and Exchange Commission filed
22 an action against HMC and appointed a receiver.

1 29. When Investors D & E received documents relating to the appointment of a
2 receiver and that requested information from Investors D & E about their investment, King told
3 them that since he was the broker of the investment he would respond for them. As a result, in
4 2005 the \$75,000 investment was returned to King by HMC, however, Investors D & E never
5 received their investment money back from King. King has not returned the investment to
6 Investors D & E despite having told Investors D & E at the time of the investment that he was
7 investing the money in HMC on their behalf.

8 30. In 2002, King advised church members to purchase stock in Breakpoint Holdings
9 Corporation (“Breakpoint”). King represented that he was the attorney in fact for Breakpoint.
10 King told church members that Breakpoint manufactured Fuel Burner Enhancer (“FBE”) units.
11 King told church members FBE units attach to a boiler and reduce the amount of fuel the boiler
12 uses and the emissions produced. King told church members that the FBE units were “very hot”
13 and sales were “skyrocketing”. King said that there would be an initial public offering of
14 Breakpoint and its shares would split several times before the initial public offering. King told
15 church members that they had to invest quickly or they would lose the opportunity to invest.
16 King told church members that he would receive a portion of the purchase price of the
17 Breakpoint stock as compensation for selling the stock.

18 31. King told Investors D & E that to invest in Breakpoint they would need to wire
19 the investment money to a bank account located in Latvia. On March 1, 2002, Investors D & E
20 wired \$7,500 as King had instructed for an investment in Breakpoint. King failed to give
21 Investors D & E a share certificate or other evidence of the investment, any disclosure
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1 documents, or financial statements and did not discuss the risks of investing in Breakpoint
2 Holdings with Investors D & E.

3 32. Investors D & E have not received any money back from King.
4

5 Investor F

6 33. In 2002, King advised church members to purchase stock in Advanced Products,
7 Inc. (“Advanced Products”). King told church members that Advanced Products was raising
8 funds to manufacture a product that reduced vehicle emissions and increased gas mileage. King
9 told church members that the company was going public in a month or two and when the
10 company went public the value of the investment would increase drastically. King told church
11 members that he would receive a portion of the purchase price of the Advanced Products stock as
12 compensation for selling the stock.

13 34. On March 13, 2002, a King County resident who attended the New Gnostic
14 Church (“Investor F”) gave King \$3,000 to purchase 1,000 shares of Advanced Products. King
15 gave Investor F a share certificate naming Investor F’s Pill Trust as the owner of the stock. King
16 did not give Investor F any disclosure documents or financial statements and did not discuss the
17 risks of investing in Advanced Products with Investor F.

18 35. Also in early 2002, Investor F gave King \$4,500 to invest in Breakpoint. King
19 failed to give Investor D a share certificate or other evidence of his investment, any disclosure
20 documents, or financial statements and did not discuss the risks of investing in Breakpoint with
21 Investor F.
22

1 36. Investor F has requested his money back from King, however, Investor F has not
2 received any of his money back.

3 Investor G

4 37. In March 2002, a King County resident who attended New Gnostic Church
5 (“Investor G”) gave King \$1,500 to purchase 700 shares of Advanced Products. Investor G was
6 given a share certificate evidencing his investment but King failed to give Investor G any
7 disclosure documents or financial statements and did not discuss the risks of investing in
8 Advanced Products, Inc. with Investor G. The share certificate named Investor G’s Pill Trust as
9 the owner of the stock.

10 38. Investor G requested his money back from King, however, Investor G has not
11 received any money back.

12
13 **MISREPRESENTATIONS AND OMISSIONS**

14 39. James W. King failed to provide material information to investors regarding their
15 investments including, but not limited to, the general and specific risks involved in each
16 investment, the fee for the investment, and the form of the investment.

17
18 **REGISTRATION STATUS**

19 40. James W. King is not currently registered with the Commodity Futures Trading
20 Commission as a futures commission merchant or as a leverage transaction merchant, is not
21 currently registered under the Commodity Transactions Act as a commodities broker-dealer or
22 commodities sales representative, and has not previously been so registered.

1 41. James W. King is not currently registered as a securities salesperson or broker-
2 dealer in the state of Washington and has not previously been so registered.

3 42. Advanced Products, Inc., Breakpoint Holdings Corporation, and Health
4 Maintenance Centers are not currently registered to sell securities, have not previously been
5 registered, and have not filed claims of exemption.
6

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

8 CONCLUSIONS OF LAW

9 *Commodity Transaction Act Violations*

10 1. Precious metals, such as gold, gold coins, and silver, are commodities as defined
11 in RCW 21.30.010(9) and (17).

12 2. The offer or sale of gold, gold coins, and silver described above constitutes the
13 offer or sale of a commodity, commodity contract, or commodity option as defined in RCW
14 21.30.010 (10), (11), (14) and (15).

15 3. The offer or sale of said commodities is in violation of RCW 21.30.020 because
16 the offer or sale was made by a person not exempt under RCW 21.30.030 and the transaction or
17 contract was not exempt under RCW 21.30.040.

18 4. Respondent, James W. King, has violated RCW 21.30.050 by offering or selling
19 said commodities, commodities contract, or commodity option while not registered under the
20 commodity futures trading commission as a futures commission merchant or as a leverage
21 transaction merchant and while not registered as a commodities broker-dealer or commodities
22 sales representative under the commodity transactions act.
23

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2 **NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST**

3 Based on the above Tentative Findings of Fact and Conclusions of Law, the Securities
4 Administrator intends to order that Respondent, James W. King, and his agents and employees,
5 each cease and desist from violations of RCW 21.30.020, the section of the Commodity
6 Transactions Act prohibiting sales of commodities, commodity contracts, and commodity
7 options; RCW 21.30.050, the section of the Commodity Transactions Act requiring registration;
8 RCW 21.30.060, the anti-fraud section of the Commodity Transactions Act; RCW 21.20.010, the
9 anti-fraud section of the Securities Act; RCW 21.20.040, the section of the Securities Act
10 requiring registration of broker-dealers and securities salespersons; and RCW 21.20.140, the
11 section of the Securities Act requiring registration of the offer and sale of securities.

12
13 **NOTICE OF INTENT TO IMPOSE FINES AND COSTS**

14 Pursuant to RCW 21.20.390, RCW 21.20.395, and RCW 21.30.120 and based upon the
15 Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order
16 that Respondent, James W. King, shall be liable for and pay the Securities Division (1) a fine of
17 \$30,000 for violating the Commodity Transaction Act, (2) a fine of \$30,000 for violating the
18 Securities Act, and (3) the costs, fees, and other expenses incurred in the conduct of investigating
19 this matter in an amount not less than \$4,500.

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21
22 //

1 **AUTHORITY AND PROCEDURE**

2 This Statement of Charges and Notice of Intent to Enter Order to Cease and Desist and to
3 Impose Fines and Costs is entered pursuant to the provisions of RCW 21.20.390, RCW
4 21.20.395, RCW 21.30.120, and RCW 21.30.200 and is subject to the provisions of RCW 34.05.
5 The Respondent, James W. King, may make a written request for a hearing as set forth in the
6 NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING
7 accompanying this Statement of Charges.

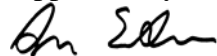
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9 If Respondent does not request a hearing, the Securities Administrator intends to adopt
10 the above Tentative Findings of Fact and Conclusions of Law as final and enter a permanent
11 order to cease and desist and impose fines and costs as to the Respondent.

12
13 Dated and Entered this 7th day of July, 2006.

14 

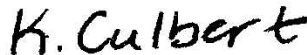
15 MICHAEL STEVENSON
16 Securities Administrator

17 Approved by:

18 

19 Suzanne Sarason
20 Chief of Compliance

Presented by:

21 

22 Kristen Culbert
23 Financial Legal Examiner