1 STATE OF WASHINGTON DEPARTMENT OF FINANCIAL INSTITUTIONS 2 SECURITIES DIVISION 3 IN THE MATTER OF DETERMINING Order Number S-09-448-12-SC01 Whether there has been a violation of the 4 Securities Act of Washington by:) STATEMENT OF CHARGES AND) NOTICE OF INTENT TO ENTER ORDER Discovery Tours, LLC;) TO CEASE AND DESIST, TO CHARGE Melody Miranda; and) COSTS. AND TO IMPOSE FINES 6 Fidel Armando Miranda; 7 Respondents. 8 THE STATE OF WASHINGTON TO: Discovery Tours, LLC 9 Melody Miranda Fidel Armando Miranda 10 STATEMENT OF CHARGES 11 12 Please take notice that the Securities Administrator of the State of Washington has 13 reason to believe that Respondents Discovery Tours LLC, Melody Miranda and Fidel Armando 14 Miranda have each violated the Securities Act of Washington and that their violations justify the 15 entry of an order of the Securities Administrator under RCW 21.20.390 against each to cease 16 and desist from such violations and to charge costs, and under RCW 21.20.395 to impose fines. 17 The Securities Administrator finds as follows: 18 TENTATIVE FINDINGS OF FACT 19 Respondents 20 Discovery Tours LLC ("Discovery Tours") is a Washington limited liability 1. 21 company formed on March 12, 2002, with a principal place of business in Centralia, 22 Washington. Discovery Tours is in the business of providing group tours to senior citizens. 23 24 DEPARTMENT OF FINANCIAL INSTITUTIONS STATEMENT OF CHARGES AND NOTICE OF 25 Securities Division INTENT TO ENTER ORDER TO CEASE AND

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DESIST, TO CHARGE COSTS, AND TO IMPOSE

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PO Box 9033

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- 2. Melody Miranda ("Melody Miranda") is the spouse of Fidel Armando Miranda and a Manager and co-owner of Discovery Tours.
- 3. Fidel Armando Miranda ("Armando Miranda") is the spouse of Melody Miranda and a Manager and co-owner of Discovery Tours.

Offering of Securities

- 4. Between at least 2005 and 2009, Discovery Tours raised over \$1.5 million through the offer and sale of investments that were referred to as "Growth Notes," "Certificates," "Growth Certificates," "Expansion Notes," and "Mortgage Notes" to more than 350 investors in Washington, many of whom are senior citizens.
- 5. Discovery Tours staff solicited customers on bus tours and provided them with flyers regarding investment opportunities, as described in additional detail below. Discovery Tours also solicited its tour customers by mail, including letters, flyers, postcards, and advertisements that were included in the company's booklet of upcoming tours.
- 6. Discovery Tours issued promissory notes to investors with returns ranging from 3% to 7%. According to the solicitations made by Respondents, some of the notes were unsecured, while others were purportedly "secured" by assets, including tour buses or the company's office in Centralia.
- 7. In November 2012, Discovery Tours filed a Chapter 11 bankruptcy petition. That petition was dismissed in January 11, 2013 and a new petition was filed on January 23, 2013. In its initial petition, Discovery Tours indicated that it owed more than \$900,000 to nearly 250 holders of "expansion notes."

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

2005 Offering

- 8. In 2005, the Respondents raised at least \$100,000 through the offer and sale of unsecured "Growth Notes" to at least 50 investors. Discovery Tours disseminated a flyer that stated that the company was offering "Growth Notes" (also referred to as "Growth Certificates") to investors for a "very limited time." Respondents represented that the company had more than 100 "certificate holders" and that more than 90% had "rolled over" their investment.
- 9. Respondents represented that investor funds would be invested into "tangible fixed assets" and that investors would receive a signed and numbered "certificate" from the managing members of Discovery Tours (i.e., Fidel and Melody Miranda).
- 10. Respondents offered notes with different rates of return, depending on the amount invested: (a) \$500 notes paid a return of 3%; (b) \$1,000 notes paid a return of 4%; and (c) \$5,000 notes paid 6% return. According to the flyer, the notes had a term of three years and interest payments would be made quarterly.

Summer 2006 Note Offerings

11. Between approximately July and August 2006, the Respondents offered and sold over \$375,000 worth of investments in \$1,000 increments to over 150 investors. In approximately July 2006, the Respondents disseminated a flyer to investors regarding so-called "\$1,000.00 Certificates." The flyer featured photographs of a large tour bus and represented that "a new bus is on the way" and that the certificates would be secured with the bus. The notes had a three-year term and offered a 7% return, with quarterly interest

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payments. The bottom portion of the flyer included a form for investors to fill out and return to the Discovery Tours' office in Centralia, Washington along with their investment check. The flyer represented that Discovery Tours was offering its customers the "same deal the bank has offered us." The flyer represented that the investment "maximizes your funds with a high interest rate" and had "minimal risk."

12. Some investors later received a three year promissory notes dated August 10, 2006. The notes were issued by Discovery Tours, LLC and signed by Fidel Miranda and another member of Discovery Tours' staff as a witness. The notes indicated that the investor would become a member of the "The Bus Group" and that the group "will be listed with the State of Washington as lien holders for the value of their individual certificate on a "MCI BUS" along with a VIN (vehicle identification number) for the bus.

2006-2007 Offering

- 13. Between approximately October 2006 and January 2007, Respondents offered and sold more than \$600,000 worth of investments to over 190 investors. Discovery Tours sent out a letter to existing investors in "Discovery Growth & Bus Funds." Respondents indicated that Discovery Tours had purchased a new tour bus, and that "certificates are available again for this new bus purchase." Investors were encouraged to tell their "family and friends as they will not last long as some of you discovered we sold-out on the last set offered."
- 14. Discovery Tours provided investors with a flyer regarding the \$1,000 Certificates" with terms similar to those used in the 2005 flyer. One flyer included a deadline

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1	of November 20, 2006, while another included a deadline of December 22, 2006.
2	Respondents continued to accept investor checks through the month of January 2007.
3	15. Discovery Tours later issued notes dated January 1, 2007 to numerous investors.
4	Respondents made similar representations regarding the investors being lien holders for the
5	value of their individual certificate on a specific bus.
6	2008 Offering
7 8	16. In 2008, Discovery Tours sent out postcard solicitations to its customers that
9	stated: "By customer request we have offered our current Growth Certificate holders an
10	opportunity to cash out early so you can buy in. We now have a limited supply of 3 year
11	certificates open. These are non-secured notes with a 7% interest paid by-yearly. Get the
12	same deal the bank offered us"
13	17. In July 2008, Discovery Tours sent a letter to investors that stated that the
14	company's expansion plans were "well under way." Investors were sent a form to fill out and
15	were told that they could request an "early cash out", could roll them over to future travel
16	credits to use on tours, or renew the notes for 1, 2 or 3 years.
17	2009 Offering
18	18. In 2009, Respondents offered and sold over \$1 million worth of so-called
19	"mortgage notes" to investors. Discovery Tours disseminated a flyer which stated "Why let
20	the banks have all the fun?" The flyer stated that "only a few" notes were still available.
21 22	19. Respondents described the investment as a "long term secured mortgage note
23	that will be managed by a local firm." The firm that would purportedly manage the note was
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25	STATEMENT OF CHARGES AND NOTICE OF INTENT TO ENTER ORDER TO CEASE AND DESIST, TO CHARGE COSTS, AND TO IMPOSE DEPARTMENT OF FINANCIAL INSTITUTIONS Securities Division PO Box 903. Olympia, WA 98507-903.

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not disclosed in the flyer. Respondents indicated that the notes would be paid off in seven years at 6% interest, and that the maximum investment was \$30,000 that would yield a profit "of \$6,817.20 over the term of the loan." The flyer stated that "certificates" would later be issued to investors.

- 20. Respondents further indicated that investors would earn 6% interest only until the "team has vested on December 31st 2009" and that at that time the "team" would be "added as a lien holder on the commercial property." The flyer did not disclose what commercial property it was referring to, the value of the property, or any existing lien holders.
- 21. In July 2009, Melody Miranda said to investors in a letter that: "As added protection, Armando [Miranda] and I carry enough life insurance to cover the notes should a tragic accident occur and 5 million dollars worth of insurance on the vehicles."

Securities Division Warning Letter

22. On or about November 10, 2009, the Securities Division sent a letter dated November 9, 2009 to Discovery Tours warning that the company may be in violation of the Securities Act of Washington. The letter further stated that the company must immediate cease directing offers and sales of securities in Washington and of possible administrative action for non-compliance. The letter was sent by certified mail, return receipt requested and the signed receipt evidencing delivery to Discovery Tours at its Chehalis address was returned to the Securities Division on November 13, 2009.

23. On December 4, 2009, the Securities Division received a letter dated December 1, 2009 from Melody Miranda in which she acknowledged the receipt of the Securities Division's November 9, 2009 letter warning the company of possible securities law violations.

Post Securities Division Warning Letter Activities

- 24. In November, 2009, a retiree mailed Respondents a check for \$3,000 in response to a flyer in the mail soliciting investments in Discovery Tours "mortgage notes." Respondents did not acknowledge the receipt of the check until January 25, 2010 when Respondents mailed the retiree a letter dated January 25, 2010 apologizing for the delay and stating that the retiree's investment check had been received on November 16, 2009. The Respondents issued the retiree a Discovery Tours promissory note on or about February 8, 2010.
- 25. On or about December 1, 2009, Respondents issued to a retired couple a Discovery Tours promissory note in the amount of \$3,000 at 6% per annum interest with principal and interest to be paid be paid twice a year with the final payment due on January 17, 2017.
- 26. On or about December 31, 2009, Respondents mailed investors a letter of that same date requesting investors to agree to extend the final payment of notes already due until September 1, 2010 with the promise of the return of the investors' original note amount plus additional interest.

2010 Offer

27. In December, 2010, Respondents offered Discovery Tour note holders a 20% premium if the investors would exchange part or all of their notes into "future travel

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certificates" in \$500 increments. The offer was made by a letter that explained: "For example a \$1,000.00 conversion, will return \$1,200.00 in future travel."

2011 Offer

28. In a letter dated January 29, 2011, Respondents offered Discovery Tour note holders a 10% premium if the investors would exchange part or all of their notes for future travel in \$500 increments. Respondents told investors that "If you would like to extend any or all of your note into a six year mortgage note during the month of February, we will honor your current interest rate and convert you to a regular payment of principle [sic] and interest scheduled to be at zero balance at the end of six years."

Default on Notes

29. By October, 2012 Respondents ceased making payments to note holders.

Misrepresentations and Omissions

- 30. When offering and selling the promissory notes described above, the Respondents failed to provide investors with a prospectus or offering circular disclosing the risks and material information regarding the investment such as financial statements or information concerning the financial condition of Discovery Tours.
- 31. The Respondents failed to provide investors with and made misleading statements regarding the risks associated the investments. While some flyers stated that the investments carried "some risk" or "minimal risk" they failed to disclose the specific risks, including the risk of default.

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32. The Respondents misrepresented to investors that their notes would be secured by life insurance policies, by deeds of trust against real property, or by UCC-1 filings against personal property owned by Respondents. Respondents failed to take the necessary steps to record the note holders' security interests in real or personal property such as by filing the appropriate paperwork with local counties or the Washington State Department of Licensing Uniform Commercial Code office.

Registration Status

- 33. Discovery Tours LLC is not currently registered to sell its securities in the state of Washington and has not previously been so registered.
- 34. Melody Miranda is not currently registered as a securities salesperson or brokerdealer in the state of Washington and has not previously been so registered.
- 35. Fidel Armando Miranda is not currently registered as a securities salesperson or broker-dealer in the state of Washington and has not previously been so registered.

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

CONCLUSIONS OF LAW

- 1. The offer or sale of the investments described above constitutes the offer or sale f a security, as defined in RCW 21.20.005(14) and (17).
- 2. Discovery Tours, LLC, Melody Miranda and Fidel Armando Miranda have each violated RCW 21.20.140, the securities registration provision of the Securities Act of Washington, by offering or selling securities for which there was no registration on file because no registration for such offer or sale is on file with the Securities Administrator.

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1	3. Melody Miranda and Fidel Armando Miranda have each violated RCW
2	21.20.040 by offering or selling said securities while not registered as a securities salesperson or
3	broker-dealer in the State of Washington.
4	4. The offer or sale of the stock described above was made in violation of RCW
5	21.20.010 because, as set forth in the Tentative Findings of Fact, Discovery Tours, LLC,
6	Melody Miranda and Fidel Armando Miranda made misstatements of material facts or omitted
7	to state material facts necessary in order to make the statements made, in light of circumstances
9	under which they were made, not misleading.
10	NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST
11	Pursuant to RCW 21.20.390(1), and based on the above Tentative Findings of Fact and
12	Conclusions of Law, the Securities Administrator intends to order that Discovery Tours, LLC,
13	Melody Miranda and Fidel Armando Miranda and their agents and employees, each cease and
14	desist from violations of RCW 21.20.140, RCW 21.20.040, and RCW 21.20.010.
15	NOTICE OF INTENT TO IMPOSE FINES
16	Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and
17	Conclusions of Law, the Securities Administrator intends to order that Respondent Discovery
18	Tours, LLC, Melody Miranda and Fidel Armando Miranda shall be jointly liable for and shall
19 20	each pay a fine of \$20,000.
21	NOTICE OF INTENT TO CHARGE COSTS
22	Pursuant to RCW 21.20.390(5), and based upon the Tentative Finds of Fact and
23	Conclusions of Law, the Securities Administrator intends to order that Respondent Discovery
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25	STATEMENT OF CHARGES AND NOTICE OF DEPARTMENT OF FINANCIAL INSTITUTION

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1	Tours, LLC, Melody Miranda and Fidel Armando Miranda shall be liable for and pay the
2	Securities Division the costs, fees, and other expenses incurred in the conduct of the
3	administrative investigation and hearing of this matter of not less than \$5,000.
4	AUTHORITY AND PROCEDURE
5	This Statement of Charges is entered pursuant to the provisions of chapter 21.20 RCW
6	and is subject to the provisions of RCW 34.05. The Respondents may each make a written
7	request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND
8	OPPORTUNITY FOR HEARING accompanying this order.
10	If a Respondent does not request a hearing, the Securities Administrator intends to adopt
11	the above Tentative Findings of Fact and Conclusions of Law as final and enter an order to
12	cease and desist permanent as to that Respondent, and impose the fines and costs sought.
13	Dated and Entered this _4th day of
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15	Million 14 Seats
16	WILLIAM M. BEATTY
17	Securities Administrator
18	Approved by: Presented by:
19	An Elm Martin Cordell
20	Suzanne E. Sarason Martin Cordell Chief of Enforcement Financial Legal Examiner
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22	Reviewed by:
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