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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:

Robert Scott Tolson  
Constance G. Tolson  
Cruisers Manufacturing, Inc.

Respondents

SDO - 66 - 00

SUMMARY ORDER TO CEASE AND DESIST

Case No. 97-04-209

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THE STATE OF WASHINGTON TO: Robert Scott Tolson  
Constance G. Tolson  
Cruisers Manufacturing, Inc.

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**STATEMENT OF CHARGES**

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Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 to cease and desist from such violations. The Securities Administrator finds that delay in ordering the Respondents to cease and desist from such violations would be hazardous to the investors and to the public and that a Summary Order to Cease and Desist should be entered immediately. The Securities Administrator finds as follows:

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**TENTATIVE FINDINGS OF FACT**

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A. RESPONDENTS

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1. Cruisers Manufacturing, Inc. ("Cruisers") is a Washington corporation. It conducted business at 801 Craig Road in Shelton, Washington.

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SUMMARY ORDER TO CEASE AND  
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1           2. Robert S. Tolson ("Tolson") was president and chief executive officer of Cruisers Manufacturing,  
2 Inc. at all times relevant to this order.

3           3. Constance G. Tolson was vice-president and managing agent of Cruisers Manufacturing, Inc. at all  
4 times relevant to this order.

5 B. COMMON STOCK OFFERING

6           1. On May 8, 1996, Tolson incorporated Cruisers for the purpose of producing and selling a folding  
7 motorbike known as the XJ7. Tolson designed the motorbike himself and built a crude, pre-production version  
8 in his garage that was used as a demonstration model.

9           2. Following its incorporation, Robert and Constance Tolson determined that Cruisers would require  
10 a substantial amount of capital in order to begin full-scale production of the motorbike. They decided that  
11 Cruisers would issue shares of common stock to finance its operations.

12           3. Agents of Cruisers contacted local newspapers and television stations and arranged interviews to  
13 promote the company and its product. During these interviews, Cruisers and its agents announced that the  
14 company was conducting a public stock offering and that interested persons could visit its plant in Shelton,  
15 Washington to get more information.

16           4. On October 18, 1996, the Seattle Post-Intelligencer ran a full length story about Cruisers  
17 Manufacturing which featured pictures of Robert and Constance Tolson and described their efforts to produce  
18 the motorbike. The article also indicated that Cruisers was offering 1,000,000 shares of stock at 0.45 each and  
19 that approximately half of these shares had been sold.

20           5. The Post-Intelligencer article generated tremendous interest in Cruisers Manufacturing, Inc.  
21 According to those present, long lines of investors formed in front of the company's headquarters where the  
22 Tolsons had set up a table and were selling stock. Some people also invested in Cruisers by mailing their  
23 checks to the company.  
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1           6.    The Tolsons also hosted a number of activities that were designed to attract potential investors.  
2 They held several “open house” events where investors could walk through their facility and view the  
3 demonstration motorbike. In addition, the Tolsons put on a large barbecue at Cruisers’ plant and encouraged  
4 shareholders to invite anyone interested in making an investment to attend.

5           7.    Investors who purchased stock from Robert and Constance Tolson signed subscription agreements  
6 and were later issued stock certificates. Some of these investors received a “private placement memorandum”  
7 and some received no written information whatsoever. None of the investors were provided with audited  
8 financial statements or any means of independently judging the company’s financial condition. They relied  
9 instead upon the Tolsons’ representations that Cruisers would start production of the motorbike within three to  
10 six months. More than three years have passed without the sale and delivery of a single motorbike.

11           8.    Respondents failed to provide a business plan or explain what steps would be necessary for  
12 Cruisers to become profitable. They did not establish a minimum offering amount or identify with particularity  
13 how the proceeds of the offering would be used. The offering memorandum indicated that the company would  
14 have competitors but failed to identify these competitors or explain how the Cruisers motorbike would compete  
15 with existing products. The identity of the company’s suppliers and the existence and terms of its contracts  
16 were also withheld from investors. Notwithstanding these omissions, respondents frequently blamed  
17 production delays upon the failure of various suppliers to perform under their contracts.

18           9.    In their dealings with investors, respondents stressed the important role that key personnel played  
19 in the success of the company. The offering memorandum indicated that Robert Tolson was a successful  
20 businessman and that he had extensive experience managing different projects. It also indicated that Constance  
21 Tolson had significant experience in the areas of management, marketing, inventory, and accounting.  
22 However, respondents failed to disclose that Robert Tolson had been the subject of several lawsuits in  
23 connection with his prior business activities. Respondents did not disclose the nature and outcome of these  
24 lawsuits or inform investors that several government agencies had taken action against Robert Tolson for

1 unpaid tax obligations. Finally, respondents did not reveal that Constance Tolson had filed for bankruptcy  
2 protection on January 11, 1996 — the same year that Cruisers was incorporated and began selling stock.

3 10. Over a period of about six months, the Tolsons sold at least \$293,000 worth of Cruiser's common  
4 stock to numerous Washington residents.

5 C. CONVERTIBLE PROMISSORY NOTES

6 1. On April 23, 1997, representatives of the Securities Division wrote to Robert Tolson and  
7 requested information about the Cruisers stock offering. Tolson acknowledged that Cruisers had offered and  
8 sold stock to Washington residents but indicated that the company was attempting to comply with applicable  
9 rules and regulations. Tolson assured representatives of the Securities Division that he would discontinue the  
10 offer and sale of any securities until the matter had been properly resolved. He later put this assurance in  
11 writing and provided a copy to the Securities Division.

12 2. Notwithstanding his promise to the Securities Division, Tolson began selling convertible  
13 promissory notes to fund Cruisers' activities beginning on or about January of 1998. These notes matured in  
14 two years and purportedly paid interest at a rate of 14% per annum. At maturity, investors had the option of  
15 either having their principal returned or receiving an equal amount of Cruisers' stock to be issued at \$1 per  
16 share. Some investors were also lead to believe that their interest payments could be reinvested in shares of  
17 stock as they became due.

18 3. Respondents did not provide purchasers of the convertible promissory notes with a prospectus or  
19 offering document. As with the common stock offering, investors were not provided with audited financial  
20 statements or informed of how much money the company needed to achieve its goals. No minimum offering  
21 amount was established. Respondents did not tell the convertible promissory note investors how much money  
22 the company had raised through its prior securities offering or how that money was actually used. Finally,  
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1 investors were not informed that production of the motorbike had been repeatedly delayed or that the company  
2 had actually entered sales agreements but had failed to deliver a product.

3 4. Purchasers of the convertible promissory notes did not receive accurate information about the  
4 Tolsons' prior business experience and solvency. These investors were not informed of the prior lawsuits  
5 brought against Robert Tolson or the actions brought by government agencies for unpaid taxes. Finally,  
6 Constance Tolson's prior bankruptcy filing was not disclosed to investors.

7 5. The Tolsons sold convertible promissory notes for approximately two years. During this time,  
8 they raised at least \$140,000 from this activity. Some of the convertible promissory note investors have not  
9 received interest as promised despite repeated demands for payment. At least one investor has sued Robert and  
10 Constance Tolson in connection with his investment.

11 6. In addition to the sale of common stock and convertible promissory notes, Robert and Constance  
12 Tolson agreed to issue Cruisers stock in return for labor and materials supplied by investors. At least  
13 \$214,685.53 was raised pursuant to these agreements.

14 7. Over a three year period, the Tolsons combined to sell a total of approximately \$650,000 worth of  
15 securities to investors in Washington state.

16 D. REGISTRATION STATUS

17 1. Cruisers Manufacturing, Inc. is not currently registered to sell its securities in the state of  
18 Washington and has not previously been so registered.

19 2. Robert S. Tolson is not currently registered as a securities salesperson or broker-dealer in the state  
20 of Washington and has not previously been so registered.

21 3. Constance G. Tolson is not currently registered as a securities salesperson or broker-dealer in the  
22 state of Washington and has not previously been so registered.

1 4. The Securities Administrator finds that the continued offering of securities in the manner  
2 described above presents a threat to the investing public.

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

5 **CONCLUSIONS OF LAW**

6 **I.**

7 The offer and/or sale of the common stock and convertible promissory notes described above  
8 constitutes the offer and/or sale of a security as defined in RCW 21.20.005(10) and (12).

9 **II.**

10 The offer and/or sale of said securities is in violation of RCW 21.20.140 because the securities were  
11 not registered with the Administrator of Securities, state of Washington.

12 **III.**

13 Robert S. Tolson has violated RCW 21.20.040 by offering and/or selling said securities while not  
14 registered as a securities salesperson or broker-dealer in the state of Washington.

15 **IV.**

16 Constance G. Tolson has violated RCW 21.20.040 by offering and/or selling said securities while  
17 not registered as a securities salesperson or broker-dealer in the state of Washington.

18 **V.**

19 The offer and/or sale of said securities was made in violation of RCW 21.20.010 because, as set  
20 forth above, Robert and Constance Tolson omitted material information about themselves and Cruisers  
21 Manufacturing, Inc. that was necessary to make their statements, in light of the circumstances under which they  
22 were made, not misleading.  
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24  
25 SUMMARY ORDER TO CEASE AND  
26 DESIST

VI.

The Securities Administrator finds that an emergency exists, that the continued violations of RCW 21.20.010, RCW 21.20.040, and RCW 21.20.140 constitute a threat to the investing public, and that summary orders to cease and desist from those violations are in the public interest and necessary for the protection of the investing public.

**SUMMARY ORDER**

Based on the foregoing, NOW, THEREFORE, IT IS HEREBY SUMMARILY ORDERED that Respondents, their agents and employees shall each cease and desist from offering and/or selling securities in any manner in violation of RCW 21.20.140, the section of the Securities Act of Washington requiring registration.

It is further SUMMARILY ORDERED that Respondents, their agents, and employees shall each cease and desist from acting as an unregistered securities broker/dealer or salesperson in violation of RCW 21.20.040.

It is further SUMMARILY ORDERED that Respondents, their agents, and employees shall each cease and desist from violation of RCW 21.20.010, the anti-fraud section of the Securities Act.

**AUTHORITY AND PROCEDURE**

This Order is entered pursuant to the provisions of RCW 21.20.390 and is subject to the provisions of Chapter 34.05 RCW. Respondents may each make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this order.

If a Respondent does not request a hearing, the Securities Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and make the Summary Order to Cease and Desist permanent as to that Respondent.

1 WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.  
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4 DATED this 5th day of June, 2000.  
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8 DEBORAH R. BORTNER  
9 Securities Administrator

10 Presented by:  
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13 \_\_\_\_\_  
14 Steven Raney  
15 Securities Examiner

16 Approved by:  
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19 Michael E. Stevenson  
20 Chief of Enforcement  
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