



STATE OF MISSOURI
OFFICE OF SECRETARY OF STATE

IN THE MATTER OF:)	
)	
DEARBORN INVESTMENT FUND, L.C.)	
and RICHARD ANDREW GALLAHER,)	
CRD No. 1921881,)	
)	
)	
)	Case No. AP-15-09
)	
Serve:)	
Dearborn Investment Fund, L.C.)	
James F. Sanders, Registered Agent)	
500 N. Broadway, 20 th Floor)	
St. Louis, Missouri 63102)	
)	
and)	
)	
Richard Andrew Gallaher)	
632 Evans Avenue)	
St. Louis, Missouri 63122)	

CONSENT ORDER

INTRODUCTION

The Dearborn Investment Fund, L.C. (“Dearborn”) was a company that provided loans to injured railroad workers awaiting compensation via lawsuit. The loans carried an interest rate of prime plus 4% and were repaid out of the proceeds secured from the settlement of the lawsuits. In order to fund these loans to injured railroad workers, Dearborn and Richard Andrew Gallaher (“Gallaher”), who was at all relevant times the Manager and an officer of Dearborn, solicited outside investors, and injured railroad workers who had received loans and thereafter repaid those loans with settlement proceeds. These injured railroad workers would invest an additional portion of their settlement Dearborn in exchange for units or shares. Dearborn would use the investments to loan money to other injured railroad workers whose lawsuits were still pending. At no time did Dearborn register these units or shares as securities either federally or with the state of Missouri, nor do the securities otherwise qualify as exempt from registration. Gallaher was not registered as a broker-dealer agent after July 31, 2000. Investors are still owed \$35,250.

SUMMARY OF ENFORCEMENT SECTION’S ALLEGATIONS

1. The Enforcement Section of the Missouri Securities Division of the Office of Secretary of State (“Enforcement Section”), through Director of Enforcement John Phillips, has alleged that Dearborn and Gallaher (collectively hereafter “Respondents”), offered and sold unregistered, non-exempt securities to at least thirty-five (35) individuals and employed or associated with an unregistered agent who transacted business in the state of Missouri and in violation of Section 409.3-301 and 409.4-402 RSMo. (Cum. Supp. 2013), and that this constitutes grounds to issue an order pursuant to Section 409.6-604, RSMo. (Cum. Supp. 2013).
2. Respondents and the Enforcement Section desire to settle the allegations and the matters raised by the Enforcement Section relating to the Respondents’ alleged violations of Section 409.3-301 and 409.4-402 RSMo. (Cum. Supp. 2013).

CONSENT TO JURISDICTION

3. Respondents and the Enforcement Section stipulate and agree that the Missouri Commissioner of Securities (“Commissioner”) has jurisdiction over the Respondent and these matters pursuant to the Missouri Securities Act of 2003, Chapter 409, *et seq.*
4. Respondents and the Enforcement Section stipulate and agree that the Commissioner has authority to enter this Order pursuant to Section 409.6-604(h), RSMo. (Cum. Supp. 2013), which provides:

“The commissioner is authorized to issue administrative consent orders in the settlement of any proceeding in the public interest under this act.”

WAIVER AND EXCEPTION

5. Respondents waive Respondents’ right to a hearing with respect to this matter.
6. Respondents waive any right that Respondents may have to seek judicial review or otherwise challenge or contest the terms and conditions of this Order. Respondents specifically forever release and hold harmless the Missouri Office of Secretary of State, Secretary of State, Commissioner, and their respective representatives and agents from any and all liability and claims arising out of, pertaining to, or relating to this matter.
7. Respondents stipulate and agree with the Enforcement Section that, should the facts contained herein prove to be false or incomplete, the Enforcement Section reserves the right to pursue any and all legal or administrative remedies at its disposal.

CONSENT TO COMMISSIONER’S ORDER

8. Respondents and the Enforcement Section stipulate and agree to the issuance of this Consent Order without further proceedings in this matter, agreeing to be fully bound by the terms and conditions specified herein.
9. Respondents agree not to take any action or to make or permit to be made any public statement creating the impression that this Order is without factual basis. Nothing in this paragraph affects Respondents' (a) testimonial obligations; (b) right to take legal or factual positions in defense of litigation or in defense of other legal proceedings in which the Commissioner is not a party; or (c) right to make public statements that are factual.
10. Respondents agree that Respondents are not the prevailing party in this action since the parties have reached a good faith settlement.
11. Respondents neither admit nor deny the allegations made by the Enforcement Section, but consent to the Commissioner's Findings of Fact, Conclusions of Law, and Order as set forth below solely for the purposes of resolving this proceeding and any proceeding that may be brought to enforce the terms of this Consent Order.

COMMISSIONER'S FINDINGS OF FACT,
CONCLUSIONS OF LAW, AND ORDER

I. FINDINGS OF FACT

12. Dearborn Investment Fund, L.C. ("Dearborn") is a Missouri limited liability company created on June 2, 1994. According to records maintained by the Missouri Secretary of State's Business Services Division, Dearborn's registered agent for service of process is James F. Sanders with a mailing address of 500 N. Broadway, 20th Floor, St. Louis, Missouri 63102.
13. Richard Andrew Gallaher ("Gallaher") is a Missouri resident with a mailing address of 632 Evans Avenue, St. Louis, Missouri 63122. Gallaher has Central Registration Depository ("CRD") number 1921881, but has not been registered in Missouri as a securities agent since July 2000. Gallaher is a licensed insurance agent in Missouri with license number 0225209. Gallaher is a licensed certified public accountant in Missouri with license number 006992.
14. A check of the records maintained by the Commissioner indicates that, at all times relevant to this matter, there was no registration, granted exemption, or notice filings indicating status as a "federal covered security" for any securities issued by Dearborn and/or Gallaher.
15. A check of the records maintained by the Commissioner indicates that, at all times relevant to this matter, Dearborn had no registration or granted exemption for any agents in the State of Missouri.

16. As used herein, the term “Respondents” refers to Dearborn and Gallaher, unless otherwise indicated.

Dearborn Investment Strategy

17. Beginning in at least 1994, Dearborn and Gallaher offered and sold units in Dearborn to investors.
18. Dearborn initially was the idea of Ed Rathman, who was a long-time client of Gallaher and had a background in the railroad business.
19. Rathman approached Gallaher to be the accountant and record keeper for Dearborn, and Gallaher agreed to serve in that capacity because of their long-standing relationship.
20. Rathman assured Gallaher that everything was in order with the Dearborn investment, including the necessary paperwork for the private placement investment, which was drafted by an attorney by the name of James Sanders.
21. Gallaher’s official title was the President of Dearborn Investment Advisors, Inc., which served as the Manager of Dearborn, pursuant to the Dearborn Operating Agreement. He also was a member of Dearborn. Dearborn Investment Advisors, Inc. received a 1% management fee on the value of the Net Assets of Dearborn.
22. Gallaher’s primary duties with Dearborn were to receive and disburse funds, handle correspondence, and file tax returns.
23. On at least one occasion, Gallaher met with a potential investor and obtained an investment in Dearborn, but the primary responsibility for bringing investors to Dearborn was Rathman’s and/or people associated with him.
24. One of those individuals associated with Rathman was his brother, Dennis Rathman, who had a law firm that prosecuted lawsuits on behalf of injured railroad workers.
25. Most of the investors involved in the fund were brought to Dearborn by Ed Rathman, Dennis Rathman and/or people associated with the Rathmans.
26. Investor funds were used to make loans to injured railroad workers (the “Loans”) and to purchase equity securities.
27. The Loans took the form of monthly disbursements to injured railroad workers during the pendency of their personal injury cases.
28. In order for injured railroad worker to obtain the Loans, Dearborn secured a lien against the injured railroad workers’ legal cases.

29. Upon resolution of injured railroad workers' legal cases, the lien would be enforced and the Loans would be paid off to Dearborn, including the accrued interest.
30. Subsequent to Dearborn receiving the Loan reimbursements and interest thereon, Dearborn investors would be paid interest payments on their investment, less operating expenses of Dearborn.

Missouri Resident

31. In 2014, an investigator with the Enforcement Section made contact with a sixty-two (62) year-old Hannibal, Missouri resident ("MR"). A review of interviews conducted with MR and records received from Gallaher and MR revealed the following:
 - a. in 1991, MR was injured while working for a railroad company and had difficulty paying monthly bills;
 - b. MR's attorney for MR's personal injury suit suggested obtaining loans from Gallaher and Dearborn while MR's personal injury suit was pending;
 - c. MR obtained loans of six hundred dollars (\$600) per month from Dearborn in order to cover MR's monthly expenses;
 - d. in or around 1996, MR received a settlement in MR's personal injury case, and MR paid off the loans received from Dearborn, including the accrued interest;
 - e. in 1996, MR's attorney asked MR to become an investor in Dearborn to help others that find themselves in a similar situation as MR;
 - f. MR's attorney told MR that MR's investment could double in five (5) to seven (7) years;
 - g. MR decided to invest \$30,000, which was withheld from MR's personal injury settlement amount;
 - h. on September 19, 1996, MR's attorney sent a letter to Gallaher that stated, among other things, "Enclosed please find check...in the amount of \$30,000.00 which represents settlement proceeds of [MR] which [MR] wishes to invest in Dearborn Investments;"
 - i. on September 19, 1996, a check from MR's attorney for thirty thousand dollars (\$30,000) was written payable to Dearborn with "[MR]" in the memo line;
 - j. on September 23, 1996, Gallaher sent a letter to MR that stated, among other things "[t]hank you for your \$30,000 investment in our Fund. We will put your money right to work with our October 1 loan distributions. I have enclosed Offering Papers for the Dearborn Investment Fund."

- k. MR subsequently requested and received a \$15,000 refund;
- l. On or about November 21, 2002, Gallaher sent a letter to MR indicating that MR's account held a balance in excess of \$49,000, which did not account for the \$15,000 refund;
- m. between at least 2008 through 2011, MR attempted to contact Gallaher and Dearborn to request a withdrawal of the funds;
- n. to date, MR has yet to receive \$15,000, which remains due and outstanding from his initial investment.

Arkansas Resident 1

32. In 2014, an investigator with the Enforcement Section made contact with a sixty-six (66) year-old Little Rock, Arkansas resident ("AR1"). A review of the interviews conducted with AR1 and records received from Gallaher and AR1 revealed the following:
- a. in 1999, AR1's attorney asked him to invest his retirement account with Dearborn and Gallaher;
 - b. on January 29, 1999, AR1 invested \$20,000 with Gallaher and received 4 units in Dearborn;
 - c. On April 1, 1999, AR1 received a letter from Gallaher on behalf of Dearborn stating, among other things, "The Fund is performing quite well. We are loaning out approximately \$45,000 each month. The current interest rate charged clients is 11.75%. Investors are netting 10.75%";
 - d. AR1 made several request for account statements but did not receive one;
 - e. Starting in 2005, AR1 made several requests to close his Dearborn account and get his money reimbursed. However, to date neither Gallaher nor Dearborn as reimbursed AR1 for his investment in Dearborn;
 - f. on July 16, 2008, AR1 sent a letter to Gallaher and Dearborn stating AR1's intention to close out AR1's Dearborn account;
 - g. in October 2010, AR1 spoke to Gallaher and Gallaher agreed to refund his investment, but could only do so on an installment basis. As such, Gallaher sent AR1 a check for \$500, and Gallaher has continued to send periodic installment refund payments to AR since that time; and
 - h. AR1 has yet to receive \$250, which remains due and outstanding from his initial investment.

Wyoming Resident

33. in or around September 1996, a Gillette, Wyoming resident (“WR”) invested \$20,000 with Gallaher and Dearborn.
34. On February 17, 2000, Gallaher on behalf of Dearborn sent WR a letter that stated, among other things, the following:
 - a. “we currently have loans outstanding in excess of \$900,000”;
 - b. “During 1999 we had several interest rate increases. We started the year at 10.75%. We had three separate ¼ point increases & ended the year at 11.50%. We are currently at 11.75% & I fully expect that to increase to 12.0% in March, with another possible increase in May or June. So, things are good.”;
 - c. “Due to the settlement of some recent cases we have enough cash on hand [sic] to satisfy immediate loan origination requirements”; and
 - d. “If you would like to add to your investment, please give me a call.”
35. To date, WR has not received a return of his \$20,000 investment in Dearborn.

Additional Findings

36. The Enforcement Section’s investigation revealed at least thirty-five (35) investors in Dearborn, including MR, AR1, and WR.
37. Dearborn ceased operations in late 2009 or early 2010.

II. CONCLUSIONS OF LAW

38. The Commissioner finds Respondents offered and sold unregistered, non-exempt securities and associated with and/or employed unregistered agents who transacted business in the state of Missouri , and that this conduct constitutes grounds to issue an order pursuant to Section 409.6-604 RSMo. (Cum. Supp. 2013).
39. The Commissioner, after consideration of the stipulations set forth above and on the consent of Respondents and the Enforcement Section, finds and concludes that the Commissioner has jurisdiction over Respondents and this matter and that the following Order is in the public interest, necessary for the protection of public investors and consistent with the purposes intended by Chapter 409, RSMo. (Cum. Supp. 2013).

III. ORDER

NOW, THEREFORE, it is hereby Ordered that:

1. Respondents, their agents, employees and servants, and all other persons participating in the above-described violations with knowledge of this order are permanently enjoined and restrained from offering and selling unregistered, non-exempt securities and associating with and/or employing unregistered agents in violation of Sections 409.3-301 and 409.4-402 RSMo. (Cum. Supp. 2013).
2. Respondents are ordered to pay \$35,250 in restitution. Respondents are ordered to pay \$10,000 in a lump sum payment within sixty (60) days of the effective date of this Consent Order. Thereafter, Respondents shall make monthly payments of \$350.00 each, to begin thirty (30) days after payment of the initial lump sum and continuing for a period of five (5) years, for a total of an additional \$21,000.00. Within thirty (30) days after the final monthly payment, Respondents shall pay an additional lump sum of \$4,250.00. Respondents are jointly and severally liable for all payments in this paragraph. These payments shall be sent to the Securities Division at 600 W. Main Street, Jefferson City, Missouri 65101, and shall be payable to the **Missouri Secretary of State's Investor Restitution Fund**. These payments will be distributed by that Fund to the investors in the amounts identified in Exhibit 1. Respondents are allowed to make prepayments in whatever amount during the pendency of the five (5) year payment plan set forth in this paragraph. If Respondents fail to make any payment described in this paragraph, the full amount of restitution remaining shall be immediately due and owing, and the Commissioner may refer this matter for enforcement as provided in Sections 409.6-603 and 409.6-604, RSMo. (Cum. Supp. 2013).
3. Respondents shall pay a **civil penalty** of \$35,000, reflecting violations of offering and selling unregistered securities to thirty-five victims. The civil penalty shall be suspended provided that all payments in paragraph 2 are timely made, and that Respondents otherwise comply with the provisions of this Order and with the Missouri Securities Act of 2003.
4. Respondents are jointly and severally ordered to pay \$5,000, as the **cost of this investigation**. The payment for cost of investigation also shall be suspended provided that all payments in paragraph 2 are timely made, and that Respondents otherwise comply with the provisions of this Order and with the Missouri Securities Act of 2003.
5. For six (6) years from the effective date of this Consent Order, the suspended payments in paragraphs 3 and 4 above shall become immediately payable, under operation of law, upon Respondents' failure to comply with the terms of this Consent Order or the Missouri Securities Act following reasonable notice, and such payments shall be in addition to all other penalties then available under the law.
6. Respondents shall pay their own costs and attorneys' fees with respect to this matter.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY,

MISSOURI THIS 16TH DAY OF MARCH, 2015



JASON KANDER
SECRETARY OF STATE

Andrew M. Hartnett

ANDREW M. HARTNETT
COMMISSIONER OF SECURITIES

Consented to by:

THE ENFORCEMENT SECTION OF THE
MISSOURI SECURITIES DIVISION

John R. Phillips

John R. Phillips
Enforcement Counsel

Richard A. Gallaher

Richard Andrew Gallaher

Dearborn Investment Fund, L.C.

BY:

Richard A. Gallahue

NAME:

RICHARD A. GALLAHUE

TITLE: _____

Approved as to Form:

Gilbert C. Sison

Gilbert C. Sison

Attorney for Respondents