SPECIAL REPORT

Ohio agency sinks millions into rare coins

State gives investment business to prominent local Republican

By MIKE WILKINSON
and JAMES DREW
BLADE STAFF WRITERS

Since 1998, Ohio has invested millions of dollars in the unregulated world of rare coins, buying nickels, dimes, and pennies.

Controlling the money for the state? Prominent local Republican and coin dealer Tom Noe, whose firm made more than $1 million off the deal last year alone.

Tom Noe, with Gov. Bob Taft, and Republican National Committee Chairman Ed Gillespie at a 2004 fund-raiser, has given more than $11,000 in contributions to both Mr. Taft and U.S. Sen. George Voinovich, a former governor, over the last decade.
(THE BLADE)

The agreement to invest the money in rare coins is rare itself: The Blade could find no other instance of a state government investing in a rare coin fund. Neither the state nor Mr. Noe could provide one.

"I don't think I'd be excited to invest in rare coins," Vermont Treasurer Mike Ablowich said. "It's a little unusual."

The Ohio Bureau of Workers' Compensation has continued to be the sole investor in Mr. Noe's Capital Coin funds despite strong concerns raised by an auditor with the bureau about possible conflicts of interest and whether the state's millions were adequately protected.

And the state has maintained its stake in Capital Coin despite documented problems:

* Two coins worth roughly $300,000 were lost in the mail in 2003.

* The firm has written off $850,000 in debt over the last three years to cover a failed business relationship.

* Mr. Noe has loaned some of the state's money to a local real estate business that buys and sells central-city homes. A state auditor could not find documents to prove if the loans were sufficiently covered by the value of real estate that a Capital Coin subsidiary held as collateral.

Since the state first ventured into rare coins, Capital Coin has split $12.9 million in profits with the state, with Capital Coin keeping 20 percent, or nearly $2.6 million.

"It's probably one of the better investments in our portfolio," said Jim McLean, chief investment officer for the workers' compensation bureau - the state agency charged with paying medical bills and providing monthly checks to Ohio workers injured on the job.

Typically putting its billions to work in the stock and bond markets, the bureau decided in 1998 to take a portion of its reserves and invest in rare coins. Among the bureau's holdings: a 1792 silver piece estimated to be worth $2 million as well as 18th century nickels and pennies. One of the lost coins was an 1855 $3 gold coin; there are only two in the world.

The state trumpets its relationship with Mr. Noe, praising the returns on its investment. A few years ago, as the stock market tanked, most of its equity funds lost money. Capital Coin was one of the only funds running positive returns at the time, officials said.

Mr. Noe is well-known in Columbus. Former Gov. George Voinovich appointed him to the Ohio Board of Regents and Gov. Bob Taft appointed him to the Ohio Turnpike Commission. He's now chairman of the Turnpike Commission.

Mr. Noe is a former chairman of the Lucas County Republican Party who has given more than $11,000 in campaign contributions to both Governor Taft and Mr. Voinovich, now a Republican U.S. senator, over the last decade. He has given tens of thousands more to Republican candidates around the state.

He worked hard to get President Bush re-elected last year; as chairman of the Bush team's efforts in northwest Ohio, he frequently talked with Karl Rove, one of the President's top advisers.

The administrator of the Bureau of Workers' Compensation, James Conrad, was appointed by a Republican governor, Mr. Voinovich, and reappointed by Governor Taft. All five members of the bureau's oversight commission also were appointed by Republican governors. Mr. Conrad declined several requests for interviews with The Blade.

When reached for comment yesterday, Mr. Taft's press secretary, Mark Rickel, said the governor would not answer questions or comment on The Blade's article.

Jeremy Jackson, press secretary for the bureau, said there is no evidence that politics played any role in the selection of Capital Coin.

Mr. Noe also said politics had nothing to do with the bureau's decision to invest with him.

"This had to do with Tom Noe, the coin dealer," Mr. Noe said. "It had nothing to do with politics. If someone tells you that they got involved on my behalf to help me on this politically, then they're lying to you."

His knowledge of coins led Ohio officials to make him chairman of the state's commemorative quarter committee. He's also the current chairman of the U.S. Mint's Citizens Coinage Advisory Committee, which advises the Treasury secretary on coinage.

Market 'ripe' for coin fund

Since he was a boy growing up in Bowling Green, Mr. Noe, 50, has been fascinated by the coin world; as early as 12, he was running coin shows. After less than a year at Bowling Green State University, he dropped out of college to pursue the business full-time.

His business, Vintage Coins and Collectibles on Briarfield Road in Monclova Township, has done well and helped make him a comfortable living. He and his wife, Bernadette, who like Mr. Noe is a former chairman of the Lucas County Republican Party, own a $480,000 condominium on the Maumee River, a $600,000 home on Catawba Island, and a $1.85 million waterfront home in Key Largo, Fla. Ms. Noe is a local attorney.

In the 1990s, Mr. Noe started to think about creating a coin fund in which private investors would pool their money with him.

He shared his idea with others and drafted a proposal for private investors.

Then, in 1997, he said he got a call from someone - whose name he could not recall - who was aware of the bureau's intent to create an "emerging-managers" program. The bureau was going to consider alternative investments in addition to its traditional focus on bonds and stocks.

Mr. Noe said he made a phone call, got a questionnaire from the bureau, and returned a copy of his proposal for private investors. Intrigued, the bureau asked him to talk about his proposal. He agreed.

"I don't think anyone can sell a coin deal better than I can sell a coin deal," he told The Blade recently.

More than 100 firms from all over the country wanted a piece of the emerging-manager action, which would include nearly $500 million of the bureau's $18 billion investment portfolio. The prospective money managers offered their services to invest in stocks, bonds, private equity, and other financial instruments.

Bureau staff then interviewed all of the firms and graded them based on their size, their staff, and their prior returns. Capital Coin, however, was not graded, officials said recently, because there were no similar managers to compare it with.

In March, 1998, the bureau's oversight commission approved a list of 28 managers for the program, including Capital Coin, and by August, it had received its first $25 million. Only four other managers got as much or more. The bureau later granted Capital Coin an additional $25 million, the bureau's self-imposed cap. Only two other fund managers in the emerging-manager program have as much.

Arrangement scrutinized

On the surface, the state's arrangement with Capitol Coin is fairly simple. Mr. Noe and his partners take the state's millions and, using their decades of expertise, buy coins and resell them, hopefully at a profit.

At the end of each year, the profits are split 80-20 with the state. Mr. Noe said his cut goes to his firm, Thomas Noe Inc., which then must pay expenses. Mr. Noe is president of Thomas Noe, Inc., and one of its shareholders.

The Capital Coin arrangement was in place for about a year before it caught the eye of the bureau's audit department. It soon launched a review of the deal because of "the unique nature of the investment." It is the only internal review performed on any of the emerging-manager firms, the bureau has told The Blade.

In his review, Keith Elliott, manager of internal audits for the bureau, broached a number questions:

* Should the managers of the fund be allowed to personally buy and sell coins to and from Capital Coin? Was that a conflict of interest?

* Are the mortgages that Capital Coin held adequately supported by the value of the real estate?

* Should Capital Coin pay advances to partners in advance of profits from coin deals that had not yet occurred?

After a flurry of e-mails between Mr. Elliott and others in the bureau, Robert Cowman, the former chief investment officer for the bureau, became aware that Mr. Elliott had expressed concerns. He wrote to bureau chief legal officer John Annarino.

"Keith seems to be questioning the investment merits of this partnership, plus he seems to be questioning the adequacy of the legal document," wrote Mr. Cowman, who was still with the bureau then. "I'm not sure he should be questioning either issue."

Last week, in a phone interview, Mr. Cowman said the bureau fully supported Mr. Elliott's review. "We just wanted to make sure there were the proper controls in place for anything that might come up," he said.

At several points in his memos, Mr. Elliott made it clear that he felt that any problems with the fund could lead to problems for the bureau. Some of the practices of Capital Coin, he wrote, "could potentially expose both BWC and the fund managers to adverse public scrutiny regarding the appropriate use of state funds."

One of the most long-standing issues was whether the state could have an independent appraisal done of its coins - letting the state know, in essence, if Capital Coin was doing what it said it was. But Mr. Noe felt that an audit could potentially compromise the partnership by revealing to the coin market what he had purchased for the state.

In one of his memos, Mr. Elliott addressed what could happen if the state did not have an independent inventory or audit: "While we can say we trust the integrity of the manager and that their ability to continue to do business with us in the future ... as a control, this would not help the Chief Financial Officer, Chief Investment Officer, or the Administrator if we have a fraudulent act and they have to go before the press to explain what controls we had in place to prevent the act."

Ultimately, Capital Coin agreed to provide a yearly inventory of coins. However, the state, saying the inventory is a trade secret and not a public record, declined to release that inventory to The Blade.

In his review, Mr. Elliott raised another issue: Was there enough insurance to cover the inventory?

"While [Capital Coin] has $15 million-plus in coins, the partnership only has approximately $6 million in insurance coverage and it was not clear if this coverage covered coins at joint venture locations,'' Mr. Elliott wrote about the state's investment with Mr. Noe in May, 2000.

Mr. Jackson, press secretary for the bureau said the agency was satisfied when Mr. Noe explained that the insurance coverage exceeded the "value of the inventory at any one location in any one given time."

In his memo, Mr. Elliott wrote that Mr. Noe's position on insurance coverage was: "As long as all four locations don't get hit exactly the same time, should be okay."

Mr. Noe said the companies he controls have joint ventures with dealers all over the country. He said the coins are stored in Ohio, Pennsylvania, Delaware, Minnesota, Colorado, and California.

The bureau's review ended in early 2001 with Mr. Cowman sending a letter to Mr. Noe requiring changes in the way the funds were operated. Among them:

* Capital Coin would no longer grant advances to partners against future profits.

* The state would maintain a list of all collateral - like real estate, coins, and other assets - received by the fund.

* Coins would be purchased at wholesale prices or lower.

Rare coins go missing

In many cases, Capital Coin uses wholly owned subsidiaries, with names like Rare Coin Alliance, Visionary Rare Coin, and the Spectrum Fund, to buy and sell coins. Capital Coin provides the initial capital and hires an outside manager to run the subsidiaries.

One of the subsidiaries is called Numismatic Professionals, and last year Capital Coin let the state know about a potential problem with it: an employee misappropriating assets.

In an interview, Mr. Noe would say little, except to say Capital Coin is studying the business deals of its subsidiary. He said that review is unrelated to two coins that Mike Storeim, manager of Numismatic Professionals, reported lost in October, 2003.

Mr. Storeim, who works out of an office in Evergreen, Colo., used state money Mr. Noe had given him to buy the coins for about $185,000, he said. The market value of the coins was about $300,000, he estimated.

One was an 1855 $3 gold coin, the other an 1845 $10 gold coin.

The coins were being sent by Express Mail from a professional grading company in California, which certified the quality of the coins, to Mr. Storeim. When he got the package, he said it appeared that it had been tampered with.

After opening it, he found the two coins missing. He contacted Mr. Noe within minutes and later filed a report with the Jefferson County, Colorado, Sheriff's Department.

Ultimately, the sheriff's department ruled that it couldn't determine how the coins were lost and closed the case, a department spokesman said.

"I'm just guessing it was bad luck," Mr. Storeim said. "Sooner or later the coins will turn up. They are completely identifiable."

Mr. Noe told The Blade last week that he accepts the explanation for the lost state coins. However, both he and Mr. Storeim agree that they have a broader disagreement. Mr. Noe said he hired a forensic accountant to examine Numismatic Professionals, a review that is not focusing on the lost coins.

"There's nothing that's been done," Mr. Storeim said. "I've just been waiting for him to want to just settle this and get behind this, and he's not willing to do it."

Mr. Noe indicated that he is working toward resolving the issue soon.

Subsidiary takes a hit

In his review, Mr. Elliott, the bureau's manager of internal audits, wrote extensively about one of Capital Coin's partners, Visionary Rare Coin. It was run by Mark Chrans, who lives in Southern California and now operates Malibu Coin.

Mr. Noe's Capital Coin had created Visionary, provided the funding for it, and hired Mr. Chrans to manage it. He was paid $12,500 every two weeks - money that would be subtracted from profits on future coin sales. Unfortunately, some of those profits never came.

At first, the relationship worked out for everyone, Mr. Noe said recently.

"He was doing well for a long period of time," Mr. Noe said. "He was way ahead. All of a sudden he hit a bad streak and it went the other way, and we cut it off."

By the time the relationship ended, Mr. Chrans had received $335,076 in advances. He also owed $128,583 on a $250,000 loan from Capital Coin - unrelated to the operation of Visionary - from the funds. It is unclear what the loan was for. Mr. Noe said recently he didn't recall the specifics of the loan.

Visionary also recorded a business loss of $359,646.

All told, Capital Coin reported to the state that Mr. Chrans owed it nearly $835,000, which includes roughly $11,000 in interest.

Mr. Noe attributed much of the loss to bad coin deals. He said Mr. Chrans bought coins that fell in value. "He just made some bad decisions on what he was buying," Mr. Noe said.

Although Mr. Chrans made some payments on the debt, Capital Coin has written off more than $850,000 related to Visionary, according to financial records provided to The Blade by the bureau.

Contacted recently, Mr. Chrans would say little about the deal. He said much of the money written off was interest on the original debt.

"I'd rather not go into it any further," he said. "It's rather pointless."

Deals go beyond coins

Early on, when Capital Coin was sending profits of roughly $775,000 to $1.1 million to the state each year, Capital Coin was keeping from $200,000 to $270,000. That money was then be split evenly between Vintage Coin and Mr. Noe's partners, Delaware Valley Rare Coin Co. Inc., located in the Philadelphia area.

"In the first few years I was in this, I probably didn't make any money at all if you really look at the net effect of time away from my core business," Mr. Noe said.

In the years since, the returns have grown substantially. Last year, profits swelled: Capital Coin sent nearly $5.4 million to the state, keeping $1.3 million. And more than half of that came from the second Capital Coin fund that Mr. Noe set up with the second $25 million the state gave him to invest in 2001. Mr. Noe's Vintage Coin is the sole manager of that fund.

Mr. Noe acknowledged that he turned to other investments when he could not find enough coins to buy and sell.

"I didn't want to sit there with money at 2.5 percent," Mr. Noe said. "It's hard to return that."

He made a substantial profit last year, he said, when he sold shares he held in a real estate investment trust that went public. Capital Coin had bought shares in the trust when it was privately held.

Capital Coin also reported loans to people backed by mortgages. One of them was for $200,000, in which the borrower pays $2,000 a month at 12 percent interest.

Mr. Noe said he was working with a coin dealer from Pennsylvania who needed to have some coins in order to sell them. But Mr. Noe required that he give him some collateral.

"He had to work the coins," Mr. Noe said. "I couldn't have the coins, so I said you had better give me something that is worth the money.

The coin dealer, who Mr. Noe declined to identify, then gave Mr. Noe a mortgage on his own home as collateral.

In an attempt to verify the value of the real estate, The Blade asked Mr. Noe in what Pennsylvania county it was held. Mr. Noe declined to say. He said the release of the borrower's name would hurt his ability to continue doing business with him.

The Blade asked the state for similar documentation, which in 2001 it had required Capital Coin to keep. However, the workers' compensation bureau has said such a release may be a trade secret, an argument Mr. Noe agrees with. If it's considered a trade secret, it could be exempt from Ohio's public records law.

Questions arise

Almost since the beginning of its relationship with the state, Capital has invested state money - totaling nearly $1 million - with controversial Ottawa Hills real estate mogul John Ulmer. Mr. Ulmer's companies agreed to pay Rare Coin Enterprises, one of Capital Coin's wholly owned subsidiaries, 10 or 12 percent on the investment.

Mr. Ulmer takes investors' money and buys homes, often in the lower-income parts of Toledo. He then fixes them and resells them, acting as a private bank that charges interest rates above traditional banks and mortgage companies.

The resulting revenue stream allows him to provide healthy returns to his investors.

But some community activists and Toledo leaders have accused Mr. Ulmer of buying substandard homes for cheap prices and then reselling them to poor buyers who must pay him inflated prices plus high interest rates. Mr. Ulmer has countered that he's helped people with poor credit realize the American Dream and helped rehabilitate neighborhoods in the process.

Mr. Cowman, the former chief investment officer for the bureau and now director of investment for the Ohio School Employees Retirement System, said he knew Mr. Noe had investments in real estate but said they were short term, which he defined as less than a year. He didn't recall the specific investments, saying there were too many managers to know every single investment.

"We pretty well let our managers use their discretion," he said.

Records filed in Lucas County, however, show that the loans to Mr. Ulmer lasted from a year to five years. Capital Coin, through its subsidiaries, still holds three mortgages valued at $352,000 with Mr. Ulmer's companies, although Mr. Noe has not loaned new money to the company since August, 2000.

Also, Mr. Elliott, the bureau's manager of internal audits, raised questions about the mortgages. He said the bureau had no documentation that the loans to Mr. Ulmer were properly covered by the value of the properties listed on the mortgages.

"While the various notes receivable were collateralized by real estate, as evidenced by mortgages, we found no documentation for appraisals or title searches performed to ensure that the property collateralizing the receivables was of adequate value for the loans," Mr. Elliott wrote.

Last week, the state refused to provide copies of mortgage documentation, which the bureau later required from Mr. Noe, citing the potential that they could be considered "trade secrets" and thus exempt from Ohio's public records law.

But a Blade review of the properties in Lucas County revealed that one of the properties was worth far less than the mortgage value.

Capital Coin, through its Rare Coin Enterprises subsidiary, invested $160,000 in July, 1999, with Ulmer-managed Haven Holdings. In return for the investment, Haven granted Rare Coin a mortgage on a parcel just off Airport Highway in Springfield Township that once had a small single-family home upon it.

According to the Lucas County auditor, that land - now vacant - is worth $25,800. Mr. Ulmer's company, Westhaven Group, LLC, bought it in 1999 for $32,000.

Tough times foreseen

For years, the Bureau of Workers' Compensation was a mess, a political backwater that drove employers and politicians nuts. It's funds were unstable, causing insurance premiums to swing wildly.

It's stability is important to Ohio's business community because every employer must buy workers' compensation insurance - designed to cover workers in case of on-the-job injuries or death - from the state. Ohio is one of five states that requires employers to buy from the state. Other states allow third-party insurance and mixed plans.

In the mid-1990s, then-Governor Voinovich sought control of the agency that he tabbed "the silent killer of jobs." He won the battle, appointing Mr. Conrad, one of his most trusted assistants who had gone with him to Columbus from Cleveland, where Mr. Voinovich had been mayor.

In the next couple of years, the bureau was revamped, and its investment policy liberalized to capture higher returns.

The results have been positive. The state insurance fund has grown to $18 billion, allowing the state to give frequent rebates to employers.

But besides playing the stock and bond markets, the bureau got into rare coins. None of the other four states that have a similar workers compensation system have done so, nor have other states contacted by The Blade.

Several were surprised that a state agency would invest in rare coins, pointing to the speculative nature of the investment and most states' need to invest conservatively.

"Are you kidding?" asked Liza Carberry, investment division manager for Idaho. "There's no liquidity in it. We've got to have secure, safe, liquid type of investments."

The state's decision to venture into the rare coin world has another critic: Mike Storeim. Although he's in the business himself, Mr. Storeim wonders why Ohio is.

"Between you and me, I think they're nuts," he said. "I think that everything's great now because the coin business is good, but ... when the coin business turns and it stops being good, it becomes very, very bad.

"And I think when it gets really bad, it's going to be a really bad thing for the state of Ohio in terms of what their $50 million is worth."

RARE-COIN INVESTMENT

Investors suffer when coin funds lose their luster; string of scandals tarnishes market

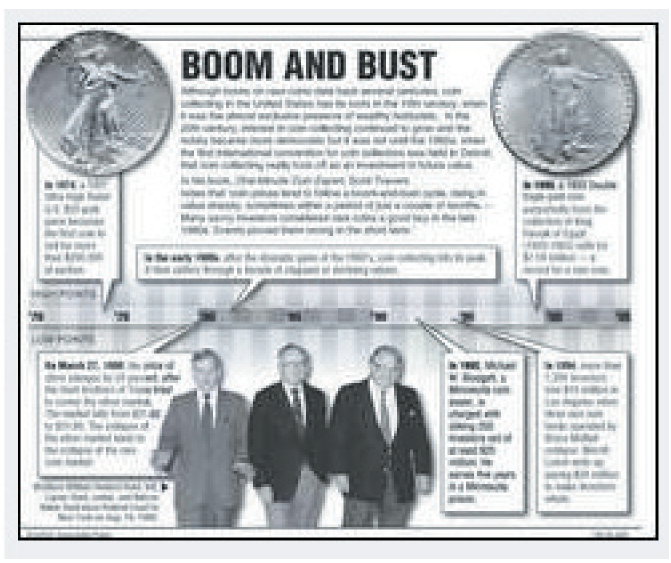
By CHRISTOPHER D. KIRKPATRICK
BLADE STAFF WRITER

Buffalo Nickel

By all accounts, the market for rare U.S. coins has been moving along like a bull's trot down Wall Street ever since the big crash of June, 1989, scuttled portfolios.

But don't tell that to Arlene Evans of Lucas, Ohio, who with her husband, Kenneth, was sold on the promise of a rare-coin investment return she said was faked and never materialized. The retired school teacher and her retired pilot spouse lost $150,000 of retirement savings in the rare coin market in the late 1990s, she said.

After attending a retirement investment seminar at Ohio State University in 1997, the couple decided to invest with a New Hampshire firm that promised a conservative investment in rare coins, along the lines of buying gold, Mrs. Evans said. Their local investment representative, who was at the seminar and introduced them to rare coins, had a Christian cross on his stationery, she remembered. He was a family man, someone to be trusted, she said.

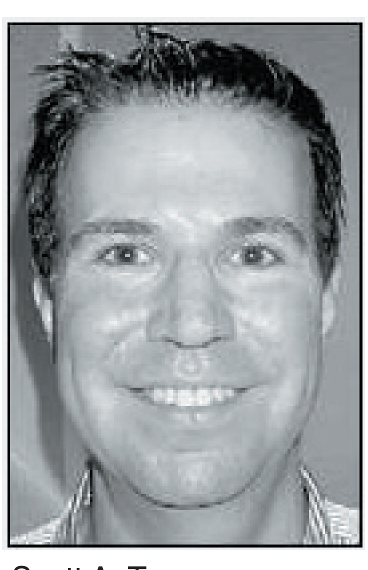


In the end, the $150,000 yielded the couple about $4,000 in coins, which they eventually sold in disgust at an auction, she said. Then they sued. Because of the loss, the couple has had to alter retirement plans, such as not taking some larger trips they had planned.

"It wasn't presented as 'you are going to get great returns' but as something to buy and hold and that it would keep its value. As it turns out, this is a very risky thing," Mrs. Evans said over the telephone, her voice wavering with concern over even discussing the issue. "The worst thing that happened is you don't trust anybody. You look at everybody, and you don't take them at their word."

The Evanses' financial loss and their 2000 lawsuit against Numismatic Investments of America Inc., which included six other plaintiffs, mostly couples from Ohio nearing retirement, is more than a cautionary tale about general investment risk and misplaced trust.

The Evans scenario and others like it, many from the early 1990s when the coin industry was recovering from a crash, are examples of how the rare-coin market has been billed wrongly off and on over the decades as a conservative investment vehicle. In reality, the market is fickle and has suffered sudden drops numerous times since the 19th century, wiping out fortunes.



Scott A. Travers

Because of the risk, numerous experts have told The Blade they believe rare coins are not a proper investment vehicle for public money. But the state of Ohio and its Bureau of Workers' Compensation Fund have chosen since 1998 to invest $50 million in two rare coin funds - Capital Coin Fund I & II - set up and managed by Tom Noe, a local coin dealer and prominent Republican fund-raiser. No other state has invested money into such a venture.

The return from Mr. Noe's funds has averaged 4.5 percent a year since 1998 for the first fund and 6.8 percent a year since 2001 for the second fund, according to state records based on numbers submitted by Mr. Noe.

By many accounts, Mr. Noe has a reputation as a skilled and savvy coin investor who is said to have ridden a steady upsurge in the U.S. rare-coin market. He is a member of the respected 50-year-old Professional Numismatists Guild, which requires its members to sign a code of ethics and requires them to agree to binding arbitration in the event of a lawsuit over a coin deal.

Cases involving rare coins

A review by The Blade of past rare-coin scandals shows they are anything but rare:

- In 1992, Schoolhouse Coins Inc. agreed to pay $900,000 to 1,200 investors for making false claims to investors about the value of coins.
- In 1993, Federal Coin Repository agreed to pay $95,000 to consumers for false advertising.
- In 1994, more than 1,300 investors lost $15 million in Los Angeles when three rare coin funds operated by Bruce McNall collapsed. Merrill Lynch paid $30 million to make investors whole.
- In 2000, a number of couples filed a lawsuit in federal court in Akron and then proved that New Hampshire-based Numismatic Investments of America had defrauded them of $475,000.

But the state's holdings in rare coins and a record of Mr. Noe's coin sales, purchases, and the details and returns of his investments for the state - including real-estate loans - cannot be verified by the public. They have been kept from the public by Mr. Noe and bureau officials, who claim the investment details are "trade secrets" and not subject to Ohio's open records laws.

History of problems

The Ohio couples who sued the New Hampshire firm may have simply been taken, but the promise of rare coins as a conservative investment was the story that sold them, Mrs. Evans said. But what drives potential earnings in the rare antiquities and collectibles market is, in part, collector taste, and that can change as quickly as an old case of wine can fall out of favor.

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The industry, like any that deals with investments, has endured its charlatans who fake returns by overvaluing coins or who are said to rely on unscrupulous grading firms that have been suspected of giving a higher grade to a coin than it might deserve. Many of the coin-trading operations that have been fined by the Federal Trade Commission in the past have worked through television or print advertisements or as telemarketers cold-calling people at their homes from so-called "boiler room" operations around the country.

A review by The Blade of past rare-coin scandals shows such cases are anything but rare:

ÅúIn 1992, Schoolhouse Coins Inc. agreed to pay $900,000 to 1,200 investors for making false claims to investors about the value of coins sold to them. Two principals pleaded guilty to mail-fraud charges. One got eight years in prison and another was a fugitive. Total consumer loss was $12.5 million.

ÅúIn 1992, Hannes Tulving Rare Coin Investing Inc. of California settled FTC charges that the firm "created and maintained an artificial coin market to induce the purchase of coins at inflated prices." The firm was fined $260,000.

ÅúIn 1993, Federal Coin Repository agreed to pay $95,000 to consumers for false advertising.

ÅúIn 1994, more than 1,300 investors lost $15 million in Los Angeles when three rare-coin funds operated by Bruce McNall collapsed. Merrill Lynch ended up paying $30 million to make investors whole.

ÅúIn 2000, several couples, including the Evanses, filed a civil lawsuit in U.S. District Court in Akron. They proved that a New Hampshire-based coin dealer, Numismatic Investments of America Inc., had defrauded them of $475,000. The firm told the couples they would be buying solid investments, collecting cash, and sending them coins. But many of the coins never arrived, and when they were finally appraised, they represented roughly 40 percent of the stated value.

The couples filed their lawsuit under the Racketeering-Influenced Corrupt Organizations (RICO) law. They won. But they won't be getting any money because one of the defendants filed for bankruptcy, and the other did not have any money.

"There's an old saying: If you don't know coins, you better know your coin dealers," said Donn Pearlman, a spokesman for the coin industry and president of the media relations firm Minkus & Pearlman. "Just as you should never accept a cold call for any investment, you should not with coin investors, either. Anytime there's money anywhere, whether it's stocks or real estate or any kind of investing, you have to know who you're dealing with."

Mr. Noe found that out this week when The Blade uncovered that a former manager of one of his subsidiaries was once convicted in federal court of faking a rare-coin transaction to cover up drug money.

Mark Chrans pleaded guilty to fraud and perjury in U.S. District Court in Springfield, Ill., in 1986. He spent less than a year in a federal penitentiary. Mr. Noe told The Blade on Thursday he knew nothing of Chrans' convictions.

Chrans is the same rare-coin dealer who caused Mr. Noe's Ohio-funded Capital Coin to write off $850,000 in bad debt when he failed in the late 1990s to repay loans and salary advances made to him by Mr. Noe with the state's money, as well as losing more than $300,000 in coin deals that went bad.

According to court documents, Chrans altered business records in 1981 to make it appear that $33,000 in drug money was instead the by-product of a rare-coin transaction.

Federal authorities said Chrans was not implicated in any way in the sale or distribution of the drugs, but he admitted that he knew the $33,000 were drug profits.

Twelve years after he served time in prison, Chrans was brought in as a manager by Mr. Noe to help invest Ohio Bureau of Workers' Compensation money in rare coins. Mr. Noe said Thursday that he did not know that Chrans was a convicted felon. He also acknowledged that he did not do a background check on Chrans before giving him state money to buy and sell rare coins.

Falling on hard times

Rare coin experts say some investors searching for riches in rare coins have felt the sting of faked returns. Others have been the victims of false advertising and of coins that have been over-graded and over-valued, they say. And then there have been the occasional crashes in the rare-coin market.

The latest and perhaps most famous fall from Wall Street grace related to rare coins began in June, 1989, when coin values plummeted. At that time, the word that Merrill Lynch and Kidder Peabody were forming a mulitmillion dollar partnership with Mr. McNall energized the rare coin market and sent prices soaring. A Coin World trade magazine cover before the crash lauded the coming of the investment giants and the hundreds of millions that would be pumped into the investment subculture.

"It was the idea that this was on its way," said Scott A. Travers, who has written several books on the coin industry and who as a 14-year-old lost $30 in the mail when he tried to buy a coin. He went on a crusade to find his money and realized after talking to "seven government agencies" that he could run a coin business honestly and effectively, he said.

He eventually received his $30 after a New York television network broadcast his story, he said.

The 43-year-old is now considered the "Ralph Nader" of rare coins and an expert in the field. He just wrote the book How to Make Money In Coins Right Now.

"A copy of Coin World magazine right before the crash said something like, 'Shhhh, Merrill Lynch is coming.' That one Coin World front page with that expression symbolized the thought at the time," he said. "The anticipation was maybe even greater than what was actually being spent by the fund. The Kidder Peabody fund was buying and selling at the same time, and no one was sure what they were actually holding.

"The word was suddenly out that they stopped buying, and [it was true].... It was over [in June 1989]," Mr. Travers said. "You had a number of factors, and they were pushing the market. The fact that they were in there and actually buying something and [also] the anticipation of it. You take away the anticipation and the market values came down."

Silver-linked slide

Silver was at the heart of another rare-coin crash.

In 1980, the Hunt family of Texas tried to corner the silver market, driving up prices. Rare coins are fellow travelers with precious metals and as a result also soared in price. When an oversupply of silver became apparent and the government intervened, prices plummeted.

The Hunts began stockpiling silver in 1973 as a hedge against inflation. The price at the time was a little less than $2 an ounce. As the 1970s came to a close, the price of silver exceeded $5 an ounce and continued to climb, peaking at $54 early in 1980.

Once the Hunts cornered the silver market, the price began to slide, culminating in a 50 percent, one-day decline on March 27, 1980, when the price fell from $21.62 to $10.80. The collapse of the silver market meant countless losses for speculators. The Hunt brothers later declared bankruptcy.

Among those caught up in the fray were rare-coin dealers and investors. Many rare-coin dealers also deal in precious metals and were buying the silver from a public hungry to unload any scrap in their possession, including grandmother's melted down tea service. Many of the rare-coin dealers then sold the silver and reinvested the profits in rare coins. Some just held onto their silver. When the silver market collapsed, rare coins fell too about three weeks later.

"The market literally turned on a dime at the Central States Numismatic Society convention" in April, 1980, Mr. Travers said. "One day people were buying coins and the market was active and increasing, the rise in bullion prices wasÅú...Åúthe economic justification."

While some coin investments rely on the value of the amount of silver or gold in the coin, and might be considered more stable, the pricier coins are traded as pieces of history and as rare collectible items, such as a 1913 Liberty nickel, which sold in 1996 for $1.45 million and became the first million dollar rare coin. Before that, a 1907 Ultra High Relief U.S. $20 gold piece sold in 1974 and became the first coin to eclipse $200,000.

Since then about 278 coins have sold for more than $200,000, with the most expensive ever a 1933 Double Eagle purportedly from the collection of King Farouk of Egypt (1920-1965). It sold in 1999 for $7.59 million.

Risky business

There are poor and negative returns in any field of investment, such as the stock and bond markets, experts say. In the rare-coin market, cautionary tales exist of investments that are oversold and of coin values declining simply because collector tastes have changed, causing demand to decline.

More than half of the 278 higher-end coin sales since 1974 have been handled over the years by Q. David Bowers and his longtime auction director, Rick Bagg.

Mr. Bagg, who has worked for Mr. Bowers since 1979 as his auction director, said he loves coins and that they have been a good investments over the years. But they are not considered a traditional investment for a state or other government.

"Coins don't do anything; General Electric does something," Mr. Bagg said. "If the market turns, the buyers run for the hills."

Mr. Noe in his rare coin investment proposal to the state warned repeatedly that investing in rare coins was not a conservative investment and that the state could lose part or all of its investment if the coin market turned south.

Mr. Bagg also said rare coins are not as liquid an investment as some investors would want to believe, causing additional risk for a state or other government. To fetch the best returns, the state would need to sell its coins at an auction, he said. This takes time to set up, he said.

"If the state of Ohio wanted to sell their coins, we would say, 'We'll squeeze you in [an auction] in June and pay you in July.' [The bull market] could be over by June," he said.

Mr. Bagg said the 2005 rare-coin market is on pace for a banner auction year. About $300 million in rare coins are bought and sold at auctions each year. And Mr. Bagg studies the records, which do not list the names of buyers and sellers, he said.

Last year, 56 coins were sold at auctions for more than $200,000 each for a total of $19.7 million. This year, the number is already 44 for a total of $22.3 million.

According to sources in the rare-coin business, Mr. Noe deals almost exclusively in the U.S. coin market. It has been on a steady climb since the mid-to-late 1990s and is basically on a bull market run. The American market is much more vibrant and in demand than any other in the world, they said.

But the market is set by the "true" collectors, who are invariably experts or are guided by experts at auction houses. It ultimately comes down to how much he or she is willing to pay.

And, those same experts say, the rare-coin market can - and has - fallen and fallen fast.

SPECIAL REPORT
Coins, Contributions & BWC

Coin fund profits for state hinged on graders' opinions

Noe owned stock in an appraiser

By CHRISTOPHER D. KIRKPATRICK
BLADE STAFF WRITER

More items were seized yesterday at Tom Noe's coin shop.
(THE BLADE/JEREMY WADSWORTH)

In the world of rare coins, quick profits can turn on the opinion of a single expert: the coin grader.

The grader's decision on a coin's quality and its rarity can mean extra money made almost from nothing. It's an opinion many coin dealers count on.

Ohio's failed $50 million investment in rare coins can be traced back in part to a strategy called "grading arbitrage," one that rests on the opinions of those who look coins up and down and sideways.

In his proposal to the state Bureau of Workers' Compensation, GOP fund-raiser and local coin dealer Tom Noe said he would use the strategy, which banks on human opinion to manipulate the rare-coin market, to generate returns for the state's two rare-coin funds: Capital Coin I and II.

It works like this: Rare coins are graded on a 1-70 scale - a subjective score based on the amount of their wear and tear and quality. A grade 60 and above is considered top notch. Dealers "arbitrage" by trying to find coins they believe have been undergraded and then resubmit them to different grading firms in hopes of winning a higher grade and higher profits.

But Mr. Noe may have had a leg up on other coin dealers.

The Blade has learned that he owns a stake in Numismatic Guaranty Corp., one of the three major coin-grading firms in the United States that most coin dealers use. Records show that numerous coins owned by the state were sent to be graded by that firm.

Coin dealers, including Mr. Noe and his colleagues, try to use coin grading to increase their profit. In this process, the coin itself has not changed, only the opinion about the coin.

Grades are an integral part of the equation that sets a coin's value, which also includes its rarity and collector taste. The all-important grades are determined by the nicks and scratches and other signs of wear and tear on each coin, in addition to its positive visual qualities such as color.

A grade of 60 or higher is commonly referred to as "Mint State," meaning it has been uncirculated and once part of commemorative sets, sometimes given as gifts to foreign leaders over the centuries.

And just like some trial lawyers go shopping for sympathetic judges, depending on the case, Mr. Noe proposed using the state's money to shop for grading firms that might look favorably on a particular coin. His proposal to the state also included other business activities, such as operating as a wholesaler of coins, but the big money comes from grading arbitrage.

"Sometimes these people spend lots of money and sometimes [the new grade], it comes back lower; it's a risk. There are people that I know over the years have made it a full-time business to spot undergraded coins, get them graded, and sell them at higher prices," said Beth Deisher, editor of Coin World Magazine. "They always tell you about the ones that got upgraded.... They don't tell you about the ones that came back lower."

The state bit on Mr. Noe's investment proposal and the result has been missing millions, careers lost, and possible criminal charges.

Eight years since the first $25 million was invested, at least eight agencies are investigating Mr. Noe and the two rare-coin funds he created.

The administrator of Ohio's Bureau of Workers' Compensation, James Conrad, resigned Friday over the scandal, and the FBI is investigating Mr. Noe for alleged campaign-finance violations connected to the Bush-Cheney campaign, which needed Ohio's 20 electoral votes to win the White House last year.

On the state side, the Ohio inspector general's investigation has widened to include a look at possible unreported gifts from Mr. Noe to members of Gov. Bob Taft's staff, including two stays by former chief of staff Brian Hicks at Mr. Noe's Florida home.

Grading is subjective

Many of the characters in the tale of Mr. Noe's coin funds flew high, lifted by the idea that quick money could be made by having a good eye for coins and skimming a margin off the top of a higher grade.

Sometimes it never happens. Other times it's a score. Grading has rules and standards, but it is also subjective, like judging figure skating.

"Let's say a coin is submitted, and it's a 64 1/2. Do I grade it as a 64 or a 65, that depends on the graders in the room," said Robert Brueggeman, executive director of the Professional Numismatists Guild. "The next time it comes in, a month or so, or a year later, it's [judged] a 64 3/4, and they might grade it a 65. It's a matter of subjectivity."

A deeper look into the world of coin grading reveals a system set up in 1986 that has been sometimes abused but that most often has been heralded as a savior to an industry once too populated with charlatans.

"There were some people who couldn't resist putting their thumb on the scale, and so we offered third party verification of quality. We offered to help the people," said David Hall, president of the California-based Professional Coin Grading Service, one of the three major coin grading firms in the United States.

Others say the third-party system is rife with conflict of interest and that the system is gamed by coin dealers, who have a good eye and a big bankroll.

The dealers search for coins that are the "sliders," or the "liners," as they are called, the ones that might glint in such a way on a certain day to become a 65, instead of a 64, in the eye of the right coin grader.

It's not illegal, but sins have been committed in the name of grading arbitrage in the high-dollar, fast-paced rare coin world. In some cases, the state of Ohio was footing the bill.

Conflict of interest?

Some critics of the third-party grading system point to conflicts of interest as a problem, such as Mr. Noe's part ownership of Numismatic Guaranty Corp. of Sarasota, Fla., which graded many Ohio-owned coins.

Some of the state's coins confiscated last week by inspectors were being held at the same building and suite as Numismatic Guaranty's headquarters.

"Dealers own the grading firms. I don't know if the grades come out any different, but the dealers get preferential treatment.... It's hard to prove," said Robert Hoge, curator of American coins and currency for the research-oriented American Numismatic Society. "It's really just a completely commercial thing. There really isn't consistency with these companies; they try, and it's a human thing, and it's all subjective."

According to his Ohio Ethics Commission disclosure form, Mr. Noe, who served as chairman of the Ohio Turnpike Commission and as a member of the Ohio Board of Regents, lists his stake in the company as a "stock investment."

Numismatic Guaranty has not returned numerous calls by The Blade, and the Bureau of Workers' Compensation spokesman, Jeremy Jackson, said he could not say if or why the Florida grading firm might have been home to part of the state's rare coin stock.

On its Web site, the company promises "impartiality" and "integrity" from its staff: "NGC's full-time grading experts are no longer active in the commercial coin marketplace, and are prohibited from buying or selling coins to ensure impartiality," the site says.

Most in the industry, including the respected Professional Numismatists Guild, point to three firms - Numismatic Guaranty, Professional Coin Grading Service, and ANACS - as the most popular and among the most consistent graders from coin to coin.

Mr. Hall, the president of Professional Coin Grading Service, said dealers owning stakes in grading firms is ethical, in his opinion, as long as the dealers are not doing the grading.

At his firm - which is publicly traded as a division of Collectors Universe - professional graders do not know the owners of the coins they inspect, he said. The advent of the independent third-party grading system more than 20 years ago legitimized the rare-coin industry and brought necessary standards to grading, he said.

Before third-party grading, "it was buyer beware; the wild wild West," Mr. Hall said. "The person selling the item represented the quality of the item."

But Mr. Hoge points out that dealers have advantages; they pay lower fees to have their coins graded than the general public. And the grading submission forms include the previous or "current grade" for the coin submitted, meaning it's clear the coin is not being graded for the first time and that the dealer is hoping for a higher score.

Sometimes dealers simply request a second look or a "regrade" by the same firm, or a special "presidential review," meaning the chief grader or owner looks at the coin.

A potential superstar

With the gleaming $3 U.S. gold piece, Mr. Noe and his partners scored. It had received a "presidential review" from a grading company and was more valuable because of it.

The 1855 coin was a potential auction superstar with a superior pedigree: It was extremely rare and struck in 19th-century America, among the most valuable breed.

The $3 coin, one of only a few known to exist, was purchased from a Boulder, Colo., coin dealer and a rare piece to be sure. But it also represented a triumph of grading arbitrage.

But before Mr. Noe, his partners, and the state of Ohio could slice up the extra profits, the $3 coin, and an 1845 $10 gold piece, went missing in the mail on their way back from a grading firm.

Coin Dealer Kevin Lipton and Michael Storeim, then-manager of Mr. Noe's subsidiary, Numismatic Professionals Limited in Evergreen, Colo., decided to buy and then submit the newly acquired coin to at least one "grading" firm, hoping the experts there would increase its 64 grade.

The coin was regraded by Professional Coin Grading Service at 65 "Deep Cameo," pushing the rarest of rare up one more notch toward perfection and profit.

Purchased for $150,000, the coin was now considered $50,000 more valuable after being upgraded, by some estimates, simply because an expert or group of experts on a certain day said so.

"That's what we do," Mr. Lipton said of the arbitrage.

He was testifying in an insurance company deposition about the missing coins.

The arbitrage process is accepted and even encouraged in the rare coin industry. It was part of the Ohio-approved investment strategy, but also is at the heart of some of the problems with the investments, particularly in Colorado.

At Numismatic Professionals Limited, Mr. Storeim was accused of an illicit type of grading arbitrage, perpetrated behind his colleagues' backs.

He was accused of sending in company coins to be regraded secretly. If he learned online that a coin had been graded higher, then he might buy it anonymously from the subsidiary at the original lower price, determined by the original lower grade, his colleagues charged.

That allegation, and the loss of the two valuable coins in the mail, prompted Mr. Noe to confiscate about $500,000 worth of coins from the Evergreen shop when Mr. Storeim was out of town. The two have traded lawsuits over the issue.

His colleagues complained that they were being cut out of the higher commissions associated with the higher grade.

A higher grade can dramatically increase a coin's auction price, sometimes to unreasonable levels: A 1963 Lincoln penny that received a perfect grade of MS 70 "Deep Cameo," like a gymnast earning a perfect 10, was bid up to $39,100.

Without that grade, such a penny might normally sell for less than $100. The penny, later found to have a flaw, has become the classic example of grading-induced mania.

But Scott A. Travers, a coin-book author and consumer advocate who used to work at Numismatic Guaranty as a grader, said that succeeding at big-money arbitrage can be difficult in part because some graders are reluctant to earn someone else thousands of dollars just on their decision. The author also edited The Official Guide to Coin Grading and Counterfeit Detection.

Adding value to a $50 coin that is a borderline 64/65 grade didn't bother Mr. Travers when he was grading. But to truly produce wealth is a responsibility, and faced with a "liner," he automatically became more conservative. He was not the grading arbitrager's friend when tens of thousands of dollars were at stake, he said.

Graders also have been accused of being stingy with upgrades to preserve the rarity of coins that dwell near the top of the scale and to protect the interest of others and the market.

"I was a grader at [Numismatic Guaranty], and it's not to preserve the rarity of it, you're concerned about creating wealth," he said. "If I look at a coin and it was graded 64, or it would likely be a 64-high end, and as a 64 it was worth $40,000 and as a 65, it was worth $400,000, then I would be very concerned about calling it a 65."

"If I thought it was a marginally low-end 65, I would opt to grade it a 64," he said of his example. "It has nothing to do with honesty. You look at a coin and you don't want to create wealth. I don't want to bear that responsibility, and I would give it the lower grade."

Grading, grading firms, and arbitrage; coin collecting as business, rather than hobby; rare coins as commodity rather than history have stolen the purity of the market, Mr. Hoge said.

Some purists believe the profit-based grading system has turned the hobby into a grading game, enriching those dealers in the know, he said.

"I think a lot of the pleasing aspects of the hobby of coin collecting are pretty much gone," he said. "It's largely for investors or dealers, and values are pretty much inflated by this grading thing. Every coin reaches the highest grade it can attain."

Documents show how BWC pumped cash into failing fund

By STEVE EDER
and JOSHUA BOAK
BLADE STAFF WRITERS

COLUMBUS - With their Bermuda hedge-fund hemorrhaging cash last fall, Ohio Bureau of Workers' Compensation officials scrambled for cover, injecting $25 million into the failing venture and praising the investment's manager, documents released yesterday show.

Even with the $25 million infusion the fund lost $215 million of its total investment, but bureau officials took a number of actions in the waning days of its relationship with MDL Capital Management last fall:

ÅúThe bureau pumped a fresh $25 million into the near-depleted fund by the end of September, 2004, but rejected a request more than a month later for an additional $25 million.

ÅúFormer bureau administrator James Conrad decided on Oct. 28, 2004, to omit the MDL news from the governor's weekly report.

ÅúBureau Chief Investment Officer Jim McLean sang the praises of Mark Lay, the chairman of MDL, in a Nov. 23 e-mail to a consultant, citing his talent and "tremendous potential."

ÅúThe bureau allowed Mr. Lay to subtract $1.01 million in management fees from the fund, in addition to about $447,303 directly paid by the bureau last year for the firm's services.

More than 1,000 pages of correspondence released yesterday under the state's Open Records Act shed light on the demise of the investment and the agency's relationship with the once-promising investment company.

Barry Slotnick, an attorney for Mr. Lay, responded to the release of the documents yesterday, saying: "Part of the problem is that you've got one half of the documents and you might only have one half of the story."

He added, ''Trying it in the press is not something we decided to do, but I won't let my client be besmirched in the press for no reason."

Jeremy Jackson, bureau spokesman, said the agency released all appropriate information. "I think that the bureau in order to fully disclose all information on this matter felt it appropriate to release all docu-mentation, memos, and e-mails that it could," Mr. Jackson said. "I think they give greater context to the situation in terms of what happened and how the bureau responded."

In 1998, the bureau gave MDL $55 million to invest in a fixed income assets fund, that consisted of Treasury bonds, mortgage-backed securities, and corporate bonds.

As the fund grew steadily in its first five years, posting an average rate of return of nearly 7 percent, the bureau added $100 million to its investment in 2002 and another $200 million in 2003. In September, 2003, the bureau began investing in an MDL-operated "active duration fund," by moving $100 million into the hedge fund.

Within a year, the bureau had sunk a total of $225 million into the high-risk fund as its value plummeted to $7.1 million by November, 2004.

The hedge fund had already burned through $60 million by the start of August, 2004, yet Mr. Lay was convinced the economy would reward his bet on higher long-term interest rates. On Aug. 13, Mr. Lay e-mailed a PowerPoint presentation out to a list of MDL clients, including undisclosed recipients at the bureau. The presentation was a sales pitch whose credibility rested with someone other than Mr. Lay, the chairman of the Federal Reserve.

"When Alan Greenspan speaks, bonds listen," it began.

The e-mail argued in a series of graphs and bullet points that the American economy would slow, but high oil prices would lead to threats of inflation. At the top of most slides was a quote from Mr. Greenspan, whose measured words could be as cryptic as the sphinx's riddle. "In recent months, output growth has moderated ... the economy nevertheless appears poised to resume a stronger pace of expansion going forward," one quote read.

Based on this analysis, Mr. Lay argued that short-term interest rates would increase, which would presumably cause long-term interest rates to also rise and allow the Bermuda hedge fund to recoup its losses.

By the end of August, the fund had dropped from $140 million to $89 million. It would have dwindled to nothing during the next month, if the bureau had not given the hedge fund a $25 million booster shot on Sept. 23, bringing the fund's value to $30 million. Within two months, only the cash reserve of $8.7 million remained in the fund.

Despite the traumatic losses, Mr. Lay continued to be optimistic. He was one of the few parties who had benefited from the investment, raking in $1.01 million in management fees in 2004. The fees were subtracted from the fund's shrinking assets. They were more than double the $447,303 the bureau directly paid MDL that year.

The fees were the result of a payment structure unique to hedge funds. According to the fund's contract, Mr. Lay received 1 percent of the fund's assets as his fee and 20 percent of its profits, not that any profits resulted.

Bureau spokesman Mr. Jackson said the agency was unaware of the contract's terms because former chief financial officer Terrence Gasper acted alone in negotiating with MDL.

Even though the bureau was now fully aware of the problematic hedge fund, Mr. Lay wrote a letter to Mr. McLean on Nov. 1, 2004, that asked for another $25 million. "We believe the events that will take place over the next month, the election, the Fed meeting, as well as numerous economic reports will be quite positive for the strategy," he wrote.

Mr. Lay offered to use the fund's own management fees to repay the bureau. He then said it was important that "we receive the funds today," adding that the funds will be "refunded as soon as possible."

The bureau declined to invest another $25 million with Mr. Lay. By the end of the month, the bureau was demanding that any money still in the fund be returned.

Two days after the bureau notified Gov. Bob Taft's office about the extent of the losses in the MDL fund last October, Mr. Conrad made a decision to keep the news out of the governor's weekly report. The governor has said that his staff knew of the losses, but he was not made aware of the extent of the losses.

"I've decided we should not put the MDL article in the Governor's weekly," Mr. Conrad wrote in an e-mail to two bureau employees. "There are 13 copies of it made [or thereabouts] and we don't need it getting unnecessarily passed around. Perhaps we should send it under separate cover to Jon Allison, Jim Samuel and the Governor. Thoughts?"

Mr. Allison and Mr. Samuel are aides to the governor. Mr. Conrad could not be reached for comment last night.

Mark Rickel, a spokesman for Governor Taft, said no one in the governor's office asked Mr. Conrad to exclude the MDL information from the weekly report.

"I can't speculate why Jim Conrad did or didn't include information in the weekly," Mr. Rickel said.

'Cover-up started'

Democratic state Sen. Marc Dann of suburban Youngstown questioned the timing of Mr. Conrad's decision not to include MDL in the weekly report to the governor.

"I think we know now where the MDL cover-up started," Mr. Dann said.

"I think they did this because the election was coming up and not only was George Bush on the ballot, but so was Mr. Conrad's former boss, George Voinovich."

Last November, Mr. Voinovich, who was governor when he appointed Mr. Conrad as administrator-CEO of the bureau in 1995, defeated state Sen. Eric Fingerhut (D., Cleveland) to win a second six-year term.

Even after MDL's hedge-fund bottomed out, Mr. McLean, the bureau's chief investment officer, praised Mr. Lay.

On Nov. 9, 2004, a Philadelphia-based firm provided the bureau with a "confidential review" of MDL. The report by FIS Funds Management, Inc., which included several charts, found that the "MDL product has struggled since the third quarter of 2001."

The report concluded that MDL had hired too many people to make sound investment decisions.

"Clients should therefore consider termination or substantially reducing their exposure to this manager,'' wrote Tina Byles Poitevien, FIS chief executive officer.

On June 7, the day the bureau revealed the $215 million loss, Mr. Lay also confirmed that Mildred "Mimi" Forbes, the daughter of George Forbes, the vice chairman of the bureau's Oversight Commission, works for his firm.

Ms. Forbes is a senior vice president who works on human resources and compliance issues for MDL.

The two met at a conference while she was working for an Ohio investment firm. She has worked for MDL for about three years, Mr. Lay said on June 7.

The next day, Mr. Forbes said he would resign from the Oversight Commission.

The Blade reported that the Ohio Ethics Commission and the inspector general's office are examining what role Mr. Forbes played in the state choosing MDL to manage part of the bureau's portfolio.

In late April, the bureau's internal auditor was examining the facts surrounding Ms. Forbes' employment with MDL. In an April 21 e-mail, James Brubeck, the bureau's audit supervisor, provided information to his boss, Keith Elliott, about MDL.

Mr. Brubeck wrote that Ms. Forbes became MDL's vice president of business operations and compliance in July, 2001. He added that the earlier MDL Active Duration Fund document is dated Jan. 15, 2003.

Mr. Elliott responded: "So she was an employee when we decided to invest in the Active Duration Fund... Okay. Thanks."

Mr. Elliott is the bureau's internal auditor who raised questions in 2000 about Tom Noe's Capital Coin. He outlined concerns about possible conflicts of interest and whether the state's millions were adequately protected.

On June 9, the same day Governor Taft held a news conference at the bureau's headquarters, Tina Kielmeyer, the agency's interim administrator, sent an e-mail to employees.

Ms. Kielmeyer said employees didn't need to worry about what she called the "P" word - "privatization." "We are going to ensure that what allowed the coin and MDL situations to occur are corrected and can never, ever occur again," she wrote.

Referring to the bureau as a "beauty queen with a blemish," Ms. Kielmeyer wrote: "This weekend, let's all spend time with our families, go on a long walk, and remember to laugh out loud. We're all in this together and we will all get through it together - side by side, arm-in-arm."

SPECIAL REPORT
Coins, Contributions & BWC

Coin trades offered huge upside for dealers
But state's profit was often limited to a percentage

By CHRISTOPHER D. KIRKPATRICK
BLADE STAFF WRITER

COLUMBUS - Money flows in one direction and then shifts back to the other; everyone takes a percentage along the way, draining the profit from the deal.

It happens in most any industry of buying and selling. It happens every day on Wall Street. It was happening with the state's investment in rare coins.

This deluge flowed from an unregulated wellspring of $50 million that the Ohio Bureau of Workers' Compensation gave to coin dealer Tom Noe to invest.

Like a river that cuts through the landscape, Mr. Noe's money trails, gleaned from records released by the state over the last several weeks, were not straight-flowing propositions but meandering. The state's money supplied private coin dealers with plenty of cash, but left the state with less for its own investment.

Mr. Noe said in a March interview with The Blade: "I share the wealth. I'm not a pig. I let a lot of people play."

An analysis of a once-in-a-lifetime coin deal, which involved rare $5 and $10 Liberty coins from the Ed Trompeter collection, bears out the theme that the state often served as mere banker for Mr. Noe's deals.

In these deals, the state would not share in the often-considerable, off-the-books upside, transaction records suggest and sources said.

In the case of the 1998 Trompeter deal, which was heralded as one of the largest private deals of its kind, the state made about 5 percent, but tolerated the risk of supplying all the money.

The percentage profit for the state is in question because the Toledo-area dealer used his own coins, not cash, to pay back part of the state's $5 million.

It's not the investment the state signed up for, at least in spirit, said Jim McLean, the bureau's chief investment officer who is on a paid administrative leave because of the ongoing bureau investment scandal that has stretched beyond rare coins.

"If the state made 5 percent in a once-in-a-lifetime opportunity that could have paid 35 percent that went instead to Tom Noe and his cronies, it's not only inappropriate but probably not in the spirit of the agreement," he said. "It appears that if Tom would have run it honestly, he would have made money [for himself and the state]."

William Brandt, hired by the state to liquidate the coin funds, said last week he had not run across the Trompeter deal in his review of the records.

But he and his staff have noticed other deals constructed so the state's share of the profit was a set percentage, less than what the coin dealers involved with the deals were allowed to make.

"A number of people who have reviewed these records are puzzled. If you buy a coin and it has significant upside, why the coin fund's share seemed fixed and others greater than the coin fund's, [I don't know]," he said, stressing that his job first is to get the money back for the state.

The Trompeter deal

"There are a number of transactions with a number of entities … They present opportunities for those dealing with the coins and take a greater [piece] of the upside. That issue of where the loyalties are due is someone [else's investigation]. I've seen a number of other ones," Mr. Brandt said.

The Trompeter deal worked like this:

* Heritage Galleries and Auctioneers in Dallas, a rare-coin goliath, bought a $15.18 million lot of rare coins from the IRS by way of the estate of Mr. Trompeter, a millionaire coin collector.

Heritage is owned by James Halperin, a rare-coin mentor to Mr. Noe from the 1970s and a pioneer in giving the rare-coin industry a corporate face.

* Only months into his partnership with the state, Mr. Noe took $5 million from Capital Coin Fund Limited, which he was managing as the general partner.

He then lent that $5 million to Rare Coin Enterprises, a subsidiary set up by Mr. Noe and partner Frank Greenberg nine days after receiving the first $25 million on March 31, 1998, from the bureau. Mr. Noe was lending the money to himself.

* Rare Coin Enterprises then wired the $5 million to Heritage and in return received the $5 and $10 Liberty set. A private buyer was already set up, according to Mr. Halperin, who was interviewed last week.

But in the rare-coin business, money is money, even among friends.

"Keep in mind, this is a guy I had known for decades and trusted; but on the other hand, we didn't do things that were excessively risky," Mr. Halperin said of requiring cash upfront. "I wasn't going to give $5 million worth of coins to somebody."

* Mr. Noe's personal business, Vintage Coins and Collectibles in Monclova Township, then bought the $5 gold Trompeter coins from Rare Coin Enterprises for $2,608,552.80.

Mr. Noe's deal for the collection of $10 coins fell through, according to records and to Mr. Halperin. Those coins were returned to Heritage for a refund of $2,512,500. The $5 coins ended up costing Rare Coin Enterprises $2,487,500.

* The price Vintage paid plus the refund equaled $5,121,052 - or a $121,052 profit for Rare Coin Enterprises, or 5 percent of the cost of the $5 coins.

According to the operating agreement between Mr. Noe and the bureau, the profit would be split 80 percent for the state and 20 percent for Mr. Noe and his partner, Mr. Greenberg.

* Mr. Noe then sold the $5 coins on his own and did not appear to share any of that profit with the state, according to the year-end general ledger for Rare Coin Enterprises. The ledger runs to Dec. 31, 1998, and the deal took place in early September.

* Mr. Noe also waited several months to fully pay the $2,608,552.80 to Rare Coin Enterprises for the $5 coins. Records show he repaid $2.1 million in cash and in a separate transaction sold 20 of his own coins from Vintage to Rare Coin Enterprises. He priced them within pennies of the amount needed to meet the remaining bill he owed for the Trompeter coins, $508,553, according to an invoice.

* A cross reference of those 20 coins with 1998 industry retail prices tracked by Coin World magazine shows that Mr. Noe overpriced some of the coins and underpriced others.

Twelve of the 20 rare coins had such high grades, (and were so rare because of the high grades), that a contemporary retail price record did not exist at the time. He set the prices himself to settle his debt with Rare Coin Enterprises, a partnership that he controlled, which had borrowed the original $5 million from the state coin fund that he also controlled.

* It's unclear if Capital Coin Fund Limited, the original supplier of the $5 million that Mr. Noe managed, was fully repaid.

Records show $4.1 million was repaid to Capital Coin, leaving a $900,000 debt. The Rare Coin Enterprises year-end ledger shows an $889,000 Vintage debt, which is listed as state coins "consigned" to Vintage.

Mr. Halperin said that the margin on such a coin deal could run to 20 percent or beyond.

"With a transaction of that size … I think if he made 20 percent, that would be at the upper end of fair," he said.

A 'few days work'

Mr. Halperin defended the 5 percent return as substantial for a "few days work."

"That sounds like a good deal for a few days work. Vintage had a client but didn't want to ask the client for a deposit before, so the state of Ohio put up the money," he said. "Our bank wouldn't have given him that kind of credit, so he gave the state of Ohio what sounds to me like a good commission."

"It was set up complicated. Why? I have no idea," he said.

A Heritage press release talks about Mr. Noe's deal: "… An anonymous dealer was able to purchase all 50 coins from the Liberty $5 series on behalf of his private customer."

Mr. Greenberg did not want to comment on the deal.

The inner-workings of the coin fund are still shrouded by a forest of paper records being released in stages by the Ohio attorney general's office. The estimated half a million sheets of rare-coin records from the state's eight-year investment with Mr. Noe could paper a foot trail from Toledo to Detroit and beyond.

The coin fund was a ready-made buyer for the managers, who set their own prices.

Such transactions were allowed and laid out in the operating agreement approved by bureau administrators. Coin deals among the managers of the state fund, using state money, were permitted as long as the coins were market-rate priced.

The agreement allowed for big coin deals, like Trompeter, that might enrich the coin fund's managers and partners and leave the state with a set return.

If a coin deal went bad, then the state would be the loser. If the deal was a success, the state might make a set 5 percent, records have shown and sources have said.

Even so, the question of whether a coin deal is bad or good, solid or foolish, becomes academic when tens of millions are behind you announcing your presence. Like selling Monets or Ferraris, the cost markup is built-in. The market demand for the rarest art work and the rarest U.S. coins is assured, experts have said.

That's why the Trompeter deal, which was announced as the largest private sale ever for its time, was once-in-a-lifetime.

The largest deals are about who has the contacts and who gets to profit, not whether a profit can be turned. The price is already set, and all that's left is to find the financing for the deal - the state of Ohio.

Holding the bureau's $50 million - which few dealers, even those closest to Mr. Noe, knew belonged to the state - wielded clout.

Mr. Noe, whose friends say became used to fine wine, fine dinners, golf with the governor, and being known in those circles, sought to control portions of the rare-coin market through the power of that $50 million.

He was appointed by Governor Taft to the powerful Ohio Turnpike Commission and was reappointed to the Ohio Board of Regents.

Mr. Noe wanted the money and influence in the important sectors of the rare-coin market, but he wanted to remain quietly in the background.

He set up a series of state-funded subsidiaries to trade rare coins for himself and the state with names that would hide the connectivity of the companies.

Mr. Noe bought and sold coins in Colorado under the name Numismatic Professionals; in California, it was Visionary Rare Coins; in Delaware, Rare Coin Alliance; in Minnesota, his state-funded subsidiary took the name of a local rare-coin dealer, Karl Hirtzinger, LLC., and in Pennsylvania, it was Rare Coin Enterprises.

All of the partnerships reported back to Mr. Noe's personal business headquarters in Monclova Township, Vintage Coins, a division of Thomas Noe, Inc.

It was at his suburban Toledo business that he also kept the records of the two state coin funds, Capital Coin Fund Limited and Capital Coin Fund Limited II, which each took custody of $25 million from the Ohio Bureau of Workers' Compensation.

Records of correspondence between Mr. Noe and the bureau reveal a sense of excitement about investing in Numismatic Guaranty Corp., a major grading firm that assessed the value of much of Mr. Noe's holdings, a conflict, some have complained.

One notch up in a rare coin's grade - a gauge of its quality and judge of its wear-and-tear - can double or triple the value of a coin, depending on its rarity.

The correspondence, released in state records late Friday, shows that Mr. Noe searched for managers and partners who had influence with the grading firms or who could spot under-graded coins that could easily be upgraded for a quick marginal windfall.

Mr. Noe's social aspirations aside, few involved with analyzing the state's failed investment argue that the rare-coin market was a dog. It has had long investment legs over the past decade, particularly the market for mid-19th century U.S. coins.

"It's the biggest market. It's the most liquid," Mr. Halperin said of the past decade.

Mr. Brandt, who said he has raised $12.5 million from liquidating the state's noncoin assets, does not quibble with the bureau's investment choice, he said.

He chose to liquidate the real estate and other investments first because rare coins appear to be stable and in the midst of a bull market run, he said. Real estate and other antiquities, he characterized as more "fragile."

"Will I get back $50 million? Your mouth to God's ear. I think I'm going to have a significant recovery," Mr. Brandt said.

"I don't blame the bureau. In a world where everybody tells you [that] you have to diversify, the concept is not necessarily wrong," he said.

"It's about execution and supervision and those kinds of things. The concept doesn't bother me. I know people will take a deep breath when I say that, but smart people will move into interesting markets," Mr. Brandt said.

Blade staff writers James Drew, Steve Eder, and Joshua Boak contributed to this report.

SPECIAL REPORT
Coins, Contributions & BWC

OHIO SCANDAL

BWC fires all its money managers

$15.7B portfolio shifts to fixed-income funds


Mabe

By STEVE EDER and JAMES DREW
BLADE STAFF WRITERS

COLUMBUS — The Ohio Bureau of Workers' Compensation yesterday approved one of its largest reforms in response to the financial scandal that has plagued the agency, terminating its 69 remaining money managers and moving to invest nearly all of its $15.7 billion portfolio in conservative fixed-income funds.

During the next four months, the bureau will divest its $7.2 billion stake in equities and shift that money into investments designed to reduce risk.

The decision by the bureau's Oversight Commission comes more than seven months after The Blade first reported that the agency invested $50 million in a rare-coin venture with former Toledo-area Republican fund-raiser Tom Noe.

The scandal that ensued caused attorneys for Mr. Noe to acknowledge a shortfall in his coin funds of up to $13 million, and bureau officials to disclose losses of $215 million in an offshore hedge fund.

In September, the bureau released a report by consultant Ennis Knupp that said the State Insurance Fund had lost almost $1 billion in potential returns during the last decade by relying on subpar investment managers.

The agency's troubles have sparked policy reform, investigations, and high-level departures from the bureau, including the forced resignation of its former administrator/CEO James Conrad. Mr. Noe was indicted last month on charges that he laundered money into the re-election campaign of President Bush.

Yesterday, Michael Koetters, chairman of the Oversight Commission's investment committee, said the bureau's long-term financial outlook would be "bleak" if the agency didn't modify its portfolio.

He added that the bureau spends $1.31 for every $1 dollar it collects in premiums.

William Mabe, the bureau's newly appointed administrator/CEO, said "it was imperative to move quickly and decisively" on transforming the portfolio, which Gov. Bob Taft and agency officials had defended until recently.

"We need to move decisively to clean this portfolio up and get it going in the right direction as quickly as possible," said Mr. Mabe, who did not believe the changes would signal the end of the bureau's dividend program.

Commission members and bureau officials said it was difficult to sever relationships with money managers and characterized their termination as "without prejudice" — meaning there was no implication of wrongdoing by any of the managers fired.

The commission used the work of consultants Ennis Knupp and Callan & Associates in reaching its decision.

Yesterday, the commission chose Pittsburgh-based Wilshire Investments over Ennis Knupp to be its primary investment consultant, a role previously held by Callan.

$15 million for transition

The direct cost of the transition is estimated at $15 million, and bureau officials expect to save millions annually in management fees. But the bureau's former chief investment officer, James McLean, said the cost in lost opportunity could be much higher.

Mr. McLean, who was fired during the scandal, said the oversight commission took an "ill-advised approach" and should have analyzed the investments on a case-by-case basis because some funds were posting good returns for the bureau.

"Instead of saying 'dismissing without prejudice,' why don't they just say, 'we are dismissing them because we have no spine and because we are not willing to make the hard, critical choices that are necessary to manage an investment portfolio?'" Mr. McLean said.

"I suspect they believe that they are making a clean break with the past, but you can't deny the history."

Mr. Mabe said that a "more methodical process" of vetting each money manager separately "would have been more expensive" and "would have taken on a lot more risk with the portfolio."

Mr. McLean said the bureau's decision to go solely with a fixed-income portfolio was the "politically expedient route to go" considering the pressure on officials because of the agency's recent troubles.

'Opportunity cost'

"If I was still the chief investment officer and I wanted to preserve my job and people said turn this portfolio into something that wasn't going to lose a dime, you put it all into the fixed income," Mr. McLean said.

"You can argue that it isn't going to lose a lot of money, but in fact, there's a tremendous opportunity cost.

"There's an obligation to the workers in the state of Ohio and those who rely on the state of Ohio to structure a portfolio that's appropriate for the liabilities and the type of business the bureau is in."

Mark Rickel, Mr. Taft's press secretary, said the governor did not make the decision to shift to a fixed-income approach.

"By law, these decisions are made by bureau staff and the Oversight Commission," Mr. Rickel said.

Once the bureau's equities are moved into fixed-income funds, the only nonfixed-income funds in the agency's portfolio will be "alternative investments," which often are longer-term investments and difficult to liquidate.

Asset allocation

Brad Pacheco, a spokesman for the California Public Employees Retirement System, said there are very few reasons why a public system would put all of its fund in one type of investment.

He said CALPERS' $196 billion portfolio contains a mix of investments, including fixed-income funds, equities, hedge funds, and alternative investments like real estate.

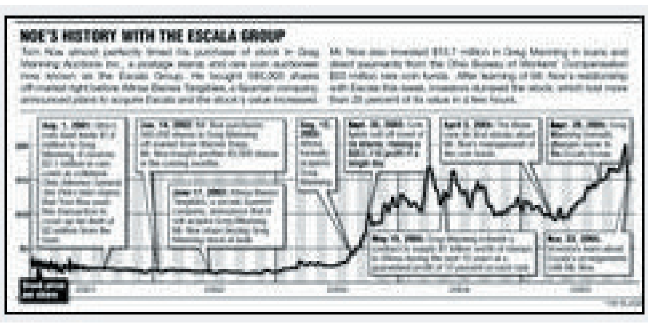
"Your asset allocation is what drives your return," he said.

"Obviously, an all fixed-income instrument is pretty conservative. Our board believes that we have a diversified portfolio ... so if we have losses in one area, gain in another can offset those losses."

He added, "We don't put all of our eggs in one basket."

European fund tied to Noe falters

Firm backed by rare-coin money supplied international stamp deal



By JOSHUA BOAK
BLADE STAFF WRITER

The Ohio investigation into Tom Noe's failed $50 million rare-coin funds is now drawing attention to a $1.4 billion rare-stamp investment group in Spain.

Federal and state investigators are scrutinizing the dealings of a former New Jersey company that Mr. Noe put more than $10.7 million of state money into.

The company, Escala, known until September as Greg Manning Auctions Inc., is the publicly traded arm of an international stamp venture.

Mr. Noe, who was indicted last month on three felony counts of laundering money into President Bush's re-election campaign, has been accused by Ohio Attorney General Jim Petro of stealing more than $4 million from the two rare-coin funds he set up and managed for the Ohio Bureau of Workers' Compensation.

The former coin dealer's relationship with Greg Manning Auctions is absent from the company's filings with the U.S. Securities and Exchange Commission and hidden from a public without access to the 500,000 pages of coin funds records. It involved loans, direct payments to a Greg Manning subsidiary, and the off-market purchase by Mr. Noe of company stock from a former lieutenant of Michael Milken, the junk bond king convicted for securities violations in 1990, according to those records.

More than Ohio's money is at stake.

The investigation's findings could damage the fortunes of 140,000 Spanish and Portuguese investors who have invested more than $1 billion in rare postage stamps kept in distant vaults.

The story begins four years ago, shortly after Mr. Noe received the second installment of $25 million from the state bureau established to help pay for the treatment of injured workers.

On Aug. 1, 2001, Mr. Noe lent Greg Manning $1.6 million from the state's rare-coin fund, Capital Coin Fund II.

On the same day he transferred $3 million from the coin fund to a subsidiary he established: the Spectrum Fund.

Correspondence released by the state indicates that Greg Manning agreed to send Mr. Noe $3.1 million worth of rare coins as collateral for the loan.

State investigators allege the financial transactions with Greg Manning are linked to other transactions Mr. Noe made with the state's rare-coin funds that were fraudulent.

On the same day Mr. Noe wrote checks to Greg Manning, he also wrote a $2 million check from the coin funds to his own company, Vintage Coins and Collectibles, to buy coins.

Mr. Petro alleges part of the $2 million actually repaid a $393,000 commercial loan owed by Mr. Noe that was unrelated to the coin funds and that Mr. Noe used more of the money to falsify a $786,000 profit distribution to the state from his first state coin fund, Capital Coin Fund Limited.

That profit distribution supports Mr. Petro's claim that Mr. Noe operated the coin funds as a "Ponzi scheme," paying out recently collected principal from new investors as returns to earlier investors.

Leonard Palaibis, a forensic accountant working for the attorney general, concluded in an affidavit that Mr. Noe deceptively labeled the $3.1 million in rare coins Greg Manning used as collateral as inventory of the coin funds to cover up the theft.

Stock sale

Mr. Noe also invested coin-fund money directly into Greg Manning, holding 4.5 percent of the company's shares at one point.

On Jan. 14, 2002, Mr. Noe purchased 500,000 shares in the company off-market and at a 36 percent discount, months before the announcement that Afinsa Bienes Tangibles, a privately held Spanish postage stamp investor, would acquire 70 percent of the U.S. auction company.

The stock - sold off in a series of trades over the next two years - yielded more than $2.73 million in profits for the coin funds.

A wire transfer record included in more than 40 boxes of coin-fund documents turned over to The Blade by state investigators identified the seller of the shares as Warren Trepp, once Michael Milken's chief trader at the Beverly Hills office of Drexel Burnham Lambert and a prominent Republican donor.

James B. Stewart's book Den of Thieves portrays Mr. Trepp as an aggressive trader who smoked four packs of cigarettes a day and stayed cool as federal investigators closed in.

"I'm not the kind of guy who could ever be a fink," he told his lawyer over dinner, according to the book.

Unlike his boss, Mr. Trepp fought and beat the SEC. He did not return calls seeking comment about his deal with Mr. Noe.

Before the June 17, 2002, announcement that Afinsa would buy Greg Manning Auctions, Mr. Noe purchased 85,000 shares in the company through Scott J. Savage, a Toledo-area financial adviser who runs SJS Investment Consulting. Mr. Savage also did not return calls seeking comment.

Mr. Noe sold most of the coin funds' holdings after the Afinsa buyout was completed in 2003, according to the coin fund general ledger.

Material relationship

All told, Mr. Noe lent more than $4.2 million to the collectibles auctioneer and placed $6.5 million in the Spectrum Fund, which was controlled by Greg Roberts, a member of Greg Manning's board of directors.

Cashed checks from the coin funds' records show that the Spectrum Fund shared the same bank account with Spectrum Numismatics, then a division of Greg Manning.

In mandatory filings with the SEC, the company only reported $4 million in loans from a "privately held capital fund."

Obligated to disclose only "material" information, it chose not to mention the Spectrum Fund or its association with Mr. Noe.

Last week, investors considered the relationship to be material.

After learning of the company's dealings with Mr. Noe in a Wall Street Journal article that credited The Blade for uncovering the state scandal and its connection to Escala, investors sold off company stock.

The share price dropped to $14.75, erasing about $107 million from a $430 million market capitalization.

Escala has declined interview requests from The Blade during the previous three months. It will hold a phone conference tomorrow morning to discuss its entanglement with Mr. Noe.

According to a Friday news release, Escala described itself as a "witness" in the federal and state investigations of Mr. Noe.

"Baloney," William Brandt said. "Their characterization of themselves as a witness is wrong."

Mr. Brandt is working with federal and state officials as his company, Development Specialists Inc., oversees the liquidation of the coin funds' assets.

Independent of Mr. Noe, Escala is the subject of an inquiry by the SEC, according to a Sept. 22, 2005, letter that denied a request for documents pertaining to the company.

"Staff responsible for the commission's investigation have confirmed that releasing the withheld information could reasonably be expected to interfere with an ongoing commission investigation," read the letter, which was sent to an investment firm.

It cites exemption 7(A) in the Freedom of Information Act. The exemption authorizes withholding any "records or information compiled for law enforcement purposes."

The letter offers no clues regarding the inquiry's cause or purpose.

Spanish watchdog

Afinsa is far from unique on the Iberian Peninsula. A corporation with a similar name and business model, Banfisa, went bankrupt three years ago.

Afterward, ADICAE, a Spanish consumer watchdog, lobbied the government to regulate collectibles investments and attempted to monitor Afinsa, among other collectibles brokers.

Unable to verify the company's inventory, ADICAE issued a report in 2002 with a shocking observation. Afinsa paid out nonexistent profits.

"If we reviewed the results of the last year, Afinsa's group of companies lost 6 million euros [$7.6 million]" it said. "These losses would eliminate the benefits that Afinsa recognizes in this year!!!"

Greg Manning's revenues and profits reversed course after the Afinsa acquisition was finalized in 2003, ending chronic losses in preceding years while Mr. Noe was buying its stock for the state's coin funds.

In fiscal 2005, Greg Manning, now Escala, reported sales of $240 million and a net profit of $38 million.

About 50 percent of Escala's revenue and 70 percent of its profits came from Afinsa, according to its SEC filings.

As part of the takeover, Greg Manning signed a 10-year agreement to sell $1 billion worth of antique postage stamps to Afinsa at a rate 10 percent higher than the stamps' purchase price.

Afinsa then resells the stamps it bought from Greg Manning to Spanish and Portuguese investors.

As of last year, 142,697 individuals have entrusted roughly $1.4 billion with Afinsa, according to corporate disclosures.

The company claims that the stamps wait untouched in vaults, as "clientes" receive annual payments between 6 and 8 percent on their investment.

After a certain period of years, Afinsa agrees to buy the stamps back, allegedly guaranteeing a profit without any risk.

Ken Lawrence, a former vice president of the American Philatelic Society, said the global market for high-quality stamps is not large enough to accommodate this arrangement, leading him to be suspicious of the investment's authenticity.

"It is inconceivable that [Escala] can harvest $100 million a year in stamps and provide them to Afinsa," he said. "There is no place in the world where anybody advertises to buy stamps on that scale."