

State of Missouri
Office of Secretary of State

Case No. AP-07-10

IN THE MATTER OF:

KEY WEST INVESTMENT GROUP, LLC;
KEY WEST PROPERTY & DEVELOPMENT,
INC. a/k/a KEY WEST PROPERTY
DEVELOPMENT, INC.;
DOUGLAS K. DALTON; AND
JEFFREY C. HANLEN,

Respondents.

Serve:

Key West Investment Group, LLC at:
164 Timber Creek
O'Fallon, Missouri 63366

Key West Property & Development, Inc.
a/k/a Key West Property Development, Inc., at:
745 Craig Road, Suite 102
St. Louis, Missouri 63141

Douglas K. Dalton at:
8418 Gannon Road
St. Louis, Missouri 63132

Jeffrey C. Hanlen at:
164 Timber Creek
O'Fallon, Missouri 63366

**ORDER TO CEASE AND DESIST AND ORDER TO SHOW CAUSE WHY CIVIL
PENALTIES AND COSTS SHOULD NOT BE IMPOSED**

On March 23, 2007, the Enforcement Section of the Securities Division of the Office of Secretary of State, through Assistant Commissioner, Mary S. Hosmer, submitted a Petition for Order to Cease and Desist and Order to Show Cause Why Civil Penalties and Costs Should not be Imposed. After reviewing the petition, the Commissioner issues the following Findings of Fact, Conclusions of Law, and Order:

I. FINDINGS OF FACT

1. Key West Investment Group, LLC ("KWIG"), is a limited liability company organized in Missouri on July 11, 2005. KWIG was organized for the purpose of land development, construction and redevelopment. KWIG has an address of 164 Timber Creek, O'Fallon, Missouri 63366.
2. Key West Property & Development, Inc. a/k/a Key West Property Development, Inc. ("KW Property"), is a Missouri corporation formed on October 27, 2005, with an address of 745 Craig Road, Suite 102, St. Louis, Missouri 63141.
3. Jeffrey C. Hanlen ("Hanlen") is the president and co-owner of KW Property and is a managing member and registered agent of KWIG. Hanlen has an address of 164 Timber Creek, O'Fallon, Missouri 63366.
4. Douglas K. Dalton ("Dalton") is the co-owner of KW Property and is a managing member of KWIG. Dalton has an address of 8418 Gannon Road, St. Louis, Missouri 63132.
5. On July 1, 2005, Hanlen and Dalton met with a Missouri resident ("MR") at a restaurant in St. Louis. Hanlen and Dalton talked to MR about investing in KW Property. Hanlen and Dalton stated that KW Property bought and renovated real estate that they then resold at a profit. Dalton and Hanlen told MR, among other things, that:
 - a. MR's money would be used to purchase and rehabilitate properties for resale;
 - b. For an investment of nineteen thousand five hundred dollars (\$19,500), MR would receive a return in a "very short period of time;" and
 - c. MR would receive a minimum of twenty-five thousand dollars (\$25,000) within six months to a year;

6. Hanlen and Dalton told MR that the properties that Hanlen and Dalton had purchased and renovated in the past had sold quickly. Hanlen and Dalton stated that at most it could take up to one year to sell the property. MR understood that the profits MR expected would be derived from the Hanlen and Dalton's activities in purchasing, renovating and selling the properties.
7. On July 1, 2005, based upon Hanlen and Dalton's statements, MR invested nineteen thousand five hundred dollars (\$19,500) via cashier's check. At Dalton's direction, MR made this check payable to Doug Dalton.
8. On July 5, 2005, Dalton endorsed and cashed MR's check.
9. On or before May 22, 2006, MR contacted KW Property, Hanlen and Dalton regarding MR's investment. MR stated that he had not received a return on his invested funds.
10. On May 22, 2006, KW Property, Hanlen and Dalton gave MR a promissory note for twenty-five thousand dollars (\$25,000) as evidence of MR's original investment. The promissory note provided that if the principal and interest were not paid in full within 120 days, "monthly installments of ten percent (10%) per annum," would be paid until all principal and interest had been paid in full.
11. To date, Hanlen, Dalton and KW Property have made no payments to MR.
12. On or about December 12, 2006, the Enforcement Section of the Securities Division sent inquiries to Dalton and Hanlen regarding their sales of investments in KW Property and requested, among other things, any claim of exemption relied upon in making this offering.
13. The Enforcement Section received no response from KW Property, Dalton, or Hanlen or any attorney representing the entity or individuals. However, on or about January 8, 2007, John C. Renshaw ("Renshaw") an accountant with Accurate Business Services, LLC, sent a response to the Division. Renshaw provided documents indicating that:
 - a. KW Property borrowed funds from four individuals;
 - b. These individuals were given promissory notes for the funds received by KW Property;
 - c. The total amount received by KW Property from these four individuals was one hundred ten thousand dollars (\$110,000);
 - d. These individuals had invested between May 22, 2005, through August 22, 2006;
 - e. MR was listed as one of the investors.
14. Renshaw identified an account at Bank of America in the name of KWIG ("KWIG Account"), as the business account where investors' funds were deposited.
15. On March 13, 2007, an investigator with the Division spoke with Hanlen, Dalton and Renshaw. The investigator requested information regarding the expenditure of funds from MR's check. Dalton stated that he had cashed this check and paid contractors and used the remainder to open the KWIG Account. The investigator requested a copy of invoices for these expenditures. To date, these documents have not been provided.
16. A review of the KWIG Account reveals that Respondents opened the KWIG Account July 20, 2005. From July 20, 2005, through December 2006, bank records indicate that at least one hundred nine thousand seven hundred dollars (\$109,700) was deposited into this account from four investors in KW Property.
17. From July 2005, through December 2006, bank records indicate that the following amounts were withdrawn or transferred from this KWIG Account:
 - a. Seventeen (17) checks written to "cash" were endorsed by Hanlen or Dalton totaling fifty-one thousand two hundred thirty-four dollars (\$51,234);
 - b. Nine teller cash withdrawals totaling eighteen thousand five hundred dollars (\$18,500);
 - c. Miscellaneous disbursements by Hanlen for self-help audio tapes, medicine and child support totaling two thousand twenty-two dollars (\$2,022);
 - d. At least 24 withdrawals from automatic teller machines totaling six thousand seven hundred and four dollars (\$6,704);
 - e. Approximately eighteen thousand two hundred and seventy dollars (\$18,270) was expended in connection with gambling activities at Global Casino, Harrah's Hotel and Casino, Luxor Hotel and Casino, Ameristar Casino and Ultron, Inc.;
 - f. Numerous payments in various amounts were made via check card to entities that are, upon information and belief, not

associated with the rehabilitation of real estate. Bank records revealed that Respondents made disbursements to entities such as:

- i. J.C. Penney;
- ii. Café de France;
- iii. Bellagio – Olives;
- iv. Toys R Us;
- v. Build A Bear Workshop;
- vi. Shopping Essentials;
- vii. Today's Escapes;
- viii. Fast Lane;
- ix. Dillard's;
- x. T.J. Maxx
- xi. John D. McGurk's Irish Pub;
- xii. Sports Attic;
- xiii. Boogaloo;
- xiv. Embassy Suites;
- xv. Sub Zero Vodka Bar;
- xvi. Datematch;
- xvii. Schnucks;
- xviii. Country Club Bar & Grill;
- xix. www.Tritech.Org;
- xx. Shooter's;
- xxi. Cheshire Inn & Lodge;
- xxii. Frontierair;
- xxiii. St. Louis Cardinals; and
- xxiv. Trainwreck Saloon.

18. A check of the records maintained by the Missouri Commissioner of Securities revealed:

- a. no registration, granted exemption or notice filing indicating status as a "federal covered security" for any of the securities offered or sold by Respondents in or from Missouri;
- b. Respondents were not registered to offer or sell securities in or from the State of Missouri; and
- c. the investments offered and sold by the Respondents were not federal covered securities.

19. In connection with the offer, sale or purchase of this real estate investment, Respondents omitted to provide MR with the following information:

- a. the financial condition of KWIG and KW Property;
- b. background information for KWIG's and KW Property's directors, officers or other persons having similar status or performing similar functions, including but not limited to, their:
 - i. principal occupations for the previous five years;
 - ii. ownership or interest held in each entity; or
 - iii. remuneration received during the previous twelve months and estimated to be received during the next twelve months;
- c. the risks involved with the investment;
- d. the issuer's background and/or operational history, including but not limited to the purchases and sales of all other properties within the last twelve months;
- e. material contracts or relationships with third parties;
- f. that the investments were not registered with the Division;
- g. that the individuals were not registered with the Division; or
- h. that investor funds would be deposited into a KWIG Account and used to pay expenses unrelated to the rehabilitation of real estate.

20. An order is in the public interest and consistent with the purposes intended by the Missouri Securities Act of 2003. See

II. APPLICABLE STATUTES

21. Section 409.6-601(a), RSMo. (Cum Supp. 2006), provides, in part, as follows: “This act shall be administered by the commissioner of securities who shall be appointed by and under the direction of the secretary of state”
22. Section 409.1-102(26), RSMo. (Cum Supp. 2006), defines “offer to sell” as “every attempt or offer to dispose of, or solicitation of an offer to purchase, a security or interest in a security for value.”
23. Section 409.1-102(28), RSMo. (Cum Supp. 2006), defines a “security” to include a “note . . . evidence of indebtedness [and] an investment contract” An investment contract is defined as “an investment in a common enterprise with the expectation of profits to be derived primarily from the efforts of a person other than the investor and a ‘common enterprise’ means an enterprise in which the fortunes of the investor are interwoven with those of either the person offering the investment, a third party, or other investors.”
24. Section 409.3-301, RSMo. (Cum Supp. 2006), states:

It is unlawful for a person to offer or sell a security in this state unless:

 - (1) The security is a federal covered security;
 - (2) The security, transaction, or offer is exempted from registration under sections 409.2-201 to 409.2-203; or
 - (3) The security is registered under this act.
25. Section 409.4-401(a), RSMo. (Cum Supp. 2006), provides that it is unlawful for any individual to transact business in Missouri as an agent unless the individual is registered under the Missouri Securities Act of 2003 as an agent or is exempt from registration as an agent under subsection (b).
26. Section 409.5-501, RSMo. (Cum Supp. 2006), states:

It is unlawful for a person, in connection with the offer, sale, or purchase of a security, directly or indirectly:

 - (1) To employ a device, scheme, or artifice to defraud;
 - (2) To make an untrue statement of a material fact or to omit to state a material fact necessary in order to make the statement made, in the light of the circumstances under which it is made, not misleading; or
 - (3) To engage in an act, practice, or course of business that operates or would operate as a fraud or deceit upon another person.
27. Section 409.5-503(a), RSMo. (Cum Supp. 2006), states: “In a[n] . . . administrative proceeding under this act, a person claiming an exemption, exception, preemption, or exclusion has the burden to prove the applicability of the claim.”
28. Section 409.6-604(a), RSMo. (Cum Supp. 2006), states:

If the commissioner determines that a person has engaged, is engaging, or is about to engage in an act, practice, or course of business constituting a violation of this act or a rule adopted or order issued under this act or that a person has materially aided, is materially aiding, or is about to materially aid an act, practice, or course of business constituting a violation of this act . . . the commissioner may:

 - (1) Issue an order directing the person to cease and desist from engaging in the act, practice, or course of business or to take other action necessary or appropriate to comply with this act
 - (2) Issue an order denying, suspending, revoking or conditioning the exemptions for a broker-dealer under section 409.4-401(b) (1) (D) or (F) . . . or
 - (3) Issue an order under section 409.2-204.
29. Section 409.6-604(b), RSMo. (Cum Supp. 2006), states:

An order under subsection (a) is effective on the date of issuance If a person subject to the order does not request a hearing and none is ordered by the commissioner within thirty days after the date of service of the order, the order becomes final as to that person by operation of law.
30. Section 409.6-604(c), RSMo. (Cum Supp. 2006), states, in part, as follows: “The final order may make final, vacate, or modify the order issued unless under subsection (a).”
31. Section 409.6-604(d), RSMo. (Cum Supp. 2006), states: “In a final order under subsection (c), the commissioner may impose a civil penalty up to one thousand dollars for a single violation or up to ten thousand dollars for more than one violation.”
32. Section 409.6-604(e), RSMo. (Cum Supp. 2006), states: “In a final order, the commissioner may charge the actual cost of an investigation or proceeding for a violation of this act These funds may be paid into the investor education and

protection fund.”

III. CONCLUSIONS OF LAW

Offering and Selling Unregistered, Nonexempt Securities

33. Paragraphs 1 through 32 are incorporated by reference as though fully set forth herein.
34. In July 2005, Respondents offered and sold an investment contract as defined in Sections 409.1-102(26) and 28, RSMo. (Cum. Supp. 2006), to MR, as indicated by the following:
 - a. MR invested nineteen thousand five hundred dollars (\$19,500) with Respondents;
 - b. MR expected to make a profit from this investment;
 - c. this profit was to be derived from the efforts of Hanlen and Dalton in purchasing, rehabilitating and selling the properties; and
 - d. MR's profits were interwoven with those of Hanlen and Dalton, as. Hanlen and Dalton needed MR's funds to purchase and rehabilitate these properties to generate the profits that MR would receive.
35. The promissory note offered and sold by Respondents to MR in May 2006, constitutes a note or evidence of indebtedness and therefore a security under Section 409.1-102(28), RSMo. (Cum. Supp. 2006).
36. At all times relevant, records maintained by the Commissioner of Securities contained no registration, granted exemption or notice filing indicating status as a “federal covered security” for either the investment contract or the promissory note that Respondents offered and sold to MR.
37. Respondents violated Section 409.3-301, RSMo. (Cum. Supp. 2006), when they offered and sold a security in Missouri to MR without the security being (1) a federal-covered security, (2) exempt from registration under Sections 409.2-201 or 409.2-202, RSMo. (Cum. Supp. 2006), or (3) registered under the Missouri Securities Act of 2003.

Omitting to State a Material Fact in Connection with the Offer or Sale of a Security

38. Paragraphs 1 through 32 are incorporated by reference as though fully set forth herein.
39. In connection with the offer or sale of a security, Respondents omitted to provide the following material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading:
 - a. the financial condition of KWIG and KW Property;
 - b. background information for KWIG and KW Property's directors, officers or other persons having similar status or performing similar functions, including but not limited to, their:
 - i. principal occupations for the previous five years;
 - ii. ownership or interest held in each entity; or
 - iii. remuneration received during the previous twelve months and estimated to be received during the next twelve months;
 - c. the risks involved with the investment;
 - d. the issuer's background and/or operational history, including but not limited to the purchases and sales of all other properties within the last twelve months;
 - e. material contracts or relationships with third parties;
 - f. that the investments were not registered with the Division; or
 - g. that the individuals were not registered with the Division.
40. The Respondents violated Section 409.5-501(2), RSMo. (Cum. Supp. 2006), when they omitted to state the materials facts described immediately above and when stating such facts was necessary to make statements made not misleading.

IV. ORDER

NOW THEREFORE, it is hereby ordered that Respondents, their agents, employees and servants, and all other persons participating in or about to participate in the above-described violations with knowledge of this Order, are prohibited from

- A. offering or selling any securities, including investment contracts or promissory notes in or concerning real estate rehabilitation, or any other securities as defined by Section 409.1-102(28), RSMo. (Cum. Supp. 2006), in the State of Missouri unless those securities are registered with the Securities Division of the Office of the Secretary of State in conformance with the provisions of Section 409.3-304, RSMo. (Cum. Supp. 2006);
- B. violating or materially aiding in any violation of Section 409.5-501, RSMo. (Cum. Supp. 2006), by, in connection with the offer or sale of securities, omitting to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading.

IT IS FURTHER ORDERED that, pursuant to Section 409.6-604(d), RSMo. (Cum. Supp. 2006), the Commissioner will determine whether to grant the Enforcement Section's petition for an imposition of civil penalties of up to ten thousand dollars (\$10,000) against each Respondent for multiple violations of Section 409.3-301, RSMo. (Cum. Supp. 2006), in a final order, unless Respondents request a hearing and show cause why the penalty should not be imposed.

IT IS FURTHER ORDERED that, pursuant to Section 409.6-604(d), RSMo. (Cum. Supp. 2006), the Commissioner will determine whether to grant the Enforcement Section's petition for an imposition of civil penalties of up to ten thousand dollars (\$10,000) against each Respondent for multiple violations of Section 409.5-501(2), RSMo. (Cum. Supp. 2006), in a final order, unless Respondents request a hearing and show cause why the penalty should not be imposed.

IT IS FURTHER ORDERED that, as the Enforcement Section has petitioned for an award for costs of the investigation against Respondents in this proceeding, the Commissioner will issue a final order pursuant to Section 409.6-604(e), RSMo. (Cum. Supp. 2006), awarding an amount to be determined after review of evidence submitted by the Enforcement Section, unless Respondents request a hearing and show cause why an award should not be made.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY, MISSOURI THIS 30TH DAY OF MARCH, 2007.

State of Missouri
Office of Secretary of State

ROBIN CARNAHAN
SECRETARY OF STATE

(Signed/Sealed)
MATTHEW D. KITZI
COMMISSIONER OF SECURITIES

Case No. AP-07-10

IN THE MATTER OF:

KEY WEST INVESTMENT GROUP, LLC;
KEY WEST PROPERTY & DEVELOPMENT,
INC. a/k/a KEY WEST PROPERTY
DEVELOPMENT, INC.;
DOUGLAS K. DALTON; AND
JEFFREY C. HANLEN,

Respondents.

Serve:

Key West Investment Group, LLC at:
164 Timber Creek
O'Fallon, Missouri 63366

Key West Property & Development, Inc.
a/k/a Key West Property Development, Inc., at:
745 Craig Road, Suite 102
St. Louis, Missouri 63141

Douglas K. Dalton at:
8418 Gannon Road
St. Louis, Missouri 63132

Jeffrey C. Hanlen at:
164 Timber Creek
O'Fallon, Missouri 63366

NOTICE

TO: Respondents and any unnamed representatives aggrieved by this Order:

You may request a hearing in this matter within thirty (30) days of the receipt of this Order pursuant to § 409.6-604(b), RSMo Supp. 2005, and 15 CSR 30-55.020.

A request for a hearing must be mailed or delivered, in writing, to:

**Matthew Kitzi
Commissioner of Securities
Office of the Secretary of State
Missouri State Information Center, Room 229
600 West Main Street
Jefferson City, Missouri, 65102**

CERTIFICATE OF SERVICE

I hereby certify that on this 30th day of March 2007, copies of the foregoing Order in the above styled case were **mailed by Certified U.S. Mail, postage prepaid, to:**

Key West Investment Group, LLC
164 Timber Creek
O'Fallon, Missouri 63366

Key West Property & Development, Inc.
745 Craig Road, Suite 102
St. Louis, Missouri 63141

Key West Property Development, Inc.
745 Craig Road, Suite 102
St. Louis, Missouri 63141

Douglas K. Dalton
8418 Gannon Road
St. Louis, Missouri 63132

Jeffrey C. Hanlen
164 Timber Creek
O'Fallon, Missouri 63366

And by hand-delivery to:

Mary Hosmer
Assistant Commissioner
Enforcement Section, Securities Division

John Hale
Specialist