

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,

CONSENT ORDER

SUMMARY OF ENFORCEMENT SECTION'S ALLEGATIONS

1. The Enforcement Section of the Missouri Securities Division has alleged that Respondents sold unregistered securities, transacted business as unregistered agents, and failed to disclose material facts in the offer and sale of securities in violation of Sections 409.3-301, 409.4-401, and 409.5-501, RSMo. (Cum. Supp. 2006).
2. Respondents and the Securities Division desire to settle the allegations and the matters raised by the Securities Division relating to Respondents' dishonest and unethical practices.

CONSENT TO JURISDICTION

3. Respondents and the Enforcement Section of the Securities Division stipulate and agree that the Commissioner has jurisdiction over the Respondents and these matters pursuant to the Missouri Securities Act of 2003, Chapter 409, et seq.
4. Respondents and the Enforcement Section of the Securities Division stipulate and agree that the Commissioner has authority to enter this Order pursuant to Section 409.6-604(h), RSMo. (Cum. Supp. 2006), which provides:

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

WAIVER AND EXCEPTION

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

CONSENT TO COMMISSIONER'S ORDER

8. Respondents and the Securities Division stipulate and agree to the issuance of this Consent Order without further proceedings in this matter, agreeing to be fully bound by the terms and conditions specified herein.
9. Respondents agree not to take any action or to make or permit to be made any public statement creating the impression that this Order is without a factual basis.
10. Respondents agree that Respondents are not the prevailing party in this action since the parties have reached a good faith settlement.
11. Respondents neither admit nor deny the allegations made by the Securities Division but consent to the Commissioner's Findings of Fact and Conclusions of Law as set forth below solely for the purposes of this proceeding and any proceeding that may be brought to enforce the terms of this Consent Order.

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

I. FINDINGS OF FACT

12. 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.
13. 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.
14. 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.
15. 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.
16. On July 1, 2005, Dalton met with a Missouri resident (“MR”) at a restaurant in St. Louis. Dalton talked to MR about investing in KW Property. Dalton stated that KW Property bought and renovated real estate that they then resold at a profit. Dalton told MR, among other things, that:
 1. MR’s money would be used to purchase and rehabilitate properties for resale;
 2. For an investment of nineteen thousand five hundred dollars (\$19,500.00), MR would receive a return in a “very short period of time;” and
 3. MR would receive a minimum of twenty-five thousand dollars (\$25,000.00) within six (6) months to a year.
17. Dalton told MR that the properties that Hanlen and Dalton had purchased and renovated in the past had sold quickly. 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 Hanlen and Dalton’s activities in purchasing, renovating and selling the properties.
18. On July 1, 2005, based upon statements by Dalton, MR invested nineteen thousand five hundred dollars (\$19,500.00) via cashier’s check. At Dalton’s direction, MR made this check payable to Doug Dalton.
19. On July 5, 2005, Dalton endorsed and cashed MR’s check.
20. On or before May 22, 2006, MR contacted KW Property, Hanlen and Dalton regarding MR’s investment. MR stated that MR had not received a return on MR’s invested funds.
21. On May 22, 2006, Hanlen gave MR a promissory note for twenty-five thousand dollars (\$25,000.00) as evidence of MR’s original investment. This note was signed by Hanlen and Dalton on behalf of KW Property. The promissory note provided that if the principal and interest were not paid in full within one hundred and twenty (120) days, “monthly installments of ten percent (10%) per annum” would be paid until all principal and interest had been paid in full.
22. To date, Hanlen, Dalton and KW Property have made no payments to MR.
23. 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 KWIG and requested, among other things, any claim of exemption relied upon in making this offering.
24. The Enforcement Section of the Division received no response from KW Property, KWIG, Dalton, or Hanlen or any attorney representing the entity or individuals. However, on or about January 8, 2007, an accountant for Respondents sent a response to the Division. The accountant provided documents indicating that:
 - a. KW Property borrowed funds from four (4) 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 (4) individuals was one hundred thousand four hundred dollars (\$100,400.00).
 - d. These individuals had invested from May 22, 2005 through August 22, 2006; and
 - e. MR was listed as one of the investors.
25. The accountant identified an account at Bank of America in the name of KWIG (“KWIG Account”) as the business account where investors’ funds were deposited.
26. On March 13, 2007, an investigator with the Division spoke with Hanlen, Dalton and the accountant. 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.

27. 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 (\$109,700.00) was deposited into this account from investors in KW Property.
28. 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 (\$51,234.00);
 - b. Nine (9) teller cash withdrawals totaling eighteen thousand five hundred dollars (\$18,500.00);
 - c. Miscellaneous disbursements by Hanlen for self-help audio tapes, medicine and child support totaling two thousand twenty-two dollars (\$2,022.0);
 - d. At least twenty-four (24) withdrawals from automatic teller machines totaling six thousand seven hundred four dollars (\$6,704.00);
 - e. Approximately eighteen thousand two hundred and seventy dollars (\$18,270.00) was expended in connection with activities unrelated to the rehabilitation of real estate;
 - 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.
29. 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.
30. 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 (5) years;
 - ii. ownership or interest held in each entity; or
 - iii. remuneration received during the previous twelve (12) months and estimated to be received during the next twelve (12) 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 (12) months;
 - e. material contracts or relationships with third parties;
 - f. the investments were not registered with the Division;
 - g. 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.

II. CONCLUSIONS OF LAW

31. The Commissioner, after consideration of the stipulations set forth above and on the consent of Respondents and the Securities Division, finds and concludes that the Commissioner has jurisdiction over this Respondent and this matter and that the following Order is in the public interest, necessary for the protection of public investors and consistent with the purposes intended this act. See Section 409.6-605(b) RSMo. (Cum. Supp. 2006).

III. ORDER

NOW, THEREFORE, it is hereby ordered that:

1. Respondents are ordered to cease and desist selling unregistered securities, transacting business as unregistered agents and failing to disclose material facts in connection with the offer or sale of securities in violation of Sections 409.3-301, 409.4-401, and 409.5-501, RSMo. (Cum. Supp. 2006);
2. Respondents are ordered to pay to Missouri investors the sum of ninety-two thousand nine hundred dollars (\$92,900.00). This amount will be paid in twenty-three (23) equal monthly installments of three thousand eight hundred seventy dollars (\$3,870.00) each and a final installment of three thousand eight hundred ninety dollars (\$3,890.00). The first installment will be due within thirty (30) days of the execution of this Consent Order. The second installment will be due on February 6, 2008, and all other installments will be due on the 6th of each month with the last installment due on November 6, 2009. This money shall be sent to the Division and made payable to the Missouri Investor Restitution Fund and will be distributed from that fund to the Missouri investors identified in Exhibit 1 and in the amounts and at the times as identified in that Exhibit. If Respondents fail to make any payment described in this Paragraph, the full amount remaining shall be immediately due and payable after five (5) days notice to cure, and if any amount remains unpaid after such five-day cure period, the Commissioner may refer this matter for enforcement as provided in Sections 409.6-603 and 409-6-604, RSMo. (Cum. Supp. 2006);
3. Respondents will send to the Division within thirty (30) days of the execution of this Consent Order, an affidavit, not unacceptable to the Commissioner, confirming that the investor identified in Exhibit 2 was paid four thousand five hundred dollars (\$4,500.00);
4. Respondents will offer rescission within thirty (30) days of the execution of this Consent Order to the investor identified in Exhibit 3 who invested twelve thousand dollars (\$12,000.00). This offer of rescission will be in compliance with Section 409.5-509, RSMo. (Cum. Supp. 2006), and 15 CSR 30-52.260;
5. In addition to other documents required by Section 409.5-509, RSMo. (Cum. Supp. 2006), and 15 CSR 30-52.260, Respondents shall send a copy of this Consent Order to the investor identified in Exhibit 3;
6. At least ten (10) days before sending out this rescission offer, Respondents will provide to the Division a copy of the proposed rescission offer and all attachments to be sent to the investor. The rescission letter and attachments will not be unacceptable to the Commissioner;
7. Respondents are ordered to pay a civil penalty in the amount of forty thousand dollars (\$40,000.00) this amount will be made payable to the State of Missouri, and delivered to the Division, and the Secretary of State shall forward these funds to the state treasury for the benefit of county and township school funds as provided in Article IX, Section 7 of the Constitution of Missouri. This penalty in the amount of forty thousand dollars (\$40,000.00) will be suspended provided that Respondents comply with the terms of this Consent Order;
8. Respondents are ordered to pay to the Investor Education and Protection Fund the sum of fifteen thousand dollars

(\$15,000.00). Ten thousand dollars (\$10,000.00) of this amount will be suspended provided that Respondents comply with the terms of this Consent Order. The remaining five thousand dollars (\$5,000.00) shall be sent to the Division and made payable to the Investor Education and Protection Fund. This five thousand dollars (\$5,000.00) shall be due and payable within thirty (30) days from the date this Consent Order is executed;

9. Any suspended payments as described in the above paragraphs 7 and 8 of the "Order" Section, shall become immediately payable, under operation of law, upon Respondents' failure to comply with the terms of this Consent Order, including, without limitation, the restitution payments and the provisions of the above paragraphs 2 and 3 of the "Order" Section, and the recession offer provisions of the above paragraphs 4-6 of the "Order" Section, and such immediately due payments shall be in addition to all other penalties then available under the law;
10. Respondents are ordered to pay one thousand dollars (\$1,000.00) as the cost of this investigation. This amount shall be sent to the Division and made payable to the Missouri Secretary of State's Investor Education and Protection Fund. This amount shall be due and payable within thirty (30) days from the date this Consent Order is executed; and
11. Respondents will pay their own costs and attorneys fees with respect to this matter.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY, MISSOURI THIS 10TH DAY OF DECEMBER, 2007.

ROBIN CARNAHAN
SECRETARY OF STATE

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

Consented to by:
MISSOURI SECURITIES DIVISION

Mary S. Hosmer
Assistant Commissioner of Securities

Douglas K. Dalton, Individually and as the
Managing Member of Key West Investment
Group, LLC

Jeffrey C. Hanlen, Individually and as the President
of Key West Property &
Development, Inc.

Approved as to Form

Brian McGovern, Attorney for Respondents