



STATE OF MISSOURI
OFFICE OF SECRETARY OF STATE

IN THE MATTER OF:)
)
) Case No. AP 04-09
PENDRAGON INVESTMENT GROUP, LTD.)
and GREGORY STRAND,)
)
)
Respondents.)

Serve all at: 11401 W. 114th Street
Overland Park, KS 66210

ORDER TO CEASE AND DESIST

On the 12th day of May 2004, Omar D. Davis, Enforcement Counsel for the Securities Division, submitted an Amended Petition for Order to Cease and Desist.

After reviewing the petition, on May 12, 2004, the Commissioner issued an Order to Show Cause why an order to cease and desist should not be issued. The Respondent failed to appear on June 17, 2004.

NOW THEREFORE, the Commissioner issues the following findings of fact, conclusions of law and order:

FINDINGS OF FACT

1. Pendragon Investment Group, Ltd., ("Pendragon") is a company operating in the State of Missouri with an address of 1510 Liberty, Kansas City, Missouri 64102. Pendragon also operates in the State of Kansas with an address of 11401 W. 114th Street, Overland Park, KS 66210.
2. Gregory Strand ("Strand") purports to be the President of Pendragon Investment Group, Ltd., and has a business address of 11401 W. 114th Street, Overland Park, KS 66210.
3. As used in this Cease and Desist Order, the term "Respondents" refers to Pendragon Investment Group, Ltd., and Gregory Strand.
4. On or about November of 2000, a Missouri Resident ("MR") heard about an investment opportunity in Pendragon Investment Group, Ltd., through MR's daughter.

5. MR approached Strand and inquired about the investment opportunity. Strand informed MR of the opportunity to purchase real estate property through Pendragon. Written information provided to MR by Strand advised that Respondents engaged in buying, rehabbing and selling real estate for a profit. Strand also gave MR verbal confirmation of that business goal.
6. Strand assured MR that an investment in Pendragon would entitle MR to twenty-five percent of the profit on the sale of each home that was purchased, renovated and sold pursuant to financing secured through the use of MR's credit rating.
7. The following is an outline of Pendragon's business, as set forth in the "Real Estate Investment Proposal" provided to MR by Strand:
 - a. Investor must possess good credit and good financial statements.
 - b. Investor must submit their financial statement along with two years of tax returns to Pendragon to take to a bank for approval.
 - c. Upon the bank's approval, Pendragon was responsible for finding a property to purchase and renovate, preferably single family homes.
 - d. It was also Pendragon's responsibility to find a qualified buyer for that home.
 - e. After a buyer was qualified, a sales contract was signed between the qualified buyer and Pendragon. The contract was contingent upon Pendragon being able to purchase the property.
 - f. Only after the buyer was confirmed would Pendragon place a contract under the name of the investor. This was done to ensure that there was always a buyer for the home in place before any mortgage financing was secured and allowed Pendragon to reduce the risk to the investor.
 - g. Once an offer was accepted, Pendragon would take the contract, along with an estimate of work (repairs to be completed on the home), to the bank.
 - h. When all documents were completed and the bank was ready to close, loan documents would be sent to the investor for signatures.
 - i. Once the investor authorized the necessary bank documents, a title of ownership to the property was issued in the name of the investor. The loan on the property was typically a 90-120 day loan.
 - j. Pendragon then prepared a crew to remodel the home.
 - k. After completion of the remodel and the sale of the home, the investor would receive 25% of the net proceeds from the sale of the property. Strand provided MR with the following example of what to expect:

Sales price to a potential home buyer	\$60,000
Less:	
Pendragon's purchase price of home	\$25,000
Pendragon's remodeling costs	\$ 8,000
Bank's closing costs	<u>\$ 2,000</u>
Net Proceeds	\$25,000

- l. The investor would receive 25% of net proceeds, or \$6,250.00.
 - m. The process can then be repeated on another home.
 - n. There were no other obligations on the investor other than their good financial statements and approvals (signatures on documents).
 - o. An investor could cancel at anytime with a 30-day written notice.
 - p. Each investor was also given the opportunity to hold the loan long-term, which would entitle the investor to earn a residual income of \$60.00 per contract, per month, paid on a quarterly basis. This was accomplished when the investor and Respondents agreed to a contract whereby the short-term loan was converted to a 3-year term.
 - q. The buyer agreed to a 3-year "Contract for Deed" and was obligated to make monthly payments to Pendragon. Pendragon used the monthly payments to pay the mortgage note, property taxes and insurance. This money also was the source of the investor's \$60/month. The buyer was obligated to "cash-out" Pendragon at the end of the 3-year period by obtaining their own mortgage financing to pay off the original mortgage and leave the investor free of any future obligations. The investor then received the promised 25% of profits on the sale.
 - r. Strand informed the Division that the purpose of the 3-year plan was to allow the buyer to show the bank that they were a reliable and worthy credit risk with the ability to pay the mortgage note on a long-term basis while also providing Pendragon and the investor a return for their extended commitments.
8. In addition to the documents that investors must initially provide to Pendragon, investors were also required to sign a Power of Attorney document appointing Greg Strand as their attorney-in-fact and allowing him to use their information and credit rating to obtain mortgage financing on the initial home and future homes.
 9. On or about November of 2000 MR entered into the investment deal with Respondents.
 10. On or about March of 2001, a home was purchased and repaired by Respondents.

11. On or about July of 2001, a tenant made arrangements to move into the home.
12. The mortgage lender informed MR that the mortgage payments for October and November of 2001 were late. When MR questioned Strand on why the payments were late, Strand told MR "it was because the mortgage was sold to another banking institution."
13. During the year 2002, Pendragon was late on 5 additional payments. At the occurrence of each late payment, MR received a late notice from the mortgage company.
14. MR called Strand inquiring about the late payments on numerous occasions. MR informed an investigator with the Division that if MR was forced to leave a message for Strand, Strand did not return MR's phone calls.
15. On or about August 2003, MR received a phone call from Washington Mutual, the mortgage company, concerning late payments. MR was told that if payments were not made in one week, Washington Mutual would foreclose on the home.
16. MR submitted a payment of \$1561.45 to Washington Mutual to avoid an adverse effect on MR's credit rating. This amount covered the mortgage payments for June, July and August of 2003.
17. Pendragon resumed payments for September, October and November of 2003, all of which were paid late.
18. On or about May 2003, Pendragon attempted to purchase another home under the name of MR, without MR's authorization. The bank called MR to verify credit and income history, at which time; MR told the bank NOT to place the property under MR's name.
19. On or about August 2003, MR sent a notarized document, certified mail, to Respondents to have Strand's Power of Attorney revoked. Representatives of Pendragon refused to sign the certified mail.
20. On or about October 2003, MR sent a second notarized document, certified mail, to Respondents to have Strand's Power of Attorney revoked. This document was sent to both the Kansas and Missouri locations. A representative of Respondents at the Missouri location signed the acceptance.
21. On November 20, 2003, MR spoke with Strand stating, among other things, that MR wanted "out of the deal." MR told Strand to have someone else buy out MR and leave MR out of the overall deal. Again, MR was given excuses as to why the investment was experiencing problems.
22. On or about November 8, 2003, the Missouri Securities Division received information, which indicated that the Respondents offered and sold unregistered securities in the State of Missouri.

23. A check of the records maintained by the Missouri Commissioner of Securities confirmed no registration, granted exemption or notice filing indicating status as a “federal covered security” for any of the securities offered by the Respondents in the State of Missouri.
24. On December 5, 2003, the Division sent a letter of inquiry via certified mail to Respondents requesting a claim of exemption from registration or exception from definition of a security upon which Respondents relied in offering and/or selling unregistered securities in or from the State of Missouri. The letter also requested additional information about the offers, and advised Respondent that failure to respond constituted proper ground for the entry of an order by the Commissioner.
25. During the period of December 9, 2003 to December 10, 2003, Strand communicated several times with the Division regarding the Division’s letter dated December 5, 2003 at which time, a representative of the Division advised Strand to consult an attorney.
26. Respondents answered the Division’s letter dated December 5, 2003 stating, among other things, that they were offering general partnership agreements to investors and therefore they were “exempt” under the Missouri Securities Laws.
27. On December 22, 2003, Strand telephoned an investigator with the Division and stated that Pendragon would restructure the investment opportunities to avoid violations of the Missouri Securities Act. The Division sent Respondents a letter dated December 22, 2003 re-affirming this particular telephone conversation.
28. A letter received by the Division dated December 26, 2003 from Respondents stated that, *“...we no longer do any partnership ventures with anybody. The only investment we will do is on a property that our company will buy, rehab, and sell using our own company funds.”*
29. Respondent Strand was not registered to offer and/or sell securities in the State of Missouri.
30. Respondents offered and/or sold unregistered, non-exempt investment contracts in the form of partnership ventures in Pendragon Investment Group, Ltd., to Missouri residents.
31. The real-estate investments offered by Respondents are investment contracts for the following reasons:
 - a. Investment of money: Missouri investors entered into a contract with Respondents whereby investors were required to use their credit history to secure mortgage financing from a bank. Missouri investors were at all times liable for payments on this mortgage note. The proceeds of the note were given to Respondents to use in furtherance of the business plan.
 - b. Common enterprise: Respondents used this money to purchase and renovate the real estate identified by Respondents.
 - i. Respondents identified potential buyers for the real estate and entered into purchase agreements with the buyers.

- ii. After renovations were completed, Respondents would sell the real estate to the buyers and pay-off the investor's mortgage note with the proceeds.
 - iii. Alternatively, Respondents would identify an occupant for the renovated real estate. This occupant would agree to make monthly payments to respondents for a 3-year period. These monthly payments would be used to make the scheduled payments on the mortgage note.
 - iv. At the end of the 3-year period, pursuant to the agreement with Respondents, the occupant was required to secure mortgage financing to pay-off the original mortgage note and take ownership of the real estate.
 - v. This was often done with the assistance of Respondents, who had built relationships with various lenders and could show the lender that, based on the 3-years of payments made to Respondents, the occupant was capable of making the proposed mortgage payments, which were usually lower than the payments that had been made to Respondents over the 3-year period.
- c. Expectation of profit: Respondents expected the re-sale of the real estate to generate enough income to pay-off the investor's mortgage note and provide a profit which would be split between Respondents and investors, with 75% going to respondents and 25% going to the investor.

Alternatively, if the investor chose the "long-term" option, Respondent would collect monthly payments from an occupant chosen by Respondent. These payments would exceed the scheduled amount due monthly on the investor's mortgage loan. The investor was entitled to receive \$60/month of the excess, with the excess to be paid to the investor on a quarterly basis. At the end of the 3-year period, the real estate would be sold to the occupant. The funds received from the sale would be used to pay-off the investor's mortgage note and the investor would then collect 25% of any profit on the sale.

- d. From the significant managerial or entrepreneurial efforts of others: The funds from which Respondents expected to earn a profit and from which Respondents expected Missouri residents to earn a profit were generated solely through the efforts of Respondents. Respondents identified and entered into contracts with potential buyers and occupants. Respondents handled the collection of payments from respondents and made the scheduled payments on the investor's mortgage note. Respondent conducted all renovations to the subject real estate. Additionally, Respondents cultivated relationships with several lenders to facilitate the investment plan. The only efforts required of investors were to sign pertinent loan documents and have a good credit history. Through the investor's grant of power-of-attorney to Respondent, Respondents even handled the delivery and filing of all necessary paperwork with the mortgage lenders and county recorders.

32. The securities offered and/or sold by Respondents were not federal covered securities.

33. In connection with the offer, sale or purchase of a security in the state of Missouri to a Missouri resident, Respondents omitted to state the material fact that Respondents were not obligated to make any payments on the mortgage note should the “buyer”, chosen by Respondents, prove unable to make such payments.
34. In connection with the offer, sale or purchase of a security in the state of Missouri to a Missouri resident, Respondents omitted to state the material fact that should the “buyer” chosen by Respondents fail to make the required payments on the contract, the investor was solely liable for any and all payments due on the mortgage note and it was the investors credit rating that was at risk if payments were not made or were late.
35. In connection with the offer, sale or purchase of a security to Missouri residents, Respondents omitted to state the material fact that Respondent Strand was not registered to sell securities in the State of Missouri.
36. In connection with the offer, sale or purchase of a security to Missouri residents, Respondents omitted to state the material fact that the securities offered and sold by Respondents were not registered in the State of Missouri.
37. This Order is in the public interest.

CONCLUSIONS OF LAW

1. §409.401(o), RSMo, Cumulative Supp. 2001, includes “investment contract” within the definition of a security. “Investment Contract” is an investment of money in a common enterprise with the expectation of profit from the significant managerial efforts of others. *State v. Reber*, 977 S.W.2d 934 (Mo.App.S.D. 1998); *State v. Kramer*, 804 S.W.2d 845 (Mo.App.E.D. 1991). The interests offered and/or sold by Respondent as described in the above allegations of fact constitute securities.
2. §409.101(2), RSMo 2000, provides that it is unlawful, in connection with the offer, sale or purchase of any security, for any person to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading. The conduct described in the above findings of fact constitutes a violation of this section.
3. §409.201(a), RSMo 2000, provides that it is unlawful for any person to transact business in this state as an agent unless he is registered under Sections 409.101 to 409.419. The conduct described in the above findings of fact constitutes a violation of this section.
4. §409.301, RSMo 2000, provides that it is unlawful for any person to offer or sell any security in this state unless (1) it is registered under this act; (2) the security or transaction is exempted under section 409.402; or (3) it is a federal covered security. The conduct described in the above findings of fact constitutes a violation of this section.

5. §409.402(f), RSMo 2000 provides that the burden of proving an exemption or an exception from a definition is upon the person claiming it.
6. §409.408(b), RSMo 2000 provides, in part, that:

[I]f the commissioner shall believe, from evidence satisfactory to him, that such person is engaged or about to engage in any of the fraudulent or illegal practices or transactions above in this subsection referred to, he may issue and cause to be served upon such person and any other person or persons concerned or in any way participating in or about to participate in such fraudulent or illegal practices or transactions, an order prohibiting such person and such other person or persons from continuing such fraudulent or illegal practices or transactions or engaging therein or doing any act or acts in furtherance thereof.
7. Omitting to state a material fact necessary to make the statement made not misleading, in connection with the offer or sale of a security, constitutes an illegal practice under §409.408(b), RSMo 2000.
8. Transacting business as an unregistered agent, as described in the above findings of fact, constitutes an illegal practice under §409.408(b), RSMo 2000.
9. The offer or sale of unregistered securities, as described in the above findings of fact, constitutes an illegal practice under §409.408(b), RSMo 2000.
10. The Missouri Commissioner of Securities is empowered to issue such orders as he may deem just. §409.408(b), RSMo 2000.

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 investment contracts in Pendragon Investment Group, Ltd.
- B. Violating §409.101(2), RSMo 2000, by omitting to state, in connection with the offer or sale of these securities to Missouri residents, the material facts that:
 - i. Respondent Strand was not registered to sell securities in the State of Missouri;
 - ii. The securities offered and sold by Respondents were not registered in the State of Missouri;

- iii. Respondents were not obligated to make any payments on the mortgage note should the “buyer”, chosen by Respondents, prove unable to make such payments; and
- iv. Should the “buyer” chosen by Respondents fail to make the required payments on the contract, the investor was solely liable for any and all payments due on the mortgage note and it was the investors credit rating that was at risk if payments were not made or were late.

- C. Violating §409.201(a), RSMo 2000, by transacting business as an agent without an effective registration;
- D. Violating §409.301, RSMo 2000 by offering or selling any unregistered security, unless it is either a federal covered security or has an effective exemption from registration.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY, MISSOURI THIS 15th DAY OF September, 2004.

MATT BLUNT
SECRETARY OF STATE



A handwritten signature in black ink, appearing to read "Douglas M. Ommen", is written over a horizontal line.

DOUGLAS M. OMMEN
COMMISSIONER OF SECURITIES