

**BEFORE THE SECURITIES COMMISSIONER
OF THE STATE OF KANSAS**

In the matter of:

RESORT HOLDINGS INTERNATIONAL, INC.,
MICHAEL E. KELLY,
JAMES HERMAN MUNSTER II,
LEROY HARE, JR.,
LOUANN SORENSEN,

Docket No. 06 E 022
KSC No. 2005-5007

and Their Representatives and Agents,

Respondents.

A proceeding pursuant to K.S.A. 17-1266a and
Kansas Uniform Securities Act, K.S.A. 17-12a604(a)

NOTICE OF INTENT TO INVOKE ADMINISTRATIVE SANCTIONS

Staff for the Office of the Securities Commissioner of the State of Kansas, by and through Wiley B. Kannarr, Associate General Counsel, allege that sufficient evidence exists to provide cause under K.S.A. 17-1266a and K.S.A. 2005 Supp. 17-12a604(a) to invoke administrative sanctions against the Respondents, Resort Holdings International, Inc., Michael E. Kelly, James Herman Munster II, Leroy Hare, Jr., and Louann Sorenson. If the allegations set forth below are found to be true, through either administrative adjudication, failure of the Respondents to make a timely request for hearing, or default of the Respondents, it is the intention of the staff to seek an order from the Commissioner to impose sanctions upon the Respondents under the Kansas Securities Act, K.S.A. 17-1266a and the Kansas Uniform Securities Act, K.S.A. 17-12a101, et seq, and amendments thereto. Such sanctions may include, *inter alia*, a fine up to \$40,000 per violation, a Permanent Cease and Desist Order and/or Order requiring Respondents to pay restitution arising from the violations including assessment of interest not to exceed 15% per annum from the date of violation for violations occurring before

July 1, 2005, and assessment of interest not to exceed the rate provided for interest on judgments by K.S.A. 16-204 for violations occurring on or after July 1, 2005.

Opportunity for Hearing

If Respondents wish to contest the facts alleged below or offer evidence and argument to mitigate those facts, then they must file a request within 33 days after the date of mailing on the Certificate of Service attached to this Notice. The request for hearing shall be in the manner and form prescribed by K.A.R. 81-11-3 and 81-11-5, and it must be filed with the Office of the Securities Commissioner, 618 S. Kansas Avenue, Topeka, Kansas 66603. The request for hearing must be verified under oath by Respondents, and if Respondents dispute any of the allegations, Respondents shall specifically deny those allegations or those allegations will be deemed admitted by Respondents. If a request for hearing is not timely filed, the Commissioner may issue a final Order without further proceedings.

In support of such action, staff for the Securities Commissioner allege and state:

Allegations of Fact

1. Respondent Resort Holdings International, Inc., d/b/a Resort Holdings International, S.A., (“RHI”) is an affiliate of Yucatan Resorts, Inc., d/b/a Yucatan Resorts, S.A. (“Yucatan”), an international corporation operating a purported timeshare program based out of Cancun, Mexico. Respondent RHI is the exclusive distributor throughout North America for the Resort Holdings International S.A. Universal Lease Program (the “Program”). RHI and Yucatan share a last known United States address of 3222 Mishawaka Avenue, South Bend, Indiana, 46615, with a mailing address of P.O. Box 2661, South Bend, Indiana 46680. The entities also share a business address in Mexico, Av. Copa #82 Lot 10, 3er. Piso Cancun, Q. Roo Mexico C.P.77500.

2. Respondent Michael E. Kelly (“Kelly”) is the founder and president of RHI who oversees and controls both the Program and the resulting proceeds. Kelly’s last known address is that of his company headquarters.
3. James Herman Munster II (“Munster”) is a person of unknown title, whose last known address is [REDACTED]. Munster was the point of contact for Kansas Respondent LeRoy Hare, Jr. Respondent Hare believes Munster reported to “Michael.”
4. Respondent LeRoy Hare, Jr. (“Hare”), at the time of these transactions, was an agent for RHI. Hare’s last known address is [REDACTED].
5. Respondent LouAnn Sorensen (“Sorensen”) was an agent for RHI, supervised by Respondent Hare. Sorensen’s last known address is [REDACTED].

The Investment

6. The investment sold is called a “Universal Lease Program,” which purportedly offers investors the opportunity to purchase timeshare units in one of various resort properties in Mexico and Central America. The Program requires investors to invest a minimum of \$5,000 to participate in the Program, but they may invest any amount in excess of the minimum.
7. Investors in the Program, as represented in RHI’s associated promotional materials, are given the opportunity to select one of three separate Universal Lease “options.”
8. The Option 1 purchaser foregoes any returns on the investment, and instead chooses to utilize a timeshare unit themselves. The Option 1 purchaser must pay annual

management fees to RHI, ranging from \$380 to \$645 per year, subject to Consumer Price Index increases. No known Kansas investor chose Option 1.

9. Option 2 allows investors to rent out assigned timeshare units themselves, but contains many of the same prohibitive costs and conditions of Option 1. The Option 2 purchaser again forgoes any guaranteed investment returns and instead must pay substantial annual maintenance fees on the purchase for the full 25-year lease term. No known Kansas investor chose Option 2.
10. All known Kansas investors chose Option 3. Option 3 allows investors to turn over responsibilities related to the Program to a third party servicing agent. RHI provides information on only one third party servicing agent: World Phantasy/ Galaxy Properties Management. All known investors chose World Phantasy/Galaxy Properties Management as their third party servicing agent.
11. Under Option 3, the investor is passive, allowing the third party to manage the vacation property. The investor gives the third party servicing agent a power of attorney and signs other documents to authorize the third party to carry out all duties associated with the Program.
12. Marketing documents emphasize the potential accumulation of income using Option 3. Investors in Option 3 would be eligible to receive a 9% per annum return on their timeshare investments every year 25 years, after which time the lease would be renewable for another 20 years.
13. One promotional document compares the benefits of investing in Option 3 of the Program with investments in certificates of deposit and fixed annuity contracts.

14. Program documents also provide for investors to roll IRA, 401(K), SEP, TSA, Keogh and annuity accounts into the Program, replacing their retirement accounts with investments in the Program.
15. Although company brochures and promotional materials were distributed to prospective investors, the investors were never apprised of the financial condition of RHI, were never informed of the uses of investment funds, and were never afforded financial statements reflecting the degree of solvency of RHI.
16. Training materials provided to sales agents instructed them to tell prospective investors that the investment funds are being used to purchase more resort properties, indicating at least some investor funds are being pooled to provide financing for new acquisitions.

The Kansas Sales

17. Since June 2002, Respondents Hare and Sorensen have been directly or indirectly engaged in the offer and sale of securities in Kansas in the form of investment contracts as defined by Kansas statutes at K.S.A. 17-1252(j) and K.S.A. 17-12a102(28).
18. Respondent Hare sold 14 investments in the Program to Kansas investors between June 2002 and September 2003, amounting to more than \$290,000.00 in investments. Hare solicited past insurance customers to invest. Of those investors, 10 rolled over their IRAs to invest with Hare. Additionally, 10 investors were over 60 years of age. See Exhibit A.
19. Before June 2002, Respondent RHI advertised for sales personnel via the Internet. RHI recruited Hare based on a phone call, and flew him to Cancun, Mexico for him to see what they were actually selling.

20. Respondent Hare told the Investigator when people gave money to him to purchase timeshares, he would forward the money to somebody else and, through their expertise and knowledge, would make a profit for the investor.
21. Hare told the Investigator that the funds from his sales were sent by wire transfer to RHI in Indiana. RHI would do all “the legalities” and then deposit the funds to an unknown bank account.
22. Hare stated that he had people working for him, but told the Investigator that none of them made any sales, and that only Respondent Hare, d/b/a “Safe Assets, Gateway to Financial Freedom” was selling investments to Kansas residents.
23. However, Sorensen stated that she sold five investments in 2002 and 2003 and that she received instruction from, and reported to, Leroy Hare. Sorensen also solicited investors through past insurance customers. The investments solicited by Sorensen amounted to more than \$81,000.00. Two of the investors were over 60 years of age. See Exhibit A.
24. Sorensen told the Investigator that she received a 10% commission on each sale, and that Hare received either a 3% or a 5% commission for being her supervisor.
25. All Kansas investors were told that they could not sell their investment for three years. If a person bought a unit, its value “today” would be less 10% if they sold short of a three-year agreement period. Those Kansas investors who attempted to sell their interest for financial reasons were told their investment was worth literally pennies on the dollar.
26. One of Sorensen’s investors, however, ██████████ asked for the return of her investment. Sorensen believes ██████████ received her investment, less 10%. In addition to this, Sorensen had to return her 10% commission to Resort Holdings International. It is

therefore to the sales person's advantage to discourage investors from selling their investment.

27. Kansas investors have been billed periodically for management fees, without having received any return on their investment.
28. Respondents omitted telling Kansas investors that Yucatan, RHI, and Kelly were the subject of an administrative order of the New Mexico Securities Division on May 18, 1999. This order was for the sale of unregistered, non-exempt securities (nine month notes) by unlicensed agents.
29. Respondents omitted telling Kansas investors that Yucatan was the subject of an administrative order of the South Carolina Securities Division on July 26, 1999 for the sale of unregistered, non-exempt securities (nine month notes) by unlicensed agents and in violation of the anti-fraud provision of South Carolina securities law.
30. Respondents omitted telling Kansas investors that Yucatan was the subject of an administrative order of the Connecticut Department of Banking on November 7, 2000 for the sale of unregistered, non-exempt securities by unlicensed agents of nine month notes, and in violation of the anti-fraud provision of Connecticut securities law.
31. Respondents omitted telling Kansas investors that Yucatan was the subject of an administrative order of the Wisconsin Securities Division on April 4, 2003, for the sale of unregistered securities by unlicensed agents and by unlicensed broker-dealers and of the anti-fraud provision of Wisconsin securities law.
32. Respondents omitted telling Kansas investors that Yucatan was the subject of an administrative order by the Oklahoma Department of Securities in August 2001, arising out of possible violations of the Oklahoma Securities Act.

33. Respondents omitted telling Kansas investors that Yucatan, RHI, and Kelly were the subject of an administrative order by the Arizona Corporation Commission on September 18, 2003 for the sale of unregistered securities by unlicensed agents and by unlicensed broker-dealers and of the anti-fraud provision of Arizona securities law.
34. Respondents Hare, Sorensen, Munster, and Kelly did not disclose their substantial commissions to investors.
35. Respondents Hare, Sorensen, Munster, and Kelly are not registered as broker-dealers or agents with the Office of the Kansas Securities Commissioner.
36. The investment opportunity offered by Respondents Hare, Sorensen, Munster, and Kelly is not registered as a security under the Kansas Securities Act or under the Kansas Uniform Securities Act.

Allegations of Law

37. Investment contracts offered by the Respondents to the Kansas residents are securities as defined in K.S.A. 17-1252(j) and K.S.A. 17-12a102(28).
38. Each of the programs offered through RHI is a security as defined in K.S.A. 17-1252(j) and K.S.A. 17-12a102(28).
39. Respondents Hare, Sorensen, Munster and Kelly transacted business in the state of Kansas as agents at a time when they were not registered under the Kansas Securities Act, in violation of K.S.A. 17-1254(a) and K.S.A. 17-12a402(a).
40. Respondent Resort Holdings International, Inc. associated with unregistered agents Hare, Sorensen and Munster in violation of K.S.A. 17-1254(b) and K.S.A. 17-12a402(d).

41. Respondents offered a security for sale in Kansas at a time when the security was not registered under the Kansas Securities Act, in violation of K.S.A. 17-1255 and K.S.A. 17-12a301.
42. In violation of K.S.A. 17-1253(a) and K.S.A. 17-12a501, in connection with the sale of a security, to wit: an investment contract, Respondents employed a device, scheme or artifice to defraud, made untrue statements of material fact and/or omitted to state material facts necessary in order to make the statements made not misleading, or engaged in an act, practice or course of business which operated or would operate as a fraud or deceit upon any person. Respondents conduct includes the following:
- (a) Respondents failed to disclose to investors the financial background of the issuer, its affiliates, or its principals
 - (b) Respondents failed to disclose to investors that sales commissions of at least 10 percent were routinely paid to Yucatan sales agents.
 - (c) Respondents failed to disclose to investors that administrative orders reflecting prior securities violations have been issued against respondents in several jurisdictions.

The Office of the Securities Commissioner shall be represented in this matter by Wiley B. Kannarr, Associate General Counsel, 618 S. Kansas Ave., Topeka, Kansas 66603; telephone (785) 296-3580.

Filed in Topeka, Kansas, this 3rd day of March, 2006.

/s/ Wiley B. Kannarr
Wiley B. Kannarr
Associate General Counsel

Certificate of Service

I hereby certify that on this 3rd day of March, 2006, copies of the above Notice of Intent to Invoke Administrative Sanctions was mailed by certified mail, return receipt requested, addressed to the following:

LeRoy Hare, Jr.

[REDACTED]

Louann Sorensen

[REDACTED]

James Herman Munster II

[REDACTED]

Michael Kelly

[REDACTED]

/s/ Mary Connolly
Mary Connolly
Legal Assistant