

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

In the matter of:

DALE C. LUCAS,  
MICHAEL J. MCNAUL,  
RUSSELL W. KILGARIFF,  
RICHARD D. MEYER, and  
their Representatives or Agents

Respondents.

Docket No. 11 E 001  
KSC No. 2003-4697

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A proceeding pursuant to K.S.A. 17-1266a. and 17-12a604.

NOTICE OF INTENT TO INVOKE ADMINISTRATIVE SANCTIONS  
UNDER THE KANSAS SECURITIES ACT

Staff for the Office of the Securities Commissioner of Kansas, by and through Scott M. Schultz, Associate General Counsel, allege that sufficient evidence exists to provide cause under K.S.A. 17-1266a and 17-12a604 to invoke administrative sanctions against the respondents. 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 staff to seek an order from the Commissioner to impose administrative sanctions upon the respondents under the Kansas Securities Act, K.S.A. 17-1266a and 17-12a604. Such sanctions may include, *inter alia*, an order to cease and desist from violating the Kansas Securities Act and Kansas Uniform Securities Act, censure, suspension or revocation of agent registration and a fine up to **\$25,000** per violation, and require the respondents to pay restitution for any loss arising from the violation or to disgorge any profits arising from the violation. Such order may include the assessment of interest from the date of the violation at the judgment rate provided in K.S.A. 16-204.

If the respondents wish to contest the facts alleged below, or offer evidence and argument to mitigate those facts, then they must file a request for hearing within 33 days after the date of mailing on the Certificate of Service attached to this notice. The request for hearing must 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, 109 S.W. 9<sup>th</sup> Street, Suite 600, Topeka, Kansas 66612. The request for hearing must be verified under oath by the respondents, and if the respondents dispute any of the allegations set forth below, they shall specifically deny those allegations or the allegations will be deemed admitted by the 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. Key Gas Corp. and its affiliated companies Key Resource Group, LLC, and Key Gas Holding LLC, (collectively “Key”) were Kansas companies. Key’s address in 2005 was Key Resource Group, LLC, 155 N. Market, Suite 900, Wichita, Kansas 67202. Key was engaged primarily in the oil and gas industry. Key’s last known address is 505 S. Broadway, Suite 200, Wichita, Kansas 67202.
2. Respondent Dale C. Lucas (“Lucas”) was the president of Key Gas Corp. and the manager of Key Resource Group, LLC. His last known address is [REDACTED].
3. Respondent Michael J. McNaul (“McNaul”) a/k/a Mike McNaul, a/k/a Michael McNaul, a/k/a M.J. McNaul was the vice president and secretary of Key Gas Corp. His last known address is [REDACTED].
4. Respondent Russell W. Kilgariff (“Kilgariff”) was the vice president of Key Gas Corp. His last known address is [REDACTED].

5. Respondent Richard D. Meyer (“Meyer”) a/k/a Richard Meyer was the chief financial officer of Key Gas Corp. His last known address is [REDACTED].
6. In 2001, Respondents through Key were offering for sale interests in oil and gas well programs it referred to as the Burdett Project and the Pawnee-Barber.
7. To raise money for the Pawnee Barber venture, Respondents used a company, Universal Energy Solutions, Inc. (Universal) as Key’s agent to solicit investors. In compensation, Key paid Universal a commission of an average of at least thirty percent of the each investor’s investment. Universal’s office was located at 4676 Lakeview Avenue, Suite 113, Yorba Linda, California 92886.
8. As a result of Universal’s involvement with Key, the Office of the Kansas Securities Commissioner entered a Permanent Cease and Desist Order against Universal and its promoters in 2003.  
[REDACTED]
9. Investor [REDACTED] ([REDACTED]) at the time of her investment with Key and Respondents lived in Alhambra, CA. In March 2003, she moved to Wichita, Kansas. At the time she invested with Key and the Respondents, she was 61 years old.
10. On or about August 5, 2001, Dan McGinnity (McGinnity), who worked for Universal, called and solicited [REDACTED] to invest in the Key venture called Burdett 1.
11. On or about August 6, 2001, McGinnity sent [REDACTED] the Burdett offering document that described the project.
12. Sometime between August 7, 2001 and August 16, 2001, [REDACTED] visited Universal’s office. [REDACTED] met with McGinnity and his supervisor, Mark DuBoise (DuBoise). McGinnity and DuBoise assured her that the Burdett wells were

already producing and that she could expect a monthly income of \$750 from this investment.

13. On or about August 16, 2001, [REDACTED] invested \$26,000 and acquired one unit of interest in the Burdett venture.

14. After a few weeks, McGinnity again called and solicited [REDACTED] to make another investment with Key in an investment called Pawnee-Barber. Universal followed up this phone call by sending a booklet entitled, "Key Resource Group, LLC, Pawnee-Barber Offering Project Investment Opportunity" to [REDACTED]. She reviewed the document and was impressed by the income projections and the fact that it said she would be investing in nine producing wells and two new wells that would be drilled. The Pawnee-Barber offering document projected a first year payout of \$1,096 per month per one-unit investment.

15. [REDACTED] made another trip to Universal's office and again met with both DuBoise and McGinnity. [REDACTED] explained to DuBoise and McGinnity her financial situation and that she needed a safe investment that would provide monthly income. DuBoise and McGinnity both assured her that Pawnee-Barber was a safe investment that would provide, within 2-3 months, a monthly income of at least \$1,250 with an investment in one unit. DuBoise and McGinnity went over the maps in the Pawnee-Barber offering document and explained to [REDACTED] that this investment was not a risk, since she was investing in nine existing and producing wells, plus the two new wells that also looked promising.

16. On October 13, 2001, while at the Universal office in Yorba Linda, California, [REDACTED] invested \$35,000 by issuing a check payable to Key Resource Group and obtained one unit of interest in Pawnee-Barber. [REDACTED] was able to purchase her

investment at a discount of 12.5% from the stated amount in the offering document. To invest, [REDACTED] and one of her relatives, [REDACTED], signed the Key Resource subscription agreement form that stated that Universal prepared the Pawnee-Barber offering material.

17. On October 18, 2001, [REDACTED] check was deposited into Key Resource's bank account at the State Bank of Burrton, located in Harvey County, Kansas.

18. On or about November 2, 2001, Respondent Lucas d/b/a Key Resource issued check #1344 for \$15,000 to Universal; in the memo line of check #1344 it was recorded "[REDACTED] Mktg Fee."

19. As of April 30, 2005, [REDACTED] had received only approximately \$1,472.03 return on her investment.

[REDACTED]

20. Investor [REDACTED] ([REDACTED]) at the time of his investment with Key and Respondents lived in Enid, OK. At the time he invested with Key and Respondents, he was 69 years old.

21. In November 2001, [REDACTED] was at home, when he received an unsolicited call from Dave Rolla (Rolla), an agent for Universal, soliciting him to invest in Pawnee-Barber.

22. Soon thereafter, [REDACTED] received the Pawnee-Barber offering document. Rolla had additional phone conversations with [REDACTED] and assured him that this was an excellent investment opportunity. This Pawnee-Barber offering document projected that the first year payout would pay \$1,837 per month per one-unit investment.

23. After hearing the verbal representations and reviewing the Pawnee-Barber offering documents, [REDACTED] invested \$10,000 and received ¼ of a unit.

24. On or about November 20, 2001, [REDACTED] issued a \$10,000 check to Key and mailed the check and subscription agreement to Universal.

25. On or about November 27, 2001, [REDACTED] \$10,000 check was deposited into Key Resource's bank account at the State Bank of Burrton, located in Harvey County, Kansas.

26. On or about December 21, 2001, Key Resource issued check #1022 for \$5,000 to Universal. Recorded in the memo line of check #1022, it stated "[REDACTED] Mktg Fee."

27. As of April 30, 2005, [REDACTED] had received only approximately \$971.81 return on his investment.

[REDACTED]

28. Investor [REDACTED] ([REDACTED]) at the time of his investment with Key and Respondents lived in Fort Scott, Kansas. At the time of his investment with Key and Respondents, he was 70 years old.

29. Sometime in December 2001 or January 2002, Rolla, a Universal agent, called [REDACTED] and solicited him to invest in Pawnee-Barber. Shortly thereafter, he sent [REDACTED] a written solicitation which included the Pawnee-Barber offering document. This Pawnee-Barber offering document projected that the first year payout would pay \$1,837 per month per one-unit investment.

30. [REDACTED] had additional phone conversations with Rolla and was assured that projections for Pawnee-Barber were achievable and that this was an excellent investment opportunity. In addition, Rolla sent [REDACTED] a letter dated November 27, 2001, which assured [REDACTED] the projections were extremely conservative.

31. On or about January 2, 2002, [REDACTED] and his wife, [REDACTED] [REDACTED], visited Key Resource personnel at their offices located at that time at 410 Urban Drive, Hutchinson, KS 67201.

[REDACTED] met and talked with the following individuals at Key Resource: Kilgariff, McNaul,

Lucas, Meyer, Marcae Taurus and Rolla. [REDACTED] recalled that Universal employees, Marcae Taurus and Rolla, had flown in from California to attend the meeting.

32. After the initial meeting in Key Resource's offices, the Key Resource personnel transported [REDACTED] and his wife to Barber County, Kansas, and showed them the two well sites that were listed in the offering document, one that was already producing and one that was yet to be drilled. [REDACTED] and his wife were not shown what offering documents referred to as the nine "existing and producing wells" located in Pawnee County.
33. After they returned to the Key Resource offices, [REDACTED] completed the required Operating Agreement and Subscription Agreement and invested \$40,000 for 1% of the working interest in Pawnee-Barber project.
34. [REDACTED] invested by transferring the money from his retirement account to Key Resource, Pawnee-Barber investment.
35. On or about January 28, 2002, Key Resource deposited a cashier's check for \$39,975, which was [REDACTED] \$40,000 investment minus fees that were assessed, into Key Resource's bank account located at Legacy Bank, Sedgwick County, Kansas.
36. As of April 30, 2005, [REDACTED] had only received approximately \$3,721.62 return on his investment.

- [REDACTED]
37. Investor [REDACTED] ([REDACTED]) at the time of his investment with Key and the Respondents lived in Topeka, Kansas. At the time of his investment with Key and the Respondents, he was 54 years old.
  38. On or about February 8, 2002, Mike Campa (Campa), a Universal agent, made an unsolicited phone call to [REDACTED] in reference to investing with Key Resource in the Pawnee-Barber venture.

39. Shortly thereafter, [REDACTED] received some of the Pawnee-Barber offering documents via facsimile.
40. [REDACTED] agreed to invest after hearing the verbal presentation and reviewing the Pawnee-Barber offering documents. This Pawnee-Barber offering document projected that the first year payout would pay \$1,837 per month per one-unit investment.
41. On or about February 11, 2002, [REDACTED] issued check #102 for \$80,000 to Key Resource. [REDACTED] invested in Pawnee-Barber through his corporation, Aeolian Corporation. [REDACTED] stated that he and his wife, [REDACTED] [REDACTED], were the principals of the Aeolian Corporation, and that they receive all the proceeds from the corporation.
42. To invest, [REDACTED] and his wife completed the Key Resource subscription and operating agreement forms.
43. On or about February 15, 2002, [REDACTED] \$80,000 check was deposited into Key Resource bank account at a Legacy Bank located in Sedgwick County, Kansas.
44. On or about March 7, 2002, Respondent McNaul issued check #1102 for \$42,784.93 to Universal. In the memo line of check #1102 it stated, "[REDACTED] & [REDACTED] Mktg Fee" (the rest of the Memo Line is unreadable). [REDACTED] was another investor unrelated to [REDACTED] who purchased a ¼ interest on or about January 28, 2002. Presumably Key Resource combined their commission payments to Universal on this check.
45. As of April 30, 2005, [REDACTED] had only received \$5,234.36 return on his investment.  
[REDACTED]
46. Investor [REDACTED] ([REDACTED]) at the time of his investment lived in Newton, Kansas. At the time of his investment with Key and the Respondents, he was 59 years old.

47. In the fall of 2001, ██████ received a cold call from an agent for Universal that solicited him to invest in Pawnee-Barber. ██████ stated that he probably received the call on his cell phone while he was somewhere in Harvey County, Kansas.
48. After the initial phone call, Universal sent ██████ the Pawnee-Barber offering documents. This Pawnee-Barber offering document projected that the first year payout would pay \$1,837 per month per one-unit investment.
49. During the course of this solicitation, ██████ estimates that DuBoise called him 15 times and assured him that this was an excellent investment opportunity.
50. ██████ received a letter from DuBoise dated October 11, 2001, that again indicated that this would be an excellent investment.
51. During the phone calls, DuBoise informed ██████ that he had to act quickly because the project was quickly selling out. DuBoise had suggested that ██████ contact the Key corporate officers to help him with his decision to invest.
52. On or about February 15, 2002, ██████ contacted Respondents Lucas, and McNaul at the Key offices then located at 155 N. Market, Suite 900, Wichita, Kansas and they assured him this was a good investment opportunity.
53. ██████ invested \$17,500 by issuing a check payable to Key Resource and obtained one-half unit of Pawnee-Barber. ██████ was able to purchase his investment at a discount of 12.5% from the stated amount in the offering document.
54. On or about February 15, 2002, ██████ and his wife, ██████ ██████, completed the Key Resource subscription agreement form that stated the Pawnee-Barber offering documents were prepared by Universal.
55. On or about February 15, 2002, ██████ check was deposited into Key Resource bank account at Legacy Bank located in Sedgwick County, Kansas.

56. As of April 30, 2005, [REDACTED] had only received approximately \$1,906.86 return on the Pawnee-Barber investment.

[REDACTED]

57. Investor [REDACTED] ([REDACTED]) at the time of his investment lived in Derby, Kansas. At the time that he invested with Key and the Respondents, he was 43 years old.

58. [REDACTED], d/b/a W.T.W. Inc., invested in the following investments that were offered by Key Resource: Chase Silica, Burdett, Burdett #2, Pawnee-Barber and Pawnee-Barber #2.

59. On or about November 24, 2003, [REDACTED] entered into a settlement agreement with Key Resource regarding the Burdett, Burdett #2, Pawnee-Barber and Pawnee-Barber #2 investments.

60. As a result of this settlement, [REDACTED] and five other claimants received a settlement of \$185,000.

61. [REDACTED] received and reviewed the Pawnee-Barber offering documents. This Pawnee-Barber offering document projected the first year payout would be \$1,837 per month per one-unit investment.

62. While in Sedgwick County, Kansas, on or about May 13, 2002, [REDACTED] invested \$10,000, via a personal check, in Pawnee-Barber and received a one-half unit.

63. [REDACTED] was able to purchase his investment at a discount of 50% from the stated amount in the offering document.

64. As of June 23, 2003, [REDACTED] only received a \$457.07 return on his Pawnee-Barber investment.

65. In connection with the offering of this security to all six investors, the Respondents made the following material misrepresentations:

- a. Respondents Key, Lucas, McNaul and Kilgariff represented to the investors, through the Pawnee-Barber subscription agreement that the Pawnee-Barber project offering material, was prepared by Universal. In fact, Respondents Lucas, McNaul, geologist Rodney Andersen, and Key attorneys actually prepared the Pawnee-Barber offering material and agreements.
- b. Respondents Key, Lucas, McNaul, and Kilgariff represented to the investors, through the Pawnee-Barber offering document, that Key Resource intended to raise \$2,000,000 by selling off 50% of the interest in the Pawnee-Barber project. In fact, Respondent Key Resource oversold the project and raised \$2,303,493.93 by selling 66.324% of the interest in the Pawnee-Barber project.
- c. Respondents Lucas, McNaul, Kilgariff, and geologist Andersen represented to the investors, through the Pawnee-Barber offering document, that the investment included nine producing gas wells in Pawnee County, Kansas, that were currently producing approximately 300 MCFPD, and that two new wells were scheduled to be drilled that also looked promising. In fact, five of the wells were shut-ins that were non-producing, and at the time of the offering, the most recent month of reported production showed the Pawnee-Barber venture was producing approximately 142.51 MCFPD.

66. In connection with the offer and sale of this security to the investors, the Respondents made the following material omissions of material fact:

- a. None of the investors could recall any of the Respondents ever informing them that Respondents were selling off more than 50% of the Pawnee-Barber project to investors.

- b. Respondents Lucas, McNaul, and Kilgariff omitted to disclose to the investors that Respondents did not use the most recent month of production for projecting the profits from the producing wells or that they had included historical production figures for wells that were now non-producing. They also omitted to disclose that one of the wells had never produced gas.
- c. Respondents Lucas, McNaul, and Kilgariff omitted to disclose that in determining the income projections for the project, Respondent utilized prior production history of each wells. However, Respondents then selected or “cherry-picked” the months that each well had been the most productive, which is not an accepted industry practice for computing well production projections. The investor did not then have accurate information upon which to make their investments.
- d. Respondents Lucas, McNaul, and Kilgariff omitted to disclose to the investors that at least 30% of their investment would be diverted to pay Universal’s commissions and costs.
- e. Respondents McNaul, Kilgariff, and Meyer omitted to disclose to the investors that Pawnee-Barber investor funds were commingled with the investment funds for other investment projects executed by the Respondents.
- f. Respondents Lucas, McNaul and Kilgariff omitted to disclose to the investors the following previous criminal conviction, bankruptcies and civil judgments against the officers of Key:
  - i. Respondent McNaul:
    - 1. On February 28, 1995 in Kingman County, Kansas, case 94 C 021, an outstanding civil judgment for \$13,541.70;

2. On March 28, 1995, in Reno County, Kansas, case 95 L 0928, an outstanding civil judgment for \$643.54;
  3. On August 29, 1996, in United States Bankruptcy Court for the District of Kansas, case 96-40620-7, bankruptcy discharged pursuant to Chapter 7 with outstanding liabilities of \$13,430,762.00.
  4. On June 10, 1997, in Reno County, Kansas, case 97 L 0928, an outstanding civil judgment of \$105.08 for giving a worthless check;
  5. On December 2, 1996, in Harvey County, Kansas, case 96 L 08741, an outstanding civil judgment of \$413.86.
- ii. Respondent Kilgariff:
1. On August 5, 1997, in Reno County, Kansas, case 97 L 01439, an outstanding civil judgment of \$1,300.00 plus costs for giving a worthless check;
  2. On March 12, 1998, in Reno County, Kansas, case 97 CR 562, a criminal misdemeanor conviction for Issuing a Worthless Check. Restitution of \$2,303.05 plus costs were ordered; and
  3. On April 14, 1998, in Reno County, Kansas, case 98 L 0726, an outstanding civil judgment of \$329.31 plus costs for giving a worthless check; and
- iii. Respondent Meyer, on October 12, 2001, in United States Bankruptcy Court for the District of Kansas, case 01-41371, bankruptcy discharged pursuant to Chapter 7 with outstanding liabilities of \$531,400.00.

**Allegations of Law**

67. The Office of the Kansas Securities Commissioner has jurisdiction over this matter pursuant to the Kansas Securities Act. The Kansas Securities Act was repealed effective July 1, 2005; however, pursuant to K.S.A. 17-12a703(a), the Kansas Securities Act exclusively governs all actions or proceedings that may be instituted on the basis of conduct occurring before July 1, 2005.

68. The transactions with investors [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], and [REDACTED], involve the offer or sale of securities, as defined by K.S.A. 17-1252(j).

69. Pursuant to K.S.A. 17-1253(a), it is unlawful for any person, in connection with the offer, sale or purchase of any 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 omit to state a material fact necessary in order to make a statement made, in the light of the circumstances under which it is made, not misleading; and/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.

Filed this 5th day of August, 2010.

/s/ Scott M. Schultz  
Scott Schultz (#16629)  
Associate General Counsel  
Office of the Securities Commissioner  
109 S.W. 9<sup>th</sup> St., Suite 600  
Topeka KS 66612  
Tel: (785) 291-3115  
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**Certificate of Service**

I hereby certify that on this 5<sup>th</sup> day of August, 2010, copies of the above Notice of Intent to Invoke Administrative Sanctions Under the Kansas Securities Act, Docket No. 11 E 001, were sent by certified mail, return receipt requested, addressed to the following:

Dale C. Lucas

[REDACTED]

Michael J. McNaul

[REDACTED]

Russell W. Kilgariff

[REDACTED]

Richard D. Meyer

[REDACTED]

/s/ Michelle Lancaster  
Michelle Lancaster  
Legal Assistant