

**STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT**

IN THE MATTER OF: **KEN E. STEARNS and
SCOTT M. SALBECK, and
ARMARED DRAGON, INC. and
their partners, officers and directors,
managers, agents, employees,
affiliates, successors and assigns.**

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) **No. 1300329**
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**TO RESPONDENTS: KEN E. STEARNS
2326 LYNWOOD STREET
MORRIS, ILLINOIS 60450**

And

**SCOTT M. SALBECK
6348 NEWARK AVENUE
CHICAGO, ILLINOIS 60631**

And

**ARMARED DRAGON, INC.
2326 LYNWOOD STREET
MORRIS, ILLINOIS 60450**

ORDER OF PROHIBITION AND FINE

On April 7, 2015 pursuant to Section 11.F of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act") and 14 Ill. Adm. Code 130, subpart K, the Hearing Officer held a public hearing at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602, to determine whether a permanent Order shall be entered prohibiting Respondents **Ken E. Stearns, Scott M. Salbeck, Armared Dragon, Inc., and their partners, members, officers, and directors, agents, employees, affiliates, successors and assigns**, from offering or selling securities in or from the State of Illinois and/or granting such other relief as may be authorized under the Act, including but not limited to, the imposition of a monetary fine.

I. Notice of Hearing

On December 26, 2014, the Department issued an Amended Notice of Hearing ("Notice of Hearing") in this matter. The Department served the Notice of Hearing on Respondents by through the Secretary of State Index Department. The Notice of Hearing scheduled a hearing

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on March 4, 2015, at the office of the Department at 69 W. Washington, Suite 1220, in Chicago, Illinois. The Hearing was later continued to April 7, 2015.

II. The Hearing

The Hearing Officer called the hearing to order at approximately 10:10 am on April 7, 2015. A certified court reporter recorded the hearing. The Department retained the transcript and the original exhibits presented at the hearing. Accordingly, a full record of the proceedings is on file and this Report and Recommendation contains only, and is intended only to be, a summary.

Enforcement Attorney James Tierney appeared at the hearing on behalf of the Department. None of the Respondents appeared. Nobody appeared on behalf of any of the Respondents and all of the Respondents failed to submit an answer or other response to the Notice of Hearing.

After the Hearing Officer called the hearing to order, Enforcement Attorney Tierney brought a motion pursuant to Section 1104 of the Code requesting that the Hearing Officer recommend that the allegations contained in the Notice of Hearing be deemed admitted and that the Hearing Officer recommend that Respondents be held in default for failing to file a timely answer, special appearance or other responsive pleading. At the same time, the Department also made a motion pursuant to Section 1109 of the Code requesting that the Hearing Officer recommend a finding of default and entry of an appropriate order against each Respondent based on their failure to appear at the time and place scheduled for the hearing.

In support of its motions, the Department offered Secretary of State Exhibits 1, 2, 3, and 4. The Hearing Officer admitted Exhibits 1, 2, 3, and 4 into evidence and found that the Exhibits established service of the Notice of Hearing upon Respondents. The Exhibits are part of the record maintained by the Department. Exhibit 1 is the Amended Notice of Hearing in this matter; Exhibit 2 demonstrates service to Ken E. Stearns; Exhibit 3 demonstrates service to Scott M. Salbeck; and Exhibit 4 demonstrates service to Armared Dragon, Inc.

Concluding that the Department had served Respondents and that Respondents failed to appear at the hearing or respond to the Amended Notice of Hearing, the Hearing Officer granted the Department's motions under Sections 1104 and 1109 of the Code.

The Department then proceeded to prove-up the allegations in the Notice of Hearing. The Department first called enforcement attorney Greg Solberg to testify regarding the Secretary of States' search of public records for registration information, and to his review of Respondents' bank records and the conclusions that can be drawn from those records. The Department also called Complaining Witness Dr. Ebby Jido and FBI Agent Wesley Evans to testify regarding the investments made and the representations made by Respondents. Both were sworn in and testified via telephone. No summary of their testimony is provided as full transcripts are available for a reviewing court. The Hearing Officer found the witnesses credible.

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The Department admitted the following exhibits:

- Exhibit 5a: Secretary of State Certification stating that Ken E. Stearns was not registered to sell securities under Section 8 of the Illinois Securities Act. [815 ILCS 5/8]
- Exhibit 5b: Secretary of State Certification stating that Scott M. Salbeck was not registered to sell securities under Section 8 of the Illinois Securities Act. [815 ILCS 5/8]
- Exhibit 5c: Secretary of State Certification stating that Armared Dragon, Inc. was not registered to sell securities under Section 8 of the Illinois Securities Act. [815 ILCS 5/8]
- Exhibit 6: Signature cards for Armared Dragon, Inc.'s two bank accounts showing signors Ken Stearns and Scott Salbeck.
- Exhibit 7: Chase Bank statement showing investment by wire from Lake Forest Bank for the benefit of Michael Franks of \$50,000, dated July 30, 2010. The Exhibit also shows withdrawals.
- Exhibit 8: Chase Bank statements from August, 2010 to December, 2011.
- Exhibit 9: Chase Bank statements showing checking account for Armared Dragon and showing \$50,000 coming from Dr. Ebby Jido on September 9, 2011.

The Department closed the evidence, and Mr. Tierney gave a brief closing statement in which he summarized the violations of the Illinois Securities Laws committed by the Respondents. The Department requested that a recommendation be made that a permanent order of prohibition be entered against each Respondent, and made no recommendation regarding the imposition of a fine.

III. Proposed Findings of Fact

Based on the evidence presented, the Hearing Officer finds that:

1. Respondent Ken E. Stearns (at times hereinafter "KS" or together with Scott M. Salbeck and Armored Dragon, Inc. "Respondents") has a last known address of 2326 Lynwood Street, Morris, Illinois 60450.
2. Respondent Scott M. Salbeck (at times hereinafter "SS" or together with KS and Armored Dragon, Inc. "Respondents") has a last known address of 6348 Newark Avenue, Chicago, Illinois 60631.
3. Respondent Armared Dragon, Inc. (at times hereinafter "AD" or together with KS and SS "Respondents") was an Illinois corporation, dissolved in 2012, with a last known address of 2326 Lynwood Street, Morris, Illinois 60450.

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4. At all relevant times herein Respondent KS was the president and a controlling agent of AD.
5. In July 2010 Respondents solicited an Illinois resident ("Investor #1") to purchase a promissory note in the amount of \$50,000.
6. On July 30, 2010 Investor #1 paid Respondents \$50,000, which Respondents promised Investor #1 would be further invested into instruments Respondents described as "medium-term notes", which would provide "millions of dollars" in investment returns to investors.
7. Respondents failed to use the \$50,000 invested by Investor #1 to invest in "medium-term notes" or in any enterprise on behalf of Investor #1 which would, or might, provide "millions of dollars" in investment returns.
8. Respondents failed to repay the \$50,000 to Investor #1.
9. Respondents, instead of investing the money as promised, converted the principal received from Investor #1 to Respondents' own personal and business use and benefit.
10. Respondents, at the time of the agreement, failed and refused to notify Investor #1 that the principal would be converted to their own benefit rather than used to further invest for the benefit of Investor #1.
11. In September 2011 Respondents solicited a second Illinois resident ("Investor #2") to purchase a promissory note in the amount of \$50,000.
12. On September 9, 2011 Investor #2 paid Respondents \$50,000, which Respondents promised Investor #2 would be further invested into instruments Respondents described as "medium-term notes", which would provide "millions of dollars" in investment returns to investors.
13. Respondents failed to use the \$50,000 invested by Investor #2 to invest in "medium-term notes" or in any enterprise on behalf of Investor #2 which would, or might, provide "millions of dollars" in investment returns.
14. Respondents failed to repay the \$50,000 to Investor #2.
15. Respondents, instead of investing the money as promised, converted the principal received from Investor #2 to Respondents' own personal and business use and benefit.
16. Respondents, at the time of the agreement, failed and refused to notify Investor #2 that the principal would be converted to their own benefit rather than used to further invest for the benefit of Investor #2.

17. Both Investor #1 and Investor #2 wire transferred their respective \$50,000 investments into Respondents' Chase bank account.
18. Respondents failed to file an application with the Secretary of State to register the investment contract as required by the Act, and as a result the investment contract was not registered as such prior to their sale in the State of Illinois.

IV. Proposed Conclusions of Law

Based on the evidence presented and an application of the law to the findings of fact, the Hearing Officer concludes:

1. The Department properly served the Notice of Hearing on Respondents.
2. The Notice of Hearing included the information required under Section 1102 of the Code.
3. The Secretary of State has jurisdiction over the subject matter pursuant to the Act.
4. Because of Respondents' failure to file a timely answer, make a special appearance or other responsive pleading in accordance with Section 1104:
5.
 - (a) the allegations contained in the Notice of Hearing are deemed admitted;
 - (b) Respondents waived their right to a hearing;
 - (c) Respondents are subject to an Order of Default.
6. Because Respondents failed to appear at the time and place set for hearing, in accordance with Section 1109, they:
 - (a) waived their right to present evidence, argue, object or cross-examine witnesses; or
 - (b) otherwise participate at the hearing.
7. Respondents' activities described in the Findings of Fact above involved the offer and sale of a note or an investment contract as those terms are defined in Sections 2.1, 2.5 and 2.5a of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act").
8. Section 5 of the Act provides, *inter alia*, that "all securities except those set forth under Section 2a of this Act...or those exempt...shall be registered...prior to their offer or sale in this State."

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9. Section 12.A of the Act provides, *inter alia*, that it shall be a violation of the Act to offer or sell any security except in accordance with the provisions of the Act.
10. Section 12.D of the Act provides, *inter alia*, that it shall be a violation of the Act to fail to file with the Secretary of State any application, report or document required to be filed under the provisions of this Act or any rule or regulation made by the Secretary of State pursuant to the Act or to fail to comply with the terms of any order of the Secretary of State issued pursuant to Section 11 hereof.
11. By virtue of the foregoing Findings of Facts and Conclusions of Law, Respondents violated Sections 5, 12.A and 12.D of the Act.
12. Section 12.F of the Act provides, *inter alia*, that it shall be a violation of the Act for any person, "to engage in any transaction, practice or course of business in connection with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof."
13. Section 12.G of the Act provides, *inter alia*, that it shall be a violation of the Act for any person to obtain money or property through the sale of securities by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.
14. Section 12.I of the Act provides, *inter alia*, that it shall be a violation of the Act for any person, "to employ any device, scheme or artifice to defraud in connection with the sale or purchase of any security, directly or indirectly."
15. By virtue of the foregoing Findings of Fact and Conclusions of Law, Respondents violated Sections 12.F, 12.G and 12.I of the Act.

V. Recommendations as To Disposition

The Hearing Officer recommends that:

1. An Order of Default be entered against Respondents Ken E. Stearns, Scott M. Salbeck, and Armared Dragon, Inc., and that the facts alleged in the Amended Notice of Hearing be deemed admitted.
2. An Order be entered against Respondents Ken E. Stearns, Scott M. Salbeck, and Armared Dragon, Inc., in the form of a permanent order of prohibition against each of them from offering or selling securities in or from the State of Illinois.

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NOW THEREFORE IT IS HEREBY ORDERED THAT:

1. An Order of Default is entered against Respondents Ken E. Stearns, Scott M. Salbeck, and Armared Dragon, Inc., and that the facts alleged in the Amended Notice of Hearing are deemed admitted.
2. An Order is entered against Respondents Ken E. Stearns, Scott M. Salbeck, and Armared Dragon, Inc., in the form of a **PERMANENT ORDER OF PROHIBITION** against each of them from offering or selling securities in or from the State of Illinois.
3. An Order is entered against Respondents Ken E. Stearns, Scott M. Salbeck, and Armared Dragon, Inc., and each of them, imposing a fine of \$10,000.00.

NOTICE: Failure to comply with the terms of this Order shall be a violation of Section 12.D of the Act. Any person or entity that fails to comply with the terms of this Order of the Secretary of State, having knowledge of the existence of this Order, shall be guilty of a Class 4 felony for each offense.

This is a final order subject to administrative review pursuant to the Administrative Review Law [735 ILCS 5/3-101 et seq.] and the Rules and Regulations of the Act (14 Ill. Admin. Code, Ch. 1 Sec. 130.1123). Any action for judicial review must be commenced within thirty-five (35) days from the date a copy of this Order is served upon the party seeking review.

ENTERED this 1st day of July 2015.



JESSE WHITE
Secretary of State
State of Illinois

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