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8
9 BEFORE THE DEPARTMENT OF BUSINESS OVERSIGHT
10 OF THE STATE OF CALIFORNIA

11 In the Matter of:)	1) STATEMENT IN SUPPORT OF
)	ORDER LEVYING ADMINISTRATIVE
12 THE COMMISSIONER OF BUSINESS)	PENALTIES PURSUANT TO
OVERSIGHT,)	CORPORATIONS CODE SECTION 25252;
)	and
13 Complainant,)	
14 v.)	2) CLAIM FOR ANCILLARY RELIEF
)	PURSUANT TO CORPORATIONS CODE
15 STEVE S. STENGELL, SCOTT A. HARRIS,)	SECTION 25254.
16 BOB CUETO, TIMOTHY R. BRADY, JOSEPH)	
M. TURNER, DIRK OLSEN, HEATHER AGE,)	
17 BILL MOORE, ALLIED ENERGY, INC. doing)	
business as ALLIED ENERGY, ALLIED)	
18 SYNDICATIONS, INC., doing business as)	
ALLIED ENERGY, INC. and GRIMES)	
COUNTY #4, a Kentucky General Partnership,)	
19 Respondents.)	

20
21 The Commissioner of Business Oversight (Commissioner) finds as follows:

22 I.

23 STATEMENT OF FACTS

24 1. At all relevant times, Steve S. Stengell (Stengell) was President and Chairman of the
25 Board of Directors of Allied Energy, Inc., doing business as Allied Energy (Allied Energy), a
26 Florida corporation with a registered address of One East Broward Boulevard, Suite 1400, Fort
27 Lauderdale, Florida 33301, and a principle place of business or mailing address of 2800 Griffin
28 Drive, Bowling Green, Kentucky 42101 and/or 2427 Russellville Road, Bowling Green, Kentucky

1 42101.

2 2. At all relevant times, Scott A. Harris (Harris) was Executive Vice President of Allied
3 Energy and a Director on its Board of Directors.

4 3. At all relevant times, Bob Cueto (Cueto) was Executive Vice President of Allied
5 Energy and a Director on its Board of Directors.

6 4. At all relevant times, Timothy R. Brady (Brady) was Chief Financial Officer of
7 Allied Energy and a Director on its Board of Directors.

8 5. At all relevant times, Joseph M. Turner (Turner) was Vice President of Operations of
9 Allied Energy.

10 6. At all relevant times, Dirk Olsen (Olsen) was a Director on Allied Energy's Board of
11 Directors.

12 7. At all relevant times, Heather Age (Age) was Secretary and/or Investor Relations
13 Contact for Allied Energy.

14 8. At all relevant times, Bill Moore (Moore) was an agent of Allied Energy.

15 9. At all relevant times Allied Energy was Managing General Partner of "Grimes
16 County #4, a Kentucky General Partnership" also known as Grimes County 4 and Grimes County #4
17 (Grimes County #4), an assumed name also of Allied Energy.

18 10. At all relevant times, Allied Syndications, Inc., doing business as Allied Energy, Inc.
19 (Allied Syndications) was also Managing General Partner of Grimes County #4.

20 11. Beginning in or about March 2011, Stengell, Harris, Cueto, Brady, Turner, Olsen,
21 Age, Moore, Allied Energy, Allied Syndications and Grimes County #4 (Respondents) offered or
22 sold securities in the form of units of partnership in Grimes County #4.

23 12. Through cold-calling or other means of general solicitation, Stengell, Harris, Cueto,
24 Brady, Turner, Olsen, Age, Moore, Allied Energy, Allied Syndications, and Grimes County #4
25 offered or sold 75 units at "\$128,428" per unit to raise "\$9,632,100."

26 13. The purported purpose of the offering was to raise funds "to invest in a one (1) well
27 project consisting of a working interest in one (1) horizontal well to be drilled in Grimes County,
28 Texas to test the Georgetown formation." Investors were told that the Grimes County #4 partnership

1 “will acquire a 75% Working Interest” in the well, “or an amount equal to 1% Working Interest per
2 unit.” Investors entered the Grimes County #4 partnership as “Participants.” Investors were told
3 that the “partnership’s purpose is to conduct oil and/or gas exploration on the Drilling Site(s) and,
4 if discovered in commercial quantities, to produce such oil and/or gas and to distribute to the
5 Participants the cash generated from the sale of oil and/or gas and to do all things necessary or
6 desirable in connection” with such venture.

7 14. Investors were told that control and management of the business of Grimes County #4
8 were “vested exclusively in the Managing General Partner.” Investors were told that the Managing
9 General Partner “reserves the right to act as the operator and manager of this prospect” and manages
10 “the affairs of the Partnership on a day-to-day basis.” Investors were also told they have no voice
11 and may not “take any part in the management of the business of the Partnership, nor have any
12 authority or power to act on behalf of the Partnership in any manner whatsoever.” Investors were
13 told they “will rely solely on the Managing General Partner or an operator selected by the Managing
14 General Partner to act as the operator to drill the partnership well(s) under the Turnkey Drilling and
15 Operating Contract.”

16 15. These securities were offered or sold in this state in issuer transactions. The
17 Commissioner has not issued a permit or other form of qualification authorizing any person to offer
18 or sell these securities in this state.

19 16. In connection with these offers or sales, Stengell, Harris, Cueto, Brady, Turner,
20 Olsen, Age, Moore, Allied Energy, Allied Syndications and Grimes County #4 misrepresented or
21 omitted to disclose to investors the following:

22 a. Misrepresented a Cease and Desist Order issued by the Texas State Securities Board
23 against the Chaucer Fredricksburg Prospect as “challenging the [drilling] program’s ‘exemption
24 from registration,’” and defining the offering as a security. Investors were told that the Managing
25 General Partner reached a settlement agreement to resolve the matter including paying an “\$8,000
26 administrative fine” and that the order was “amended to an Agreed Cease and Desist Order.” In fact,
27 an Emergency Cease and Desist Order was issued on March 5, 2004 against numerous respondents,
28 not just the Chaucer Fredricksburg Prospect. Those respondents included Allied Energy Group and

1 Allied Syndications, Inc., predecessors to Allied Energy, while Stengell and Olsen served on the
2 Advisory Board to Allied Energy Group. After appearing before the Texas Securities
3 Commissioner, Allied Energy Group and Allied Syndications, Inc. and others consented
4 to an Agreed Cease and Desist Order issued May 27, 2004. The Emergency Cease and Desist Order
5 and Agreed Cease and Desist Order did not just define the offering in the Chaucer Fredricksburg
6 Prospect as a security or challenge the program's exemption from registration under securities laws
7 as investors were led to believe, but contained actual findings of fact and conclusions of law they
8 omitted to disclose. Those findings or legal conclusions include that Stengell and Olsen served on
9 the Advisory Board, the oil and gas interests are securities that were offered or sold without first
10 being registered, by unregistered dealers or agents through materially misleading statements likely to
11 deceive the public. Respondents were ordered to immediately cease and desist from engaging in the
12 foregoing unless exempt and to pay "an administrative fine in the amount of Eight Thousand Dollars
13 (\$8,000)."

14 b. Omitted to disclose that Stengell consented to the issuance of a Findings of Fact,
15 Conclusions of Law and Order issued by the Pennsylvania Securities Commission on November 17,
16 2003. Other respondents in the order included Sunclear Energy, Inc., Randolph B. Akers and Robert
17 S. McGregor III. The order was for the illegal offer or sale of securities in an oil and/or gas offering.
18 Without admitting or denying allegations, the order included the imposition of costs and sanctions
19 barring Stengell for a period of six months from offering and selling securities in Pennsylvania
20 without retaining knowledgeable counsel, and to permanently cease and desist from violating the
21 Pennsylvania Securities Act of 1972.

22 c. Misrepresented the Administrative Complaint filed by the Kentucky Office of
23 Financial Institutions (Kentucky Office) on or about May 19, 2006 stating it was against "Allied
24 Energy, County Line Prospect, and others alleging that the offering memorandum...had various
25 items which, in the opinion of the [Kentucky Office], should have been disclosed..." In fact, the
26 complaint was against Allied Syndications, Inc., doing business as Allied Energy Group, predecessor
27 of Allied Energy, Richard Underwood, Stengell, C. Shane Polson and County Line Prospect for
28 offering and selling partnership interests in oil and gas wells through multiple counts of material

1 misrepresentations or omissions. The complaint sought fines against Allied Syndications, Inc.,
2 Richard Underwood, and Stengell, including joint and several liability for costs, and sought
3 joint and several liability for C. Shane Polson. Investors were not told that pursuant to a Settlement
4 Agreement dated March 30, 2007 and by Final Order issued April 9, 2007, Kentucky ordered the
5 respondents to offer rescission to all non-accredited investors in the County Line Prospect, an oil and
6 gas exploration investment partnership, to rectify inadequate disclosures made to investors and to
7 supply to the Kentucky Office the revised memorandum for review. Allied Syndications, Inc.,
8 Richard Underwood, Stengell and the County Line Prospect were collectively assessed a fine of
9 “Twenty-Five Thousand Dollars (\$25,000),” of which “Fifteen Thousand Dollars [was] suspended
10 on condition” that respondents complied with the settlement and did not commit future violations of
11 federal or state securities laws.

12 d. Misrepresented to investors the Amended Cease and Desist order (Administrative
13 Order No. CD-2006-0015A) issued by the Alabama Securities Commission on April 27, 2006 to
14 “one of Allied Energy’s currently registered agent’s Andrew A. Flowers (Flowers).” Investors were
15 told that Flowers, along with others, was “ordered to immediately cease and desist from further
16 offers or sales of any securities into...Alabama,” and that “at no time did he ever sell any securities
17 to an Alabama resident while employed by Heartland Resources, Inc.” Investors were not told that
18 Flowers was in fact found to have engaged in general solicitation with an investor which violated
19 federal securities laws and therefore voided any exemption from registration claimed by Heartland
20 Resources, Inc. for the securities offering. Investors also were not told that the commission found
21 that the securities offered and sold in that offering were neither registered nor exempt from
22 registration in Alabama.

23 e. Omitted to disclose to investors any details of an administrative complaint issued by
24 the Alabama Securities Commission other than to say the complaint was “against Allied Energy,”
25 possibly in or about 2007, and that it “challeng[ed] their offering exemption.” Investors were not
26 told who the issuer was in that offering or any details to identify the investment or any other
27 respondents in that action. Investors were not told of the allegations, findings, or outcome of that
28 action.

1 f. Omitted to disclose to investors that on May 29, 2007, the Alabama Securities
2 Commission issued a Cease and Desist Order (Administrative Order no. CD-2007-0015) against
3 Allied Energy Group, Allied Syndications, Inc., predecessors to Allied Energy, Richard
4 Paul Underwood, Stengell, and Aaron Grogan. The commission found that Stengell was Executive
5 Vice President of Allied Energy Group and Allied Syndications, Inc., and that the securities offered
6 or and sold by Stengell, Allied Energy Group, Allied Syndications, Inc. and the other respondents
7 were neither registered nor exempt from registration. The commission also found that acts of
8 general solicitation voided any exemption from registration and violated federal securities laws.
9 Allied Energy Group, Allied Syndications, Inc., Stengell and other respondents were also found to
10 have acted illegally as a dealer, agent, investment advisor or investment advisor representative. The
11 commission also found that the respondents omitted to inform investors of the March 5, 2004 Texas
12 Securities Board Cease and Desist order issued against Allied Energy Group, Allied Syndications,
13 Inc. and other respondents for securities registration violations. Allied Energy Group, Allied
14 Syndications, Inc., Stengell and other respondents were ordered to cease and desist from further
15 offer or sales of securities in the state of Alabama.

16 g. Omitted to disclose to investors that the Cease and Desist Order issued by the
17 Alabama Securities Commission (Administrative Order No. CD-2007-0006) on February 23, 2007
18 “against one of Allied Energy’s currently registered agents, John R. Bernier” (Bernier) contained
19 findings of multiple securities violations by Bernier. Investors were not told that Bernier was found
20 to have acted illegally as an unregistered dealer, agent, investment advisor or investment advisor
21 representative, and to have illegally offered or sold unregistered, nonexempt securities, and failed to
22 disclose the prior Cease and Desist Order issued April 27, 2006 by the Alabama Securities
23 Commission (Administrative Order No. CD-2006-0015A).

24 h. Misrepresented to investors the Desist and Refrain Order issued by the Commissioner
25 on November 13, 2007, stating it was against Allied Energy Group, T3 CBM Development and
26 current agent Frank Morones when other respondents included Stengell, Harris, Cole Halliburton,
27 Richard P. Underwood, and Allied Syndications, Inc. doing business as Allied Energy Group,
28 predecessors of Respondent Allied Energy. Respondents falsely stated that a “complaint alleges that

1 the offering of T3 CBM Development did not have available exemptions from registration” or those
2 exemptions “were not properly employed” and “that the offering materials did not adequately
3 disclose the information in the litigation section.” In fact, the
4 Commissioner made findings in the order that the respondents engaged in illegal general solicitation
5 of unregistered, non-exempt securities in an offering to drill and test gas wells. The Commissioner
6 found that the offers or sales of the securities were made by means of material misrepresentations or
7 omissions including but not limited to failure to disclose numerous regulatory or civil actions against
8 the respondents. Respondents also misrepresented to investors that they “are vigorously defending
9 the action” and that they “will be successful in these proceedings” when in fact, the Commissioner’s
10 order had already been affirmed by an administrative law judge after a hearing on the merits held
11 February 5, 2008 and all appeals were final. The hearing resulted in a decision that was adopted by
12 the Commissioner and became final as of July 30, 2008. Respondents’ appeal of that decision to the
13 Los Angeles Superior Court by petition for writ of mandate was found to be barred on September 11,
14 2009 after motion for summary judgment by the Commissioner was granted. The court’s order
15 barring respondent’s appeal was thereafter affirmed by the California Court of Appeal, Second
16 Appellate District on September 20, 2010 after briefing and oral argument. On December 15, 2015,
17 the California Supreme Court denied respondents’ petition for review.

18 II.

19 ORDER LEVYING ADMINISTRATIVE PENALTIES

20 (For violations of Corporations Code sections 25210 and 25401)

21 17. Corporations Code section 25252 authorizes the Commissioner to issue an order
22 levying administrative penalties against any person for willful violations of any provision of the
23 California Corporate Securities Law of 1968 (CSL) (Corp. Code, § 25000 et seq.) and any rules
24 promulgated thereunder. Specifically, Corporations Code section 25252 provides in relevant part:

25 The commissioner may, after appropriate notice and opportunity for
26 hearing, by orders, levy administrative penalties as follows:

27 (a) Any person subject to this division, other than a broker-dealer or
28 investment adviser, who willfully violates any provision of this
division, or who willfully violates any rule or order adopted or
issued pursuant to this division, is liable for administrative penalties

1 of not more than one thousand dollars (\$1,000) for the first violation,
2 and not more than two thousand five hundred dollars (\$2,500) for
each subsequent violation.

3 18. Based on the foregoing findings of fact, as set forth above in paragraphs 1-16,
4 Respondents willfully violated the following provisions of the CSL and/or the Commissioner's
5 Desist and Refrain Order issued November 13, 2007 as follows:

6 a) Pursuant to Corporations Code section 25252, subdivision (a), Stengell, Harris,
7 Cueto, Brady, Turner, Olsen, Age, Moore, Allied Energy, Allied Syndications and Grimes
8 County #4 willfully violated Corporations Code section 25401 by making misrepresentations and
9 omissions of material fact in connection with the offer and/or sale of securities to at least one
10 investor;

11 b) Pursuant to Corporations Code section 25252, subdivision (a), Stengell, Harris
12 and Allied Energy willfully violated the Commissioner's Desist and Refrain Order issued
13 November 13, 2007 by making misrepresentations and/or omissions of material fact in violation
14 of Corporations Code section 25401 in connection with the offer and/or sale of securities to at
15 least one investor.

16 **WHEREFORE**, pursuant to Corporations Code section 25252, the Commissioner hereby
17 gives notice of her intention to issue an order to levy administrative penalties against Respondents
18 Steve S. Stengell, Scott A. Harris, Bob Cueto, Timothy R. Brady, Joseph M. Turner, Dirk Olsen,
19 Heather Age, Bill Moore, Allied Energy, Inc., doing business as Allied Energy, Allied
20 Syndications, Inc., doing business as Allied Energy, Inc. and Grimes County #4, a Kentucky
21 General partnership, as follows:

22 A) Against Stengell, Harris, Cueto, Brady, Turner, Olsen, Age, Moore, Allied Energy,
23 Allied Syndications and Grimes County #4 in the following amounts:

24 i) \$1,000.00 each to said Respondents for their first of eight violations of Corporations
25 Code section 25401, as outlined in paragraph 16a for a sum of \$11,000.00;

26 ii) \$2,500.00 each to said Respondents for their second of eight violations of
27 Corporations Code section 25401 as outlined in paragraph 16b for a sum of \$27,500.00;

28 iii) \$2,500.00 each to said Respondents for their third of eight violations of Corporations

1 Code section 25401 as outlined in paragraph 16c for a sum of \$27,500.00;

2 iv) \$2,500.00 each to said Respondents for their fourth of eight violations of
3 Corporations Code section 25401 as outlined in paragraph 16d for a sum of \$27,500.00;

4 v) \$2,500.00 each to said Respondents for their fifth of eight violations of Corporations
5 Code section 25401 as outlined in paragraph 16e for a sum of \$27,500.00;

6 vi) 2,500.00 each to said Respondents for their sixth of eight violations of Corporations
7 Code section 25401 as outlined in paragraph 16f for a sum of \$27,500.00;

8 vii) \$2,500.00 each to said Respondents for their seventh of eight violations of
9 Corporations Code section 25401 as outlined in paragraph 16g for a sum of \$27,500.00; and

10 viii) \$2,500.00 each to said Respondents for their eighth of eight violations of
11 Corporations Code section 25401 as outlined in paragraph 16h for a sum of \$27,500.00.

12 B) Against Stengell, Harris and Allied Energy in the following amounts for their
13 violations of the Commissioner's Desist and Refrain order issued November 13, 2007 which
14 prohibited any further violations of Corporations Code section 25401 in the following amounts:

15 i) \$1,000.00 each to said Respondents for their first of eight violations of the
16 Commissioner's Desist and Refrain Order as outlined in paragraph 16a for a sum of \$3,000.00;

17 ii) \$2,500.00 each to said Respondents for their second of eight violations of the
18 Commissioner's Desist and Refrain Order as outlined in paragraph 16b for a sum of \$7,500.00;

19 iii) \$2,500.00 each to said Respondents for their third of eight violations of the
20 Commissioner's Desist and Refrain Order as outlined in paragraph 16c for a sum of \$7,500.00;

21 iv) \$2,500.00 each to said Respondents for their fourth of eight violations of the
22 Commissioner's Desist and Refrain Order as outlined in paragraph 16d for a sum of \$7,500.00;

23 v) \$2,500.00 each to said Respondents for their fifth of eight violations of the
24 Commissioner's Desist and Refrain Order as outlined in paragraph 16e for a sum of \$7,500.00;

25 vi) \$2,500.00 each to said Respondents for their sixth of eight violations of the
26 Commissioner's Desist and Refrain Order as outlined in paragraph 16f for a sum of \$7,500.00;

27 vii) 2,500.00 each to said Respondents for their seventh of eight violations of the
28 Commissioner's Desist and Refrain Order as outlined in paragraph 16g for a sum of \$7,500.00; and

viii) \$2,500.00 each to said Respondents for their eighth of eight violations of the Commissioner's Desist and Refrain Order as outlined in paragraph 16h for a sum of \$7,500.00.

C) For a total amount of administrative penalties

1) Against Stengell, Harris, Cueto, Brady, Turner, Olsen, Age, Moore, Allied Energy, Allied Syndications and Grimes County #4 of \$203,500.00 for their violations of Corporations Code section 25401; and

2) Against Stengell, Harris and Allied Energy of \$55,500.00 for their violations of the Commissioner's Desist and Refrain Order issued November 13, 2007.

III.

CLAIM FOR ANCILLARY RELIEF

(For violations of Corporations Code section 25401)

19. Corporations Code section 25254 authorizes the Commissioner to seek ancillary relief on behalf of any person injured by violations of any provision of the CSL and any rules promulgated thereunder. Corporations Code section 25254 states:

(a) If the commissioner determines it is in the public interest, the commissioner may include in any administrative action brought under this part a claim for ancillary relief, including, but not limited to, a claim for restitution or disgorgement or damages on behalf of the persons injured by the act or practice constituting the subject matter of the action, and the administrative law judge shall have jurisdiction to award additional relief.

(b) In an administrative action brought under this part, the commissioner is entitled to recover costs, which in the discretion of the administrative law judge may include an amount representing reasonable attorney's fees and investigative expenses for the services rendered, for deposit into the State Corporations Fund for the use of the Department of Business Oversight.

...

20. Based on the foregoing findings of fact, as set forth above in paragraphs 1-16, Respondents sold securities or one unit of partnership in Grimes County #4 in an amount of at least \$128,428.00 to at least one California investor in violation of Corporations Code section 25401.

WHEREFORE, the Commissioner has determined that this action is in the public interest and necessary for the protection of the public based upon the Respondents' repeated violations of the CSL, and hereby gives notice of her intention to include in the action a claim for ancillary

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relief pursuant to Corporation Code section 25254, individually, jointly and severally against Respondents as follows:

- A) Full restitution, consisting of the investor’s investment principal in an amount of at least \$128,428.00 plus the legal rate of interest accumulated on the investment principal;
- B) Recovery of the Commissioner’s attorney’s fees, investigative expenses, and costs in an amount of at least \$20,000.00, according to proof.

Dated: May 23, 2017

JAN LYNN OWEN
Commissioner of Business Oversight

By: _____
LINDSAY B. HERRICK
Counsel