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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  
12 THE COMMISSIONER OF BUSINESS ) ORDER LEVYING ADMINISTRATIVE  
OVERSIGHT, ) PENALTIES PURSUANT TO  
13 Complainant, ) CORPORATIONS CODE SECTION 25252;  
v. ) and  
14 ) 2) CLAIM FOR ANCILLARY RELIEF  
STEVE S. STENGELL, SCOTT A. HARRIS, ) PURSUANT TO CORPORATIONS CODE  
15 BOB CUETO, TIMOTHY R. BRADY, JOSEPH ) SECTION 25254.  
M. TURNER, DIRK OLSEN, HEATHER AGE, )  
16 BILL MOORE, ALLIED ENERGY, INC. doing )  
business as ALLIED ENERGY, ALLIED )  
17 SYNDICATIONS, INC., doing business as )  
ALLIED ENERGY, INC. and GRIMES )  
18 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



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

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

7 Dated: May 23, 2017

JAN LYNN OWEN  
Commissioner of Business Oversight

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9  
10 By: \_\_\_\_\_  
LINDSAY B. HERRICK  
Counsel

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