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STATE OF CALIFORNIA
BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY
DEPARTMENT OF BUSINESS OVERSIGHT

TO: Steve S. Stengell
Scott A. Harris
Bob Cueto
Timothy R. Brady
Joseph M. Turner
Dirk Olsen
Heather Age
Bill Moore
Allied Energy, Inc., doing business as Allied Energy
Allied Syndications, Inc. doing business as Allied Energy, Inc.
Grimes County #4, a Kentucky General Partnership
One East Broward Blvd., Suite 1400
Fort Lauderdale, Florida 33301

2800 Griffin Drive
Bowling Green, Kentucky 42101

2427 Russellville Road
Bowling Green, Kentucky 42101

DESIST AND REFRAIN ORDER

(For violations of section 25401 of the Corporations Code)

The Commissioner of Business Oversight (Commissioner) finds that:

1. At all relevant times, Steve S. Stengell (Stengell) was President and Chairman of the Board of Directors of Allied Energy, Inc., doing business as Allied Energy (Allied Energy), a Florida corporation with a registered address of One East Broward Boulevard, Suite 1400, Fort Lauderdale, Florida 33301, and a principle place of business or mailing address of 2800 Griffin Drive, Bowling Green, Kentucky 42101 and/or 2427 Russellville Road, Bowling Green, Kentucky 42101.
2. At all relevant times, Scott A. Harris (Harris) was Executive Vice President of Allied Energy and a Director on its Board of Directors.
3. At all relevant times, Bob Cueto (Cueto) was Executive Vice President of Allied Energy and

1 a Director on its Board of Directors.

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

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

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

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

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

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

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

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

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

22 13. The purported purpose of the offering was to raise funds "to invest in a one (1) well project
23 consisting of a working interest in one (1) horizontal well to be drilled in Grimes County, Texas to
24 test the Georgetown formation." Investors were told that the Grimes County #4 partnership "will
25 acquire a 75% Working Interest" in the well, "or an amount equal to 1% Working Interest per unit."
26 Investors entered the Grimes County #4 partnership as "Participants." Investors were told that the
27 "partnership's purpose is to conduct oil and/or gas exploration on the Drilling Site(s) and,
28 if discovered in commercial quantities, to produce such oil and/or gas and to distribute to the

1 Participants the cash generated from the sale of oil and/or gas and to do all things necessary or
2 desirable in connection” with such venture.

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

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

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

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

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

10 b. Omitted to disclose that Stengell consented to the issuance of a Findings of Fact,
11 Conclusions of Law and Order issued by the Pennsylvania Securities Commission on November 17,
12 2003. Other respondents in the order included SunClear Energy, Inc., Randolph B. Akers and Robert
13 S. McGregor III. The order was for the illegal offer or sale of securities in an oil and/or gas offering.
14 Without admitting or denying allegations, the order included the imposition of costs and sanctions
15 barring Stengell for a period of six months from offering and selling securities in Pennsylvania
16 without retaining knowledgeable counsel, and to permanently cease and desist from violating the
17 Pennsylvania Securities Act of 1972.

18 c. Misrepresented the Administrative Complaint filed by the Kentucky Office of
19 Financial Institutions (Kentucky Office) on or about May 19, 2006 stating it was against "Allied
20 Energy, County Line Prospect, and others alleging that the offering memorandum...had various
21 items which, in the opinion of the [Kentucky Office], should have been disclosed...." In fact, the
22 complaint was against Allied Syndications, Inc., doing business as Allied Energy Group, predecessor
23 of Allied Energy, Richard Underwood, Stengell, C. Shane Polson and County Line Prospect for
24 offering and selling partnership interests in oil and gas wells through multiple counts of material
25 misrepresentations or omissions. The complaint sought fines against Allied Syndications, Inc.,
26 Richard Underwood, and Stengell, including joint and several liability for costs, and sought
27 joint and several liability for C. Shane Polson. Investors were not told that pursuant to a Settlement
28 Agreement dated March 30, 2007 and by Final Order issued April 9, 2007, Kentucky ordered the

1 respondents to offer rescission to all non-accredited investors in the County Line Prospect, an oil and
2 gas exploration investment partnership, to rectify inadequate disclosures made to investors and to
3 supply to the Kentucky Office the revised memorandum for review. Allied Syndications, Inc.,
4 Richard Underwood, Stengell and the County Line Prospect were collectively assessed a fine of
5 “Twenty-Five Thousand Dollars (\$25,000),” of which “Fifteen Thousand Dollars [was] suspended
6 on condition” that respondents complied with the settlement and did not commit future violations of
7 federal or state securities laws.

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

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

25 f. Omitted to disclose to investors that on May 29, 2007, the Alabama Securities
26 Commission issued a Cease and Desist Order (Administrative Order no. CD-2007-0015) against
27 Allied Energy Group, Allied Syndications, Inc., predecessors to Allied Energy, Richard
28 Paul Underwood, Stengell, and Aaron Grogan. The commission found that Stengell was Executive

1 Vice President of Allied Energy Group and Allied Syndications, Inc., and that the securities offered
2 or and sold by Stengell, Allied Energy Group, Allied Syndications, Inc. and the other respondents
3 were neither registered nor exempt from registration. The commission also found that acts of
4 general solicitation voided any exemption from registration and violated federal securities laws.
5 Allied Energy Group, Allied Syndications, Inc., Stengell and other respondents were also found to
6 have acted illegally as a dealer, agent, investment advisor or investment advisor representative. The
7 commission also found that the respondents omitted to inform investors of the March 5, 2004 Texas
8 Securities Board Cease and Desist order issued against Allied Energy Group, Allied Syndications,
9 Inc. and other respondents for securities registration violations. Allied Energy Group, Allied
10 Syndications, Inc., Stengell and other respondents were ordered to cease and desist from further
11 offer or sales of securities in the state of Alabama.

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

20 h. Misrepresented to investors the Desist and Refrain Order issued by the Commissioner
21 on November 13, 2007, stating it was against Allied Energy Group, T3 CBM Development and
22 current agent Frank Morones when other respondents included Stengell, Harris, Cole Halliburton,
23 Richard P. Underwood, and Allied Syndications, Inc. doing business as Allied Energy Group,
24 predecessors of Respondent Allied Energy. Respondents falsely stated that a “complaint alleges that
25 the offering of T3 CBM Development did not have available exemptions from registration” or those
26 exemptions “were not properly employed” and “that the offering materials did not adequately
27 disclose the information in the litigation section.” In fact, the Commissioner made findings in the
28 order that the respondents engaged in illegal general solicitation of unregistered, non-exempt

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

14 Based on the foregoing, the Commissioner is of the opinion that the securities of Grimes
15 County #4 were offered or sold in this state by means of written or oral communications which
16 included an untrue statement of a material fact or omitted to state a material fact necessary in order
17 to make the statements made, in the light of the circumstances under which they were made, not
18 misleading, in violation of section 25401 of the Corporate Securities Law of 1968. Further, pursuant
19 to section 25403 of the Corporations Code, any person who controls or induces another person to
20 violate a provision of the Corporate Securities Law of 1968, or any person who provides substantial
21 assistance to another person in the violation of the Corporate Securities Law of 1968, shall be liable
22 for the violation.

23 Pursuant to section 25532 of the Corporate Securities Law of 1968, Steve S. Stengell, Scott
24 A. Harris, Bob Cueto, Timothy R. Brady, Joseph M. Turner, Dirk Olsen, Heather Age, Bill Moore,
25 Allied Energy, Inc. doing business as Allied Energy, Allied Syndications, Inc. doing business as
26 Allied Energy, Inc., and Grimes County #4, a Kentucky General Partnership are hereby ordered to
27 desist and refrain from offering or selling or buying or offering to buy any security in the State of
28 California, including but not limited to investment contracts in the form of units, by means of any

1 written or oral communication which includes an untrue statement of a material fact or omits to state
2 a material fact necessary in order to make the statements made, in the light of the circumstances
3 under which they were made, not misleading.

4 This Order is necessary, in the public interest, for the protection of investors and consistent
5 with the purposes, policies, and provisions of the Corporate Securities Law of 1968.

6 Dated: May 23, 2017
7 Sacramento, California

8 JAN LYNN OWEN
9 Commissioner of Business Oversight

10 By: _____
11 MARY ANN SMITH
12 Deputy Commissioner
13 Enforcement Division
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