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OF ORIGINAL FILED
Los Angeles Superior Court

OCT 30 2015

Sherri R. Carter, Executive Officer/Clerk
By: Moses Soto, Deputy

SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF LOS ANGELES

13 THE PEOPLE OF THE STATE OF
14 CALIFORNIA, by and through the
15 COMMISSIONER OF BUSINESS
16 OVERSIGHT,

Plaintiff,

vs.

18 LELAND ENERGY, INC.; LELAND
19 KENTUCKY HOLDINGS, INC.; STEPHEN
20 M. THOMPSON; ANNEX DRILLING FUND,
21 LLP; THE APPALACHIAN DRILLING
22 FUND II, LLP; BC-2 DRILLING FUND, LLP;
23 BLOCK CITY DRILLING FUND, LLP;
24 ENERGY PRODUCTION REVENUE FUND,
25 LLP; GREEN COUNTY ENERGY FUND,
26 LLP; KNOX DRILLING FUND, LLP; KNOX
27 DRILLING FUND II, LLP; PRODUCTION
28 REVENUE DRILLING FUND, LLP; ROGERS
PRODUCTION REVENUE FUND, LLP; and
DOES 1 through 10, inclusive,

Defendants.

CASE NO.: BC599672

COMPLAINT FOR PERMANENT
INJUNCTION AND ANCILLARY RELIEF
(VIOLATION OF ORDER ISSUED BY THE
COMMISSIONER OF BUSINESS
OVERSIGHT)

1 THE PEOPLE OF THE STATE OF CALIFORNIA, by and through Jan Lynn Owen,
2 Commissioner of Business Oversight,¹ acting to protect the public from fraudulent sales of
3 securities, bring this action in the public interest. The People of the State of California allege:

4 **Venue and Jurisdiction**

5 1. The Commissioner of Business Oversight (“Commissioner” or “Plaintiff”) brings this
6 action to enjoin Defendants from violating an order of the Commissioner issued under the Corporate
7 Securities Law of 1968 (Corp. Code, § 25000 et seq.) and to enforce Defendants’ compliance with
8 the terms of the Commissioner’s order.

9 2. Plaintiff brings this action under Corporations Code section 25530, as head of the
10 Department of Business Oversight.

11 3. Defendants have failed to comply with an order issued by the Commissioner.
12 Defendants’ failure to comply with the order took place within Los Angeles County and other
13 counties in the State of California. Violations of the order described herein occurred and will
14 continue to occur within Los Angeles County and throughout the State of California unless
15 Defendants are enjoined by the Court.

16 **Parties**

17 4. Leland Energy, Inc. (“Leland Energy”) is or was a Nevada corporation, authorized to
18 conduct business in California, with its principal place of business located at 261 South Robertson
19 Boulevard, Suite 200, Beverly Hills, California 90211.

20 5. Leland Kentucky Holdings, Inc. (“Leland Kentucky Holdings”) is or was a Kentucky
21 corporation with its principal place of business located at 207 Shirley Street, Edmonton, Kentucky
22 42129-8117.

23 6. At all relevant times, Stephen M. Thompson (“Thompson”) was the president of
24 Leland Energy and Leland Kentucky Holdings.

25 _____
26 ¹ Effective July 1, 2013, the Department of Corporations and the Department of Financial Institutions merged to form the
27 Department of Business Oversight in accordance with the Governor’s reorganization of state departments and agencies
28 to provide services more efficiently and effectively. Under the reorganization, the name of the Department of
Corporations was changed to Department of Business Oversight, headed by the Commissioner of Business Oversight.
(See Fin. Code, § 321, subd. (c).)

1 7. Annex Drilling Fund, LLP (“Annex Drilling Fund”) is or was a Colorado limited
2 liability partnership, authorized to conduct business in Nevada, with its principal place of business
3 located at 261 South Robertson Boulevard, Suite 200, Beverly Hills, California 90211.

4 8. The Appalachian Drilling Fund II, LLP (“Appalachian Drilling Fund”) is or was a
5 Colorado limited liability partnership, authorized to conduct business in Nevada, with its principal
6 place of business located at 261 South Robertson Boulevard, Suite 200, Beverly Hills, California
7 90211.

8 9. BC-2 Drilling Fund, LLP (“BC-2 Drilling Fund”) is or was a Nevada limited liability
9 partnership, with its principal place of business located at 261 South Robertson Boulevard, Suite
10 200, Beverly Hills, California 90211.

11 10. Block City Drilling Fund, LLP (“Block City Drilling Fund”) is or was a Nevada
12 limited liability partnership with its principal place of business located at 261 South Robertson
13 Boulevard, Suite 200, Beverly Hills, California 90211.

14 11. Energy Production Revenue Fund, LLP (“Energy Production Revenue Fund”) is or
15 was a Nevada limited liability partnership with its principal place of business located at 261 South
16 Robertson Boulevard, Suite 200, Beverly Hills, California 90211.

17 12. Green County Energy Fund, LLP (“Green County Energy Fund”) is or was a
18 Colorado limited liability partnership with its principal place of business located at 261 South
19 Robertson Boulevard, Suite 200, Beverly Hills, California 90211.

20 13. Knox Drilling Fund, LLP (“Knox Drilling Fund”) is or was a Colorado limited
21 liability partnership, authorized to conduct business in Nevada, with its principal place of business
22 located at 261 South Robertson Boulevard, Suite 200, Beverly Hills, California 90211.

23 14. Knox Drilling Fund II, LLP (“Knox Drilling Fund II”) is or was a Colorado limited
24 liability partnership, authorized to conduct business in Nevada, with its principal place of business
25 located at 261 South Robertson Boulevard, Suite 200, Beverly Hills, California 90211.

26 15. Production Revenue Drilling Fund, LLP (“Production Revenue Drilling Fund”) is or
27 was a Nevada limited liability partnership with its principal place of business located at 261 South
28 Robertson Boulevard, Suite 200, Beverly Hills, California 90211.

1 16. Plaintiff is informed and believes and based on such information and belief alleges
2 that Rogers Production Revenue Fund, LLP (“Rogers Production Revenue Fund”) is or was a
3 Nevada limited liability partnership with its principal place of business located at 261 South
4 Robertson Boulevard, Suite 200, Beverly Hills, California 90211.

5 17. Leland Energy is or was the managing partner of the following limited-liability
6 partnership funds: Annex Drilling Fund; Appalachian Drilling Fund; Green County Energy Fund;
7 Knox Drilling Fund; Knox Drilling Fund II; and Rogers Production Revenue Fund. Leland Energy
8 also acts or acted as the funds’ “Initial Managing Partner,” serving as their fiduciary and ensuring
9 that the funds’ tax returns are properly completed and filed, furnishing Form K-1s to investors, and
10 scheduling investor meetings.

11 18. Leland Kentucky Holdings is or was a wholly owned subsidiary of Leland Energy
12 and the managing partner of the following limited-liability partnership funds: BC-2 Drilling Fund;
13 Block City Drilling Fund; Energy Production Revenue Fund; and Production Revenue Drilling
14 Fund. Leland Kentucky Holdings also acts or acted as the funds’ “Initial Managing Partner,” serving
15 as their fiduciary and ensuring that the funds’ tax returns are properly completed and filed,
16 furnishing Form K-1s to investors, and scheduling investor meetings.

17 19. Defendants Does 1 through 10, inclusive, are persons, employees, agents, affiliates,
18 affiliated persons, professional practitioners, and professional consultants of the Defendants, and the
19 attorneys and others who participated with them, who have done, or will do acts otherwise alleged in
20 the Complaint. The true names and capacities of Defendants Does 1 through 10, inclusive, are
21 unknown to the Commissioner, who therefore sues said Defendants under such fictitious names,
22 under the provisions of the Code of Civil Procedure section 474. The Commissioner asks leave of
23 the Court to amend the Complaint and allege the true names and capacities of such Defendants at
24 such time as the same have been ascertained.

25 20. “Defendants” shall collectively mean and refer to Leland Energy; Leland Kentucky
26 Holdings; Thompson; Annex Drilling Fund; Appalachian Drilling Fund; BC-2 Drilling Fund; Block
27 City Drilling Fund; Energy Production Revenue Fund; Green County Energy Fund; Knox Drilling
28

1 Fund; Knox Drilling Fund II; Production Revenue Drilling Fund; Rogers Production Revenue Fund;
2 and Does 1 through 10, inclusive.

3 21. Whenever reference is made in this Complaint to “Defendants” doing any act, the
4 allegation shall mean the act of each defendant acting individually, jointly, and severally.

5 **Statement of Facts**

6 22. Beginning in at least 2006, Defendants offered and sold unqualified securities in the
7 form of interests in limited-liability partnerships labeled “units”; or promissory notes; or certificates
8 of interest or participation in an oil, gas or mining title or lease or in payments out of production
9 under that title or lease; or investment contracts (“limited-liability partnership units”) to at least 42
10 California investors from whom Defendants raised at least \$1,977,450.00.

11 23. In connection with the offer and sale of these securities, the above described limited-
12 liability partnership units, Defendants made, or caused to be made, misrepresentations of material
13 fact or omitted to state material facts including the following:

14 A. On or about August 11, 1981, the Wisconsin Commissioner of Securities, predecessor
15 to the Wisconsin Division of Securities, issued an Order of Prohibition (“Wisconsin Order”) against
16 Thompson for securities law violations, specifically, the offer and sale of unregistered, non-exempt
17 securities, including limited-liability partnership interests, to Wisconsin residents.

18 B. On or about September 5, 2002, the Department of Financial Institutions, Division of
19 Securities of the State of Wisconsin issued a second order prohibiting Leland Energy and Thompson,
20 as the president of Leland Energy, from offering and selling unregistered, non-exempt securities,
21 including limited-liability partnership interests, to persons in Wisconsin; and

22 C. On or about May 13, 2003, the Pennsylvania Securities Commission (“Commission”)
23 issued a Cease and Desist Order against Leland Energy, barring it from offering or selling securities
24 in the Commonwealth of Pennsylvania unless they retain counsel knowledgeable in the securities
25 laws to make all applicable filing with the Commission and also from violating the Pennsylvania
26 Securities Act of 1972.

27 24. Corporations Code section 25401, subdivision (b), prohibits any person, in
28 connection with the offer, sale, or purchase of a security, directly or indirectly, to make an untrue

1 statement of material fact or omit to state a material fact necessary to make the statements made, in
2 light of the circumstances under which they were made, not misleading.

3 25. On or about February 9, 2011, the Commissioner issued to Defendants a Statement in
4 Support of Order Levying Administrative Penalties Pursuant to Corporations Code section 25252;
5 Claim for Ancillary Relief Pursuant to Corporations Code section 25254; and Desist and Refrain
6 Order for Violations of Corporations Code section 25401. True and correct copies of the Statement
7 in Support of Order Levying Administrative Penalties Pursuant to Corporations Code section 25252;
8 Claim for Ancillary Relief Pursuant to Corporations Code section 25254; and Desist and Refrain
9 Order for Violations of Corporations Code section 25401 (collectively "Order") and proof of service
10 are attached and incorporated herein collectively as Exhibit A.

11 26. Defendants timely filed a notice of defense in connection with the Commissioner's
12 Order. The matter was set to commence a hearing before the Office of Administrative Hearings, Los
13 Angeles, on or about January 30, 2012.

14 27. On or about January 30, 2012, Defendants withdrew their notice of defense and
15 voluntarily entered into a settlement agreement with the Commissioner, stipulating to the Order and
16 agreeing to pay investor restitution and administrative penalties. Plaintiff and Defendants executed
17 the written settlement agreement dated January 30, 2012 ("Settlement Agreement"), a true and
18 correct copy of which is attached and incorporated herein as Exhibit B.

19 28. Under the terms of the Settlement Agreement, Defendants consented to entry of a
20 final civil judgment in the event they failed to comply with the Order and Settlement Agreement. A
21 true and correct copy of the [proposed] final judgment ("Final Judgment") is attached and
22 incorporated herein as Exhibit C.

23 29. The Order and Settlement Agreement made findings of fact and conclusions of law.
24 The Order found that Plaintiff had proved the allegations set forth in the Statement in Support of
25 Order Levying Administrative Penalties Pursuant to Corporations Code section 25252; Claim for
26 Ancillary Relief Pursuant to Corporations Code section 25254; and Desist and Refrain Order against
27 Defendants.

28 ///

1 30. The Order and Settlement Agreement required that Defendants, jointly and severally,
2 would:

3 A. Pay to the Commissioner administrative penalties in the sum of \$51,500.00 for
4 violations of Corporations Code section 25401.

5 B. Pay restitution in an amount of at least \$1,365,977.23, on a pro rata basis, to the 42
6 investors identified in the Settlement Agreement by way of 55 installment payments due on the first
7 of each month from May 2012 through October 2016, with a final lump sum payment due by
8 October 31, 2016.

9 C. In the event that Defendants defaulted in their obligations under the Order and
10 Settlement Agreement, Defendants were to be held jointly and severally liable to the Commissioner
11 for a civil judgment in the amount of \$1,733,494.23, immediately due and payable, less any amounts
12 paid in restitution or administrative penalties, of which \$1,624,994.23 was to be paid in investor
13 restitution and \$108,500.00 in administrative penalties and costs to be paid to the Commissioner.

14 31. Defendants failed to make at least three of the installment payments due under the
15 Order and Settlement Agreement for the months of August, September, and October 2015.
16 Defendants have defaulted in their obligations under the Order and Settlement Agreement.

17 32. In accordance with paragraph J. of the Settlement Agreement, on or about October
18 16, 2015, the Commissioner made a written demand on Defendants. Defendants had seven business
19 days, from the date of mailing, to respond to the written notice of default. Defendants have not
20 responded to the written demand, requested additional time to respond, or made any further
21 installment payments to the investors. True and correct copies of the written demand dated October
22 16, 2015, proofs of service, and domestic return receipts, are attached and incorporated herein
23 collectively as Exhibit D.

24 33. Under paragraph K. of the Settlement Agreement, Defendants, and each of them,
25 agreed to the entry of Final Judgment in the event of default and agreed to waive findings of fact and
26 conclusions of law under Code of Civil Procedure section 632 and all rights to appeal entry of the
27 Final Judgment.

28 34. The Order is now final.

1 35. As of today’s date, Defendants are in violation of the Commissioner’s Order.

2 **First Cause of Action**

3 **Violation of an Order Issued by The Commissioner of Business Oversight**

4 **(Against All Defendants)**

5 36. Plaintiff incorporates by reference paragraphs 1. through 35. of this Complaint as
6 though fully set forth herein.

7 37. Plaintiff filed a Statement in Support of Order Levying Administrative Penalties
8 Pursuant to Corporations Code section 25252; Claim for Ancillary Relief Pursuant to Corporations
9 Code section 25254; and Desist and Refrain Order against Defendants for violations of the Corporate
10 Securities Law of 1968 and the rules and regulations promulgated thereunder.

11 38. Defendants stipulated to the Order on or about January 30, 2012.

12 39. The Order required Defendants, jointly and severally, to pay restitution to investors in
13 the amount of \$1,624,994.23. The Order also required Defendants to pay Plaintiff certain costs and
14 fees in the amount of \$108,500.00.

15 40. Defendants have defaulted in their obligations under the Order and failed to make the
16 restitution payments to the investors for the months of August, September, and October 2015.
17 Defendants are in violation of the Order issued by the Commissioner.

18 41. Section 25530, subdivision (a), of the Corporations Code provides that when it
19 appears that any person has violated any order issued under the Corporate Securities Law of 1968,
20 the Commissioner may bring an action in the name of the People, in the Superior Court, to enjoin the
21 violation of, and enforce compliance with, the order.

22 42. The Commissioner seeks an injunction requiring Defendants comply with the Order.
23 Unless enjoined by this Court, Defendants will continue to violate the Order.

24 43. Section 25530, subdivision (b), of the Corporations Code provides that the
25 Commissioner may include, in an action authorized by subdivision (a) of section 25530, a claim for
26 ancillary relief, including but not limited to, claims for restitution, or disgorgement, or damages and
27 the court shall have jurisdiction to award the additional relief.

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1 Annex Drilling Fund, LLP; The Appalachian Drilling Fund II, LLP; BC-2 Drilling Fund, LLP;
2 Block City Drilling Fund, LLP; Energy Production Revenue Fund, LLP; Green County Energy
3 Fund, LLP; Knox Drilling Fund, LLP; Knox Drilling Fund II, LLP; Production Revenue Drilling
4 Fund, LLP; Rogers Production Revenue Fund, LLP; and Does 1 through 10, inclusive, jointly and
5 severally, to:

6 A. Pay \$1,733,494.23 less any amounts paid in restitution or administrative penalties, of
7 which \$1,624,994.23 is to be paid in investor restitution and \$108,500.00 is to be paid in
8 administrative penalties and costs.

9 **III. This Court to Retain Jurisdiction**

10 For an order that the Court retain jurisdiction of this action to implement and carry out the
11 terms of all orders and decrees that may be entered in this action or to entertain any suitable
12 application or motion by Plaintiff for additional relief within the jurisdiction of this Court.

13 **IV. Other Relief**

14 For such other and further relief as this Court may deem necessary and proper.

15 PLAINTIFF, PEOPLE OF THE STATE OF
16 CALIFORNIA, by and through the Commissioner of
17 Business Oversight,

18 Dated: October 29, 2015

19 _____
20 BLAINE A. NOBLETT
21 Attorney for Plaintiff,
22 Commissioner of Business Oversight