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BEFORE THE ARIZONA CORPORATION COMMISSION  
Arizona Corporation Commission

DOCKETED

JUL 25 2001

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WILLIAM A. MUNDELL  
Chairman  
JIM IRVIN  
Commissioner  
MARC SPITZER  
Commissioner

In the matter of:  
  
STEPHEN MICHAEL JOHNSON  
(CRD #721408),  
d/b/a FERNDAL FINANCIAL GROUP,  
839 S. Westwood #245  
Mesa, Arizona 85210,  
Respondent.

) DOCKET NO. S-03403A-01-0000  
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)  
) DECISION NO. 63874  
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)  
) ORDER TO CEASE AND DESIST, ORDER  
) OF REVOCATION, ORDER FOR  
) ADMINISTRATIVE PENALTIES AND  
) CONSENT TO SAME

Respondent Stephen Michael Johnson ("JOHNSON") elects to permanently waive any right to a hearing and appeal under Articles 11 and 12 of the Securities Act of Arizona, A.R.S. § 44-1801 et seq. ("Securities Act") with respect to this Order To Cease And Desist, Order of Revocation, Order for Administrative Penalties and Consent to Same ("Order"). JOHNSON admits the jurisdiction of the Arizona Corporation Commission ("Commission"); admits the Findings of Fact and Conclusions of Law contained in this Order; and consents to the entry of this Order by the Commission.

I.  
FINDINGS OF FACT

1. JOHNSON, CRD #721408, has been a registered securities salesman in Arizona since at least 1997. JOHNSON was associated with the following dealer firms during the time period relevant to this matter: Washington Square Securities, Inc. ("WSS") (1997), American General Securities Incorporated ("American General") (January - August 1998), New York Life Securities, Inc. (October 1998 - July 1999), LifeUSA Securities, Inc., which became USAllianz Securities, Inc.

1 (June 1999 – March 2001). JOHNSON was terminated by USAllianz Securities, Inc., shortly after  
2 the Notice of Opportunity for Hearing was filed in this matter and is not presently associated with a  
3 dealer firm.

4 2. JOHNSON has been doing business as Ferndale Financial Group (“Ferndale”) since at  
5 least December 1996. In this Order, Ferndale and JOHNSON are collectively referred to as  
6 “JOHNSON.” At all times relevant to this matter, JOHNSON has resided in Arizona. JOHNSON’s  
7 address is 839 S. Westwood #245, Mesa, Arizona 85210.

8 3. Between August 1997 and June 1998, while he was registered with WSS or American  
9 General, JOHNSON offered or sold securities in the form of fractional, undivided interests in oil  
10 and gas rights and/or investment contracts. The securities took the form of membership interests in  
11 Petroleum Resources, L.L.C. (the “LLC”), an entity organized under the Utah Limited Liability  
12 Company Act.

13 4. JOHNSON offered or sold the securities from his home office and/or other locations in  
14 Arizona.

15 5. JOHNSON received compensation for offering and/or selling the securities, in the form  
16 of an ownership interest in the LLC.

17 6. JOHNSON raised approximately \$500,000 in invested funds for the LLC, from six  
18 investors, of whom one was an Arizona resident.

19 7. The sales of LLC interests made by JOHNSON were not recorded on the books and  
20 records of the dealer firm with which JOHNSON was associated at the time of the sales.

21 8. JOHNSON neither sought nor received approval from WSS or American General to  
22 offer or sell LLC interests.

23 9. The business of the LLC was to operate oil and gas wells located in Oklahoma and  
24 Kansas pursuant to two leases, and to drill and develop additional wells pursuant to the leases.

25 10. JOHNSON took steps to investigate the advisability of investing in the LLC, prior to  
26 offering LLC interests to investors. He did this by traveling to Oklahoma and Kansas to inspect the

1 oil and gas wells, and by talking with the operating managers in the field in Oklahoma and Kansas  
2 and examining their records relating to the business.

3 11. The initial members of the LLC when it was organized were JOHNSON and The  
4 Shasta Trust, which was a front for William Robertson McRae (a/k/a "Peter" McRae). JOHNSON  
5 signed the LLC's Articles of Organization as "president" and "manager," and JOHNSON held  
6 himself out to the investors and others as "president," but McRae exercised sole management  
7 control of the LLC from its organization date, on or about October 31, 1997, until in or about  
8 August 1998.

9 12. JOHNSON and McRae agreed in 1997 that McRae would teach JOHNSON how to  
10 manage an oil and gas company, and that JOHNSON would eventually become a salaried manager  
11 of the LLC as well as a shareholder.

12 13. In 1996 McRae and his wife, Barbara McRae, had consented to entry of a judgment  
13 prior to trial in a civil action that had been commenced by the Securities Division. That civil action  
14 concerned the fraudulent offer and sale of investments in oil and gas ventures to at least 95  
15 investors, in which over \$2 million had been lost. Pursuant to the 1996 consent judgment, the  
16 McRaes had been permanently enjoined from offering or selling any securities, from the date of the  
17 judgment forward. The McRaes had been further enjoined from committing securities fraud as  
18 defined in A.R.S. § 44-1991, and from committing fraud in connection with the advertisement and  
19 sale of merchandise as defined in A.R.S. § 44-1552. In addition, the McRaes had been ordered to  
20 pay restitution in the amount of \$2,004,625 and a civil penalty of \$100,000.

21 14. JOHNSON first learned the facts stated in paragraph 13, in or about June 1998.  
22 Consequently, with the cooperation of investors, JOHNSON took over control of the LLC from  
23 McRae and managed the LLC business, from in or about August 1998, to in or about September  
24 1999. An investor board was constituted late in 1998, but JOHNSON remained the sole executive  
25 officer during this period, and JOHNSON managed the day-to-day business of the LLC.  
26

1 15. During the period August 1998 through September 1999, JOHNSON devoted virtually  
2 all of his working time to managing the LLC business.

3 **II.**

4 **CONCLUSIONS OF LAW**

5 1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona  
6 Constitution and the Securities Act.

7 2. JOHNSON offered or sold securities, within the meaning of A.R.S. §§ 44-1801(15),  
8 44-1801(21), and 44-1801(26).

9 3. JOHNSON violated A.R.S. § 44-1841 by offering or selling, within or from Arizona,  
10 securities that were neither registered nor exempt from registration.

11 4. JOHNSON's conduct subjects JOHNSON to an order of revocation pursuant to A.R.S.  
12 § 44-1962(A). Specifically, JOHNSON:

13 a) has engaged in conduct specified by A.R.S. § 44-1962(A)(2) in that he violated a  
14 provision of the Securities Act by selling unregistered securities within or from Arizona; and

15 b) has engaged in conduct specified by A.R.S. § 44-1962(A)(10) and Ariz. Admin.  
16 Code R14-4-130(A)(17) – specifically, effecting sales of securities that were not recorded on the  
17 records of the dealer firm with which he was associated at the time of the sales.

18 5. JOHNSON's conduct is grounds for a cease and desist order pursuant to A.R.S. § 44-  
19 2032.

20 6. JOHNSON's conduct is grounds for administrative penalties under A.R.S.  
21 § 44-2036.

22 **III.**

23 **ORDER**

24 THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, and JOHNSON's  
25 consent to the entry of this Order, the Commission finds that the following relief is appropriate, in  
26 the public interest, and necessary for the protection of investors:

1 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that JOHNSON, and any of JOHNSON's  
2 agents, employees, successors and assigns, permanently cease and desist from violating the  
3 Securities Act.

4 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that JOHNSON shall pay an  
5 administrative penalty in the amount of \$5,000.00. Payment shall be made by cashier's checks or  
6 money orders payable to the "State of Arizona" in installments as follows: \$1,000.00 on the date  
7 of this Order; and at least \$150.00 per month on or before the 1<sup>st</sup> day of each month beginning on  
8 September 1, 2001. Any amount outstanding shall accrue interest at the rate of 10% per annum  
9 from the date of this Order until paid in full. If at any time JOHNSON does not comply with this  
10 order for administrative penalties, any outstanding balance shall be in default and shall be  
11 immediately due and payable. For the purposes of this Order, a bankruptcy filing by JOHNSON  
12 that seeks discharge of this obligation to pay administrative penalties shall be an act of default.

13 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-1962, that JOHNSON's securities  
14 salesman registration is revoked.

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1 IT IS FURTHER ORDERED that this Order shall become effective immediately.

2 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

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5 CHAIRMAN COMMISSIONER COMMISSIONER

6 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,  
7 Executive Secretary of the Arizona Corporation  
8 Commission, have hereunto set my hand and caused the  
9 official seal of the Commission to be affixed at the  
10 Capitol, in the City of Phoenix, this 25<sup>th</sup> day of  
11 July, 2001.

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13 BRIAN C. McNEIL  
14 Executive Secretary

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17 DISSENT

18 This document is available in alternative formats by contacting Shelly M. Hood, ADA Coordinator,  
19 voice phone number 602-542-3931, E-mail [shood@cc.state.az.us](mailto:shood@cc.state.az.us).

20 (AJL)'

**CONSENT TO ENTRY OF ORDER**

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2 1. Stephen Michael Johnson ("JOHNSON"), an individual, admits the jurisdiction of the  
3 Commission over the subject matter of this proceeding. JOHNSON acknowledges that he has  
4 been fully advised of his right to a hearing to present evidence and call witnesses, and JOHNSON  
5 knowingly and voluntarily waives any and all rights to a hearing before the Commission and all  
6 other rights otherwise available under Article 11 of the Securities Act and Title 14 of the Arizona  
7 Administrative Code. JOHNSON acknowledges that this Order to Cease and Desist, Order of  
8 Revocation, Order for Administrative Penalties and Consent to Same ("Order") constitutes a valid  
9 final order of the Commission.

10 2. JOHNSON knowingly and voluntarily waives any right under Article 12 of the  
11 Securities Act to judicial review by any court by way of suit, appeal, or extraordinary relief  
12 resulting from the entry of this Order.

13 3. JOHNSON acknowledges and agrees that this Order is entered into freely and  
14 voluntarily and that no promise was made or coercion used to induce such entry.

15 4. JOHNSON acknowledges that he has chosen not to be represented by counsel in this  
16 matter, he has reviewed this Order and understands all terms it contains.

17 5. JOHNSON admits the Findings of Fact and Conclusions of Law contained in this  
18 Order.

19 6. While this Order settles this administrative matter between JOHNSON and the  
20 Commission, JOHNSON understands that this Order does not preclude the Commission from  
21 instituting other administrative proceedings based on violations that are not addressed by this  
22 Order.

23 7. JOHNSON understands that this Order does not preclude the Commission from  
24 referring this matter to any governmental agency for administrative, civil, or criminal proceedings  
25 that may be related to the matters addressed by this Order.  
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1           8. JOHNSON understands that this Order does not preclude any other agency or officer of  
2 the state of Arizona or its subdivisions from instituting administrative, civil, or criminal  
3 proceedings that may be related to matters addressed by this Order.

4           9. JOHNSON acknowledges and agrees that the existence of this Order would be a  
5 "material fact" to any reasonable investor, and JOHNSON acknowledges and agrees that the  
6 existence of this Order, and its terms, will be affirmatively disclosed by him to any person to  
7 whom JOHNSON may offer or sell securities, within the meaning of A.R.S. §§ 44-1801(15), 44-  
8 1801(21) and 44-1801(26), and to any person with respect to whom JOHNSON may act as an  
9 investment adviser or investment adviser representative, within the meaning of A.R.S. § 44-  
10 3101(4) or § 44-3101(5), in any instance in which such offer or sale, or such provision of  
11 investment advice, occurs within or from Arizona.

12           10. JOHNSON agrees that he will not apply to the state of Arizona for registration as a  
13 securities dealer or salesman or for licensure as an investment adviser or investment adviser  
14 representative until such time as all penalties under this Order have been paid in full.

15           11. JOHNSON agrees that until penalties have been paid in full, JOHNSON will notify the  
16 Director of the Securities Division within 30 days of any change in home address or any change in  
17 JOHNSON's ability to pay amounts due under this Order.

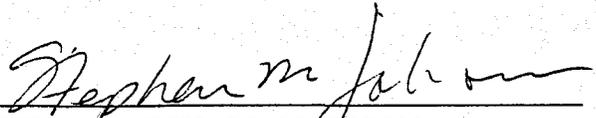
18           12. JOHNSON understands that default shall render him liable to the Commission for its  
19 costs of collection and interest at the maximum legal rate.

20           13. JOHNSON agrees that he will continue to cooperate with the Securities Division  
21 including, but not limited to, providing complete and accurate testimony and otherwise  
22 cooperating with the state of Arizona in any related investigation or any other matters arising from  
23 the activities described in this Order.

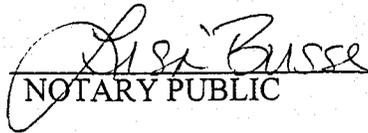
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14. JOHNSON consents to the entry of this Order and agrees to be fully bound by its terms and conditions. If JOHNSON breaches any provision of this Order, the Commission may vacate this Order and restore this case to its active docket.

  
STEPHEN MICHAEL JOHNSON

SUBSCRIBED AND SWORN TO BEFORE me this 29 day of June, 2001.

  
NOTARY PUBLIC

My Commission Expires:

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Notary Public State of Arizona  
Maricopa County  
Lisa Busse  
Expires October 30, 2004

