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BEFORE THE ARIZONA CORPORATION COMMISSION

2011 DEC 30 P 12:56

Arizona Corporation Commission

DOCKETED

COMMISSIONERS

AZ CORP COMMISSION
DOCKET CONTROL

DEC 30 2011

GARY PIERCE, Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

DOCKETED BY

In the matter of:)
CRAIG RANDAL MUNSEY and JANE DOE)
MUNSEY, husband and wife,)
MARKETING RELIABILITY CONSULTING,)
LLC (d.b.a. MRC LLC), an Arizona limited)
liability company,)
DENVER ENERGY EXPLORATION, LLC, a)
Texas limited liability company,)
Respondents.)

DOCKET NO. S-20804A-11-0208

**MOTION FOR LEAVE TO AMEND
NOTICE OF OPPORTUNITY FOR
HEARING**

**(Assigned to Administrative Law Judge
Marc E. Stern)**

The Securities Division ("Division") of the Arizona Corporation Commission filed a Temporary Order to Cease and Desist (TC&D) and Notice of Opportunity for Hearing ("Notice") on May 23, 2011. The Division respectfully moves the Administrative Law Judge ("ALJ") under A.A.C. R14-3-106(E), for leave to amend the Notice. A copy of the proposed Amended Notice is attached hereto as Exhibit A ("Proposed Amended Notice"). Under A.A.C. R14-3-106(E), the ALJ has the discretion to allow any formal document to be amended.

The Division seeks to amend the Notice to add another Respondent and factual allegations generated by the Division's ongoing investigation, and the amendment is necessary both for due process reasons and to prevent this matter from being litigated on a piece-meal basis. Specifically, the Proposed Amended Notice (1) adds Michael Christopher, an unmarried man, to the caption as a respondent; (2) modifies the Division's allegations to include conduct on the part of Michael Christopher in violation of the Arizona Securities Act; (3) requests relief to

1 be imposed against Michael Christopher; (4) deletes "Jane Doe Munsey" from the caption; and
2 (5) otherwise modifies the Division's allegations against the Respondents.

3 Based on the foregoing, the Division requests that the ALJ grant this motion to amend the
4 Notice and allow the Division to file the Proposed Amended Notice.

5 RESPECTFULLY SUBMITTED this 30th day of December, 2011.

6 ARIZONA CORPORATION COMMISSION

7
8 By: Julie Coleman
9 Julie Coleman
10 Attorney for the Securities Division of the
11 Arizona Corporation Commission

12 ORIGINAL AND EIGHT (8) COPIES of the foregoing
13 filed this 30th day of December, 2011 with:

14 Docket Control
15 Arizona Corporation Commission
16 1200 W. Washington St.
17 Phoenix, AZ 85007

18 COPY of the foregoing hand-delivered
19 this 30th day of December, 2011 to:

20 Mr. Marc E. Stern
21 Administrative Law Judge
22 Arizona Corporation Commission/Hearing Division
23 1200 W. Washington St.
24 Phoenix, AZ 85007

25 COPY of the foregoing mailed
26 this 30th day of December, 2010 to:

Robert D. Mitchell
Sarah K. Deutsch
Jamie Gill Santos
MITCHELL & ASSOCIATES
Viad Corporate Center, Suite 2030
1850 North Central Avenue
Phoenix, AZ 85004
Attorney for Respondent Denver Energy Exploration, LLC

1 Craig Randal Munsey
2 Marketing Reliability Consulting, LLC
3 2303 North 44th Street, Suite 14-1071
4 Phoenix, AZ 85008

5
6 By: 
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EXHIBIT A

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 GARY PIERCE, Chairman
4 BOB STUMP
5 SANDRA D. KENNEDY
6 PAUL NEWMAN
7 BRENDA BURNS

7 In the matter of:)

DOCKET NO. S-20804A-11-0208

8 CRAIG RANDAL MUNSEY, an unmarried)
9 man,)

10 MARKETING RELIABILITY CONSULTING,)
11 LLC (d.b.a. "MRC LLC"), an Arizona limited)
12 liability company,)

13 DENVER ENERGY EXPLORATION, LLC, a)
14 Texas limited liability company,)

15 MICHAEL LEE CHRISTOPHER)
16 (CRD#2695315), an unmarried man)

17 Respondents.)

**AMENDED NOTICE OF
OPPORTUNITY FOR HEARING**

18 **NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING**

19 **EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER**

20 The Securities Division ("Division") of the Arizona Corporation Commission
21 ("Commission") alleges that respondents CRAIG RANDAL MUNSEY, MARKETING
22 RELIABILITY CONSULTING, LLC (d.b.a. "MRC LLC"), DENVER ENERGY
23 EXPLORATION, LLC, and MICHAEL LEE CHRISTOPHER acts, practices, and transactions
24 that constitute violations of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities
25 Act").

26 The Division further alleges MICHAEL CHRISTOPHER is a person controlling DENVER
ENERGY EXPLORATION, LLC within the meaning of A.R.S. § 44-1999, so that he is jointly and

1 severally liable under A.R.S. § 44-1999 to the same extent as DENVER ENERGY
2 EXPLORATION, LLC for violations of the Securities Act.

3 **I.**

4 **JURISDICTION**

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

7 **II.**

8 **RESPONDENTS**

9 2. At all relevant times, Respondent CRAIG RANDAL MUNSEY ("MUNSEY") has
10 been an unmarried man and an Arizona resident. At all relevant times, MUNSEY has offered and/or
11 sold the "unit" investments discussed below within and from Arizona in his individual capacity and
12 on behalf of Respondents: (a) MARKETING RELIABILITY CONSULTING, LLC (d.b.a. "MRC
13 LLC") ("MRC") as its managing member and "CEO"; and (b) DENVER ENERGY
14 EXPLORATION, LLC. ("DEE") as its "senior representative" and investment salesman.
15 MUNSEY has not been registered by the Commission as a securities salesman or dealer.

16 3. MUNSEY organized MRC as a manager managed Arizona limited liability company
17 on or about March 1, 2007. At all relevant times, MRC has maintained its principal place of
18 business in Arizona, and it has offered and/or sold the unit investments discussed below within or
19 from Arizona on behalf of DEE as its authorized "marketing" agent and investment dealer. MRC
20 has not been registered by the Commission as a securities dealer.

21 4. According to certified records provided to the Division by the Texas Office of the
22 Secretary of State, DEE was organized as a manager managed Texas limited liability company
23 on or about October 15, 2001. At all times relevant, DEE has issued, offered and/or sold the unit
24 investments discussed below within Arizona. DEE has not been registered by the Commission as
25 a securities dealer.

1 banks and investors become involved in the exploration and development of new
2 resources.

3 Denver Energy Exploration, LLC intends to take advantage of these trends; the
4 Company is now in advanced discussion with several small operators for the
5 acquisition of newly producing wells, reserves and other assets. We are also in the
6 process of launching a ten-well drilling program and several multi-well drilling
7 partnerships in the Brookshire Salt Dome Oil Field...near Houston, Texas.

8 13. The "About Us" page further stated that:

9 The Company commenced operations by performing workovers on three existing
10 wells acquired with the York Lease located in the Brookshire Salt Dome Oil Field
11 near Houston, Texas. These workovers resulted in two producing oil wells, which
12 generated the first revenues and more importantly, validated the Company's model,
13 confirmed additional drilling locations on the York lease, and launched the
14 Company in a period of rising oil & gas prices.

15 14. The "Project" page of the DEE Website stated, in part, as follows:

16 We [*i.e.*, DEE] intend to continue to develop the Brookshire Salt Dome, a relatively
17 new field whose greatest returns may still be yet to come. Most Salt Domes in the
18 region have yielded in excess of 100 million barrels of oil compared with the 10M
19 BOE [*i.e.*, barrel of oil equivalent] produced so far in the Brookshire Dome.

20 Utilizing 3D seismic, Neozoic Geophysical surveys, and other Geological
21 information, we are confident of a continued success with the development of our
22 leases.

23 While the Company has acquired in excess of 60 mineral leases in Brookshire
24 totaling more than 500 net acres, which represents about 10% of the best Dome
25 acreage... Our reserve report, available upon request, shows that we have several
26 Proven Developed Producing (PDP), Possible Behind Pipe opportunities, and
undeveloped (PUD) locations, totaling several million barrels in potential oil
reserves, and approximately 3+ BCF of natural gas.

B. Respondents' General Solicitation and/or Advertising For Unit Purchasers

15. At all relevant times, Respondents have been engaged in public advertising and/or
a general solicitation for Unit purchasers within Arizona, in part, by "cold" calling and emailing
Arizona residents and/or "strangers" that have no: (a) preexisting relationship with Respondents;
or (b) knowledge of Respondents' oil and gas business operations.

1 16. The “About Us,” “Operations” and “Projects” pages of the DEE Website also
2 contained a notation at the bottom of the pages that indirectly reference the Units and/or
3 Respondents’ interest in obtaining investment funds in part, as follows:

4 THERE ARE SIGNIFICANT RISKS ASSOCIATED WITH INVESTING IN OIL
5 AND GAS VENTURES. THE ABOVE INFORMATION IS FOR GENERAL
6 PURPOSES ONLY AND IS NOT A SOLICITATION TO BUY OR AN
7 OFFER TO SELL ANY SECURITIES. ANY SUCH SOLICITATION OR
8 OFFER WILL ONLY BE MADE THROUGH A CONFIDENTIAL
9 INFORMATION MEMORANDUM ACCOMPLISHED IN ACCORDANCE
10 WITH SEC REGULATION D, RULE 506. (emphasis added)

11 17. The “Contact Us” page of the DEE Website identified an “Equity Trust
12 Company” through which potential purchasers could purchase Units and place them in self-
13 directed or newly formed “IRA, 401k” investment vehicles, as discussed further below with
14 respect to Respondents’ Unit documentation.

15 18. At all relevant times, Respondents publically offered and/or sold the Units not
16 only within Arizona but across the U.S. in states such as Pennsylvania via advertisements.
17 Respondents have raised at least \$402,907 from the sale of Units within or from Arizona.

18 **1. The First Potential Arizona Unit Purchaser**

19 19. In 2010, MUNSEY and/or Respondents’ authorized agent “cold” called a southern
20 Arizona resident to offer him a Unit. Prior to this unsolicited phone call, this potential Arizona
21 purchaser had no pre-existing relationship with Respondents or knowledge of DEE’s oil and gas
22 business operations (the “First PAP”).

23 20. At this time, the First PAP told MUNSEY and/or Respondents’ authorized agent
24 that the First PAP could not purchase a Unit but could possibly do so in about one year. In
25 response, MUNSEY and/or Respondents’ authorized agent acquired the First PAP’s email
26 address.

 21. Thereafter, on May 17, 2011, MUNSEY sent the First PAP an email with the
subject “Denver Energy Exploration” that states as follows:

1 [Respondents] Wanted to give you a heads up on our new project. We just acquired
2 the last 3 producing wells in the Johnson lease. All 6 are producing and we will
3 start the waterflood plan in 4-6 months. We have a half unit [Investment] left for
4 \$17,500 and those 3 [related oil wells] are producing 3—50 bopd. We will start
5 funding the other 3 wells in about 2 weeks. Those units will be \$4[,]500 more. The
6 partners [at DEE and their Unit purchasers] are making good money so there is no
7 problem with the investment. Let me know if I can be of any service. Have a great
8 week.

9 22. MUNSEY's May 17, 2011, email to the First PAP: (a) was sent using MUNSEY
10 and MRC's business email address "@marketingreliabilityconsulting.com;" (b) contained the
11 Arizona telephone and fax numbers for MUNSEY, MRC, and DEE; (c) contained a link to the
12 DEE Website; and (d) was electronically signed by MUNSEY in his capacity as the "CEO" of
13 MRC.

14 23. MUNSEY's May 17, 2011, email to the First PAP further listed MRC's Arizona
15 business address that is, on information and belief, a private post office box.

16 2. The Second Potential Arizona Unit Purchaser

17 24. A second potential Arizona Unit purchaser viewed the DEE Website from
18 Arizona on May 17, 2011, and he subsequently spoke to MUNSEY on May 18, 2011, after
19 calling the Arizona telephone number set forth in the May 17, 2011, email sent by MUNSEY to
20 the First PAP discussed above (the "Second PAP").

21 25. Prior to the Second PAP's May 18, 2011, telephone call with MUNSEY, the
22 Second PAP had not met or spoken to MUNSEY or any of his or DEE's authorized agents (the
23 "MUNSEY Phone Call").

24 26. MUNSEY answered the MUNSEY Phone call by stating the name "Denver
25 Energy". At no time during the MUNSEY Phone Call did MUNSEY ask the Second PAP
26 whether the Second PAP was an "accredited" purchaser and/or investor. During the MUNSEY
Phone Call, the Second PAP further informed MUNSEY that the Second PAP had not previously
purchased any oil or gas based investments.

27 27. During MUNSEY Phone Call, MUNSEY represented to the Second PAP, without
28 limitation, that:

- 1 a. MRC is a “marketing arm” of DEE, that DEE is a “good company”, and that
2 MUNSEY himself is a Unit investor;
- 3 b. Oil is going to average approximately \$114 per barrel for the next two years and,
4 as a result, purchasing a Unit now will result in “big rewards” for the Second PAP
5 for the “next ten to twenty years”;
- 6 c. Respondents have been raising “private” Unit funds for about a year and a half to
7 support seven oil and gas projects, and “everyone’s making money” and,
8 conversely, “nobody’s lost any money” by purchasing the Units from
9 Respondents;
- 10 d. Respondents’ Unit purchasers or “partners” “make money”;
- 11 e. Once an investor purchases, for instance, a single Unit, they are “an owner” who
12 will be provided with project updates on a weekly basis, and PAPd their profits of
13 approximately \$3,000 to \$4,500 on a monthly basis;
- 14 f. Respondents are “pulling out over 300,000 barrels” of oil and “500,000 Mcf of
15 gas”¹ from the “Denver/Karber #1” wells and because Respondents can get four to
16 five dollars per “mcf” of gas, the purchase of a \$33,000 Unit relating to the same
17 should enable the Second PAP to make \$200,000 to \$350,000;
- 18 g. That a \$35,000 Unit relating to the “Johnson” oil wells will enable the Second
19 PAP to make \$250,000 to \$350,000, and that if the Second PAP purchased a Unit
20 in the “Johnson three well” project, the Second PAP would get a “check the next
21 month” because that project is “already producing” and will be for the “next ten
22 years”; and
- 23 h. DEE has another well project called the “KM3” or “Koomey/Morrison #3” that’s
24 “pushing out 200 barrels of oil a day” and that the KM3 Unit purchasers are
25 making “incredible” money”.
- 26

¹ According to the U.S. Energy Information Administration website, “Mcf — is the volume of 1,000 cubic feet (cf) of natural gas”. (See, <http://www.eia.doe.gov/tools/faqs/faq.cfm?id=45&t=8>).

1 28. MUNSEY also volunteered to email to the Second PAP “prospectuses” for the
2 Units during the MUNSEY Phone call, and encouraged the Second PAP to call the officers or
3 principals at DEE to verify MUNSEY and MRC’s relationship with DEE.

4 29. Thereafter, MUNSEY sent the Second PAP two emails dated May 18, 2011, with
5 various attachments including:

- 6 a. A fifty-two page Unit “Private Placement Memorandum” regarding three oil wells
7 titled, “Johnson Three Well Project Brookshire Dome Waller County, Texas
8 (Turn-Key) (the Unit “PPM”);
- 9 b. A detailed, thirteen page “PRESENTATION REPORT” regarding the
10 “Brookshire Salt Dome Field” that sets forth the benefits of the location and
11 geology of DEE’s oil and gas lease operations, and represents that the
12 approximately 403 acres of the Brookshire Salt Dome Field controlled by DEE
13 have proven and/or “Recoverable Reserves of 4,310,891” barrels of oil worth
14 \$215,545,000, at a market price of only \$50.00 per barrel (the “Report”); and
- 15 c. A Unit “prospectus” titled “Reserves Determination Karber Lease-Brookshire
16 Dome” relating to Units supporting the “Denver-Karber #1” oil wells (the
17 “Prospectus”), along with two photo copied pages from a book describing the
18 geological structure of salt domes and their history of producing oil.

19 **3. The Second Potential Arizona Unit Purchaser’s Contact With DEE**

20 30. At MUNSEY’s suggestion, the Second PAP also called DEE on May 19, 2011, to
21 confirm MUNSEY’s representations regarding the Units, and MUNSEY and MRC’s relationship
22 with DEE (the “DEE Phone Call”).

23 31. During the DEE Phone Call, the DEE “office manager” answered the call by
24 stating “Good morning, Denver Energy” and represented to the Second PAP, without limitation,
25 that:

- 26 a. MUNSEY “is definitely part of our [DEE] team”;

1 b. DEE is issuing and/or selling Units related to the Johnson project, and
2 Denver/Karber “new drill” project that provides Unit purchasers with “really good
3 tax benefits”;

4 c. The Units range in price from \$30,000 to just under \$40,000 each, and each Unit
5 will provide an investor with a three and three quarters to four percent working
6 interest in the related oil and gas well project which is “really, really nice”
7 compared to those oil units and/or investments offered by other companies; and

8 d. The Second PAP should invest in Respondents’ different oil well projects so that
9 he can diversify his Unit portfolio.

10 32. At no time during the DEE Phone Call did the DEE office manager ask the
11 Second PAP whether the Second PAP was an accredited investor.

12 33. Thereafter, on May 19, 2011, the DEE officer manager sent an email to the
13 Second PAP (the “DEE Email”) with four “PDF” attachments including: (a) a three page “Joint
14 Venture Agreement” for the “Denver/Karber #1” (“DK1”) Units; (b) a twelve page DK1 Unit
15 investor “Questionnaire” wherein the Second PAP could state whether he believed he was an
16 accredited or “non-accredited” investor; (c) a two page “Joint Venture Participation Agreement
17 Johnson Three Well Project” (“J3W”) for related Units; and (d) a twelve page J3W Unit
18 “Questionnaire” wherein the Second PAP could state whether he believed he was an accredited
19 or “non-accredited” investor.

20 34. The DEE Email was also sent to, or carbon copied MUNSEY. The DEE Email
21 further asked the Second PAP to send to the DEE office manager the Second PAP’s Arizona
22 address so that the office manager could provide the Second PAP with a “fedex [mailing] label”
23 with which the Second PAP could mail his executed Unit subscription documents and his
24 investment “check” to DEE.

25 35. MUNSEY’s two May 18, 2011, emails to the Second PAP and the attached PPM,
26 Report and Prospectus, and the DEE office manager’s May 19, 2011, email to the Second PAP

1 and the attached J3W and DK1 Unit agreements and questionnaires may be collectively referred
2 to hereafter as the Unit "Documentation."

3 **C. The J3W and DK1 Unit Documentation**

4 36. The first email sent by MUNSEY to the Second PAP on May 18, 2011, states, in
5 part, as follows:

6 MRC is a marketing arm of...[DEE and Respondents have] 3 primary goals
7 working with their investors for a long term relationship.

8 1. Investor satisfaction and confidence and...

9 2. Long term oil and gas production which can equal BIG profits for both
investors and the company and...

10 3. Future reinvestment from our ongoing investors in future projects that can
produce BIGGER profits...

11 That is why we expect our investors to make money on a constant basis with our
service...

12 Our future endeavours [sic] in the Brookshire Salt Dome will amaze you and if you
join our team as Joint Venture Partner in one of our projects, you will be glad you
did!

13 37. MUNSEY's first email to the Second PAP also states that Respondents: (a) have
14 two J3W Units "left" for sale; (b) five DK1 Units "left" for sale; (c) that the J3W project is
15 "already producing" oil and gas such that the Second PAP's purchase of the two remaining J3W
16 Units is "a no brainer; and (d) that, with respect to the DK1 project, Respondents "have hit oil
17 and gas on every well we have drilled in the Karber field and we believe this is as good as it gets
18 for new directional well drilling."

19 38. MUNSEY's second May 18, 2011, email to the Second PAP states that
20 Respondents expect approximately 90,000,000 barrels of oil to be obtained from the Brookshire
21 Salt Dome in Texas and that Respondents "have 500 acres of the best producing leases in the
22 Dome out of 5000 acres."

23 39. The J3W Unit PPM states that: (a) J3W Units cost \$35,000 each; (b) Respondents
24 are offering, or have offered twenty J3W Units for sale, for a total offering of \$700,000; (c) each
25 J3W Unit includes a three and three quarters (i.e., "3.75%") "Working Interest" in the J3W
26 project; and (d) that DEE is the "Manager" of the J3W project.

1 40. Without limitation, the J3W Unit PPM also includes: (a) "Joint Venture
2 Summary"; (b) a "Summary of the Offering"; (c) a disclaimer stating that the J3W Units have not
3 been registered under the Securities Act of 1933; (d) projections of J3W Unit returns of
4 approximately \$7,244.44 to \$13,764.43 per month; (e) a document that describes the "TAX
5 DEDUCTION AND BENEFITS" available to J3W Unit purchasers; (f) charts, graphs and
6 reports that detail DEE's purported past and future, substantial oil and gas production for various
7 projects; (g) DEE "MANAGEMENT/CONSULTANT PROFILES" of eight persons that will
8 manage the Units on behalf of purchasers; and (h) a J3W "Joint Venture Agreement" and related
9 questionnaire, analogous to those provided to the Second PAP by the DEE office manager
10 discussed above.

11 41. The J3W Unit PPM also identifies a list of the banks and companies to which an
12 investor could deposit or wire transfer their principal Unit funds, including the "Equity Trust
13 Company" identified on the DEE Website discussed in paragraph 17 above.

14 42. The Unit Documentation provided to the Second PAP by both MUNSEY and
15 DEE does not include any restrictions on the ultimate dissemination on the part of the Second
16 PAP of said offering materials.

17 **D. General Unit Allegations**

18 43. At all times relevant, Respondents represented to offerees and/or Unit purchasers
19 that Respondents and/or BEE would pool and/or combine Unit money together to: (a) acquire oil
20 and gas leases; (b) drill new oil and gas wells; (c) re-work or improve existing oil and gas wells;
21 and (d) "operate" them to profitably produce oil and gas.

22 44. The Unit Documentation and BEE Website discussed above state that
23 Respondents will manage the essential aspects of the Units, including the: (a) selection, repair,
24 rework and/or re-completion of oil and gas wells, and the construction of new wells as warranted;
25 (b) operation of the oil and gas wells; and (c) marketing and sales of the resulting oil and gas.
26

1 45. At all times relevant, Respondents have represented to Unit offerees and/or
2 purchasers verbally and in writing that Respondents' ability to repay purchasers their principal
3 Units and/or projected profits is interwoven with and primarily dependent on Respondents'
4 superior knowledge of the Texas oil and gas industry, and oil and gas well operation experience
5 and expertise.

6 46. MUNSEY's May 18, 2011, to the Second PAP further states, in part, as follows:

7 The best concept with our company is that **we do all the work**. No contractors. We
8 are the operator and the drilling company so we keep a keen eye on operations. Our
diligence and research on the sites we drill are unequalled. (emphasis added)

9 47. Also, the J3W and DK1 Unit questionnaires discussed above include a "Special
10 Power of Attorney" to be executed by Unit purchases in favor of DEE, that allows DEE to act as
11 their "lawful attorney" in making material decisions regarding the Units and related oil and gas
12 well development and operation.

13 48. MUNSEY was provided all information regarding DEE's business operations by
14 DEE, which information was then disseminated by MUNSEY to Unit offerees and purchasers.

15 **D. The Misrepresentations and Omissions of Material Fact**

16 49. Unbeknownst to Unit offerees and purchasers, DEE was sanctioned by the
17 Pennsylvania Securities Commission ("PSC") on or about July 13, 2010, for offering and/or
18 selling the Units within or from Pennsylvania, in violation of Section 201 of the Pennsylvania
19 Securities Act of 1972, because the Units were not registered as securities to be offered or sold
20 within or from Pennsylvania. (*See, In re Koomey/Morrison #3 Prospect, Denver Energy*
21 *Exploration, LLC, et al.*, Administrative Proceeding, Docket No. 2010-04-14) (the "Pennsylvania
22 Enforcement Action").

23 50. The PSC's May 4, 2010, "Summary Order to Cease and Desist" filed against DEE
24 in the Pennsylvania Enforcement Action notes that DEE's unregistered Unit salesman had
25 published an advertisement on an Internet message board that was viewed by a Pennsylvania
26 resident, and that the resident was offered a Unit issued by DEE despite the fact that DEE had

1 “no substantive, pre-existing relationship with” the resident who was also not an accredited
2 investor.

3 51. In resolving the Pennsylvania Enforcement Action, DEE consented to the entry of
4 the final, July 13, 2010, “Findings of Fact, and Conclusions of Law, and Order” in that action
5 that orders DEE to pay a fine of \$1,500, to comply with the Pennsylvania Securities Act of 1972,
6 and/or stop offering or selling the unregistered Units to Pennsylvania residents in violation of the
7 act (the “Pennsylvania Enforcement Order”).

8 52. At all relevant times, as discussed, in part, above, Respondents have represented
9 to Unit offerees and purchasers that had already produced and/or were producing substantial
10 amounts of oil and gas from their Texas wells. For example, and without limitation, MUNSEY
11 represented to the Second PAP that DEE’s “Kooomey/Morrison #3” project was “pushing out 200
12 barrels of oil a day” and that the KM3 Unit purchasers are making “incredible” money” as
13 discussed in paragraph 27(h) above.

14 53. However, according to information provided to the Division by the Railroad
15 Commission of Texas (“RRC”) that licenses and regulates oil and gas operators in Texas: (a)
16 DEE applied for and was granted a permit to start drilling on the Kooomey Morrison Well #3 in
17 October 2010; (b) DEE began drilling on that well in November 2010; and (c) DEE has reported
18 no oil production from that project to the RRC as of May 2011.

19 54. Further, the RRC provided information to the Division indicating that as of May
20 2011: (a) DEE had a license to operate a total of only five oil wells and one gas well; and (b) that
21 DEE reported to the RRC that it had produced only a total of twenty-two barrels of oil from the
22 five oil wells since September 2010, and that one of the wells had produced only 5 barrels of oil
23 back in December 2009, well before DEE acquired an interest in the same; and (c) that DEE’s
24 single gas well had produced only 446 MCF back in the year 2000, well before DEE acquired an
25 interest in the same.

26

1 IV.

2 VIOLATION OF A.R.S. § 44-1841

3 (Offer and Sale of Unregistered Securities)

4 54. From 2010 through May 2011, Respondents offered and sold securities in the form
5 of investment contracts and/or fractional undivided interests in oil and gas rights, within or from
6 Arizona.

7 55. The securities referred to above are not registered pursuant to Articles 6 or 7 of the
8 Securities Act.

9 56. This conduct violates A.R.S. § 44-1841.

10 V.

11 VIOLATION OF A.R.S. § 44-1842

12 (Transactions by Unregistered Dealers or Salesmen)

13 57. Respondents offered and sold securities within or from Arizona while not registered
14 as dealers or salesmen pursuant to Article 9 of the Securities Act.

15 58. This conduct violates A.R.S. § 44-1842.

16 VI.

17 VIOLATION OF A.R.S. § 44-1991

18 (Fraud in Connection with the Offer or Sale of Securities)

19 59. In connection with the offer or sale of securities within or from Arizona,
20 Respondents, directly or indirectly: (i) employed a device, scheme, or artifice to defraud; (ii) made
21 untrue statements of material fact or omitting to state material facts that are necessary in order to
22 make the statements made not misleading in light of the circumstances under which they are made;
23 or (iii) engaged in transactions, practices, or courses of business that operate or would operate as a
24 fraud or deceit upon offerees and purchasers. Respondents' conduct includes, but is not limited to,
25 the following:
26

1 a. Representing to Unit offerees and purchasers that DEE is a “good company,” and
2 that purchasers would make substantial profits by purchasing the Units, while further
3 failing to disclose to them that DEE had been sanctioned via the July 2010,
4 Pennsylvania Enforcement Order by the PSC in the Pennsylvania Enforcement
5 Action for violating the Pennsylvania Securities Act of 1972 by offering the
6 unregistered Units.

7 b. Representing to Unit offerees and purchasers that DEE was producing substantial
8 amounts of oil and gas from its Texas oil and gas well operations, including the J3W
9 and DK1 projects, while further failing to disclose to them that, in fact, DEE had
10 produced negligible amounts of oil and gas as of May 2011.

11 60. This conduct violates A.R.S. § 44-1991.

12 61. CHRISTOPHER directly or indirectly controlled DEE within the meaning of
13 A.R.S. § 44-1999. Therefore, CHRISTOPHER is jointly and severally liable to the same extent
14 as DEE for its violations of A.R.S. § 44-1991.

15 **VII.**

16 **REQUESTED RELIEF**

17 The Division requests that the Commission grant the following relief:

18 1. Order Respondents to permanently cease and desist from violating the Securities Act
19 pursuant to A.R.S. § 44-2032;

20 2. Order Respondents to take affirmative action to correct the conditions resulting from
21 Respondents’ acts, practices, or transactions, including a requirement to make restitution pursuant to
22 A.R.S. § 44-2032;

23 3. Order Respondents to pay the state of Arizona administrative penalties of up to five
24 thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036;

IX.

ANSWER REQUIREMENT

Pursuant to A.A.C. R14-4-305, if a Respondent requests a hearing, the requesting respondent must deliver or mail an Answer to this Notice of Opportunity for Hearing to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007, within 30 calendar days after the date of service of this Notice. Filing instructions may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at <http://www.azcc.gov/divisions/hearings/docket.asp>.

Additionally, the answering respondent must serve the Answer upon the Division. Pursuant to A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-delivering a copy of the Answer to the Division at 1300 West Washington, 3rd Floor, Phoenix, Arizona, 85007, addressed to Julie Coleman.

The Answer shall contain an admission or denial of each allegation in this Notice and the original signature of the answering respondent or respondent's attorney. A statement of a lack of sufficient knowledge or information shall be considered a denial of an allegation. An allegation not denied shall be considered admitted.

When the answering respondent intends in good faith to deny only a part or a qualification of an allegation, the respondent shall specify that part or qualification of the allegation and shall admit the remainder. Respondent waives any affirmative defense not raised in the Answer.

The officer presiding over the hearing may grant relief from the requirement to file an Answer for good cause shown.

Dated this _____ day of _____, ____.

Matthew J. Neubert
Director of Securities