

NEW APPLICATION



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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

MAR 24 2014

DOCKETED BY

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In the matter of:
Neoteric Energy, Inc., a Nevada corporation,
Kevin D. Grace, an individual,
Madelynn R. Jones, (CRD# 4482773) an individual,
Respondents.

DOCKET NO. S-20908A-14-0104

TEMPORARY ORDER TO CEASE AND
DESIST AND NOTICE OF
OPPORTUNITY FOR HEARING

NOTICE: THIS ORDER IS EFFECTIVE IMMEDIATELY

EACH RESPONDENT HAS 20 DAYS TO REQUEST A HEARING

EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER

The Securities Division ("Division") of the Arizona Corporation Commission ("Commission") alleges that Respondents Neoteric Energy, Inc., Kevin D. Grace, and Madelynn R. Jones are engaging in or are about to engage in acts and practices that constitute violations of A.R.S. § 44-1801, et seq., the Arizona Securities Act ("Securities Act"), and that the public welfare requires immediate action.

The Division further alleges Respondent Kevin D. Grace is a person controlling Neoteric Energy, Inc. within the meaning of A.R.S. § 44-1999, so that he is jointly and severally liable under A.R.S. § 44-1999 to the same extent as Neoteric Energy, Inc. for violations of the Securities Act.

I.

JURISDICTION

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

1 **II.**

2 **RESPONDENTS**

3 2. At all relevant times, Neoteric Energy, Inc. ("Neoteric") has been a Nevada
4 corporation. Neoteric was organized under the laws of the state of Nevada in April 2013. Neoteric
5 has not been registered by the Commission as a securities salesman or dealer.

6 *Nevada SOS documents; investigator*

7 3. At all relevant times, Kevin D. Grace ("Grace") has been an unmarried man and
8 resident of the state of California. At all relevant times, Grace has been the president of Neoteric.

9 4. At all relevant times, Madelynn R. Jones (CRD# 4482773) ("Jones") has been an
10 unmarried woman and resident of the state of California.

11 5. At all times relevant, Jones and Neoteric offered unregistered securities within and
12 from Arizona. Jones has not been registered by the Commission as a securities salesman or dealer.

13 **III.**

14 **FACTS**

15 6. In or about February 2014, Jones and Neoteric offered stock in Neoteric to an
16 Arizona resident ("Arizona offeree").

17 7. The Arizona offeree had no previous relationship with Jones or Neoteric at the time
18 of the offer.

19 8. Jones provided the Arizona offeree with a website to review,
20 www.neotericenergy.com ("Neoteric website"), a brochure, a private placement memorandum
21 ("PPM"), and wiring instructions.

22 9. The PPM contains a subscription agreement with Grace as the signatory for
23 Neoteric.

24 10. The PPM Jones submitted to the Arizona offeree describes Neoteric as a Nevada
25 corporation located in Las Vegas, Nevada, and an "oil and gas company". It also provides the
26 Neoteric website.

1 11. The PPM states that Neoteric “was organized primarily for the purpose of
2 developing and marketing KBT-1, a game changing technology invented and patented by [a third
3 party company (“COII”)] which is an extremely efficient, and cost effective means of extracting
4 more oil from a well or reserve (be it oil sands, shale, etc.) than ever thought possible by current
5 technology and techniques.”

6 12. The PPM states that Neoteric is, “focused on increasing production by means of
7 continuing acquisitions, with focus on implementing the KBT-1 technology, owned and patented
8 by [COII].” The PPM also states, “In late March 2013, the board of directors of [COII] approved
9 the development of the Company [Neoteric] for the purpose of investing in the development of oil
10 and gas properties and implementing the KBT-1 technology.”

11 13. The brochure provided to the Arizona offeree states that “Neoteric Energy will
12 locate investment partners to help finance the production and placement of units to work with the
13 technology to implement the enhanced oil recovery process.”

14 14. The PPM provided to the Arizona offeree offers shares of common stock in
15 Neoteric. It states that 10,200,000 shares were being offered, with the first 600,000 shares offered
16 at .50 per share; the next 2,700,000 shares offered at \$1.00 per share; the next 3,000,000 shares
17 offered at \$2.50 per share; and the final 3,900,000 shares offered at \$5.00 per share. The total
18 offering is stated to be \$30,000,000, with the average price per share at \$2.94.

19 15. The brochure Jones submitted to the Arizona offeree provides an overview of how
20 the KBT-1 technology works, and states that it is a technology patented by COII “that separates
21 thick heavy crude oil from sand, water, and other contaminants at the source of application in just
22 seconds!”

23 16. The brochure also states that Neoteric “holds exclusive distribution rights to KBT-
24 1”, and that Neoteric “is currently the only company which holds the rights to sell, use and
25 distribute KBT-1.”

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1 17. The brochure provides a “Management Team Designated for Success” including,
2 but not limited to: Grace as president and co-founder of Neoteric; Jones as CFO of Neoteric; and
3 the president of COII (“TT”) as a director of Neoteric. The PPM lists “Management” of Neoteric
4 that will direct and control the company, and also lists these three individuals as Management.

5 18. The brochure and PPM promote Grace as having extensive experience in “founding,
6 owning and operating many companies” with significant revenues, and promotes his experience
7 with companies in the “energy sector”. These documents also state that Grace is acting as
8 Chairman for COII.

9 19. The brochure and PPM promote TT as the “President & CEO of [COII] and now
10 Director of Neoteric Energy, Inc.”

11 20. The Neoteric website also contains information about KBT-1, stating that it is a
12 “new patented technology”, and has an “Investor” tab that allows investors to “Contact Us”
13 [Neoteric] for information regarding investment opportunities.

14 21. The Neoteric website also advises visitors that the Corporate Management Team
15 includes TT and Jones, with descriptions similar to those described above.

16 22. Jones also provided the Arizona offeree with wiring instructions for Neoteric for
17 investment funds. The bank account provided in the wiring instructions is for a Neoteric account
18 held at Bank of America (“BOA Account”).

19 23. At all relevant times, Grace was the only signatory on the BOA account.

20 24. On January 28, 2008, a Desist & Refrain Order was entered against Grace by the
21 California Corporations Commissioner (“D&R Order”). The D&R Order found that Grace
22 violated California securities laws in offering and selling stock in an entity known as Black Gold
23 Energy, Inc.

24 25. The D&R Order was not disclosed to the Arizona offeree.

25 26. Although COII holds a trademark for the name KBT-1, no patent currently exists or
26 is pending for the KBT-1 technology.

1 27. According to TT, TT and COII have not provided Neoteric with any distribution
2 rights to the KBT-1 technology, nor provided consent for Respondents to solicit investors related to
3 the technology.

4 28. According to TT, at all relevant times, Grace has had no director or officer role with
5 COII, and had previously been removed from any involvement with COII by TT.

6 29. According to TT, at all relevant times, although Neoteric lists TT as a director of
7 Neoteric with the Nevada Secretary of State, such designation was made without TT's consent or
8 approval, and TT has had no director or officer role with Neoteric.

9 **IV.**

10 **VIOLATION OF A.R.S. § 44-1841**

11 **(Offer and Sale of Unregistered Securities)**

12 30. From on or about February 2014, Respondents Neoteric and Jones have been
13 offering securities in the form of stock within or from Arizona.

14 31. The securities referred to above are not registered pursuant to Articles 6 or 7 of the
15 Securities Act.

16 32. This conduct violates A.R.S. § 44-1841.

17 **V.**

18 **VIOLATION OF A.R.S. § 44-1842**

19 **(Transactions by Unregistered Dealers or Salesmen)**

20 33. Respondents Neoteric and Jones are offering or selling securities within or from
21 Arizona while not registered as dealers or salesmen pursuant to Article 9 of the Securities Act.

22 34. This conduct violates A.R.S. § 44-1842.

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VI.

VIOLATION OF A.R.S. § 44-1991

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

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4 35. In connection with the offer or sale of securities within or from Arizona,
5 Respondents Neoteric and Jones are, directly or indirectly: (i) employing a device, scheme, or
6 artifice to defraud; (ii) making untrue statements of material fact or omitting to state material facts
7 that are necessary in order to make the statements made not misleading in light of the circumstances
8 under which they are made; or (iii) engaging in transactions, practices, or courses of business that
9 operate or would operate as a fraud or deceit upon offerees and investors. Respondents' conduct
10 includes, but is not limited to, the following:

11 a) Representing to offerees that Neoteric is acquiring investors to implement the
12 KBT-1 technology, a technology invented by COII, when COII has no affiliation or agreements
13 with Neoteric;

14 b) Representing to offerees that COII has a patent on the KBT-1 technology,
15 when no patent exists;

16 c) Representing to offerees that the only company which holds the rights to sell,
17 use and distribute KBT-1 is Neoteric, when COII has not provided Neoteric with any authority to do
18 so;

19 d) Representing to offerees that TT, the president of COII and inventor of the
20 KBT-1 technology, is on the board of directors at Neoteric, and that Grace is Chairman for Clean
21 Oil, when, during all relevant times, TT has no affiliation with Neoteric and Grace has no affiliation
22 with COII; and

23 e) Failing to disclose to offerees the D&R Order.

24 36. This conduct violates A.R.S. § 44-1991.
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XII.

TEMPORARY ORDER

Cease and Desist from Violating the Securities Act

THEREFORE, based on the above allegations, and because the Commission has determined that the public welfare requires immediate action,

IT IS ORDERED, pursuant to A.R.S. § 44-1972(C) and A.A.C. R14-4-307, that Respondents, their agents, servants, employees, successors, assigns, and those persons in active concert or participation with Respondents CEASE AND DESIST from any violations of the Securities Act.

IT IS FURTHER ORDERED that this Temporary Order to Cease and Desist shall remain in effect for 180 days unless sooner vacated, modified, or made permanent by the Commission.

IT IS FURTHER ORDERED that if a request for hearing is made, this Temporary Order shall remain effective from the date a hearing is requested until a decision is entered unless otherwise ordered by the Commission.

IT IS FURTHER ORDERED that this Order shall be effective immediately.

XIII.

REQUESTED RELIEF

The Division requests that the Commission grant the following relief:

1. Order Respondents to permanently cease and desist from violating the Securities Act pursuant to A.R.S. § 44-2032;
2. Order Respondents to take affirmative action to correct the conditions resulting from Respondents' acts, practices, or transactions pursuant to A.R.S. § 44-2032;
3. Order Respondents to pay the state of Arizona administrative penalties of up to five thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036;
4. Order any other relief that the Commission deems appropriate.

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XIV.**HEARING OPPORTUNITY**

Each respondent may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C. Rule 14-4-307. **If a respondent requests a hearing, the requesting respondent must also answer this Temporary Order and Notice.** A request for hearing must be in writing and received by the Commission within 20 days after service of this Temporary Order and Notice. The requesting respondent must deliver or mail the request for hearing to Docket Control, Arizona Corporation Commission, 1200 West Washington, Phoenix, Arizona 85007. Filing instructions may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at www.azcc.gov/divisions/hearings/docket.asp.

If a request for hearing is timely made, the Commission shall schedule a hearing to begin 10 to 30 days from the receipt of the request unless otherwise provided by law, stipulated by the parties, or ordered by the Commission. **Unless otherwise ordered by the Commission, this Temporary Order shall remain effective from the date a hearing is requested until a decision is entered.** After a hearing, the Commission may vacate, modify, or make permanent this Temporary Order, with written findings of fact and conclusions of law. A permanent Order may include ordering restitution, assessing administrative penalties, or other action.

If a request for hearing is not timely made, the Division will request that the Commission make permanent this Temporary Order, with written findings of fact and conclusions of law, which may include ordering restitution, assessing administrative penalties, or other relief.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Shaylin A. Bernal, ADA Coordinator, voice phone number 602/542-3931, e-mail sabernal@azcc.gov. Requests should be made as early as possible to allow time to arrange the accommodation.

XV.

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 Temporary Order and Notice to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007, within 30 calendar days after the date of service of this Temporary Order and Notice. Filing instructions may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at www.azcc.gov/divisions/hearings/docket.asp.

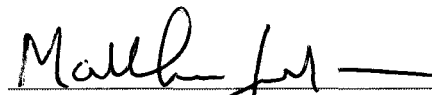
Additionally, the answering respondent must serve the Answer upon the Division. Pursuant to A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-delivering a copy of the Answer to the Division at 1300 West Washington, 3rd Floor, Phoenix, Arizona, 85007, addressed to Stacy Luedtke.

The Answer shall contain an admission or denial of each allegation in this Temporary Order and Notice and the original signature of the answering respondent or the 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.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION, this 24th day of March, 2014.


Matthew J. Neuben
Director of Securities