

1 PRESTON DuFAUCHARD
California Corporations Commissioner
2 ALAN S. WEINGER
Deputy Commissioner
3 BLAINE A. NOBLETT (SBN 235612)
Corporations Counsel
4 DEPARTMENT OF CORPORATIONS
320 West 4th Street, Suite 750
5 Los Angeles, California 90013-2344
Telephone: (213) 576-1396 Facsimile: (213) 576-7181
6

7 Attorneys for Complainant

8
9 BEFORE THE DEPARTMENT OF CORPORATIONS
OF THE STATE OF CALIFORNIA

10 In the Matter of THE CALIFORNIA)
11 CORPORATIONS COMMISSIONER,)

File No.: Alpha

12 Complainant,)

(1) **STATEMENT IN SUPPORT OF
ORDER LEVYING ADMINISTRATIVE
PENALTIES PURSUANT TO
CORPORATIONS CODE
SECTION 25252;**

13 v.)

14 LELAND ENERGY, INC.; LELAND)
15 KENTUCKY HOLDINGS, INC.; STEPHEN M.)
16 THOMPSON; ANNEX DRILLING FUND,)
17 LLP; THE APPALACHIAN DRILLING FUND)
18 II, LLP; BC-2 DRILLING FUND, LLP; BLOCK)
19 CITY DRILLING FUND, LLP; ENERGY)
20 PRODUCTION REVENUE FUND, LLP;)
21 GREEN COUNTY ENERGY FUND, LLP;)
22 KNOX DRILLING FUND, LLP; KNOX)
23 DRILLING FUND II, LLP; PRODUCTION)
24 REVENUE DRILLING FUND, LLP; and)
25 ROGERS PRODUCTION REVENUE FUND,)
26 LLP,)

(2) **CLAIM FOR ANCILLARY RELIEF
PURSUANT TO CORPORATIONS
CODE SECTION 25254; and**

(3) **DESIST AND REFRAIN ORDER**

27 Respondents.)
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29 Preston DuFauchard, the California Corporations Commissioner ("Commissioner") of the
30 Department of Corporations ("Department"), collectively ("Complainant"), alleges and charges
31 as follows:

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I.**STATEMENT OF FACTS**

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3 1. At all relevant times herein, Leland Energy, Inc. (“Leland Energy”) is a Nevada
4 corporation, authorized to conduct business in California, with its primary place of business located
5 at 261 South Robertson Boulevard, Suite 200, Beverly Hills, California 90211 and/or 375 North
6 Stephanie Street, Suite 1411, Henderson, Nevada 89014-8909 and/or 3155 East Patrick Lane, Suite
7 1, Las Vegas, Nevada 89120-3481. Leland Energy is a purported privately held company with over
8 thirty years worth of experience in the oil and gas industry for which it provides “service expertise,
9 prospect evaluation, drilling programs, and production income.”

10 2. Leland Energy maintains a website at www.lelandenergy.com.

11 3. At all relevant times herein, Leland Kentucky Holdings, Inc. (“Leland Kentucky
12 Holdings”) is a Kentucky corporation with its principal place of business located at 207 Shirley
13 Street, Edmonton, Kentucky 42129-8117.

14 4. Stephen M. Thompson (“Thompson”) is the president of both Leland Energy and
15 Leland Kentucky Holdings.

16 5. At all relevant times herein, Annex Drilling Fund, LLP (“Annex Drilling Fund”) is a
17 Colorado limited liability partnership, authorized to conduct business in Nevada, with its primary
18 place of business located at 261 South Robertson Boulevard, Suite 200, Beverly Hills, California
19 90211 and/or 3155 East Patrick Lane, Suite 1, Las Vegas, Nevada 89120-3481. The Annex Drilling
20 Fund purportedly participates in the drilling, testing, and development of oil and gas properties.

21 6. At all relevant times herein, The Appalachian Drilling Fund II, LLP (“Appalachian
22 Drilling Fund”) is a Colorado limited liability partnership, authorized to conduct business in Nevada,
23 with its primary place of business located at 261 South Robertson Boulevard, Suite 200, Beverly
24 Hills, California 90211 and/or 3155 East Patrick Lane, Suite 1, Las Vegas, Nevada 89120-3481.
25 The Appalachian Drilling Fund purportedly participates in the drilling, testing, and development of
26 oil and gas properties.

27 7. At all relevant times herein, BC-2 Drilling Fund, LLP (“BC-2 Drilling Fund”) is a
28 Nevada limited liability partnership, with its primary place of business located at 261 South
Robertson Boulevard, Suite 200, Beverly Hills, California 90211. The BC-2 Drilling Fund
purportedly participates in the drilling, testing and development of oil and gas properties.

1 8. At all relevant times herein, Block City Drilling Fund, LLP (“Block City Drilling
2 Fund”) is a Nevada limited liability partnership with its principal place of business located at 261
3 South Robertson Boulevard, Suite 200, Beverly Hills, California 90211. The Block City Drilling
4 Fund purportedly participates in the drilling, testing, and development of oil and gas properties.

5 9. At all relevant times herein, Energy Production Revenue Fund, LLP (“Energy
6 Production Revenue Fund”) is a Nevada limited liability partnership with its principal place of
7 business located at 375 North Stephanie Street, Suite 1411, Henderson, Nevada 89014-8909. The
8 Energy Production Revenue Fund purportedly participates in the drilling, testing, and development
9 of oil and gas properties.

10 10. At all relevant times herein, Green County Energy Fund, LLP (“Green County
11 Energy Fund”) is a Colorado limited liability partnership with its principal place of business located
12 at 261 South Robertson Boulevard, Suite 200, Beverly Hills, California 90211 and/or 3155 East
13 Patrick Lane, Suite 1, Las Vegas, Nevada 89120-3481. The Green County Energy Fund purportedly
14 participates in the drilling, testing, and development of oil and gas properties.

15 11. At all relevant times herein, Knox Drilling Fund, LLP (“Knox Drilling Fund”) was a
16 Colorado limited liability partnership, authorized to conduct business in Nevada, with its principal
17 place of business located at 261 South Robertson Boulevard, Suite 200, Beverly Hills, California
18 90211 and/or 375 North Stephanie Street, Suite 1411, Henderson, Nevada 89014-8909. The Knox
19 Drilling Fund is purportedly organized to participate in the drilling, testing, and development of oil
20 and gas properties.

21 12. At all relevant times herein, Knox Drilling Fund II, LLP (“Knox Drilling Fund II”) is
22 a Colorado limited liability partnership, authorized to conduct business in Nevada, with its principal
23 place of business located at 261 South Robertson Boulevard, Suite 200, Beverly Hills, California
24 90211 and/or 3155 East Patrick Lane, Suite 1, Las Vegas, Nevada 89120-3481. The Knox Drilling
25 Fund II purportedly participates in the drilling, testing and development of oil and gas properties.

26 13. At all relevant times herein, Production Revenue Drilling Fund, LLP (“Production
27 Revenue Drilling Fund”) is a Nevada limited liability partnership with its principal place of business
28 located at 375 North Stephanie Street, Suite 1411, Henderson, Nevada 89014-8909. The Production
Revenue Drilling Fund purportedly participates in the drilling, testing and development of oil and
gas properties.

1 14. At all relevant times herein, Rogers Production Revenue Fund, LLP (“Rogers
2 Production Revenue Fund”) is a Nevada limited liability partnership with its principal place of
3 business located at 261 South Robertson Boulevard, Suite 200, Beverly Hills, California 90211. The
4 Rogers Production Revenue Fund purportedly participates in the drilling, testing and development of
5 oil and gas properties.

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

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

18 17. “Respondents” shall herein collectively mean and refer to Leland Energy, Leland
19 Kentucky Holdings, Thompson, Annex Drilling Fund, Appalachian Drilling Fund, BC-2 Drilling
20 Fund, Block City Drilling Fund, Energy Production Revenue Fund, Green County Energy Fund,
21 Knox Drilling Fund, Knox Drilling Fund II, Production Revenue Drilling Fund, and Rogers
22 Production Revenue Fund.

23 18. Whenever reference is made in this Statement in Support to “Respondents” doing any
24 act, the allegation shall mean the act of each respondent acting individually, jointly and severally.

25 19. Beginning in at least 2006, Respondents offered and sold securities in the form of
26 interests in limited liability partnerships labeled “units” and/or promissory notes and/or certificates
27 of interest or participation in an oil, gas or mining title or lease or in payments out of production
28 under that title or lease and/or investment contracts to at least forty-two (42) California investors,
from whom Respondents raised a total of at least one million nine hundred seventy-seven thousand

1 four hundred fifty dollars (\$1,977,450.00).

2 **VIOLATIONS OF CORPORATIONS CODE SECTION 25401**

3 **(Misrepresentations and Omissions of Material Facts)**

4 20. In connection with the offer and sale of these securities, Respondents made, or caused
5 to be made, misrepresentations of material fact or omitted to state material facts including the
6 following:

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

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

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

20 21. Corporations Code section 25401 prohibits the offer and/or sale of securities in this
21 state by means of written or oral communications that include untrue statements of material fact or
22 omits material facts necessary in order to make the statements made, in the light of the
23 circumstances under which they were made, not misleading.

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II.

ORDER LEVYING ADMINISTRATIVE PENALTIES

(For violations of Corporations Code section 25401)

22. Complainant re-alleges and reincorporates by reference paragraphs 1.-21. of this Statement in Support as though fully set forth herein.

23. Corporations Code section 25252 authorizes the Commissioner to issue an order levying administrative penalties against any person for willful violations of any provision of the Corporate Securities Law of 1968 (Corp. Code, §§ 25000 et seq.) (“CSL”) and any rules promulgated thereunder. Specifically, Corporations Code section 25252 provides, in relevant part:

The commissioner may, after appropriate notice and opportunity for hearing, by orders, levy administrative penalties as follows:

(a) Any person subject to this division, other than a broker-dealer or investment adviser, who willfully violates any provision of this division, or who willfully violates any rule or order adopted or issued pursuant to this division, is liable for administrative penalties of not more than one thousand dollars (\$1,000) for the first violation, and not more than two thousand five hundred dollars (\$2,500) for each subsequent violation.

24. Based on the foregoing findings of fact, as set forth fully above in paragraphs 1.-21., Respondents willfully violated the following provision of the CSL:

A. Corporations Code section 25401 by offering and/or selling interests in limited liability partnerships labeled “units” and/or promissory notes and/or certificates of interest or participation in an oil, gas or mining title or lease or in payments out of production under that title or lease and/or investment contracts, by means of any written or oral communication which contained misstatements and/or omitted to state material facts, to the following investors:

- i. C.A.
- ii. V.A.
- iii. L.B.
- iv. R.B.

1	v.	L.C.
2	vi.	M.C.
3	vii.	E.D.
4	viii.	F.D.
5	ix.	T.D.
6	x.	C.E.
7	xi.	R.E.
8	xii.	C.E.
9	xiii.	S.F.
10	xiv.	P.F.
11	xv.	P.G.
12	xvi.	F.H.
13	xvii.	K.J.
14	xviii.	T.K.
15	xix.	D.K.
16	xx.	D.L.
17	xxi.	R.M.
18	xxii.	C.M.
19	xxiii.	J.M.
20	xxiv.	V.M.
21	xxv.	K.M.
22	xxvi.	K.N.
23	xxvii.	R.O.
24	xxviii.	M.P.
25	xxix.	W.P.
26	xxx.	G.R.
27	xxxi.	W.R.
28	xxxii.	M.S.

- 1 xxxiii. K.S.
- 2 xxxiv. R.S.
- 3 xxxv. R.W.S.
- 4 xxxvi. R.S.
- 5 xxxvii. J.S.
- 6 xxxviii. J.T.
- 7 xxxix. G.L.W.
- 8 xl. R.W.
- 9 xli. S.W.
- 10 xlii. B.W.

11 **WHEREFORE**, good cause showing, and pursuant to Corporations Code section 25252,
 12 the Commissioner prays for an order levying administrative penalties against Respondents, jointly
 13 and severally, as follows:

14 A. That pursuant to Corporations Code section 25252, the Commissioner levy
 15 administrative penalties of one thousand dollars (\$1,000) for the first violation of Corporations
 16 Code section 25401 and two thousand five hundred dollars (\$2,500) for each subsequent violation,
 17 for a total amount of one hundred three thousand five hundred dollars (\$103,500.00) as a result of
 18 the Respondents’ violations of Corporations Code section 25401.

19 **III.**

20 **CLAIM FOR ANCILLARY RELIEF**

21 **(For violations of Corporations Code section 25401)**

22 25. Complainant re-alleges and reincorporates by reference paragraphs 1.-21. of this
 23 Statement in Support as though fully set forth herein.

24 26. Corporations Code section 25254 authorizes the Commissioner to seek ancillary
 25 relief on behalf of any person injured by violations of any provision of the CSL and any rules
 26 promulgated thereunder. Corporations Code section 25254 states:

- 27 (a) If the commissioner determines it is in the public interest, the
- 28 commissioner may include in any administrative action brought under

1 this part a claim for ancillary relief, including, but not limited to, a
2 claim for restitution or disgorgement or damages on behalf of the
3 persons injured by the act or practice constituting the subject matter of
4 the action, and the administrative law judge shall have jurisdiction to
5 award additional relief.

6 (b) In an administrative action brought under this part, the
7 commissioner is entitled to recover costs, which in the discretion of the
8 administrative law judge may include an amount representing
9 reasonable attorney’s fees and investigative expenses for the services
10 rendered, for deposit into the State Corporations Fund for the use of
11 the Department of Corporations.

12 27. Based on the foregoing findings of fact, as set forth fully above in paragraphs 1.-21.,
13 Respondents sold securities in an amount of at least one million nine hundred seventy-seven thousand
14 four hundred fifty dollars (\$1,977,450.00) to at least forty-two (42) California investors in violation
15 of Corporations Code section 25401 by making misstatements or omissions of material fact in
16 connection with the offer and sale of said securities.

17 **WHEREFORE**, good cause showing and the Commissioner’s determination that this
18 action is in the public interest and necessary to effectuate the Department’s primary, legitimate,
19 regulatory purpose based upon the Respondents’ violations of the CSL, the Commissioner hereby
20 prays for an order of ancillary relief pursuant to Corporation Code section 25254, individually,
21 jointly and severally against Respondents as follows:

22 A. Full restitution, consisting of the investors’ investment principal in an amount of at
23 least one million nine hundred seventy-seven thousand four hundred fifty dollars (\$1,977,450.00)
24 and interest accumulated on the investment principal or according to proof;

25 B. Recovery of attorney’s fees, investigative expenses, and costs in an amount of at
26 least five thousand dollars (\$5,000.00), or according to proof.

27 **IV.**

28 **DESIST AND REFRAIN ORDER**

29 28. Complainant re-alleges and reincorporates by reference paragraphs 1.-21. of this
30 Statement in Support as though fully set forth herein.

31 29. Corporations Code section 25532, in pertinent part, states:

1 (c) If, in the opinion of the commissioner, a person has
2 violated or is violating Section 25401, the commissioner may
3 order that person to desist and refrain from the violation.

4 30. Based upon the foregoing findings of fact, as set forth fully above in paragraphs
5 1.-21., the Commissioner is of the opinion that the securities in the form of interests in limited
6 partnerships labeled "units" and/or promissory notes and/or certificates of interest or participation
7 in an oil, gas or mining title or lease or in payments out of production under that title or lease
8 and/or investment contracts offered by Leland Energy, Inc.; Leland Kentucky Holdings, Inc.;
9 Stephen M. Thompson; Annex Drilling Fund, LLP; The Appalachian Drilling Fund II, LLP; BC-2
10 Drilling Fund, LLP; Block City Drilling Fund, LLP; Energy Production Revenue Fund, LLP;
11 Green County Energy Fund, LLP; Knox Drilling Fund, LLP; Knox Drilling Fund II, LLP;
12 Production Revenue Drilling Fund, LLP and Rogers Production Revenue Fund, LLP were offered
13 and sold in this state by means of written or oral communications that included untrue statements
14 of material fact or omitted to state material facts necessary in order to make the statements made,
15 in the light of the circumstances under which they were made, not misleading, in violation of
16 Corporations Code section 25401 of the CSL.

17 **IT IS HEREBY ORDERED EFFECTIVE IMMEDIATELY THAT:**

18 A. Pursuant to Corporations Code section 25532 of the CSL, Leland Energy, Inc.;
19 Leland Kentucky Holdings, Inc.; Stephen M. Thompson; Annex Drilling Fund, LLP; The
20 Appalachian Drilling Fund II, LLP; BC-2 Drilling Fund, LLP; Block City Drilling Fund, LLP;
21 Energy Production Revenue Fund, LLP; Green County Energy Fund, LLP; Knox Drilling Fund,
22 LLP; Knox Drilling Fund II, LLP; Production Revenue Drilling Fund, LLP and Rogers Production
23 Revenue Fund, LLP desist and refrain from offering or selling or buying or offering to buy any
24 security in the State of California, including but not limited to interests in limited liability
25 partnerships labeled "units" and/or promissory notes and/or certificates of interest or participation
26 in an oil, gas or mining title or lease or in payments out of production under that title or lease
27 and/or investment contracts by means of any written or oral communication which includes an
28 untrue statement of a material fact or omits to state a material fact necessary in order to make the
statements made, in the light of the circumstances under which they were made, not misleading.

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This Order is necessary, in the public interest, for the protection of investors and consistent with the purposes, policies, and provisions of the CSL.

Dated: February 9, 2011
Los Angeles, CA

PRESTON DuFAUCHARD
California Corporations Commissioner

By: _____

ALAN S. WEINGER
Deputy Commissioner