

IN THE DISTRICT COURT OF OKLAHOMA COUNTY
 STATE OF OKLAHOMA **FILED IN DISTRICT COURT**
 OKLAHOMA COUNTY

Oklahoma Department of Securities)
ex rel. Irving L. Faught,)
 Administrator,)
)
 Plaintiff,)
)
 v.)
)
 Joe Lawrence Gregory,)
)
 Defendant.)

AUG 23 2018

RICK WARREN
COURT CLERK

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Case No.

CJ-2018-4572

PETITION FOR PERMANENT INJUNCTION AND/OR
OTHER EQUITABLE RELIEF

COMES NOW the Plaintiff, Oklahoma Department of Securities *ex rel.* Irving L. Faught, Administrator (the “Department”), and for its claims against the above-named Defendant, alleges and states as follows:

OVERVIEW

This case involves violations of the Oklahoma Uniform Securities Act of 2004 (“Act”), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (2011 and Supp. 2017), by Joe Lawrence Gregory (“Defendant” or “Gregory”). Specifically, the Department alleges that Defendant offered and sold unregistered securities in the form of working interests in oil and gas leases, in violation of Section 1-301 of the Act; acted as an unregistered agent in violation of Section 1-402 of the Act; and committed fraud in connection with the offer, sale and/or purchase of the working interests in violation of Section 1-501 of the Act.

Defendant has defrauded more than 90 investors in 5 states out of more than Five Million Dollars (\$5,000,000) by misrepresenting his previous oil and gas experience; misrepresenting the costs to drill and complete his oil and gas prospects; misrepresenting how investor proceeds

would be used; providing different investors with different sets of costs associated with the same well depending on the investors' level of oil and gas experience (he would provide the more knowledgeable and experienced investor with a more accurate and reasonable investment amount); inflating the net revenue interest amounts investors would receive from a well; omitting to state that there were title defects and other issues relating to certain leases; omitting to state that ten percent (10%) of investor capital would be immediately paid to Defendant as an undisclosed sales commission; omitting to state that he had been previously ordered by the Department to stop violating the Act; omitting to state that he had previously filed bankruptcy; and omitting to state that he had pled guilty to and been convicted of bank fraud.

Defendant perpetuated the scheme by intentionally sending out revenue checks to investors without deducting necessary well operational costs, thereby creating the illusion of revenue being generated, by causing revenue to be distributed to investors without accurate division orders in place, and by failing to drill a well for which investors had paid and using that money for other purposes.

The scheme culminated with Gregory taking money for a well project from one investor and never applying it to any well project. Instead, he literally placed the investor's cash in his own pocket. Finally, Gregory engaged in an expletive laced conversation that makes clear his attitude toward investors who were upset over no returns or the fact that a well paid for by investors had never been drilled. In a recorded conversation Gregory said "send them a JIB [meaning send them a bill] and when they call and complain blah, blah, blah...most of our investors have no ****ing idea about the oil and gas business...Give them a ****ing invoice for a 100 grand and see if they give up the interest." The scheme ultimately collapsed into bankruptcy.

JURISDICTION

1. The Administrator of the Department brings this action pursuant to Section 1-603 of the Act and is the proper party to bring this action against the Defendant.

2. Pursuant to Sections 1-102 and 1-610 of the Act, Defendant, in connection with his activities in the offer and/or sale of securities in and/or from this state, is subject to the provisions of the Act. By virtue of his activities in this state, as described herein, Defendant is subject to the jurisdiction of this Court and to service of summons within and outside of this state.

3. Venue is proper in this county.

DEFENDANT

4. Defendant is an individual who, at all times material hereto, was a resident of Oklahoma who offered and/or sold securities in and/or from Oklahoma as described herein. Defendant has not been registered in any capacity under the Act.

NATURE OF THE CASE

A. Gregory is Ordered to Stop Violating the Act

5. Gregory has a history of violating the Act. In 1992, Gregory and Blue Quail Limited, an Oklahoma corporation ("Blue Quail"), were found to have violated the Act in connection with the offer and sale to investors of working interests in an oil and gas venture. Gregory and Blue Quail were ordered by the Administrator of the Department to cease and desist from violating the Act (the "Department Order").

B. Gregory Files Bankruptcy

6. In 2005, Gregory filed a petition in the United States Bankruptcy Court for the Northern District of Oklahoma under Chapter 7 of the Bankruptcy Code. Although Gregory initially received a discharge on March 22, 2006, the discharge was revoked on March 6, 2009, because Gregory failed to disclose multiple assets. The Bankruptcy Court, in a written order, found that Gregory had falsified his bankruptcy schedules to hide numerous assets and had obtained the bankruptcy discharge through fraud.

C. Gregory is Convicted of Bank Fraud

7. In 2008, Gregory was indicted by a federal grand jury and charged with bank fraud and causing a criminal act in violation of Sections 2 and 1344, respectively, of the United States Code. On November 13, 2008, Gregory pled guilty and admitted to defrauding a federally insured financial institution by fabricating documents pertaining to an insurance bond and providing those documents to the financial institution. Gregory remained under supervised release until January 19, 2016. During the term of his supervised release, Gregory was subject to a set of "Special Financial Conditions" imposed by the federal district court judge to whom his case was assigned. The Special Financial Conditions mandated that Gregory disclose all assets and liabilities to his probation officer and that he make available for review any and all records relating to any entity in which he owned an interest. As described below, Gregory carefully evaded these restrictions.

D. Gregory is Released and Begins a New Oil and Gas Scheme

8. Following his release from prison in 2011, Gregory began working as an electrician for an Oklahoma based electrical contracting company (“J.E.C.”). Realizing that his employer performed electrical work for oil and gas industry participants, Gregory approached the owner of J.E.C. with a proposition. Gregory told the owner of J.E.C. that he had successful oil and gas industry experience and wanted to get back into the oil and gas business. Gregory said that with his experience and contacts, he could make everyone a lot of money.

9. Gregory explained that he could expedite things because he still held an ownership position in what he described as his “dormant” oil and gas company called Blue Quail. He represented to the owner of J.E.C. that Blue Quail had been successful in the late 1980’s but had “fallen apart” with the decline in oil prices. Gregory stated that the only thing he needed to do to be able to use the existing entity would be to buy out the remaining shareholders, which he indicated would not be a problem. As further inducement, Gregory also stated that his nephew and his nephew’s father-in-law were both experienced landmen who were willing to assist in locating productive oil and gas leases.

10. In addition to putting together profitable prospects, Gregory stated that he could raise all of the money necessary for the venture from investors by selling them fractional working interests in the prospect leases (referred to collectively hereafter as the “Working Interests”). In return for his efforts in soliciting money, Gregory wanted ten percent (10%) of the money he raised from each investor as a sales commission. Gregory convinced his employer that he would need to stop working as an electrician and would need the use of J.E.C. office space to organize and begin the oil and gas operation. Knowing the restrictions placed upon him by the Special Financial Conditions during the term of his supervised release, Gregory repeatedly

emphasized to the owner of J.E.C. that he wanted nothing related to the venture to be directly “in his name.”

E. Gregory Begins Raising Money From Investors

11. In early 2012, Gregory and the J.E.C. owner agreed to start the business using Gregory’s entity, Blue Quail, and to the payment of sales commissions to Gregory. Gregory quickly began putting together the first prospect. Gregory soon advised the J.E.C. owner that he had contacted both a geologist and an oil and gas operator and that a prospect he referred to as the “Pink Prospect” would be the first project. Gregory repeated his confidence in the profitability of the Pink Prospect numerous times and began soliciting money from investors for the project.

12. Using the Blue Quail name, Gregory assembled a prospectus and authorization for expenditure (“AFE”) for the Pink Prospect. An AFE is a budgetary document normally provided to investors that identifies the cost of drilling an identified well to a specified depth or formation. It includes line item costs such as site preparation, drilling rate(s), equipment, pipe, logging and cementing.

13. The Pink Prospect prospectus Gregory assembled was a fraud. The prospectus contained no general or specific risk factors associated with the drilling, completion or operation of the program. It contained no background disclosure about Blue Quail or Gregory. No mention was made of the Department Order, Gregory’s bankruptcy or his criminal background. There was no disclosure that ten percent (10%) percent of investor money would be immediately paid to Gregory as a sales commission. Other than a geology report prepared by someone other than Gregory, the prospectus contained only a cover sheet with a picture of a bird (a quail) and a single page entitled “ECONOMICS” wherein Gregory estimated the production of 200 barrels of

oil per day and stated that Blue Quail held an “80% NRI” (Net Revenue Interest) and that an investor should receive a “return on investment in 6 months or less from wells [sic] first day of production.”

14. As he began to raise hundreds of thousands of dollars from investors for the Pink Prospect, and ultimately millions, from investors in other projects, Gregory devised a scheme to hide the payment of the ten percent (10%) commission. When an investor would make the decision to invest, Gregory would deliver the investor’s check to a Blue Quail employee hired by J.E.C. to assist with Blue Quail bookkeeping (Blue Quail employee M.M.) and instruct her to immediately pay him the commission amount. He would then instruct Blue Quail employee M.M. to record the payment as a “lease expense” in the accounting records of Blue Quail. To further hide the scheme and to avoid what he believed would trigger bank reporting requirements, Gregory required that all checks written to him for payment of commissions be broken up into separate payments of less than Three Thousand Dollars (\$3,000) each or would instruct that the check be made payable to his daughter who was in no way affiliated with Blue Quail or its activities. Gregory would repeat this process of commission payments and misclassification for every other well program offered and sold by him.

15. Interests in two wells, described as the Jim #1 and the Joe Gregory #1, were offered and sold to investors by Gregory as part of the Pink Prospect.

16. The two Pink Prospect wells never commercially produced sustainable quantities of oil and/or gas.

F. Gregory Continues the Scheme with the North Lake Carl Blackwell Prospect

17. Before investors could determine how effectively Gregory was managing the Jim #1 and the Joe Gregory #1 wells or whether the rate of return would be anywhere near what was represented by Gregory, he began soliciting money from new and existing investors for a new project he described as the North Lake Carl Blackwell Prospect (“Carl Blackwell Prospect”). The Carl Blackwell Prospect consisted of three proposed wells, the Karen #1, the Karen #2 and the Karen #3 (collectively, the “Karen Wells”) in Payne County, Oklahoma.

18. Each time an investor would invest, Gregory would direct Blue Quail employee M.M. to pay him the ten percent (10%) commission and to falsely enter the payment as a “lease expense” in the accounting records of Blue Quail.

19. By copying all but the front page of the Pink Prospect offering document, Gregory created an offering memorandum for the Carl Blackwell Prospect. The “ECONOMICS” page of the prospectus is virtually identical to that of the Pink Prospect despite the fact that the two prospects are over 70 miles and four counties apart, involve a different drilling contractor, different geology, different well depths and different targeted formations.

20. Like the Pink Prospect prospectus, the offering documents for the Karen Wells were equally a fraud. The offering documents for the Karen Wells contained no general or specific risk factors associated with the drilling, completion or operation of the program. They contained no background disclosure about Blue Quail or Gregory. No mention is made of the Department Order, Gregory’s bankruptcy or his criminal background. There is no disclosure that ten percent (10%) of investor money would be immediately paid to Gregory as a sales commission. And, other than a geology report prepared by someone other than Gregory, each prospectus contained only a cover sheet with a picture of a bird and one single page entitled

“ECONOMICS” wherein Gregory again estimates production of 200 barrels per day, states that Blue Quail holds an “80% NRI” and represents that an investor should receive a “return on investment in 6 months or less from wells [sic] first day of production.”

21. In connection with the offer and sale of the working interests in the Karen #2 well, Gregory fraudulently created two separate AFE’s for distribution to investors. One AFE contained lower cost figures for those investors he suspected would be knowledgeable enough to identify the inflated costs and a second, higher cost AFE, was created for investors with no oil and gas experience. For example, a lower cost AFE for the Karen #2 well was provided to investor T.C. who was a very experienced oil and gas investor, reflecting estimated costs of \$851,650. A different AFE for the Karen #2 well was provided to investors R.D. and M.H., who had no prior oil and gas experience, reflecting estimated costs of \$925,000. The AFE’s reflected approximately a ten percent (10%) difference in costs. None of these differences were disclosed to the investors.

22. Gregory’s scheme in the Carl Blackwell Prospect also involved complete misuse of investor funds. In connection with his solicitation of investors in the Karen #3 well, Gregory received \$50,000 in cash from investor B.W. that was never deposited into an account of Blue Quail. In addition, Gregory raised money from other investors for the drilling of the Karen #3 well, however, that money was used for expenses for other wells. The Karen #3 well was never drilled.

G. Gregory Continues the Scheme with the Sportsman’s Lake Prospect

23. Undeterred by poor production from previously promoted wells, Gregory began soliciting money for what he described to investors as another excellent prospect that would repay the principal amounts of their investments in less than 12 months. By copying the Pink

Prospect prospectus yet again, Gregory raised money for the Sportsman's Lake Prospect from both new and existing investors. Gregory used the "ECONOMICS" page from previous offerings almost verbatim. The page represented that the Sportsman's Lake Prospect involved an "80% NRI" for investors and that initial production was estimated to be 200 barrels of oil per day.

24. The Sportman's Lake prospectus contained all of the other material misrepresentations and omissions present in the Pink Prospect and Carl Blackwell offering documents. In addition to the previously described lack of risk factors, background information and other omissions in the Pink Prospect and Carl Blackwell offering documents, the Sportsman's Lake prospectus also materially misstated the amount of the net revenue interest to which investors would be entitled. The Sportsman's Lake prospectus clearly states "80% NRI." That figure was materially false.

25. At the time Blue Quail began drilling the Sportsman's Lake #1 well, Blue Quail had acquired only 62.5% of the underlying oil and gas leases necessary to make the "80% NRI" representation accurate. For the "80% NRI" representation to have been accurate, Blue Quail would have had to held 100% of the outstanding leases relating to the prospect (less royalty and other carried interests). In reality, Blue Quail had failed to acquire anything close to 100% of the leases necessary to make the "80% NRI" representation accurate. As a result, the share of any possible net revenue investors could receive from oil and gas sales from the Sportsman's Lake #1 well was at least 37% less than what was represented in the Sportsman's Lake prospectus.

H. Gregory Lulls Investors with a Delayed Cost Scheme to Keep Them Investing

26. As a means of lulling the investors and making it falsely appear that the wells were at least making small amounts of revenue, Gregory devised a scheme to hide the costs associated with operation of the wells. As with most oil and gas programs, working interest owners bear the costs of drilling, completion and operation of a well. With the wells producing little to no revenue, Gregory faced increasingly unhappy investors. Despite the fact that in most months and with most wells, costs were exceeding revenue, Gregory instructed Blue Quail employee M.M. to send out so-called “revenue checks” without deducting costs, even while he continued to solicit new and existing Blue Quail investors to participate in yet more prospects.

I. Gregory is Confronted and Removed

27. As the scheme began to collapse and the wells did not provide stabilized commercial quantities of oil and gas, and as investors and others learned of his background, Gregory was removed from Blue Quail’s operations. In connection with his removal, the J.E.C. owner attempted to discuss with Gregory the status of the various wells and the status of investors. In a recorded conversation, Gregory clearly states his level of concern. Gregory said that if the investors are not happy or don’t like the status of things: “send them a JIB” [meaning send them a bill] and when they call and complain “blah, blah, blah....most of our investors have no ***** idea about the oil and gas business...Give them a ****ing invoice for a 100 grand and see if they give up the interest.” This was Gregory’s solution for dealing with investors.

28. Blue Quail filed for bankruptcy on November 3, 2015, leaving the investors with nothing.

J. Gregory is Removed but Continued to Solicit Investors

29. Gregory is a recidivist securities law violator. Within months of his removal from Blue Quail in January 2015, Gregory began soliciting investors for yet another venture. He sent the following email to a group of potential investors: “As you may know I am no longer at Blue Quail Ltd. I am moving forward with new ventures. The first opportunity that we bring to the table is a lease acquisition funding participation that is available on a first come basis to existing participants in oil and gas drilling ventures....”

30. Two of the emailed potential investors responded to each other: “Pretty bold of him!” with a response to that email of “This guy is a Crook!!!!”

FIRST CAUSE OF ACTION

**(Violation of Section 1-301 of the Act:
Offer and/or Sale of Unregistered Securities)**

31. Plaintiff realleges and incorporates by reference each and every allegation contained in paragraphs 1 through 30 above.

32. The Working Interests are securities, as defined by Section 1-102 of the Act.

33. Defendant offered and sold the Working Interests in and/or from Oklahoma.

34. The Working Interests offered and sold by Defendant are not and have not been registered under the Act nor have the Working Interests been offered or sold pursuant to an exemption from registration, as required by Section 1-301 of the Act.

35. By reason of the foregoing, Defendant has violated Section 1-301 of the Act, and unless enjoined, will continue to violate Section 1-301 of the Act.

SECOND CAUSE OF ACTION

**(Violation of Section 1-402 of the Act:
Failure to Register as Agent)**

36. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding cause of action.

37. Blue Quail acted as an issuer, as defined in Section 1-102 of the Act.

38. Gregory, by virtue of his efforts and activities in this state in effecting or attempting to effect transactions in securities of an issuer, is an agent, as defined in Section 1-102 of the Act.

39. Gregory is not, and has not been, registered as an agent pursuant to Section 1-402 of the Act.

40. By reason of the foregoing, Gregory, directly and indirectly, has violated Section 1-402 of the Act, and unless enjoined, will continue to violate Section 1-402 of the Act.

THIRD CAUSE OF ACTION

(Violation of Section 1-501 of the Act: Making an untrue statement of material fact or omitting to state a material fact)

41. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding causes of action.

42. Defendant, in connection with the offer and/or sale of securities, through the statements described above, has made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

43. By reason of the foregoing, Defendant, directly and indirectly, has violated Section 1-501 of the Act, and unless enjoined, will continue to violate Section 1-501 of the Act.

FOURTH CAUSE OF ACTION

(Violation of Section 1-501 of the Act: Engaging in any act, practice, or course of business that operates or would operate as a fraud or deceit upon another person)

44. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding causes of action.

45. Gregory, in connection with the offer and/or sale of securities, through the acts, practices and course of business described above in paragraphs 5 through 30, has engaged in acts, practices, and a course of business that operated as a fraud upon investors.

46. By reason of the foregoing, Gregory, directly and indirectly, has violated Section 1-501 of the Act, and unless enjoined, will continue to violate Section 1-501 of the Act.

PRAYER FOR RELIEF

Defendant has engaged in acts and practices in violation of the Act and, as a result of these activities, received a substantial amount of money from investors.

WHEREFORE, based upon the foregoing, and pursuant to the authority specifically granted by Section 1-603 of the Act, the Department prays for the Court to grant the following relief:

I.

A permanent injunction enjoining Defendant from transacting business in and/or from the state of Oklahoma as an issuer, issuer agent, broker-dealer, broker-dealer agent, investment

adviser, and/or investment adviser representative and from otherwise offering and/or selling securities in and/or from the state of Oklahoma;

II.

A civil penalty in the amount of Two Hundred Fifty Thousand Dollars (\$250,000) against Defendant payable to the Department's Investor Education Revolving Fund; and

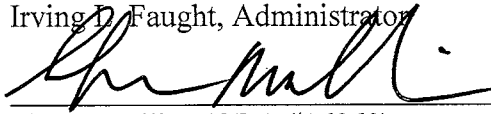
III.

Such other equitable relief as the Court may deem necessary, just and proper in connection with the enforcement of the Act including the costs of the investigation.

Respectfully submitted,

OKLAHOMA DEPARTMENT OF SECURITIES
Irving D. Faught, Administrator

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