

4. As a result of the Investigation, the Commissioner has the authority to issue a cease and desist order against Respondents pursuant to Section 36b-27(a) of the Act.

5. As a result of the Investigation, the Commissioner has the authority to order that Respondents make restitution pursuant to Section 36b-27(b) of the Act.

6. As a result of the Investigation, the Commissioner has the authority to impose a fine upon Respondents pursuant to Section 36b-27(d) of the Act.

II. RESPONDENTS

7. Brown Well 1A Joint Venture (“Brown 1A”) is Texas joint venture formed in 2012. Brown 1A’s address last known to the Commissioner is 3101 Premier Drive, Plano, Texas 75075.

8. Brown Well 1 Joint Venture (“Brown 1”) is a Texas joint venture formed in 2013. Brown 1’s address last known to the Commissioner is 3101 Premier Drive, Plano, Texas 75075.

9. Brazelton Well 2A Joint Venture (“Brazelton 2A”) is a Texas joint venture formed in 2013. Brazelton 2A’s address last known to the Commissioner is 3101 Premier Drive, Plano, Texas 75075.

10. Collectively, Brown 1, Brown 1A and Brazelton 2A are hereinafter referred to as the “Joint Ventures”.

11. North American Drilling Corporation (“NADC”) is a Texas corporation whose address last known to the Commissioner is 1417 Gables Court, Suite 101, Plano, Texas 75075. NADC was the managing venturer (similar to a managing member) of the Joint Ventures.

12. Larry Michael Koonce (“Koonce”) is an individual whose address last known to the Commissioner is 1417 Gables Court, Suite 101, Plano, Texas 75075. Koonce is the control person and President of NADC and the control person of the Joint Ventures and has never been registered in any capacity under the Act. Koonce formed both NADC and the Joint Ventures.

III. STATEMENT OF FACTS

Koonce's Regulatory History

13. Koonce has been subject to various prior regulatory proceedings since 2003, including the following:

- (a) *Texas:* On September 2, 2003, the State of Texas entered a Cease and Desist Order against Koonce and two other parties arising out of violations of the registration provisions of the Texas Securities Act. The entity that sold the securities (owned and controlled by Koonce and one other individual) was fined \$75,000.
- (b) *Alabama:* On May 14, 2008, the Alabama Securities Commission issued a limited Consent Order arising out of allegations of the offer and sale of unregistered securities in Alabama against Koonce and two other parties. The parties were fined \$4,500.
- (c) *Alabama:* On February 18, 2010, the Alabama Securities Commission issued a Cease and Desist Order against Koonce for the offer and sale of unregistered securities in Alabama.
- (d) *Wisconsin:* On September 23, 2010, the State of Wisconsin Department of Financial Institutions prohibited Koonce and anyone working for or with him from making any offers of sale of securities in Wisconsin unless registered, including employing an agent unless the agent was licensed under the Wisconsin Uniform Securities Law.
- (e) *Utah:* On January 26, 2012, the Division of Securities of the Department of Commerce of the State of Utah ("Utah") issued a Stipulation and Consent Order against Koonce and two other parties ("Koonce et al.") Although Koonce et al. filed a Form D with Utah giving notice of their intent to rely on Rule 506 for a limited offering exemption, the offering was disqualified from exemption because Koonce et al. had advertised the offering on their website.

Connecticut Investor A

14. Koonce formed the Joint Ventures to invest in oil and gas wells in Texas. Koonce formed NADC to serve as the Managing Venturer of the Joint Ventures. NADC solicited investors to invest in the respective Joint Ventures through the purchase of "Joint Venture Interests" and become "Joint Venturers".

15. On March 13, 2013, Brown 1A filed with the Commissioner a Notice of Sale of Securities pursuant to Rule 506 of Regulation D.

16. On May 28, 2013, Brazelton 2A filed with the Commissioner a Notice of Sale of Securities pursuant to Rule 506 of Regulation D.

17. On October 24, 2013, Brown 1 filed with the Commissioner a Notice of Sale of Securities pursuant to Rule 506 of Regulation D.

18. Investor A is a Connecticut resident. In April 2013, Investor A was solicited by a representative of NADC to purchase Joint Venture Interests, which he did for a total of approximately \$32,000. Investor A was told by a representative of NADC that the investment had “little risk” and that Investor A would start receiving revenue within 90 days of his investment. In making the investment, Investor A relied on the representations made to him by the representative of NADC and Investor A played no role whatsoever in the management of the Joint Venture. To date, Investor A has only received approximately seventeen dollars as a return on his investment in the Joint Venture Interests.

19. There were at least three other individuals in Connecticut who invested in the Joint Ventures.

Fraud in Connection with the Offer and Sale of the Joint Venture Interests

20. Each of the Joint Ventures issued a Private Placement Memorandum (“PPM”) which stated that “[t]here will be no commingling of funds between the Venture and NADC or any Affiliate thereof.”

21. After the Joint Venturers purchased Joint Venture Interests, their investment proceeds were initially deposited into an account owned by the respective Joint Venture. However, the Joint Venturers’ investment proceeds were then immediately transferred by Koonce or another representative of NADC to a separate account owned by the entity Wildcat Resources, LC (the “Wildcat Account”). Wildcat Resources, LC (“Wildcat”) is a Texas limited liability company and affiliate of NADC and was formed by Koonce in approximately 2000. NADC is wholly owned by Koonce. Essentially, all of the Joint Venturers’ investment proceeds were commingled in the Wildcat account after being deposited in that account. This commingling of funds directly contradicted the PPM’s representation that there will be no comingling of funds between the Joint Venturers’ funds “and NADC or any Affiliate thereof”.

22. From approximately March 2013 to approximately October 2016, approximately \$613,000 was withdrawn from the Wildcat Account and at least a portion of this amount was not used for legitimate expenses related to the Joint Ventures. In addition, approximately \$32,000 was withdrawn out of the Wildcat account either by checks made out to “Cash” and endorsed by Koonce and/or wires and checks to

Koonce and his relatives. The PPMs failed to disclose that Koonce and/or his relatives would be receiving such large salaries or compensation out of, at least in part, the Joint Venturers' investment proceeds.

Misleading Statement made to the Commissioner

23. On March 1, 2016 and May 6, 2016, the Division sent Koonce letters ("Division's Letters") requesting a response to a complaint written by Investor A regarding his investment in the Joint Ventures. In two letters dated March 9, 2016 ("March Letter") and May 26, 2016 ("May Letter"), Koonce, on behalf of NADC, responded to the Division's Letters and made at least one misleading statement to the Division.

24. In the May Letter, Koonce represented to the Division that he "never received compensation from any of the Joint Ventures" and was paid "wholly from NADC". This is a misleading statement. Although the Joint Venturers' investment proceeds were first deposited into a Joint Venture bank account, the funds were immediately transferred and deposited into the Wildcat account. Koonce received at least \$32,000 in cash directly from the Wildcat Account, which held the Joint Venturers' investment proceeds. Therefore, it was misleading for Koonce to represent that he did not receive any compensation from the Joint Ventures and that he was paid wholly from NADC, when he received monies from the Wildcat Account.

IV. STATUTORY BASIS FOR ORDER TO CEASE AND DESIST, ORDER TO MAKE RESTITUTION AND ORDER IMPOSING FINE

a. Violation of Section 36b-4(a) of the Act by Respondents – Fraud in Connection with the Offer and Sale of any Security

25. Paragraphs 1 through 24, inclusive, are incorporated and made a part hereof as if more fully set forth herein.

26. The conduct of Respondents, as more fully described in paragraphs 14 through 22, inclusive, constitutes, in connection with the offer, sale or purchase of any security, directly or indirectly employing a device, scheme or artifice to defraud, making an untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under

which they are made, not misleading, or engaging in an act, practice or course of business which operates or would operate as a fraud or deceit upon any person. Such conduct constitutes a violation of Section 36b-4(a) of the Act, which forms a basis for an order to cease and desist to be issued against Respondents under Section 36b-27(a) of the Act, an order that Respondents make restitution under Section 36b-27(b) of the Act, and for the imposition of a fine upon Respondents under Section 36b-27(d) of the Act.

b. Violation of Section 36b-23 of the Act by NADC and Koonce –
Material Misleading Statement Made to the Division

27. On May 26, 2016, Koonce sent the Commissioner a letter on behalf of NADC containing certain statements, as more fully described in paragraphs 23 through 24, inclusive. Such statements were, at the time and in the light of the circumstances under which they were made, false or misleading in a material respect and constitute a violation of Section 36b-23, which forms a basis for an order to cease and desist to be issued against NADC and Koonce pursuant to Section 36b-27(a) of the Act, and the imposition of a fine upon NADC and Koonce pursuant to Section 36b-27(d) of the Act.

**V. ORDER TO CEASE AND DESIST, ORDER TO MAKE RESTITUTION,
NOTICE OF INTENT TO FINE AND NOTICE OF RIGHT TO HEARING**

WHEREAS, as a result of the Investigation, the Commissioner finds that, with respect to the activity described herein, North American Drilling Corporation has committed at least one violation of Section 36b-4(a) of the Act, and at least one violation of Section 36b-23 of the Act;

WHEREAS, as a result of the Investigation, the Commissioner finds that, with respect to the activity described herein, Brown Well 1 Joint Venture has committed at least one violation of Section 36b-4(a) of the Act;

WHEREAS, as a result of the Investigation, the Commissioner finds that, with respect to the activity described herein, Brown Well 1A Joint Venture has committed at least one violation of Section 36b-4(a) of the Act;

WHEREAS, as a result of the Investigation, the Commissioner finds that, with respect to the activity described herein, Brazelton Well 2A Joint Venture has committed at least one violation of Section 36b-4(a) of the Act;

WHEREAS, as a result of the Investigation, the Commissioner finds that, with respect to the activity described herein, Larry Michael Koonce has committed at least one violation of Section 36b-4(a) and at least one violation of Section 36b-23 of the Act;

WHEREAS, the Commissioner further finds that the issuance of an Order to Cease and Desist, Order to Make Restitution, and the imposition of a fine upon Respondents is necessary or appropriate in the public interest or for the protection of investors and consistent with the purposes fairly intended by the policies and provisions of the Act;

WHEREAS, notice is hereby given to Respondents that the Commissioner intends to impose a maximum fine not to exceed one hundred thousand dollars (\$100,000) per violation upon Respondents;

WHEREAS, the Commissioner **ORDERS** that **NORTH AMERICAN DRILLING CORPORATION**, its affiliates and successors in interest **CEASE AND DESIST** from directly or indirectly violating the provisions of the Act and Regulations, including without limitation, (1) in connection with the offer, sale or purchase of any security, directly or indirectly employing any device, scheme or artifice to defraud, making an untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, or engaging in an act, practice or course of business which operates or would operate as a fraud or deceit upon any person; and (2) filing a document with the commissioner that contains statements that are, at the time and in light of the circumstances under which they are made, false or misleading in any material respect;

WHEREAS, the Commissioner **ORDERS** that **BROWN WELL 1 JOINT VENTURE**, its affiliates and successors in interest **CEASE AND DESIST** from directly or indirectly violating the provisions of the Act and Regulations, including without limitation, in connection with the offer, sale or purchase of any security, directly or indirectly employing any device, scheme or artifice to defraud,

making an untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, or engaging in an act, practice or course of business which operates or would operate as a fraud or deceit upon any person; and

WHEREAS, the Commissioner **ORDERS** that **BROWN WELL 1A JOINT VENTURE**, its affiliates and successors in interest **CEASE AND DESIST** from directly or indirectly violating the provisions of the Act and Regulations, including without limitation, in connection with the offer, sale or purchase of any security, directly or indirectly employing any device, scheme or artifice to defraud, making an untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, or engaging in an act, practice or course of business which operates or would operate as a fraud or deceit upon any person; and

WHEREAS, the Commissioner **ORDERS** that **BRAZELTON WELL 2A JOINT VENTURE**, its affiliates and successors in interest **CEASE AND DESIST** from directly or indirectly violating the provisions of the Act and Regulations, including without limitation, in connection with the offer, sale or purchase of any security, directly or indirectly employing any device, scheme or artifice to defraud, making an untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, or engaging in an act, practice or course of business which operates or would operate as a fraud or deceit upon any person; and

WHEREAS, the Commissioner **ORDERS** that **LARRY MICHAEL KOONCE CEASE AND DESIST** from directly or indirectly violating the provisions of the Act and Regulations, including without limitation, (1) in connection with the offer, sale or purchase of any security, directly or indirectly employing any device, scheme or artifice to defraud, making an untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, or engaging in an act, practice or course of

business which operates or would operate as a fraud or deceit upon any person; and (2) filing a document with the commissioner that contains statements that are, at the time and in light of the circumstances under which they are made, false or misleading in any material respect;

WHEREAS, the Commissioner **ORDERS** that Respondents **MAKE RESTITUTION** of any sums obtained as a result of Respondents' violations of Sections 36b-4(a), plus interest at the legal rate set forth in Section 37-1 of the General Statutes of Connecticut. Specifically, the Commissioner **ORDERS** that:

1. Within thirty (30) days from the date this Order to Make Restitution becomes permanent, Respondents shall provide the Division with a written disclosure which contains (a) the name and address of each of the Connecticut investors who purchased the Joint Venture Interests from April 2013 to the present, (b) the amount collected from each investor, (c) the date of each investment, and (d) the amount of any refunds of principal or purported interest payments made to each investor;
2. Within forty-five (45) days from the date this Order to Make Restitution becomes permanent, Respondents shall reimburse each Connecticut investor the amount of funds collected from the investor plus interest, less funds returned in the form of purported refunds of principal and purported interest payments, with respect to each investor's purchase of the Joint Venture Interests. Such restitution shall be made by certified check, and shall be sent by certified mail, return receipt requested, to each affected investor; and
3. Within ninety days (90) days from the date this Order to Make Restitution becomes permanent, Respondents shall provide the Division with proof in the form of copies of the certified checks and the return receipts required by paragraph 2 of Section V of this Order to Cease and Desist, Order to make Restitution, Notice of Intent to Fine and Notice of Right to Hearing (collectively "Order"), that Respondents have reimbursed each investor the amount of funds collected from the investor plus interest, less funds returned in the form of purported refunds of principal and purported interest payments, with respect to each Connecticut investor's purchase of the Joint Venture Interests.

THE COMMISSIONER FURTHER ORDERS THAT, pursuant to Section 36b-27 of the Act, each Respondent will be afforded an opportunity for a hearing on the allegations set forth above if a written request for a hearing is received by the Department of Banking, Securities and Business Investments Division, 260 Constitution Plaza, Hartford, Connecticut 06103-1800 within fourteen (14) days following each Respondent's receipt of this Order. To request a hearing, complete and return the enclosed Appearance and Request for Hearing Form to the above address. If any Respondent will not be represented by an attorney at the hearing, please complete the Appearance and Request for Hearing Form

as “pro se”. If a hearing is requested, the hearing will be held on June 4, 2019, at 10 a.m., at the Department of Banking, 260 Constitution Plaza, Hartford, Connecticut.

The hearing will be held in accordance with the provisions of Chapter 54 of the General Statutes of Connecticut. At such hearing, each Respondent will have the right to appear and present evidence, rebuttal evidence and argument on all issues of fact and law to be considered by the Commissioner.

If any Respondent does not request a hearing within the time period prescribed or fails to appear at any such hearing, the allegations herein against any such Respondent will be deemed admitted. Accordingly, the Order to Cease and Desist and Order to Make Restitution shall remain in effect and become permanent against any such Respondent and the Commissioner may order that the maximum fine be imposed upon any such Respondent.

Dated at Hartford, Connecticut,
This 27th day of March 2019.

_____/s/_____
Jorge L. Perez
Banking Commissioner

CERTIFICATION

I hereby certify that on this 27th day of March 2019, I caused to be mailed by certified mail, return receipt requested, the foregoing Order to Cease and Desist, Order to Make Restitution, Notice of Intent to Fine and Notice of Right to Hearing to: Brown Well 1 Joint Venture, 3101 Premier Drive, Plano, Texas 75075, certified mail no. 7014 2120 0000 3701 2471; Brown Well 1A Joint Venture, 3101 Premier Drive, Plano, Texas 75075, certified mail no. 7014 2120 0000 3701 2488; Brazelton Well 2A Joint Venture, 3101 Premier Drive, Plano, Texas 75075, certified mail no. 7014 2120 0000 3701 2495; North American Drilling Corporation, 1417 Gables Ct., Suite 101, Plano, Texas 75075, certified mail no. 7014 2120 0000 3701 2501; Larry Michael Koonce, 1417 Gables Ct., Suite 101, Plano, Texas 75075, certified mail no. 7014 2120 0000 3701 5014; and Brown Well 1 Joint Venture, Brown Well 1A Joint Venture, Brazelton Well 2A Joint Venture c/o Larry Michael Koonce, 1417 Gables Ct., Suite 101, Plano, Texas 75075, certified mail no. 7014 2120 0000 3701 2518.

_____/s/_____
Christopher Cartelli
Paralegal