

**STATE OF ARKANSAS
SECURITIES DEPARTMENT**

IN THE MATTER OF

EASTERN ENERGY CORPORATION,
JOE STANLEY, BILL CHAMPION,
MARK KROMAN and ALL PERSONS
EMPLOYED BY OR OTHERWISE
AFFILIATED WITH THAT ENTITY
OR THOSE PERSONS

No. 00-064-S

CEASE AND DESIST ORDER

The Staff of the Arkansas Securities Department (the Staff) has received information and has in its possession certain evidence which indicates that EASTERN ENERGY CORPORATION, JOE STANLEY, BILL CHAMPION and MARK KROMAN have violated provisions of the Arkansas Securities Act (the Act), codified at Ark. Code Ann. §§ 23-42-101, *et seq.* (Repl. 1994).

FINDINGS OF FACT

An ongoing investigation has revealed the following facts:

1. Eastern Energy Corporation (Eastern Energy) is a corporation incorporated in Kentucky on April 6th, 1992 with a principal office located at 1109 Lovers Lane Suite 2D, PO BOX 50434, Bowling Green, Kentucky 42102 and an office located at 4925 Greenville Avenue, Suite 720, Dallas, Texas 75206.
2. Mark Kroman is the president of Eastern Energy. He is not registered as an agent of the issuer or in any other capacity in the securities industry in Arkansas.
3. Joe Stanley is Vice-President of Eastern Energy. He is not registered as an agent of the issuer or in any other capacity in the securities industry in Arkansas.

4. On April 13th, 2000, after first speaking to him, Stanley sent an Arkansas resident (Prospect) a packet of printed materials regarding the offer and possible working interests in a three well package of natural gas wells in Whitley and Knox Counties, Kentucky. The project calls for the “Turnkey” drilling of three (3) natural gas wells.
5. The offering claims that Eastern Energy is exempt from registration in Arkansas under § 23-42-504(A)(14) of the Arkansas Securities Act and under §§ 3(b) and 4(2) of the Securities Act of 1933 and Rule 505 of Regulation D, promulgated by the United States Securities and Exchange Commission.
6. The printed materials sent to Prospect indicated that Eastern Energy was selling 30 units of a three well package at \$6,000 per unit. The printed materials also indicated the drilling costs to be \$2,000 per well per unit and completion costs of \$1,750 per well per unit.
7. On April 27th, 2000 Stanley made a telephone call to Prospect to discuss the printed materials previously sent to Prospect. The following is a summary of the significant portions of that telephone conversation.
 - (a) Stanley explained as per the printed materials that Eastern Energy was selling 30 units of a three well package at \$6,000 per unit, raising a total of \$180,000. The materials indicated where Eastern Energy proposed to drill three wells in Whitley and Knox Counties. One location for a proposed well was stated as being between two preexisting wells. One of the preexisting wells produced 2.6 million cubic feet per day and the other preexisting well had produced 2.4 million cubic feet per day. Stanley stated to Prospect that due to the location, the proposed well had a potential production rate of 10 million cubic feet per

day. Stanley stated that Eastern Energy had not ever had a dry well in eastern Kentucky and that the state documented a 95 percent hit rate.

- (b) Stanley stated that the projection of cash flow was included in the materials sent to him. Stanley also stated that those projections were made based on a price of \$2.50 per 1000 cubic feet of gas and that gas was currently \$3.05 per 1000 cubic feet. Stanley stated that the average wells in the area produce about 22 to 25 years.
 - (c) Prospect mentioned to Stanley that in the materials the company states it is not registered in any state and that the sale of these units is made in reliance on Rule 505 of Regulation D. When asked by Prospect if the company had experienced any trouble by claiming an Arkansas exemption that no longer existed, Stanley replied "No." Prospect told Stanley that Reg D does not exempt the company from state securities laws and that the materials said that no registration statement related to these securities had been filed with Arkansas Securities Department or with the SEC. Prospect asked if Eastern Energy had ever had any problems related to being unregistered and Stanley replied that they had not.
 - (d) At the end of the conversation, Stanley asked Prospect how many shares he wanted. When Prospect was not ready to commit, Stanley again asked how many units Prospect was thinking in the back of his mind.
6. Eastern Energy has not filed an exemption to registration with the Arkansas Securities Department.

CONCLUSIONS OF LAW

8. Ark. Code Ann. § 23-42-102(15)(A)(xv) (Supp. 1999) in pertinent part defines a security as a “certificate of interest or participation in an oil, gas, or mining title or lease”.
9. Ark. Code Ann. § 23-42-501 (Repl. 1994) provides that it is unlawful for any person to offer or sell any security which is not registered or which is not exempt from registration under the terms of the Act.
10. Ark. Code Ann. § 23-42-301(a) (Repl. 1994) prohibits as unlawful the transaction of business as a broker-dealer or agent by any person who is not registered with the Arkansas Securities Department as such.
11. Ark. Code Ann. § 23-42-507(2) (Repl. 1994) provides that it is unlawful for any person in connection with the offer or sale of any security to make any untrue statement or omit to state a material fact necessary in order to make the statements made not misleading in light of the circumstances under which they are made.
12. The exemption to registration under the Arkansas Securities Act claimed by Eastern Energy, § 23-42-504(a)(14), does not exist in the Arkansas Securities Act.

OPINION

13. This matter has been properly brought before the Arkansas Securities Commissioner in accordance with Ark. Code Ann. §§ 32-42-201 and 209 (Repl. 1994).

14. The respondents have offered to sell working interests in a gas well without prior registration of those securities in violation of Ark. Code Ann. § 23-42-501 (Repl.1994).
15. The respondents offered to sell securities in the form of working interests in a gas well without any one of them first being registered with the Department as a broker-dealer, an agent of the broker-dealer or an agent of the issuer in violation of Ark. Code Ann. § 23-42-301(a) (Repl. 1994).
16. The representations made in the materials sent to Prospect and the oral representations made to Prospect, that the security did not have to be registered because it was exempt from registration was misleading and a misrepresentation of fact in violation of Ark. Code Ann. § 23-42-507(2) (Repl 1994).
17. The printed sales materials sent to Prospect by Eastern Energy when making this offer represented that the drilling cost for each well would be \$2,000 per unit per well. However, the printed materials offered no information from an independent source showing that this was a reasonable cost or the current cost of drilling a well of that nature in that locality at this time. The failure to include such information was the omission of material facts in violation of Ark. Code Ann. § 23-42-507 (Repl. 1994).
18. Pursuant to Ark. Code Ann. § 23-42-209(a)(1) (Supp. 1997), the Arkansas Securities Commissioner can and should order the respondents to immediately cease and desist from the further solicitation and sale of the securities described above, to immediately cease and desist from the collection of additional funds from any current investors and to immediately cease and desist from further violations of the Arkansas Securities Act.

19. This order is in the public interest.

ORDER

IT IS THEREFORE ORDERED that EASTERN ENERGY CORPORATION, JOE STANLEY, BILL CHAMPION and MARK KROMAN, as well as others whose identities are not yet known who are in positions of control of EASTERN ENERGY CORPORATION and who are employed by or otherwise affiliated with EASTERN ENERGY CORPORATION or enterprises associated with those business entities, JOE STANLEY, BILL CHAMPION, or MARK KROMAN, directly or through other companies, CEASE AND DESIST from any further actions in the State of Arkansas in connection with the offer and sale of the securities described above or any other securities until such time as the securities are properly registered or exempted from registration pursuant to the Arkansas Securities Act and the persons offering them for sale are properly registered or exempted from registration pursuant to the Arkansas Securities Act.

WITNESS MY HAND AND SEAL this ___ day of November, 2000.



Mac Dodson
Arkansas Securities Commissioner