

STATE OF ARKANSAS
SECURITIES DEPARTMENT

IN THE MATTER OF

GREG WRIGHT

No. 00-14-S

**AMENDED AND SUBSTITUTED
CEASE AND DESIST ORDER**

In this order, originally entered on 13 April 2000, EREUNAO OIL & GAS, INC., EREUNAO ROYALTY FUND, CHARLES M. FIFE, JR. and SHAWN MARCELL were named as respondents who were complicit with GREG WRIGHT in the violations of the Arkansas Securities Act, Ark. Code Ann. §§ 23-42-101, *et seq.* (Repl. 2000) (the Act) found to have been committed. It has since been determined that the evidence in the possession of the Staff of the Arkansas Securities Department (the Staff), much of which has come to light well after the issuance of the order, does not show that EREUNAO OIL & GAS, INC., EREUNAO ROYALTY FUND, CHARLES M. FIFE, JR. and SHAWN MARCELL were complicit in these violations. Accordingly, EREUNAO OIL & GAS, INC., EREUNAO ROYALTY FUND, CHARLES M. FIFE, JR. and SHAWN MARCELL are hereby removed as respondents.

The remaining respondent, GREG WRIGHT, remains subject to this order.

FINDINGS OF FACT

1. Ereunao Oil & Gas, Inc., (Ereunao) is a company incorporated under the laws of Delaware on 4 August 1995 with its principal office at 201 Rue Iberville, Suite 504, Lafayette, LA 70508.
2. Ereunao Royalty Fund (the Fund) is a general partnership formed under the laws of the state of Louisiana for the acquisition of royalty interests in oil and gas properties, its managing partner being Ereunao and its principal office at Ereunao's principal office at 210 Rue Iberville, Suite 504, Lafayette, LA 70508.

3. Charles M. Fife, Jr., (Fife) is the president and chief executive officer of Ereunao.
4. Greg Wright (Wright) was the assistant secretary of Ereunao and a salesman for Ereunao in the marketing of units of ownership in the Fund.
5. Shawn Marcell (Marcell) is a sales person employed by Ereunao.
6. In the second week of February, 2000, Marcell contacted an Arkansas resident (Prospect) about investing in the Fund and caused a packet of printed sales materials to be sent to Prospect by overnight delivery. These materials revealed that Ereunao was offering for sale 100 units of ownership in the Fund for \$25,000 each. Even though the Fund was technically a general partnership under Louisiana law, the printed materials, which included a partnership agreement signed by Fife for Ereunao, clearly showed that it would be operated as a limited partnership, Ereunao being the general partner responsible for operations. Fife's expertise in oil and gas exploration business was touted as key to the success of the Fund.
7. On 23 February 2000 Marcell spoke to Prospect on the telephone about these printed materials. In response to Prospect's questions about the past performance of Ereunao, Marcell faxed Prospect a page of references, but no financial statements.
8. Within a week of the 23 February call, Marcell contacted Prospect again by telephone. After a few minutes of conversation, Wright took over the conversation. Wright made a number of noteworthy statements. Wright said that "this particular deal is kind of one of those no-brainers; it is not something that you lose your money over because of the way that it is built. It is something that you're going to get a return on. The question is to what degree of a return." Wright clarified this statement by saying that he believed that Prospect would get a sixfold or sevenfold return on his investment over nine years. The worst that could happen, Wright said, would be a threefold return on his investment. Wright

said that this prediction was based on several factors. First, the Fund had 10 to 12 “massive producing” natural gas wells that would last 15 to 20 years. The production of these wells would give Prospect’s initial investment back in approximately 19 months. Second, Wright predicted that the price of gas would rise in the future. This prediction was based on another prediction that the price of oil, to which Wright said the price of natural gas was tied, would stabilize at about \$30 a barrel. Wright said that a problem with the deliverability of natural gas in the face of anticipated increased demand for it would also drive up the price of natural gas. If the price of natural gas rose as Wright predicted, Prospect would realize the sixfold or sevenfold return on his investment. If the price of natural gas remained at current levels, Wright said, Prospect would realize the threefold return.

9. Wright urged Prospect to invest immediately. It was only by investing immediately, Wright stated, that Prospect could attain the sixfold or sevenfold return. “If we get in right now, at this level of production, as the price goes up, we’re going to catch the ride,” Wright said. “We’re sitting at the absolute best time to get in the network. There is no better time,” he added.
10. Wright stated that there were two risks involved. The first risk was management. Specifically, he stated that if management were to steal the money Prospect would invest and put it to personal uses, the project would not work. The second risk Wright said was the life expectancy of the wells. This risk was lessened, Wright said, because the wells in which the Fund was investing were “being produced by Exxon, Texaco, Chevron, some of the largest oil and gas companies in the country.”

11. Among the printed materials sent to Prospect was a private placement memorandum (PPM). It is stated in the front of the PPM that partnership units in the Fund were being offered for \$25,000 each and that the units were not registered as securities under the Securities Act of 1933 and are offered “in reliance upon the exemption from such registration provided by section 4(2) of the Act and/or Regulation D and Rule 505 and 506 promulgated thereunder.”
12. In the PPM 21 risk factors are listed. Of these 21 risks, only the third listed risk, “Partnership’s Success Dependent on Management,” was mentioned by Wright in his telephone conversation with Prospect.
13. On page 1 of the PPM it is stated in all capital letters that “This investment involves a high degree of risk” and that “the purchase of an interest should be considered only by persons who can afford a total loss of their investment.” On page 7 of the PPM, at the end of the Introductory Statement, it is stated in all capital letters that “This offering involves certain speculative considerations,” and, therefore, “No person should purchase the units that are offered hereby unless that person is financially able to sustain a total loss of the person’s investment.”
14. It is also stated in the Introductory Statement of the PPM that the Fund “owns no properties nor does it have any specifically identified properties it plans to place” in the Fund. According to this statement, the Fund “expects to acquire oil and gas interests in broad geographical regions” expected to contain oil and gas reserves and did not intend to limit its property purchases to any particular state.

CONCLUSIONS OF LAW

1. Ark. Code Ann. § 23-42-102(15)(A)(xi) (Repl. 2000) in pertinent part defines a security as an investment contract.
2. Ark. Code Ann. § 23-42-507(2) (Repl. 2000) 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.
3. Ark. Code Ann. § 23-42-209(a)(1)(A) (Repl. 2000) provides that whenever it appears that anyone has engaged or is about to engage in any act or practice that is a violation of the Act, the Commissioner may summarily order anyone to cease and desist from the act or practice.

OPINION

1. This matter has been properly brought before the Arkansas Securities Commissioner in accordance with Ark. Code Ann. §§ 23-42-201 and 209 (Repl. 2000).
2. It appears that the Fund will be operated by one manager, Ereunao; the investors would play basically a passive role and would not be involved in the day-to-day operations of the Fund; investors need not have the expertise or experience necessary to run the Fund; and there are too many investors for them to have any meaningful input into the management of the Fund. Therefore, because the investors will be involved in a common enterprise with the expectation of profits to be produced only from the managerial efforts of others, the ownership units in the Fund offered for sale by the respondents herein are investment contracts as defined at Ark. Code Ann. § 23-42-102(15)(A)(xi) (Repl. 2000).

3. Wright's statement to Prospect set out in ¶ 8, *supra*, that Prospect could not lose money on this investment without objective, verifiable information supporting such assertions and in contradiction to the printed materials sent to Prospect was the omission of material facts in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).
4. Wright's statement to Prospect set out in ¶ 8, *supra*, that the Fund already had 10 to 12 "massive producing" natural gas wells that would last 15 to 20 years and Wright's statement to Prospect set out in ¶ 10, *supra*, that the wells in which the Fund was investing were produced by Exxon, Texaco, Chevron and other large oil companies were fraudulent and misrepresentations of fact in violation of Ark. Code Ann. § 23-42-507(2) (Rep. 2000) in light of information in the sales materials that the Fund owned no interests in any oil or gas wells.
5. Wright's statements to Prospect set out in ¶ 8, *supra*, that Prospect could expect to realize a threefold return of his investment if the price of natural gas did not increase and a sixfold or sevenfold return of his investment if it did increase without objective, verifiable information supporting such assertions was the omission of material facts in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).
6. Wright's statement to Prospect set out in ¶ 9, *supra*, that Prospect needed to invest immediately in order to realize the higher sixfold or sevenfold return on his investment without objective, verifiable information supporting such assertions was the omission of material facts in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).
7. Wright's failure to inform Prospect of only one of the 21 listed risk factors set out in the printed materials sent to Prospect was the omission of material facts in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).

ORDER

IT IS THEREFORE ORDERED that GREG WRIGHT **CEASE AND DESIST** from any further actions in the State of Arkansas in connection with the offer and sale of the securities described above.

WITNESS MY HAND AND SEAL this 5th day of December, 2001.

A handwritten signature in black ink, appearing to read "Mac Dodson", written in a cursive style.

MAC DODSON
ARKANSAS SECURITIES COMMISSIONER