

**STATE OF ARKANSAS
SECURITIES DEPARTMENT**

IN THE MATTER OF

**ENERGY CONSULTANTS, MEL FIELDS, BILL MILLER,
ARK-LA-TEX CONSULTING CO., L.L.C.,
EUGENE FARR, MICHAEL FARR and
ALL PERSONS EMPLOYED BY OR
OTHERWISE AFFILIATED WITH THOSE
ENTITIES OR THOSE PERSONS**

No. 02-21-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 ENERGY CONSULTANTS, MEL FIELDS, BILL MILLER, ARK-LA-TEX CONSULTING CO., L.L.C., EUGENE FARR and MICHAEL FARR have violated provisions of the Arkansas Securities Act (the Act), codified at Ark. Code Ann. §§ 23-42-101, *et seq.* (Repl. 2000).

FINDINGS OF FACT

1. Energy Consultants (EC) purports to be a business entity located at 11222 South La Cienega Boulevard, Suite 600, Los Angeles, California 90304.
2. Mel Fields (Fields) purports to own EC along with Bill Miller (Miller). Both Fields and Miller appear to be California residents.
3. Ark-La-Tex Consulting Co., L.L.C. (Ark-La-Tex) is a limited liability company formed in and under the laws of Louisiana on 24 January 2002. Its address is 910 Pierremont, Suite 410, Shreveport, Louisiana 71106.
4. Eugene Farr and Michael Farr are the managing members and organizers of Ark-La-Tex.

5. On or about 4 March 2002 Miller or Fields telephoned an Arkansas resident (AR) and spoke to AR about investing in two natural gas wells in Louisiana. As a result of this conversation, AR received via commercial overnight delivery service a packet containing a subscription agreement and an offering memorandum. On 7 March 2002, Fields called AR to speak to him about the offering memorandum.
6. OFFERING MEMORANDUM. In this document it was stated that EC "in association with" Ark-La-Tex was offering working interests in two natural gas wells in Louisiana. A total of \$577,500 was said to be raised in this offering. Working interests in both wells were being sold for \$16,500 each, \$12,500 for the existing well and acreage and to drill the new well, and \$4,000 upon "discovery of production" in the new well.¹ The existing well was identified as the International Paper # 1 well, located in Red River Parish, Louisiana and bearing a serial number issued by the Louisiana Department of Natural Resources (LDNR) of 222715. Projections of annual returns on investments in these two wells represented that they would produce 600 thousand cubic feet (MCF) of natural gas per day. International Paper # 1, the existing well, was represented to be dependably producing 100 MCF per day. Much was made of this so-called existing natural gas production. Its existence was used to blunt warnings about the speculative nature of oil and gas ventures. The following statement was made on the first page of the offering memorandum:

This transaction is designed by virtue of having already existing gas production to reduce or even possibly eliminate the considerable degree of risk that is normally associated with investments in oil and gas.

¹On the next page of the Offering Memorandum it was stated that the cost of a working unit in each well was \$7,700, which would have been a total cost of \$15,400. As will be discussed, *infra*, Fields confirmed that the offering price for working interests in both wells was \$16,500. Also, it was clear that the offering of 35 working interests to raise a total of \$577,500 works out to \$16,500 per working interest.

Several pages later, it is stated that “Purchasing **proven producing oil and gas properties** frequently enable you to earn **immediate income.**” (Boldface in original.) Toward the end of the offering memorandum, it is stated that, “Engineering studies and geological surveys done prior to purchasing the **INTERNATIONAL PAPER #1** and as recent as December, 2001 indicate that the production could continue for somewhere between 6 to 10 years.” (Boldface in original.) Although the serial number of the International Paper #1 well and the copy of the plat of this well included in the offering memorandum shows that the well is in Red River Parish, Louisiana, the offering memorandum states that both it and the second well, which was not yet drilled, were in DeSoto Parish, Louisiana. The second well was projected to produce 500 MCF per day. This projection was based on the formations into which production could be had after this well is drilled and not on any specific geological data.

7. TELEPHONE SOLICITATION. In the telephone solicitation made by Fields to AR on 7 March 2002, Fields repeated much of what was printed in the offering memorandum, but added significant details. Fields stated that he had been placing clients in investments with Ark-La-Tex for around ten (10) years. In regard to International Paper #1, the existing natural gas well, Fields confirmed that “Everything’s been hooked up and we’re selling gas as we speak.” As for the new well, which was to be drilled, Fields confirmed that it had not yet been drilled, but stated that a drilling rig was in place and core samples had been taken. Of the \$16,500 that AR was being asked to invest, Fields stated that he received \$500 as a commission and that he had an equity position in this project, also. He stated that Eugene and Michael Farr owned Ark-La-Tex and that Eugene Farr was Michael Farr’s father. When AR complained that the offering memorandum did not contain enough information to make an intelligent decision, Fields

told AR that there was nothing wrong with the memorandum, which he referred to as a book, that it had been around for some time and that “All we do is just change, just change the numbers. Change where the wells are. Change the economic projections and stuff like that.” Fields’s best estimate of the expected return over the next ten (10) years from an investment in these two wells was “from four to eight to one,” i.e., a fourfold to eightfold return on investment.

8. Information obtained from the LDNR showed that the International Paper #1, the existing well, had been completed in 1998. Its recorded natural gas production was in February, 1999, when it is recorded as having produced 3242 MCF in its first month of operation. After that, its production went down every month, ending at 715 MCF as of July, 1999. There has been no recorded production from this well since that time. Its status is listed as PA 35, which was explained as follows:

PA 35 was created for operators who had wells that were shut in for a long time and were reporting zero production on their reports to the Office of Conservation [which is within the LDNR]. The rules state that you have to fill out a production report for a well until said time that the well is officially plugged and abandoned. The PA-35 [status] was created so the operator could leave these wells off of their production reports. Therefore not having lines and lines of zero’s on the production report. When and if the well goes back on production then it would be added to the production report again.

9. Information obtained from the LDNR showed that International Paper #1, the existing well, was owned not by Ark-La-Tex, but by Winbeau Oil & Gas Company of Shreveport, Louisiana. This company was incorporated in Louisiana on 19 September 2001 by Michael Farr, who is listed as its president.

10. Ark-La-Tex was formed as a limited liability company in and under the laws of the State of Louisiana on 24 January 2002. Its managing members and organizers are listed as Eugene Farr and Michael Farr.
11. Although Fields told AR that there was a drilling rig on site in DeSoto Parish, Louisiana during the March, 2002 telephone conversation discussed in ¶ 7, *supra*, no drilling permit has been issued to Ark-La-Tex for a well in DeSoto Parish, Louisiana as of the date of this order.
12. Fields failed to disclose to AR a cease and desist order issued against EC and others by the Kansas Securities Commissioner on 12 December 1996, *In the Matter of Austral Oil Company, Inc.; Integrity Financial Group, Inc.; Energy Consultants; Myron J. Palermo; and Their Representatives or Agents*, No. 97EO31. In that order it was found that EC and the other respondents had been marketing undivided working interests in oil and gas programs in Runnels County, Texas. As in the program being sold here, EC and its cohorts were offering to sell working interests in an existing well and in a well to be drilled. The working interests were found to be securities. Because neither the securities, nor the individuals and entities offering them for sale— including EC— were registered as per the Kansas securities laws, the respondents were ordered to cease and desist their offering of these securities to the public.
13. Fields failed to disclose to AR a cease and desist order issued against it concerning the same offering of securities by the Missouri Commissioner of Securities on 28 January 1998, *In the Matter of Austral Oil & Exploration, Inc., Energy Consultants, et al*, No. CD-98-01. As in this offering, the Missouri resident who was solicited to make an offer was told that the existing well was his “security blanket” because it was already producing at a commercially viable level.

14. A search of the records of the Arkansas Securities Department (the Department) shows that none of the respondents are registered with the Department in any capacity.
15. A search of the records of the Department shows that the working interests issued by Ark-La-Tex and marketed by EC are not registered with the Department, and no proof of exemption showing that they are exempt from the registration of the Act has been filed with the Department.

CONCLUSIONS OF LAW

16. Ark. Code Ann. § 23-42-102(15)(A)(xvi) (Supp. 2001) in pertinent part defines a security as a “certificate of interest or participation in an oil, gas, or mining title or lease”.
17. Ark. Code Ann. § 23-42-501 (Repl. 2000) 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.
18. Ark. Code Ann. § 23-42-301(a) (Repl. 2000) prohibits as unlawful the transaction of business as a broker-dealer or agent of a broker-dealer by any person who is not registered with the Arkansas Securities Department as such.
19. 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.

OPINION

20. This matter has been properly brought before the Arkansas Securities Commissioner in accordance with Ark. Code Ann. §§ 23-42-201 and 209 (Repl. 2000).
21. The respondents have offered to sell working interests in a gas well project without prior registration of those securities in violation of Ark. Code Ann. § 23-42-501 (Repl. 2000).

22. The respondents offered to sell securities in the form of working interests in a gas well project without EC first being registered with the Department as a broker-dealer and Fields first being registered as an agent of a broker-dealer in violation of Ark. Code Ann. § 23-42-301(a) (Repl. 2000).
23. The representations made in the printed materials sent to AR and the oral representations made to AR that the risks involved in this project were minimal or possibly eliminated because of the existing natural gas production from International Paper #1, the existing, natural gas well, were fraudulent in light of the facts that 1) this well was not owned by Ark-La-Tex, but by Winbeau Oil & Gas Company and 2) it had not produced any natural gas since July, 1999, and— contrary to Fields's assertion that Ark-La-Tex was selling gas from it "as we speak"— was not producing natural gas at the time of his conversation with AR. This was a misrepresentation of fact in violation of Ark. Code Ann. § 23-42-507(2) (Rep. 2000).
24. The offering memorandum and Fields represented that the purported production of 100 MCF of natural gas per day from the existing well, International Paper #1, and the anticipated production of another 500 MCF of natural gas per day from the well to be drilled would be enough production to sustain a fourfold to eightfold return on AR's investment over ten years. No information from an independent source verifying that this was a reasonable expectation was provided AR, and the failure to provide such information was the omission of material facts in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).

25. The representations made that there was a drilling rig in place to drill the second well in DeSoto Parish, Louisiana were fraudulent in light of the fact that no drilling permit has been issued even yet for such a well in DeSoto Parish, Louisiana to Ark-La-Tex. This was a misrepresentation of fact in violation of Ark. Code Ann. § 23-42-507(2) (Rep. 2000).
26. The failure to inform AR about the Kansas and Missouri cease and desist orders was the omission of material facts in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 1994).
27. Pursuant to Ark. Code Ann. § 23-42-209(a)(1) (Repl. 2000), 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.
28. This order is in the public interest.

ORDER

IT IS THEREFORE ORDERED that ENERGY CONSULTANTS, MEL FIELDS, BILL MILLER, ARK-LA-TEX CONSULTING CO., L.L.C., EUGENE FARR, AND MICHAEL FARR, as well as others whose identities are not yet known and who are in positions of control of ENERGY CONSULTANTS or ARK-LA-TEX CONSULTING CO., L.L.C., and who are employed by or otherwise affiliated with ENERGY CONSULTANTS or ARK-LA-TEX CONSULTING CO., L.L.C., directly or through other companies, **CEASE AND DESIST** from any further actions in the state of Arkansas in connection with the offer or sale of the securities described above and any other securities until such time as the securities are properly registered or shown to be exempt from registration pursuant to the Arkansas Securities Act and the persons offering them for sale are properly registered or shown to be exempt from registration pursuant to the Arkansas Securities Act.

WITNESS MY HAND AND SEAL this 21st day of June, 2002.

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

MICHAEL B. JOHNSON
ARKANSAS SECURITIES COMMISSIONER