STATE OF ARKANSAS
SECURITIES DEPARTMENT

IN THE MATTER OF
BASIN OIL & GAS CORPORATATION,
THOMAS R. WATKINS, President,
STEVE JUSTICE,
JIM CROWLEY and ALL PERSONS
EMPLOYED BY OR OTHERWISE
AFFILIATED WITH THOSE ENTITIES
OR THOSE PERSONS

No S-03-033-03-CD01

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 BASIN OIL & GAS CORPORATION, THOMAS R. WATKINS, President, STEVE JUSTICE and JIM CROWLEY 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. Basin Oil & Gas Corporation (Basin) is a Kentucky corporation formed on 5 June 1998. Its principal office is located at 207-C East Reynolds Road, Lexington, Kentucky 40517-1275.
2. Thomas R. Watkins (Watkins) is the president and chief operating officer of Basin.
3. Steve Justice (Justice) is a person employed by Basin as a salesman of interests in oil and gas well projects.
4. Jim Crowley (Crowley) is a person employed by Basin. Crowley states his title as the Associate Assistant Vice President of Basin and he sells interests in oil and gas well projects.

5. On 7 August 2003, an Arkansas resident (AR) telephoned Basin after hearing from another Arkansas resident that Basin was selling interests in oil and gas projects in Tennessee. Justice answered the telephone and told AR a bit about Basin and its projects. According to Justice, these wells in Tennessee were only about 2,000 feet deep. On or about Halloween, 2002, Justice said, Basin drilled a well that had paid back 172 % of investments in it. For each project Basin undertook, Justice said it raised about $375,000. No independent information from an independent source was ever given or offered AR to show that this was a reasonable cost in Tennessee at that time. Actually, a 2,000 foot well could be drilled in Tennessee at that time for approximately $50,000 or less. Although there were no other units available in the project AR had heard about from his fellow Arkansan, Justice said he was just putting together another project and promised to send it out to AR the next day.

6. By overnight delivery, a packet of printed materials was sent to AR, who received it on or about 8 August 2003. In this packet were a topographical map, several copies of what appeared to be articles in trade publications about Basin and the oil and gas industry in Tennessee and a subscription agreement for a joint venture to drill 2 wells in Overton County, Tennessee, identified as the Dakin Branch # 1 and the Randal Green # 1. (These names refer to the name of the mineral rights lease and the order in which Basin has drilled wells in that lease.) According to the subscription agreement, Basin was selling a 6.25 % working interest in these two wells, which would be equal to 5.078125 % of the total production of the two wells. The cost of the investment for the working interest in both wells was for $18,750, plus completion costs of $4,500 for each well, to be paid upon completion of each well, should oil be struck in an economically feasible quantity. Also according to this agreement, these wells would be drilled to an approximate depth of 2,000 feet, and the interests being sold were not registered under any state or federal securities laws.

7. On or about 8 August 2003, Crowley telephoned AR to discuss the packet received by AR. Crowley made a number of material statements to AR in this conversation, including the following:

a) Basin's production of oil exceeded the production of all other oil companies operating in Tennessee combined.

b) Basin had "just hit one good well after the other."

c) Basin had drilled the largest producing oil well ever drilled in Tennessee three years before, the Robert Wright # 2.

d) Oil wells in Tennessee produced on average about 20 years, but some could last as much as 35 to 40 years.

e) Whereas the national average for hitting oil when drilling oil wells was one in 12 (8.3%), Basin hit oil in 30% of its projects (3 in 10).

f) Investors in oil and gas projects get a 15% tax write off for royalty checks for the life of the well.

8. Crowley telephoned AR four times in all, and he guaranteed the hitting of oil in this project each time. During the first conversation on 8 August 2003, Crowley stated, "We know we're going to hit us a hell of a big well, I mean a big well." In a telephone voice mail message left for AR on 12 August 2003, Crowley stated, "Anywhere we can drill in this Dakin Branch lease, we're going to hit oil. Just a matter of how much." In a telephone conversation with AR later that same day, Crowley amplified this sentiment:

> CROWLEY: But the best part of it, it doesn't matter where we drill on this lease. We're going to hit oil. . . . An you're, you're going to hit when you drill. I don't know how much you're going to get out of there, but you're going to hit.
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> * * *
>
> AR: So you're saying that there's no way you're going to have a dry hole.

CROWLEY: No, no, there's no way possible there.

* * *

There's no way we're going to miss anything there. Anywhere we put the bit in, it's going to go.

Finally, in a voice mail message left AR on 19 August 2003, Crowley stated again, "We are going to hit one hellacious big well."

9. In the 12 August conversation with AR, Crowley stated that the investment was a private placement, but that Basin did not have to claim any kind of exemption from registration under federal or state securities laws. When asked why not, Crowley replied, "We're not big enough to have to."

10. Basin and Watkins have a history with state securities regulatory agencies in which several state regulators have issued cease and desist orders against them, finding that purchases of the working interests in oil and gas well projects sold by Basin were securities that were sold without registration of either the securities, or the people selling them. These orders were not revealed to AR, and he was not aware of them. The following are those orders:

    a) *In the Matter of Basin Oil & Gas Corporation, et al.*, No. CD-01-04; Missouri Commissioner of Securities; issued 9 March 2001

    b) *In the Matter of Basin Oil & Gas Corporation and Tom Watkins*, No. 0106-20; Pennsylvania Securities Commission; issued 29 June 2001.

    c) *In the Matter of Basin Oil & Gas Corporation*, No. S-01125(EX); Wisconsin Division of Securities, Department of Financial Institutions; issued 1 April 2002.

    d) *In the Matter of Basin Oil & Gas Corporation*, No. SEC 2002-00014; settlement order (while neither admitting, nor denying the findings, Basin agreed to pay a penalty of $5,000 and $500 for the cost of the investigation); Virginia Division of Securities and Retail Franchising, State Corporation Commission; entered into and issued 23 May 2002.

11. The statement referred to in ¶7(a) that Basin's oil production exceeds that of all other oil and gas companies operating in Tennessee combined is not supported by records of the Tennessee Oil and Gas Program, Division of Geology, which is part of the Tennessee Department of Environment and Conservation (TOGP).

12. The statement referred to in ¶7(b) that Basin "just hit one good well after the other" is not supported by records of the TOGP.

13. The statement referred to in ¶7(c) that the Robert Wright #2 well was the largest well ever completed in Tennessee is not supported by the records of the TOGP.

14. The statement referred to in ¶7(d) that oil wells in Tennessee produced on average for about 20 years, and some could last as long as 35 to 40 years is grossly inaccurate. Typical wells in Tennessee last less than 10 years. A prime example of this is the Robert Wright # 2 well, referred to in ¶7(c). Although it is true that it was a large producer as Tennessee wells go, records of the TOGP show that it was completed in late May or early June 1999 and plugged in March, 2003.

15. The statement referred to in ¶7(e) that Basin's drilling projects were successful 30% of the time, i.e., that Basin hit oil in 3 of every 10 wells it drilled, is not supported by the records of the TOGP. Those records show 103 well permits obtained by Basin from 1998 until the present. Of that number, 8 were classified as oil and/or gas wells, 61 were classified as dry and abandoned and 34 are not yet classified. Although the 34 that are not yet classified could be classified as oil and/or gas wells, it is unlikely. If those 34 wells conform to the the 69 wells that were classified, approximately 13 % of them or 4 or 5 of them would be oil and/or gas wells, and the rest would be dry and abandoned. Basin's rate of success has been much less than 3 in 10 wells drilled.

16. The statement referred to in ¶7(f) that investors in oil and gas projects get a 15% tax write off on all royalty checks is misleading because purchasers of working interests in oil and gas well drilling projects do not get royalty checks. As the subscription agreement sent to AR shows, only the owner of the land and the mineral rights gets royalty checks.

17. Crowley's statements referred to in ¶ 8 that there was no way the wells contemplated in the project in which he was attempting to persuade AR to invest could be dry holes cannot be supported by science or experience. There is simply no assurance that one will hit oil or gas in any drilling project anywhere.

18. Crowley's statement referred to in ¶ 9 that Basin did not have to claim any exemption from the registration provisions of the securities laws of any state or the federal government because Basin was not big enough was erroneous. Securities laws apply to all issuers of securities, regardless of their size.

CONCLUSIONS OF LAW

18. 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".

19. 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.

20. Ark. Code Ann. § 23-42-301(a) (Repl. 2000) prohibits as unlawful the transaction of business as an agent by any person who is not registered with the Arkansas Securities Department as such.

21. Ark. Code Ann. § 23-42-102(1)(A) (Supp. 2001) defines agent as, *inter alia*, an individual representing the issuer of securities and effecting or attempting to effect purchases or sales of those securities.

22. Ark. Code Ann. § 23-42-102(9) (Supp. 2001) defines issuer as any person, which is defined in Ark. Code Ann. § 23-42-102(11) (Supp. 2001) to include an individual, corporation, limited liability company or association, who issues or proposes to issue any security.

23. 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

24. This matter has been properly brought before the Arkansas Securities Commissioner in accordance with Ark. Code Ann. § 23-42-209 (Repl. 2000).

25. The respondents have offered to sell working interests in an oil well without prior registration of those securities in violation of Ark. Code Ann. § 23-42-501 (Repl. 2000).

26. The respondents offered to sell securities in the form of working interests in an oil well without any one of them first being registered with the Department as an agent of the issuer in violation of Ark. Code Ann. § 23-42-301(a) (Repl. 2000).

27. The representation made by Justice referred to in ¶ 5 that Basin was raising approximately $375,000 for this two well project was a representation that this amount was a reasonable cost of such a project in Tennessee at the time the representation was made. Because two wells of this depth, around 2,000 feet each, could have been drilled in Tennessee at the time the representation was made for approximately $100,000 or less, this was an untrue statement of material fact made in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).

28. The statements made by Crowley referred to in ¶¶ 7, 8 and 9 were all untrue statements of material fact made in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).

29. The failure to inform AR of Basin's and Watkins's regulatory history, as set forth in ¶ 10 was the omission of material information in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).

ORDER

IT IS THEREFORE ORDERED that BASIN OIL & GAS CORPORATION, THOMAS R. WATKINS, STEVE JUSTICE and JIM CROWLEY, as well as others whose identities are not yet known who are in positions of control of BASIN OIL & GAS COPORATION. and who are employed by or otherwise affiliated with BASIN OIL & GAS CORPORATION, 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 or any other securities.

WITNESS MY HAND AND SEAL this 1st day of October, 2003.

MICHAEL B. JOHNSON
ARKANSAS SECURITIES COMMISSIONER