

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
WESTERN DIVISION

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U.S. DISTRICT COURT
NORTHERN DISTRICT
TOLEDO, OHIO

SECURITIES AND EXCHANGE COMMISSION :

Plaintiff, :

v. :

JAMES L. DOUGLAS A/K/A
JAMES L. COOPER :

Defendant. :

COMPLAINT FOR INJUNCTIVE
AND OTHER EQUITABLE RELIEF

CIVIL FILE NO.

C 82-29

Now comes the Plaintiff, Securities and Exchange Commission
(Commission), and alleges as follows:

1. Defendant James L. Douglas, a/k/a James L. Cooper
(Douglas), directly and indirectly, has engaged, is engaged and is
about to engage in transactions, acts, practices and courses of
business which constitute and will constitute violations of Sections
5(a), 5(c), 17(a)(1), 17(a)(2) and 17(a)(3) of the Securities Act of
1933 (Securities Act) [15 U.S.C. 77e(a), 77e(c), 77q(a)(1),
77q(a)(2) and 77q(a)(3)], Section 10(b) of the Securities Exchange
Act of 1934, as amended (Securities Exchange Act) [15 U.S.C. 78j(b)]
and Rule 10b-5 [17 CFR 240.10b-5] promulgated thereunder.

2. The Commission brings this action to enjoin such
transactions, acts, practices and courses of business pursuant to
Section 20(b) of the Securities Act [15 U.S.C. 77t(b)] and Sections
21(d) and 21(e) of the Securities Exchange Act [15 U.S.C. 78u(d) and
78u(e)]. The Court has jurisdiction of this action pursuant to
Section 22(a) of the Securities Act [15 U.S.C. 77v(a)] and Section
27 of the Securities Exchange Act [15 U.S.C. 78aa].

3. The defendant will, unless restrained and enjoined,
continue to engage in the transactions, acts, practices and courses
of business set forth in this complaint and transactions, acts,
practices and courses of business of similar purport and object.

4. The transactions, acts, practices and courses of business
constituting the violations herein have occurred within the
jurisdiction of the United States District Court for the Northern
District of Ohio, Western Division, and elsewhere.

5. The defendant, directly and indirectly, made use of the mails, means and instrumentalities of interstate commerce in connection with the transactions, acts, practices and courses of business alleged herein in the Northern District of Ohio, Western Division, and elsewhere.

6. Pursuant to authority conferred on the Commission by Section 10(b) of the Securities Exchange Act [15 U.S.C. 78j(b)], the Commission has promulgated Rule 10b-5 [17 CFR 240.10b-5].

THE DEFENDANT

7. Defendant Douglas, a resident of Santa Ana, California, has worked in the oil and gas business since approximately 1975. Douglas, either individually or through certain affiliated entities, which he controlled during all relevant periods herein, has acted and is acting as the general or managing partner of certain of the partnerships discussed in this complaint. In addition, Douglas either individually or through certain affiliated entities, has acted and is acting as the driller and/or operator of the partnerships' wells discussed in this complaint.

COUNT I

Sections 5(a) and 5(c) of the Securities Act
[15 U.S.C. 77e(a) and 77e(c)]

8. Paragraphs 1 through 7 are hereby realleged and incorporated by reference herein.

9. Douglas, from at least in or about December 1976 to the present, has been, directly and indirectly, making use of the means and instruments of transportation and communication in interstate commerce and of the mails to sell and offer to sell certain securities, namely, investment contracts and limited partnerships formed for the purpose of investing in oil drilling programs, and is carrying such securities and causing them to be carried through the mails and in interstate commerce by the means and instruments of transportation for the purpose of sale and for delivery after sale.

10. No registration as to the securities described in paragraph 9 above is in effect nor have any registration statements been filed with the Commission.

11. By reason of the activities described in paragraphs 1 through 10 above, Douglas has violated Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. 77e(a) and 77e(c)].

COUNT II

Section 17(a)(1) of the Securities Act
[15 U.S.C. 77q(a)(1)]

12. Paragraphs 1 through 10 are hereby realleged and incorporated by reference herein.

13. From at least in or about December 1976 to the present, Douglas, by use of the means and instruments of transportation and communication in interstate commerce and by use of the mails in the offer and sale of the securities described in paragraph 9 above, directly and indirectly employed devices, schemes and artifices to defraud, all as more fully described in paragraphs 14 through 31 below.

14. From at least December 1976 to the present, Douglas has been offering and selling to purchasers and prospective purchasers, interests in at least 45 limited and general partnerships (hereinafter collectively referred to as the "partnerships") formed for the purpose of investing in oil and gas drilling programs. Interests in 21 of these partnerships were offered and sold to advisory clients of an investment adviser located in Toledo, Ohio (Toledo Adviser).

15. As of this date, in excess of 300 individuals residing in at least six states have invested more than \$7,500,000 in cash and recourse promissory notes in the partnerships.

16. The partnerships generally took one of three forms:

- a. A limited partnership was formed in which Douglas or one of his affiliated entities acted as the general partner and the Toledo Adviser's clients or other individuals purchased the limited partnership interests.

- b. A general partnership was formed between Douglas or one of his affiliated entities, which acquired as much as a 50 percent interest, and the Toledo Adviser and certain of his clients or certain other individuals who shared the remaining interest. The general partnership then acted as the general partner in a series of limited partnerships which were sold to the Toledo Adviser's clients or others.
- c. A general partnership was formed between the Toledo Adviser and his clients or among other individuals. The actual management of the general partnership was provided by Douglas, directly or through one of his affiliated entities.

17. In the offer and sale of the partnership interests, Douglas, directly and indirectly, employed devices, schemes and artifices to defraud, including but not limited to those matters set forth in paragraphs 18 through 31 below.

18. Douglas organized, or caused to be organized, each of the partnerships. In all of the partnerships, the leasehold selection and drilling and operation of the oil and gas wells were performed by Douglas, directly or through one of his affiliated entities. The public investors, whether they be general or limited partners in name, had no managerial role whatsoever in the partnerships' business.

19. With respect to those general partnerships in which Douglas or one of his affiliated entities had an interest, the only cash invested in the general partnerships came from investors other than Douglas and his affiliated entities. The money raised by the general partnerships was used to purchase a leasehold interest which was developed with the funds raised from the limited partners. Douglas, in payment for his interest in the general partnership, agreed to contribute services or cash approximating the cash contribution of the other general partners. Douglas and his affiliated entities, however, did not provide any cash contribution nor did they render the services as promised.

20. In the offer and sale of certain of the general partnership interests, the investors and prospective investors were not given any written information about their respective investments. The remaining investors and prospective investors in the general partnerships were only given copies of a geological survey, a lease assignment and a partnership agreement, all of which were supplied by Douglas.

21. Douglas prepared or caused to be prepared the offering circulars used in the offer and sale of the limited partnership interests. These offering circulars contained untrue statements of material facts and omitted to state material facts.

22. Funds raised from the sale of interests in certain of the partnerships were commingled with funds raised from the sale of interests in other partnerships.

23. With respect to certain partnership offerings, Douglas did not disclose to the investors who were supplying the full cost of drilling and completing the wells that he had transferred a portion of the leasehold interest to third parties. Although these third parties did not contribute to the cost of drilling or completing the wells, they have been sharing in the revenues generated by the wells.

24. With respect to a number of the partnership offerings, Douglas was to transfer to the partnerships 100 percent of his working interest in a given leasehold. However, in the fall of 1977, when the partnership interests were offered and sold, Douglas only effected a transfer of 25 percent of his working interest. It was not until August 1979, after the Commission filed a lawsuit against the Toledo Adviser, that amended assignments transferring Douglas' remaining interests in the leaseholds to the partnerships were executed and recorded.

25. Douglas did not disclose to the investors of two particular partnerships that he had caused each of the partnerships to contribute the full cost of drilling and completing the same well.

26. With respect to 36 partnership offerings during 1977, Douglas represented to investors and prospective investors that the cost of drilling two wells and refurbishing a third well was \$150,000. Consequently, \$50,000 in cash and \$100,000 in recourse notes was received by each of the partnerships from investors. The actual cost to Douglas of drilling and refurbishing the wells was only approximately \$50,000. Shortly after the Commission filed its lawsuit in June 1979 against the Toledo Adviser, Douglas cancelled and returned the recourse promissory notes to the investors.

27. With respect to certain partnership offerings, Douglas was supposed to have negotiated a drilling contract on behalf of the partnership. However, in at least seven instances, the entity with which Douglas negotiated the drilling contract promptly subcontracted the work to a company controlled by Douglas. In at least five instances the subcontract with the Douglas controlled company was executed on the same day as the prime contract. In at least two other instances the subcontract was executed within two weeks of the execution of the prime contract. Notwithstanding the prompt execution of the subcontracts, the prime contractor retained a portion of the recourse notes executed by the investors.

28. Douglas assigned to several of the partnerships, interests in wells different from those referred to in the offering materials.

29. With respect to certain partnership offerings, the offering circular given to investors and prospective investors stated that the partnership would drill two new wells and refurbish a third well. However, as of this date, Douglas has caused only one well to be drilled and there are no plans to drill the second well or to refurbish the third well.

30. Several of the offering circulars used in the offer and sale of partnership interests contained profit projections developed by Douglas based upon an anticipated production figure per well. These projections were made without any basis in fact and have proved to be highly inflated.

31. In connection with the offer and sale of the partnership interests, Douglas paid the Toledo Adviser \$106,000 and gave him free working interests in certain of the wells for soliciting his advisory clients to be investors in the program. Douglas also gave certain other individuals free working interests in wells for soliciting investors. Douglas failed to disclose to investors and prospective investors that he had compensated individuals for selling the partnership interests on his behalf.

32. Douglas either knew or should have known of the activities described in paragraphs 12 through 31.

33. By reason of the activities described in paragraphs 12 through 32, Douglas has violated Section 17(a)(1) of the Securities Act, as amended [15 U.S.C. 77q(a)(1)].

COUNT III

Sections 17(a)(2) and 17(a)(3) of the Securities Act
[15 U.S.C. 77q(a)(2) and 77q(a)(3)]

34. Paragraphs 1 through 10 and 14 through 31 are hereby realleged and incorporated by reference herein.

35. From at least in or about December 1976 to the present, Douglas, by use of the means and instruments of transportation and communication in interstate commerce and by use of the mails in the offer and sale of the securities described in paragraph 9 above, directly and indirectly, obtained money and property by means of untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and engaged in transactions, practices and courses of business which operated and will operate as a fraud and deceit upon purchasers and prospective purchasers of such securities, all as more fully described in paragraphs 14 through 31 above.

36. By reason of the activities described in paragraphs 34 and 35, Douglas has violated Sections 17(a)(2) and 17(a)(3) of the Securities Act, as amended [15 U.S.C. 77q(a)(2) and 77q(a)(3)].

COUNT IV

Section 10(b) of the Exchange Act
[15 U.S.C. 78j(b)] and Rule 10b-5
[17 CFR 240.10b-5] thereunder

37. Paragraphs 1 through 10, 14 through 32, 34 and 35 are hereby realleged and incorporated by reference herein.

38. From at least in or about December 1976 to the present, Douglas, in connection with the purchase and sale of the securities described in paragraph 9 above, by use of the means and instrumentalities of interstate commerce and of the mails, directly and indirectly, employed devices, schemes and artifices to defraud; made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and engaged in acts, practices and courses of business which operated and will operate as a fraud and deceit upon purchasers and sellers and prospective purchasers and sellers of such securities, all as more fully described in paragraphs 14 through 31 above.

39. Douglas either knew or should have known of the activities described in paragraphs 37 and 38.

40. By reason of the activities described in paragraphs 37 through 39, Douglas has violated Section 10(b) of the Exchange Act, as amended [15 U.S.C. 78j(b)] and Rule 10b-5 [17 CFR 240.10b-5] thereunder.

WHEREFORE, the plaintiff prays that the Court:

I

Grant an Order of Final Judgment of Permanent Injunction restraining and enjoining Douglas, his agents, servants, employees, assigns, attorneys in fact and those persons in active concert or participation with him who receive actual notice of this Final Judgment by personal service or otherwise, and each of them, from directly and indirectly:

- A. making use of any means or instruments of transportation or communication in interstate commerce or of the mails to sell the securities described in paragraph 9 above, or any other security, through the use or medium of any prospectus or otherwise, unless and until a registration statement is in effect with the Securities and Exchange Commission as to such securities;

- B. carrying or causing to be carried such securities through the mails or in interstate commerce, by any means or instruments of transportation, for the purpose of sale or for delivery after sale, unless and until a registration statement is in effect with the Securities and Exchange Commission as to such securities; and
- C. making use of any means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell or offer to buy through the use or medium of any prospectus or otherwise such securities, unless and until a registration statement has been filed with the Securities and Exchange Commission as to such securities, or while a registration statement as to such securities is the subject of a refusal order or stop order or any public proceeding or examination under Section 8 of the Securities Act, as amended [15 U.S.C. 77h];

provided, however, that nothing in the foregoing portion of the requested injunction shall apply to any security or transaction which is exempt from the provisions of Section 5 of the Securities Act, as amended [15 U.S.C. 77e].

II

Grant an Order of Final Judgment of Permanent Injunction restraining and enjoining Douglas, his agents, servants, employees, assigns, attorneys in fact and those persons in active concert or participation with him who receive actual notice of this Final Judgment by personal service or otherwise, and each of them, from, directly and indirectly, in the offer or sale of the securities described in paragraph 9 above, or any other security, by the use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, employing any device, scheme or artifice to defraud.

III

Grant an Order of Final Judgment of Permanent Injunction restraining and enjoining Douglas, his agents, servants, employees, assigns, attorneys in fact and those persons in active concert or

III

participation with him who receive actual notice of this Final Judgment by personal service or otherwise, and each of them, from, directly and indirectly, in the offer or sale of the securities described in paragraph 9 above, or any other security, by the use of any means or instruments of transportation or communication in interstate commerce or by use of the mails:

- A. obtaining money or property by means of any 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 were made, not misleading; or
- B. engaging in any transaction, practice or course of business which operates or would operate as a fraud or deceit upon the purchaser.

IV

Grant an Order of Final Judgment of Permanent Injunction restraining and enjoining Douglas, his agents, servants, employees, assigns, attorneys in fact and those persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise, and each of them, from, directly or indirectly, in connection with the purchase or sale of the securities described in paragraph 9 above, or any other security, by the use of any means or instrumentality of interstate commerce, or of the mails or any facility of any national securities exchange:

- A. employing any device, scheme or artifice to defraud;
- B. making any 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 were made, not misleading; and
- C. engaging in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person.

V

Grant an Order requiring Douglas to provide to the court an accounting of all funds received, directly or indirectly, from the partnerships and from investors in the partnerships, the uses to which such funds were put and the amounts of any remaining such funds and their location, provided, however, that nothing in this order shall be construed to require Douglas to abandon any Constitutional or other legal privilege which he may have available to him.

VI

Grant an Order directing the parties to make a good faith effort to negotiate a resolution of whether and to what extent this settlement shall include relief ancillary to the injunction herein provided and to report to the Court within ninety (90) days from the date of entry of this Order, unless such time period is extended by agreement among the parties and so ordered by this Court, and at that time to advise the Court as to whether agreement has been reached as to whether ancillary relief is appropriate.

VII

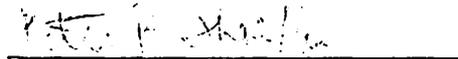
Grant an Order providing that if the parties are unable to arrive at an agreement as to what, if any, ancillary relief is appropriate, then this injunction shall remain in full force and effect but shall not constitute nor be admissible as evidence of the Commission's right to ancillary relief nor shall it in any way reflect on the issue of the Commission's entitlement to such relief, nor shall it or the annexed consent restrict in any way the substantive or procedural rights of either party in litigating the issue of ancillary relief.

VIII

Grant an Order that the Court shall retain jurisdiction of this matter for the purpose of enforcing the Final Judgments as to each defendant and for the purpose of ordering further equitable relief, if appropriate.

Grant an Order for such other equitable relief as the Court
may deem appropriate.


Phillip L. Stern


Peter B. Shaeffer


Floy A. Lambertson

Attorneys for Plaintiff
Securities and Exchange Commission
219 S. Dearborn, Room 1204
Chicago, Illinois 60604
Telephone: 312/353-7390

Of Counsel:

Mark Loush
Securities and Exchange Commission
231 Lafayette Street
1044 Federal Building
Detroit, Michigan 48226

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