UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-19336

In the Matter of **STEVE G. BLASKO** **Respondent.**

DIVISION OF ENFORCEMENT'S MOTION FOR ENTRY OF DEFAULT JUDGMENT AND SANCTIONS

TABLE OF CONTENTS

TABLE OF AUTHORITIES

CASES

FEDERAL STATUTES

Securities Exchange Act of 1934

COMMISSION RULES OF PRACTICE

Pursuant to the January 25, 2021 Order to Show Cause in this matter, Exch. Act Release No. 90984 (Jan. 25, 2021), the Division of Enforcement ("Division") submits this motion for default judgment and sanctions against Respondent Steve G. Blasko ("Blasko" or "Respondent").

I. INTRODUCTION

Blasko was a sales agent for the unregistered securities of Kentucky-Tennessee 50 Wells/400 BBLPD Block, Limited Partnership (a/k/a Warren County 200 Well/1,600 BBLPD Block, Kentucky-Tennessee 200 Well/1600 BBLPD Block) ("K-T 50 Wells"). Blasko also acted as an unregistered broker for the offering.

The instant proceeding was commenced on August 13, 2019 based upon the entry of a final judgment against Blasko, permanently enjoining him from future violations of Sections 5(a) and 5(c) of the Securities Act of 1933 ("Securities Act"), and Section 15(a) of the Exchange Act, in the civil action entitled *Securities and Exchange Commission v. Carol J. Wayland, et al.,* Civil Action Number 8:17-cv-01156-AG (DFMx), in the United States District Court for the Central District of California. Exch. Act. Rel. 86640 (Aug. 13, 2019).

Pursuant to SEC Rule of Practice 141(a)(2)(iii), the OIP was served on Respondent. Blasko did not file an answer, and thus is in default. Accordingly, the Division moves, pursuant to Rules 155(a)(2) and 220(f) of the SEC's Rules of Practice, for a finding that Blasko is in default and for the imposition of remedial sanctions. The Division specifically requests that the Commission issue an order barring Blasko from being associated with a broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization, or from participating in an offering of penny stock.

II. FACTS

A. Respondent

Blasko, age 48, is a resident of Costa Mesa, CA. From approximately June 2014 to at least February 2015, Blasko acted as a boilerroom sales person for the unregistered securities of

Kentucky-Tennessee 50 Wells/400 BBLPD Block, Limited Partnership (a/k/a Warren County 200 Well/1,600 BBLPD Block, Kentucky-Tennessee 200 Well/1600 BBLPD Block) ("K-T 50 Wells"). Blasko also acted as an unregistered broker for the offering. Declaration of Lynn M. Dean ("Dean Decl."), OIP at ¶ A.1.

B. Entry of the Injunction

On April 18, 2019, a final judgment was entered against Blasko, permanently enjoining him from future violations of Sections 5(a) and 5(c) of the Securities Act of 1933 ("Securities Act"), and Section 15(a) of the Exchange Act, in the civil action entitled *Securities and Exchange Commission v. Carol J. Wayland, et al.*, Civil Action Number 8:17-cv-01156-AG (DFMx), in the United States District Court for the Central District of California. Dean Decl., Ex. 1 (OIP. at B.2).

The Commission's complaint alleged that, from at least November 2014 until March 2016, in connection with the sale of limited partnership interests, Blasko acted as an unregistered broker and sold unregistered securities of KT-50 Wells. *Id.* OIP. at B.3.

C. Blasko is in Default

These proceedings were commenced on August 13, 2019. Exch. Act Rel. No. 86639. The Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934 ("OIP") was served on Respondent by sending copies of the OIP addressed to Respondent's last-known address, by U.S. Postal Service certified mail, in accordance with Commission Rule of Practice 141(a)(2). No confirmation of receipt for that delivery was received. Dean Decl., ¶ 2.

On January 16, 2020, the OIP was served on Respondent by UPS Overnight Delivery with signature required. Dean Decl., ¶ 3. An adult over the age of 21 signed for the delivery. *Id.*

On January 25, 2021, the Commission issued an Order to Show Cause ordering Blasko, by February 8, 2021, to show cause why he should not be deemed to be in default and why this

proceeding should not be determined against him due to his failure to file an answer and to otherwise defend this proceeding. Order, Exch. Act. Rel. No. 90984 (Jan. 25, 2021). The Order further directed that if Blasko failed to file a response, the Division should file a motion for default and other relief by March 8, 2021. *Id.* Blasko did not appear or respond to the OSC. Dean Decl. ¶ 4.

III. ARGUMENT

A. Blasko Is In Default and the Allegations of the OIP May Be Deemed To Be True

Because Blasko has not responded to the OIP, he is in default. Rule 155(a) of the SEC's Rules of Practice states:

> A party to a proceeding may be deemed to be in default and the Commission or the hearing officer may determine the proceeding against the party upon consideration of the record, including the order instituting proceedings, the allegations of which may be deemed to be true, if that party fails: . . .
>
> (2) To answer, to respond to a dispositive motion within the time provided, or otherwise to defend the proceeding . . . .

17 CFR § 201.155(a). Moreover, the OIP itself provides: "If Respondent fails to file the directed answer . . . . the Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true . . . ." Dean Decl. Ex. 1 (OIP at p. 3).

The Commission has already made findings that Blasko was properly served with the OIP, and has failed to answer. *See* Order to Show Cause, Exch. Act. Rel. No. 90982 (Jan. 25, 2021). Under Rule 155(a), the allegations of the OIP may thus be deemed to be true and the Commission may determine the proceedings against the party upon consideration of the record, including the OIP. 17 CFR § 201.155(a).

B. The Findings in the Underlying Case Are Binding on Respondent

Where, as here, facts have been litigated and determined in an earlier judicial proceeding, those facts may not be revisited in a subsequent administrative proceeding. *See Peter J. Eichler, Jr.*, Initial Dec. Rel. No. 1032, 2016 WL 4035559 (July 8, 2016) ("It is well-established that the Commission does not permit a respondent to relitigate issues that were addressed in a previous civil proceeding against the respondent, whether resolved by summary judgment, by consent, or after a trial") (collecting cases); *accord Robert Burton*, Initial Dec. Rel. No. 1014, 2016 WL 3030850 (May 27, 2016); *James E. Franklin*, Exchange Act Rel. No. 56649 (Oct. 12, 2007), 91 S.E.C. Docket 2708, 2713 & n.13, 2007 WL 2974200, *petition for review denied*, 285 F. App'x 761 (D.C. Cir. 2008); *In the Matter of Gunderson*, Exchange Act Release No. 61234, 2009 SEC LEXIS 4322 *15-16 (Dec. 23, 2009).

C. Imposition of a Permanent Bar Is Warranted

Based on the record here and in the underlying action, the Division respectfully requests that sanctions be imposed under Section 15(b)(6) of the Exchange Act. That section provides in relevant part:

> With respect to any person who is associated, . . . or, at the time of the alleged misconduct, who was associated . . . with a broker or dealer, . . . the Commission, by order, shall censure, place limitations on the activities or functions of such a person, or suspend for a period not exceeding 12 months, or bar any such person from being associated with a broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization, or from participating in an offering of penny stock, if the Commission finds, on the record after notice and an opportunity for a hearing, that such censure, placing of limitations, suspension, or bar is in the public interest and that such person – . . .

***

(iii) is enjoined from any action, conduct or practice specified in subparagraph (C) of such paragraph (4)" of Section 15(b).

Thus, Section 15(b)(6) authorizes the Commission to impose an associational bar against a respondent if: (1) at the time of the alleged misconduct, he was associated with a broker; (2) he is enjoined from any action, conduct or practice specified in Section 15(b)(4)(C); and (3) a bar is in the public interest.

1. At the Time of the Misconduct, Respondent was Acting as An Unregistered Broker and Was Associated With an Unregistered Broker

Each of these factors is easily met here. First, the district court found that, at the time of the misconduct here, Respondent was acting as an unregistered broker. The Court based its finding on undisputed evidence establishing that:

> Blasko was not registered as or associated with any broker-dealers at the time of the KT 50 or CAR offerings. Yet [he] acted as broker dealer, soliciting investors, supervising salespeople, drafting offering documents, and handling investors. Blasko [was] paid commissions for selling securities. And [he] solicited investors by phone and managed their questions and expectations. Doing so without proper registration[] was a violation of Section 15 of the Exchange Act.

Dean Decl. Ex. 2 (summary judgment order, p. 8 (internal citations omitted). Based on that evidence, the Court concluded that Blasko had acted as an unregistered broker under the Act and enjoined him from future violations of Section 15(a) of the Exchange Act. *Id.* As previously discussed, Respondent is bound by the district court's finding here. Administrative proceedings for sanctions against unregistered broker dealers are properly instituted under Section 15(b)(6), and the Commission regularly issues bars against unregistered brokers pursuant to that section. *See, e.g., Hector J. Garcia*, Exch. Act Rel. No. 54116, (July 10, 2006); *James Joseph Conway*, Exch. Act Rel. No. 53722 (Apr. 25, 2006).

2. The District Court Enjoined Blasko Against Violations of the Securities Laws

The second element under Section 15(b)(6) is also established by the record in the underlying action because Respondent was enjoined from conduct specified in Section 15(b)(4)(C). The acts enumerated under Section 15(b)(4)(D) include willful violations of the Securities Act, the Exchange Act or any rules or regulations under such statutes. Here, the district court permanently enjoined Respondent from violating Section 15(a) of the Exchange Act and Sections 5(a) & (c) of the Securities Act. *See* Dean Decl., Ex. 4 (Final Judgment).

3. A Bar Is In the Public Interest

Finally, the record establishes that a bar is in the public interest. In determining whether an administrative sanction is in the public interest, the Commission considers a number of factors, including (1) the egregiousness of the respondent's actions; (2) the isolated or recurrent nature of the infraction; (3) the degree of scienter involved; (3) the sincerity of the respondent's assurances against future violations; (4) recognition of wrongful conduct; and (5) the likelihood that the respondent's occupation will present future opportunities for violations. *See Steadman v. SEC,* 603 F.2d 1126, 1140 (5th Cir. 1979), *aff'd on other grounds*, 450 U.S. 81 (1981); *Lonny S. Bernath*, Initial Dec. Rel. No. 993 at 4, 2016 SEC LEXIS 1222 *10-11 (Apr. 4, 2016) (*Steadman* factors used to determine whether a bar is in the public interest). The district court found that all of these factors weighed in favor a permanent injunction. Dean Decl. Ex. 2-4.

As to whether a permanent bar is appropriate in a follow-on proceeding, "[t]he existence of an injunction can, in the first instance, indicate the appropriateness in the public interest of a suspension or bar from participation in the securities industry*." Michael V. Lipkin and Joshua Shainberg*, Init. Dec. Rel. No. 317, 88 SEC Docket 2346, 2006 WL 2422652, at *4 (Aug. 21, 2006), *notice of finality*, 88 S.E.C. Docket 2872, 2006 WL 2668516 (Sept. 15, 2006).

a. Respondent's violations were egregious, intentional and recurrent

As previously noted, in the underlying district court action, the Court found that Blasko, violated the law and that his conduct was "fraudulent, deceitful, and manipulative and resulted in loss to other persons." Dean Decl. Ex. 2, at p. 14. Further, Respondent's fraud was not an isolated incident. Instead, he participated in the scheme to defraud over a number of years that raised over $2.4 million form over 40 investors. Dean Decl. Ex. 2 at p. 2. In sum, the egregiousness and extent of Respondent's fraud clearly favor a permanent bar under *Steadman*.

b. The remaining *Steadman* factors also favor a permanent bar

The remaining Steadman factors also favor a permanent bar. To begin, Respondent has failed to appear and provide any assurance against future violations and he lacks any apparent recognition of his wrongful conduct. The "absence of recognition by [a respondent] of the wrongful nature of his conduct" favors a permanent bar. *Jonathan D. Havey, CPA*, Initial Dec. Rel. No. 959, 2016 SEC LEXIS 522, at *11 (Feb. 11, 2016) (granting permanent bar on motion for summary disposition in follow-on proceeding to criminal conviction); *Siming Yang*, Initial Dec. Rel. No. 788, 2015 SEC LEXIS 1735, at *10 (May 6, 2015) (noting, as part of grant of summary disposition and imposing of permanent bar in follow on proceeding to civil injunction, that, "[c]onsistent with a vigorous defense of the charges, [respondent] ha[d] not recognized the wrongful nature of his conduct"); *Delsa U. Thomas and The D. Christopher Capital Management Group, LLC*, Initial Dec. Rel. No. 205, 2014 SEC LEXIS 4181, at 24 (Nov. 4, 2014) (imposing permanent bar and revoking adviser's registration on summary disposition following civil fraud injunction, noting that "Respondents do not recognize the wrongful nature of their conduct. Instead, they deny any culpability, insist that none of their conduct was inappropriate, and accuse the Commission and the Commission's witnesses of bias or lying"); *Terrence O'Donnell*, Initial Dec. Rel. No. 334, 2007 SEC LEXIS 2148, at *14 (Sept. 20, 2007) (weighing in favor of bar respondent's "protest" that the securities laws were not sufficiently

clear, finding this "evidence that [respondent] still seeks to minimize his misconduct"); *Steadman*, 603 F.2d at 1140.

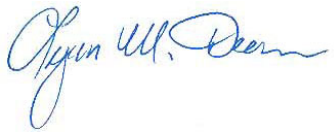
In addition, the final *Steadman* factor considers "the likelihood that the respondent's occupation will present future opportunities for violations." This factor is at best neutral, because the Division has no evidence of Blasko's current occupation. However, Blasko admits he used an alias when selling the KT-50 Wells investments, which strongly indicates intent to deceive. Dean Decl. Ex. 6 at ¶ 17; Ex. 7 at ¶ 11. Blasko also has a prior felony conviction – he actually sold the KT-50 investment while he was on probation. Dean Decl. Ex. 5. In short, all of the *Steadman* factors favor the imposition of the bar, which is strongly in the public's interest.

IV. CONCLUSION

For the foregoing reasons, the Division respectfully requests that Respondent be barred from being associated with a broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization, or from participating in an offering of penny stock.

March 8, 2021

Respectfully submitted,



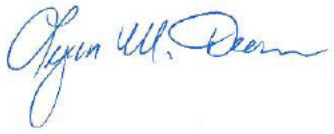
Lynn M. Dean (323) 965-3245
Securities and Exchange Commission
Los Angeles Regional Office
Securities and Exchange Commission
444 South Flower Street, Suite 900
Los Angeles, CA 90071

CERTIFICATE OF SERVICE

I certify that on March 8, 2021, I caused the foregoing document to be served on the following persons, by electronic mail, facsimile, or by UPS overnight mail as stated:

Securities and Exchange Commission (By Electronic mail)
APFilings@sec.gov

By UPS
Mr. Steve G. Blasko
[redacted].
Costa Mesa, CA [redacted]



Lynn M. Dean

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-19336

In the Matter of

STEVE G. BLASKO

Respondent.

DECLARATION OF LYNN M. DEAN IN SUPPORT OF DIVISION OF ENFORCEMENT'S MOTION FOR ENTRY OF DEFAULT JUDGMENT AND SANCTIONS

I, Lynn M. Dean, declare pursuant to 28 U.S.C. § 1746 as follows:

1. I am an attorney at law admitted to practice law in the State of California and before the United States District Court for the Central District of California. I am employed as an attorney in the Los Angeles Regional Office of the U.S. Securities and Exchange Commission ("SEC"), and am counsel for the Division of Enforcement in this case. I have personal knowledge or knowledge based upon my review of the file of the facts set forth in this Declaration and, if called and sworn as a witness, could and would competently testify thereto.

2. These proceedings were commenced on August 13, 2019. The Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934 ("OIP") was served on Steve G. Blasko ("Blasko") by sending copies of the OIP to Blasko's last-known address, by U.S. Postal Service certified mail, in accordance with SEC Rule of Practice 141(a)(2). Blasko did not appear or respond to the OIP and the SEC was unable to obtain delivery confirmation. A true and correct copy of the OIP is attached hereto as Exhibit 1.

3. On January 16, 2020, the OIP was served on Blasko by UPS Overnight Delivery with signature required. An adult over the age of 21 signed for the delivery. I provided proof of that service to the Commission by declaration dated January 30, 2020.

4. On January 25, 2021, the Commission issued an Order to Show Cause ordering Blasko, by February 8, 2021, to show cause why he should not be deemed to be in default and this proceeding be determined against him due to his failure to file an answer and to otherwise defend. Order, Exch Act. Rel No. 90984 (Jan. 25, 2021). The Order further directed that if Blasko failed to file a response, the Division should file a motion for default and other relief by March 8, 2021. *Id.* Blasko did not appear or respond to the OSC.

5. A true and correct copy of the Minute Order granting summary judgment in in the civil action entitled *Securities and Exchange Commission v. Carol J. Wayland, et al.*, Civil Action Number 8:17-cv-01156-AG (DFMx) is attached hereto as Exhibit 2.

6. A true and correct copy of the Minute Order granting the SEC's motion for injunctions and civil penalties in the civil action entitled *Securities and Exchange Commission v. Carol J. Wayland, et al.*, Civil Action Number 8:17-cv-01156-AG (DFMx) is attached hereto as Exhibit 3.

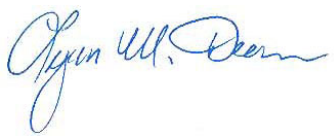
7. A true and correct copy of the Final Judgment against Steve G. Blasko in the civil action entitled *Securities and Exchange Commission v. Carol J. Wayland, et al.*, Civil Action Number 8:17-cv-01156-AG (DFMx) is attached hereto as Exhibit 4.

8. A true and correct copy of the Criminal Case Summary for Steve G. Blasko that I obtained from the California State Court is attached hereto as Exhibit 5.

9. Blasko admits he used an alias when selling KT-50 Wells. A true and correct copy of the Complaint in *Securities and Exchange Commission v. Carol J. Wayland, et al.,* Civil Action Number 8:17-cv-01156-AG (DFMx), in the United States District Court for the Central District of California, is attached hereto as Exhibit 6. A true and correct copy of Blasko's Answer is attached hereto as Exhibit 7.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 8th day of March, 2021 in Los Angeles, California.



_____

Lynn M. Dean

CERTIFICATE OF SERVICE

I certify that on March 8, 2021, I caused the foregoing document to be served on the following persons, by electronic mail, facsimile, or by UPS overnight mail as stated:

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Room [redacted]
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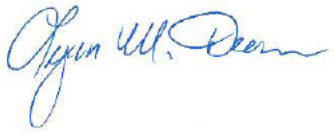

Lynn M. Dean

EXHIBIT 1

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 86640 / August 13, 2019

ADMINISTRATIVE PROCEEDING
File No. 3-19336

In the Matter of **STEVE G. BLASKO,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE PROCEEDINGS PURSUANT TO SECTION 15(b) OF THE SECURITIES EXCHANGE ACT OF 1934 AND NOTICE OF HEARING**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 ("Exchange Act") against Steve G. Blasko (a/k/a Steve Gerald) ("Respondent" or "Blasko").

II.

After an investigation, the Division of Enforcement alleges that:

A. RESPONDENT

1. Blasko, age 48, is a resident of Costa Mesa, CA. From approximately June 2014 to at least February 2015, Blasko acted as a boilerroom sales person for the unregistered securities of Kentucky-Tennessee 50 Wells/400 BBLPD Block, Limited Partnership (a/k/a Warren County 200 Well/1,600 BBLPD Block, Kentucky-Tennessee 200 Well/1600 BBLPD Block) ("K-T 50 Wells"). Blasko also acted as an unregistered broker for the offering.

B. ENTRY OF THE INJUNCTION

2. On April 18, 2019, a final judgment was entered against Blasko, permanently enjoining him from future violations of Sections 5(a) and 5(c) of the Securities Act of 1933 ("Securities Act"), and Section 15(a) of the Exchange Act, in the civil action entitled Securities and Exchange Commission v. Carol J. Wayland, et al., Civil Action Number 8:17-cv-01156-AG (DFMx), in the United States District Court for the Central District of California.

3. The Commission's complaint alleged that, from at least June 2014 until February 2015, in connection with the sale of limited partnership interests, Blasko acted as an unregistered broker and sold unregistered securities of KT-50 Wells.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative proceedings be instituted to determine:

A. Whether the allegations set forth in Section II hereof are true and, in connection therewith, to afford Respondent an opportunity to establish any defenses to such allegations;

B. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 15(b) of the Exchange Act; and

C. Whether, pursuant to Section 15(b) of the Exchange Act, it is appropriate and in the public interest to suspend or bar Respondent from participating in any offering of penny stock, including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or trading in any penny stock; or inducing or attempting to induce the purchase or sale of any penny stock.

IV.

IT IS ORDERED that a public hearing before the Commission for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened at a time and place to be fixed by further order of the Commission, pursuant to Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondent shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220(b) of the Commission's Rules of Practice, 17 C.F.R. § 201.220(b).

IT IS FURTHER ORDERED that the Division of Enforcement and Respondent shall conduct a prehearing conference pursuant to Rule 221 of the Commission's Rules of Practice, 17 C.F.R. § 201.221, within fourteen (14) days of service of the Answer. The parties may meet in person or participate by telephone or other remote means; following the conference, they shall file

a statement with the Office of the Secretary advising the Commission of any agreements reached at said conference. If a prehearing conference was not held, a statement shall be filed with the Office of the Secretary advising the Commission of that fact and of the efforts made to meet and confer.

If Respondent fails to file the directed Answer, or fails to appear at a hearing or conference after being duly notified, the Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f), and 201.310.

This Order shall be served forthwith upon Respondent by any means permitted by the Commission's Rules of Practice.

Attention is called to Rule 151(b) and (c) of the Commission's Rules of Practice, 17 C.F.R. § 201.151(b) and (c), providing that when, as here, a proceeding is set before the Commission, all papers (including those listed in the following paragraph) shall be filed with the Office of the Secretary and all motions, objections, or applications will be decided by the Commission. The Commission requests that an electronic courtesy copy of each filing should be emailed to APFilings@sec.gov in PDF text-searchable format. Any exhibits should be sent as separate attachments, not a combined PDF.

The Commission finds that it would serve the interests of justice and not result in prejudice to any party to provide, pursuant to Rule 100(c) of the Commission's Rules of Practice, 17 C.F.R. § 201.100(c), that notwithstanding any contrary reference in the Rules of Practice to filing with or disposition by a hearing officer, all filings, including those under Rules 210, 221, 222, 230, 231, 232, 233, and 250 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.210, 221, 222, 230, 231, 232, 233, and 250, shall be directed to and, as appropriate, decided by the Commission. This proceeding shall be deemed to be one under the 75-day timeframe specified in Rule of Practice 360(a)(2)(i), 17 C.F.R. § 201.360(a)(2)(i), for the purposes of applying Rules of Practice 233 and 250, 17 C.F.R. §§ 201.233 and 250.

The Commission finds that it would serve the interests of justice and not result in prejudice to any party to provide, pursuant to Rule 100(c) of the Commission's Rules of Practice, 17 C.F.R. § 201.100(c), that the Commission shall issue a decision on the basis of the record in this proceeding, which shall consist of the items listed at Rule 350(a) of the Commission's Rules of Practice, 17 C.F.R. § 201.350(a), and any other document or item filed with the Office of the Secretary and accepted into the record by the Commission. The provisions of Rule 351 of the Commission's Rules of Practice, 17 C.F.R. § 201.351, relating to preparation and certification of a record index by the Office of the Secretary or the hearing officer are not applicable to this proceeding.

The Commission will issue a final order resolving the proceeding after one of the following: (A) The completion of post-hearing briefing in a proceeding where the public hearing has been completed; (B) The completion of briefing on a motion for a ruling on the pleadings or a motion for summary disposition pursuant to Rule 250 of the Commission's Rules of Practice, 17

C.F.R. § 201.250, where the Commission has determined that no public hearing is necessary; or (C) The determination that a party is deemed to be in default under Rule 155 of the Commission's Rules of Practice, 17 C.F.R. § 201.155, and no public hearing is necessary.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

For the Commission, by its Secretary, pursuant to delegated authority.

Vanessa A. Countryman
Secretary

EXHIBIT 2

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

JS-6

CIVIL MINUTES – GENERAL

Case No.	SACV 17-01156 AG (DFMx)	Date	April 8, 2019
Title	SECURITIES AND EXCHANGE COMMISSION v. CAROL J. WAYLAND ET AL.		

Present: The Honorable	ANDREW J. GUILFORD	
Melissa Kunig	Not Present	
Deputy Clerk	Court Reporter / Recorder	Tape No.
Attorneys Present for Plaintiffs:	Attorneys Present for Defendants:	

Proceedings: **[IN CHAMBERS] ORDER REGARDING PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT**

The Securities and Exchange Commission ("SEC") filed a lawsuit against Kentucky-Tennessee 50 Wells/400 BBLPD Block, Limited Partnership ("KT 50 Wells"), HP Operations, LLC ("HP"), CAR Leasing, LLC ("CAR"), and five individual defendants, Carol J. Wayland, John C. Mueller, Mitchell B. Dow, Barry Liss, and Steve G. Blasko. The SEC has since dismissed claims against John C. Mueller, who has passed away. (Dkt. 67.) The SEC's complaint includes five claims: (1) violation of § 10(b) of the Securities Exchange Act of 1934 (referred to as the "Exchange Act" for short) and SEC Rule 10b–5; (2) violation of § 17(a)(2) of the Securities Act of 1933; (3) violation of § 17(a)(1) and § 17(a)(3) of the Securities Act; (4) violation of § 5(a) and § 5(c) of the Securities Act; and (5) violation of § 15(a) of the Exchange Act. (*See* Dkt. No. 1.) The SEC now moves for summary judgment against all Defendants.

The Court GRANTS IN PART the SEC's motion. (Dkt. 61-1.)

1. BACKGROUND

The parties. Wayland and Mueller operated KT 50 Wells and wholly owned HP and CAR. HP was the managing general partner of KT 50 Wells and had "sole discretion over the business." (Compl., Dkt. 1 at ¶ 13.) CAR performed the administrative tasks, including administration of investments before the offering. (*Id.*) Wayland and Mueller drafted and revised KT 50 Wells's offering document, the Private Placement Memorandum, or "PPM," which included statements about their experience managing oil and gas investment projects and about the commitment KT 50 Wells was making regarding its use of investor money. Dow, Liss, and

Blasko were salespersons for KT 50 Wells. Specifically, they were "closers." They were the ones ultimately in charge of convincing investors to invest in KT 50 Wells, and they made the largest commissions.

Defendants' Business Plan. The SEC describes Defendants' alleged scheme as follows. Wayland founded KT 50 and operated it through managing general partner HP. (Statement of Uncontroverted Facts and Conclusions of Law ("SUF"), Dkt. 61-2 at No. 16.) KT 50 purported to be an investment in the development and operation of oil wells, and the KT 50 PPM dated July 21, 2014 stated that 65% of investor funds would be used for "drilling efforts." (*Id.* Nos. 24, 50.) The PPM also stated that 35% of the funds raised would go to business expenses. (*Id.* No. 51.)

Wayland and Mueller set up a boiler room in Irvine, California under the fictitious name "Sahara Wealth Advisors" to attract investors. (*Id.* No. 26.) KT 50 salespeople, who were divided into "fronters" and "closers" solicited investments by phone and email and earned commissions on their sales. (*Id.* Nos. 32-43.) From about May 2014 to February 2016, Defendants sold KT 50 securities to at least 41 investors in an unregistered securities offering of limited partnership units. (*Id.* No. 17.) Defendants raised at least $2,417,257. (*Id.*) Neither KT 50 nor CAR were ever registered with the SEC, nor did they sell to accredited investors. (SUF Nos. 8, 18, 20-22, 67.)

Despite the representations made in the PPM, Wayland used investor funds to pay business expenses beyond those described in the offering documents and only spent 13% of the money raised on oil well development and operation. (SUF Nos. 52-53.) While the Executive Summary for the KT 50 offering projected annual returns of between 43.2% and 345% for each $100,000 investment, most investors received much smaller and less frequent returns, with some receiving only $17. (*Id.* Nos. 61-63.) Defendants also misrepresented their expertise with oil investment projects and misappropriated over one third of the money raised. (*Id.* Nos. 54, 64, 65.) Wayland and Mueller spent investments received on personal expenses, including groceries, dining, car payments, cash, and rare coins. (*Id.* No. 54.)

Procedural History. The Court denied Defendants' motions to dismiss in October 2017, finding the SEC had properly stated claims for violation of the Securities Exchange Act of 1934

("Exchange Act") and Securities Act of 1933 ("Securities Act"). (Order Denying Motions to Dismiss, Dkt. 27.) In October 2018, the Court granted Defendants' counsel's motion to withdraw, and since then, no attorneys have made an appearance on behalf of Defendants. The corporate Defendants (KT 50, HP, and CAR) may not proceed in federal court as unrepresented organizations. *See* L.R. 83.3. The individual Defendants participated in a mediation with SEC attorneys on March 13, 2019, but no agreement was reached. (Declaration of Lynn M. Dean, ¶ 2.)

The SEC's summary judgment motion argues that Defendants' own admissions and the undisputed evidence prove that all Defendants violated Section 5(a) and 5(c) of the Securities Act by offering and selling over $2.4 million in unregistered securities. (Motion for Summary Judgment, Dkt. 61-1.) The SEC also argues that the undisputed evidence shows that Wayland, Dow, Liss, and Blasko violated Section 15 of the Exchange Act by offering and selling securities while they were neither registered broker-dealers nor associated with a registered broker-dealer. And it argues the undisputed evidence shows Wayland, KT 50, HP, and CAR violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and Rule 10b-5 by engaging in a scheme to defraud and making material misrepresentations regarding the offer and sale of the KT 50 offering.

Defendants haven't filed any opposition to the SEC's pending motion for summary judgment. Still, the Court has thoroughly analyzed the sufficiency of the facts and legal conclusions offered by the SEC.

2. LEGAL STANDARD

A party is entitled to summary judgment if "there is no genuine issue as to any material fact and … the movant is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(a); *Celotex Corp. v. Catrett*, 477 U.S. 317, 322-23 (1986). To defeat a summary judgment motion, the non-moving party may not merely rely on its pleadings or conclusory statements, nor may the non-moving party merely attack or discredit the moving party's evidence. *Campbell v. Medtronic MiniMed, Inc.*, No. 2:15-CV-08091-RGK-PJW, 2016 U.S. Dist. LEXIS 120929, *6 (C.D. Cal. Sept. 6, 2016). Rather, the non-moving party must affirmatively present specific admissible evidence sufficient to create a genuine issue of material fact. Id. Furthermore, "[o]nly disputes

over facts that might affect the outcome of the suit under the governing law will properly preclude the entry of summary judgment. Factual disputes that are irrelevant or unnecessary will not be counted." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 252, 248 (1986).

3. ANALYSIS

3.1 Sections 5(a) and (c) of the Securities Act

Sections 5(a) and (c) of the Securities Act prohibit the unregistered offer or sale of securities in interstate commerce, unless an exemption from registration applies. *See SEC v. Eurobond Exch.*, 13 F.3d 1334, 1338 (9th Cir. 1994). To show a Section 5 violation, the SEC must prove that (1) defendants, directly or indirectly, offered or sold securities, using interstate transportation or communication or the mails; and (2) no registration was in effect or filed with the SEC. *See* 15 U.S.C. §§ 77e(a), 77e(c); *SEC v. Phan*, 500 F.3d 895, 902 (9th Cir. 2007). Section 5 is a strict liability statute. *See SEC v. Holschuh*, 694 F.2d 130, 137 n.10 (9th Cir. 1982) ("good faith is not relevant to whether there has been a primary violation of the registration requirements"); *see also SEC v. CMKM Diamonds, Inc.*, 729 F. 3d 1248, 1257 (9th Cir. 2013) (Section 5 "imposes strict liability for violations of its registration requirement.")

3.1.1 Offering or Sale of Securities Using Interstate Commerce

The Securities Acts define "security" as, among other things, an "investment contract." *See* 15 U.S.C. §§ 77b(a)(1), 78c(a)(10) (2003); *see also S.E.C. v. Rubera*, 350 F.3d 1084, 1090 (9th Cir. 2003). And the Ninth Circuit defines an investment contract as "(1) an investment of money (2) in a common enterprise (3) with an expectation of profits produced by the efforts of others." *SEC v. Ribera*, 350 F.3d 1084, 1090 (9th Cir. 2003) (citing *S.E.C. v. W.J. Howey Co.*, 328 U.S. 293, 298-99 (1946)). Here, Defendants' investment opportunity satisfies all the "essential ingredients" of an investment contract. *See Howey*, 328 U.S. at 301; *see also Ribera*, 350 F.3d at 1091.

To begin, the undisputed facts show that Defendants solicited investors to raise about $2.4 million. (SUF No. 17.) So the "investment of money" prong of *Howey* has been satisfied. Next, the SEC has shown that the KT 50 offering was a "common enterprise," which the

Ninth Circuit defines as "one in which the fortunes of investors are interwoven with and dependent upon the efforts and success of those seeking the investment or of third parties." *SEC v. Glenn W. Turner Enterprises, Inc.*, 474 F.2d 476, 482 (9th Cir 1973). Horizontal or vertical commonality satisfies the common enterprise element, and here there was both. *R.G. Reynolds Enters., Inc.*, 952 F.2d at 130. The investors in KT 50 pooled their money – to develop and operate oil wells, they thought – and were promised a pro rata share of the profits. *See, e.g.*, SUF No. 24. This shows horizontal commonality. And the investors' fortunes were linked to Mueller's and Wayland's efforts to manage and promote KT 50 and CAR's operations, showing vertical commonality. *See SEC v. CKB168 Holdings, Ltd.*, No. 13-CV-5584 (RRM) (RLM), 2016 U.S. Dist. LEXIS 136928, *70 (E.D.N.Y. Sept. 28, 2016) (finding both horizontal and vertical commonality where returns depended on the efforts of others). So the commonality prong of *Howey* has been met. And for the same reason – investors' reliance on Defendants' efforts – the third prong of expecting profits based on the promoter's efforts is also satisfied.

Regarding the requirement that the offer or sale of securities occurs through interstate commerce, "[a]ll that is required . . . is a showing that a means, instrumentality or facility described in the introductory language of the [federal securities laws] was used," and that such use was connected to the alleged violations. *Matheson v. Armburst*, 284 F.2d 670, 673 (9th Cir. 1960). *See, e.g., United States v. Nader*, 542 F.3d 713, 717 (9th Cir. 2008) ("Telephones are instrumentalities of interstate commerce ..."); *Utah Lighthouse Ministry v. Foundation for Apologetic Info. & Research*, 527 F.3d 1045, 1054 (10th Cir. 2008) ("We agree that the Internet is generally an instrumentality of interstate commerce."); *SEC v. CKB168 Holdings, Inc.*, 2016 U.S. Dist. LEXIS 136928, * 45 (use of emails, wire transfers, and the Internet are all instrumentalities of interstate commerce). This requirement is easily met in this case, where KT 50 salespeople regularly communicated with prospective and actual investors by phone and email, organized bank transfers, and received checks in the mail. *See, e.g.* SUF Nos. 23, 33, 37, 41, 44.)

3.1.2 Integration

The SEC has also shown through uncontroverted evidence that the KT 50 and CAR offerings were integrated in violation of Section 5. The factors used to consider whether offerings can be integrated are: (1) whether the sales are part of a single plan of financing; (2) whether the

sales involve issuance of the same class of securities; (3) whether the offerings were made at or about the same time; (4) whether the same type of consideration is being received; and (5) whether the sales are made for the same general purpose. *See* SEC Rel. No. 33-4552, 1962 WL 69540, at *3 (Nov. 6, 1962). Before considering these factors, the Court first looks at whether the offerings are subject to issuer integration, meaning that they are offered by the same issuer. *See Rathbone, King & Seeley, Inc.*, SEC No-Action Letter, 1987 WL 107900, at *3 (Apr. 20, 1987). Here, Wayland had common control over both KT 50 and CAR. (SUF No. 2.) Defendants disregarded entity form by rolling investors who had invested in CAR into the KT 50 offering and treating them as KT 50 investors. (*Id.* No. 17.) Wayland also used CAR to perform administrative and other tasks for KT 50. (*Id.* No. 7.) So the SEC has shown issuer integration.

Next, applying the five-factor integration test to Defendants' offerings shows the offerings themselves were integrated. Both offerings were part of a single plan of financing and for the same general purported purpose, which was to develop and operate oil wells. (*Id.* No. 17, 84-86.) The offerings appear to have overlapped for part of 2014, and both offerings received cash as consideration. (*Id.* No. 23, 84-86.) The only factor that slightly tips in favor of non-integration is that the offerings involved different classes of securities (second factor), but all other factors point toward integration.

3.1.3 Wayland's Liability

The fact that Wayland didn't personally solicit each investor doesn't limit her liability. Under Section 5, liability extends to "direct" or "indirect" offers of sales of securities. 15 U.S.C. § 77e(a). "[C]ourts have established the concept of 'participant' liability to bring within the confines of § 5 persons other than the sellers who are responsible for the distribution of the unregistered securities." *SEC v. Murphy*, 626 F.2d 633, 649 (9th Cir. 1980). Wayland need only be a "substantial factor in the sales transaction[s]" to be liable under Section 5. *SEC v. CMKM Diamonds, Inc.*, 729 F.3d at 1255. Wayland's integral oversight of the sales efforts, communications with investors, and handling of offering materials is undisputed, and thus liability for her conduct has been established. (SUF Nos. 45-49.)

3.1.4 No Registrations and No Exemptions

It is undisputed that neither the KT 50 nor CAR offerings were registered with the SEC. (SUF Nos. 8, 18, 67.) The KT 50 PPM purported to rely on the Rule 506(c) exemption for accredited investors. (*Id.* Nos. 19-22.) But Defendants allowed unaccredited investors to invest, so that exemption is inapplicable. *See id.*; 17 C.F.R. 230.505(c) (only accredited investors may invest in a Rule 506(c) offering); Dean Decl. Ex. 6 at HP002263-HP002264, HP002267; Dean Decl. Ex. 60 at 36:11-16.) In any case, registration exemptions are narrowly construed to promote full disclosure of information to the investing public. *SEC v. Platforms Wireless Int'l Corp.*, 617 F.3d at 1086; SEC v. Cavanagh, 445 F.3d 105, 115 (2nd Cir. 2006). Defendants haven't submitted any opposition or made any effort to prove that an exemption to the registration violation applies, as is their burden after the SEC makes a *prima facie* showing. *See SEC v. Ralston Purina Co.*, 346 U.S. at 126 (1953). Thus, no exemption applies.

The SEC has shown that Defendants violated Section 5 of the Securities Act.

3.2 Section 15 of the Exchange Act

Section 15(a) of the Exchange Act requires brokers or dealers who "effect any transaction in, or induce or attempt to induce the purchase or sale of, any security" through the use of interstate commerce, to be registered with the SEC or, if the broker or dealer is a natural person, to be associated with a registered broker or dealer that is not a natural person. 15 U.S.C. § 78o(a). The term "broker" includes "any person engaged in the business of effecting transactions in securities for the account of others." 15 U.S.C. § 78c(a)(4)(A). Scienter isn't required to prove a violation of Section 15(a). *S.E.C. v. Interlink Data Network of Los Angeles, Inc.*, Civ. A. No. 93-3073 R., 1993 WL 603274, at *10 (C.D. Cal. Nov. 15, 1993). In deciding whether someone is a broker, courts have considered whether the individual (1) is an employee of the issuer; (2) received commissions as opposed to a salary; (3) is selling, or previously sold, the securities of other issuers; (4) is involved in negotiations between the issuer and the investor; (5) makes valuations as to the merits of the investment or gives advice; and (6) is an active rather than passive finder of investors. *SEC v. Martino*, 255 F. Supp. 2d 268, 283 (S.D.N.Y. 2003).

The undisputed evidence shows that Wayland, Liss, Blasko, and Dow were not registered as or associated with any broker-dealers at the time of the KT 50 or CAR offerings. *See, e.g.*, SUF Nos. 69, 73, 77, 81. Yet they acted as broker dealers, creating a boiler room, soliciting investors, supervising salespeople, drafting offering documents, and handling investors. (*Id.* Nos. 25-30, 45-49, 68, 70, 74, 78.) Liss, Blasko, and Dow were paid commissions for selling securities. (*Id.* Nos. 72, 76, 80.) And they solicited investors by phone and managed their questions and expectations. (*Id.* Nos.25-31, 45-49.) Doing so without proper registrations was a violation of Section 15 of the Exchange Act.

3.3 Section 17 of the Securities Act and Section 10(b) and Rule 10b-5 of the Exchange Act (Antifraud Provisions)

Section 17(a) of the Securities Act applies to sellers and makes it unlawful for anyone to commit fraudulent acts in connection with the offer or sale of securities. 15 U.S.C.A. § 77q; *Aaron v. Sec. & Exch. Comm'n*, 446 U.S. 680, 687 (1980). Exchange Act 10(b) and Rule 10b-5 apply to both sellers and buyers and make it unlawful to commit fraudulent acts in connection with the purchase or sale of a security. 15 U.S.C.A. § 78j; 17 CFR § 240.10b–5 (1979); *Aaron*, 446 U.S. at 687.

"Violations of Sections 17(a)(2) and (3) require a showing of negligence."*S.E.C. v. Dain Rauscher, Inc.*, 254 F.3d 852, 856 (9th Cir. 2001). And "[v]iolations of Section 17(a)(1), Section 10(b) and Rule 10b-5 require *scienter*." *Id.* Scienter is defined as a "a mental state embracing intent to deceive, manipulate, or defraud." *Aaron*, 446 U.S. at 686 n.5 (1980). "*Scienter* is satisfied by recklessness." *Dain Rauscher, Inc.*, 254 F.3d at 856.

3.3.1 Misrepresentations

To establish a violation of Section 17(a)(2), the SEC must prove, in connection with the offer or sale of a security: (1) a material false statement or omission; (2) made with at least negligence; (3) the receipt of money or property by means thereof; (4) by means of interstate commerce. *See, e.g., SEC v. Glt Dain Rauscher, Inc.*, 254 F.3d at 856. To establish a violation of Section 10(b) and Rule 10b-5(b), the SEC must show that a defendant, in connection with the purchase or sale of a security: (1) made an untrue statement or omitted to state a material fact,

(2) with scienter; (3) by means of interstate commerce. See 17 C.F.R. § 240.10b-5(b). *SEC v. Platforms Wireless Int'l Corp.*, 617 F.3d 1072, 1092 (9th Cir. 2010); *see also SEC v. Rana Research, Inc.*, 8 F.3d 1358, 1364 (9th Cir. 1993). To be actionable, misstatements and omissions must concern material facts. *Basic Inc. v. Levinson*, 485 U.S. 224, 231-32 (1988). A fact is material if there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision. *See TSC Indus. v. Northway*, 426 U.S. 438, 449 (1976); *SEC v. Platforms Wireless*, 617 F.2d at 1092.

The evidence of misrepresentations in this case is uncontroverted. Wayland, KT 50, and HP represented to investors that 65% of their money would be used to fund the development and operation of oil wells. (SUF Nos. 50, 61-63.) But only 13% of the money raised was actually allocated to that purpose. (SUF No. 52.) The KT 50 PPM also stated that 65% of funds raised would be used for business expenses. (*Id.* No. 51.) But Wayland and Mueller used at least $871,463 (36% of the offering) for personal expenses, including purchasing rare coins and groceries. (*Id.* No. 54.) Wayland, KT 50, and HP also misrepresented the rate of return on the KT 50 investment. The PPM's Executive Summary projected annual returns between 43.2% and 345% for each$100,000 unit of investment. (*Id.* No. 61.) These projections had no reasonable basis, considering that Defendants used the funds they received for personal expenses and didn't spend the required minimum on oil production. (*Id.* No. 62.) Wayland, KT 50, and HP also misrepresented the experience of the involved "directors" of the offerings. In the KT 50 PPM, they stated that the company's directors had a combined 80 years of experience with oil investment projects, plus 34 years in geological work, and that Wayland had "extensive experience in oil and gas administration." (*Id.* No. 64.) But neither Wayland nor Mueller had any experience in oil and gas investment projects. (*Id.* 65.)

3.3.2 Materiality

These misrepresentations were material, as similar cases involving channeling investments for personal use have established. *See SEC v. Capital Cove Bancorp LLC*, Case No. SACV 15-980-JLS (JCx), 2015 WL 9704076, at *7 (C.D. Cal. Sept. 1, 2015) ("Committing to invest Fund proceeds in real estate while channeling those investments to either personal use or Ponzi-like payments is clearly a material misrepresentation."); *SEC v. Interlink Data Network of Los Angeles, Inc.*, Civ. A. No. 93-3073 R, 1993 WL 603274, at *47 (C.D. Cal. Nov. 15, 1993) (failure to

disclose monies raised were used to pay for offeror's personal expenses was a material misrepresentation). The misrepresentations involving rates of return and management experience, each of which relate to the offering's profitability, were also material. *Murphy*, 626 F.2d at 653 ("[s]urely the materiality of information relating to financial condition, solvency, and profitability is not subject to serious challenge"); *CFTC v. Next Fin. Servs. Unlimited, Inc.*, 2006 U.S. Dist. LEXIS 19451 (S.D. Fla. Mar. 30, 2006) (trading experience material "because a reasonable investor would have considered these factors important when making an investment decision").

Further, the investors in this case testified that they would have considered it important in their investment decision to know that funds raised from KT 50 investors were being used to pay personal expenses or other KT 50 investors. (SUF Nos. 59-60; Dean Decl., Ex. 55 at 65:13-20; Ex. 56 at 88:14-89:22; Ex. 58 at 88:1-23; Ex. 59 at 40:19-41:25, 42:21-43:13.) The misrepresentations shown by the SEC are so clearly important to investors that summary judgment on the question of materiality is appropriate. *See SEC v. Credit Bancorp, Ltd.*, 195 F. Supp. 2d 475, 292 (S.D.N.Y. 2002).

3.3.3 Liability for Statements

Wayland, KT 50, and HP are liable under Rule 10b-5(b) for the misrepresentations because they had "ultimate authority" over them. *See Janus Capital Group, Inc. v. First Derivative Traders*, 564 U.S. 135, 142 (2011). Wayland reviewed and revised written documents for the KT 50 offering, communicated with KT 50 salespeople, and helped distribute the PPM and Executive Summary. (SUF Nos. 45-49.) Each of these actions demonstrates ultimate authority over the false statements. Unlike Rule 10b-5(b), Section 17(a)(2) of the Securities Act doesn't require the SEC to show that Wayland, KT 50, or HP "made" any false statements directly, only that they derived profits from the scheme to defraud. *See, e.g., SEC v. Big Apple Consulting, USA, Inc.*, 783 F.3d 786, 797 (11th Cir. 2015) (Section 17(a)(2) requires showing that defendant obtained money by means of an untrue statement, which includes a broader range of conduct than making a false statement). The SEC has thus shown, through uncontroverted evidence of Defendants' making false statement and deriving money from them, that Wayland, KT 50, and HP are liable for the misrepresentations.

3.3.4 Scheme to Defraud

The SEC has also proved that Wayland, KT 50, HP, and CAR engaged in a scheme to defraud. In the Ninth Circuit, scheme liability requires that the defendant engaged in deceptive acts that had "the principal purpose and effect of creating a false appearance of fact in furtherance of the scheme." *SEC v. Baccam*, 2017 U.S. Dist. LEXIS 88450 *16 (C.D. Cal., June 8, 2017) (quoting *Burnett v. Rowzee*, 561 F. Supp 2d 1120 (C.D. Cal. 2008)). The scheme alleged here is that Defendants raised funds purportedly for oil well projects, misrepresented the profitability of the offering and allocation of funds, and made Ponzi payments to investors. (SUF Nos. 50-63.) The SEC has shown that Defendants then used proceeds for personal expenses. Such conduct is sufficient to establish scheme liability. *See SEC v. Small Business Capital*, 2013 U.S. Dist. LEXIS 159227 (N.D. Cal., Aug. 6, 2013), at *14-24 (granting summary judgment on allegations that defendant used investor funds to pay expenses in violation of representations in offering documents).

3.3.5 Scienter

Next, Wayland's misappropriation of investor money for personal use is sufficient proof of scienter. *See, e.g., United States v. Booth*, 309 F.3d 566, 575 (9th Cir. 2002) (misuse of client funds is probative of both scheme and intent to defraud). Since Wayland was ultimately responsible for the statements made to investors, and since she controlled the bank accounts that she and Mueller used to misappropriate funds, she either knew or was reckless or negligent in not knowing that those statements were false. The rate returns couldn't be accurate, for example, when she knew investors' money wasn't going to oil projects.

To the extent direct evidence of Wayland's scienter is light, it bears noting that Wayland has invoked her Fifth Amendment right against self-incrimination, limiting the SEC's ability to gather evidence. (SUF No. 82.) However, the circumstantial evidence of her intent to defraud is sufficient to satisfy the scienter element here. It is thus unnecessary for the Court to draw an adverse inference from Wayland's invocation of the Fifth Amendment.

The SEC has shown that there is no dispute of material fact regarding violation of the antifraud provisions of the Securities Act (Section 17(a)) and the Exchange Act (Section 10(b)

and Rule 10b-5). The Court GRANTS summary judgment on these claims in favor of the SEC.

3.4 The Requested Relief

3.4.1 Injunction

A permanent injunction may be granted under Section 20(b) of the Securities Act, 15 U.S.C. § 77t(b), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d)(1), in an enforcement action brought by the SEC. To obtain an injunction, the SEC must establish that there is "a reasonable likelihood of future violations of the securities laws." *S.E.C. v. Murphy*, 626 F.2d 633, 655 (9th Cir. 1980). Whether a likelihood of future violations exists depends upon the totality of the circumstances. *Id.* The existence of past violations may give rise to an inference that there will be future violations. *Id.* But "[t]he fact that illegal conduct has ceased does not foreclose injunctive relief." *S.E.C. v. Koracorp Indus., Inc.*, 575 F.2d 692, 698 (9th Cir. 1978). Courts consider factors such as "the degree of scienter involved; the isolated or recurrent nature of the infraction; the defendant's recognition of the wrongful nature of his conduct; the likelihood . . . that future violations might occur; and the sincerity of his assurances against future violations." *Murphy*, 626 F.2d at 655.

The SEC hasn't offered sufficient evidence for the Court to issue a permanent injunction at this time. It is unclear from their summary judgment briefing whether the Defendants are still engaged in the conduct at issue in this case or what the likelihood of repeat violations may be. The Court DENIES the SEC's request for a permanent injunction.

3.4.2. Disgorgement

The Court has "'broad equity powers to order the disgorgement of ill-gotten gains obtained through the violation of the securities laws. Disgorgement is designed to deprive a wrongdoer of unjust enrichment, and to deter others from violating securities laws by making violations unprofitable." *SEC v. Platforms Wireless Int'l Corp.*, 617 F.3d 1072, 1096 (9th Cir. 2010). The amount of disgorgement should include all gains from the illegal activities. *Id.* "Disgorgement

need be 'only a reasonable approximation of profits causally connected to the violation.'" *Id.* (quoting *SEC v. First Pac. Bancorp*, 142 F.3d 1186, 1192 n.6 (9th Cir.1998)).

Here, the disgorgement figure satisfies the reasonable approximation standard. The SEC seeks disgorgement of each Defendant's personal gain from investors' money. Specifically, the SEC seeks $464,665 from Wayland (the amount she misappropriated), and $198,478, $160,751, and $59,461 from Dow, Liss, and Blasko (respectively), the amounts of their sales commissions. *See* SUF Nos. 36, 40, 43, 55. These amounts are well documented in the Declarations of Lorraine Pearson. *See, e.g.,* Pearson Decl. ¶ 17 ("According to the analysis, Wayland's personal expenses were $413,211, her cash withdrawals were $166,263, and her share of the deposits which did not represent investor funds was $114,809, for a net total of $464,665.) The amounts are calculated based on Pearson's analysis of "account statements, account opening documents, signature cards, wire transfers, deposit slips and copies of items deposited, checks, withdrawal slips and bank account transfers," and also her "conduct related inquiries and investigations." (*Id.* ¶¶ 3-4.)

The prejudgment interest amount is also appropriate. Disgorgement normally includes prejudgment interest to ensure that wrongdoers do not profit from their illegal conduct. *See SEC v. Manor Nursing Centers, Inc.*, 458 F.2d 1082, 1105 (2d Cir. 1972); *Cross Fin. Services*, 908 F. Supp. at 734. The SEC used the post-judgment rate of interest prescribed by 28 U.S.C. § 1961 to calculate prejudgment interest. (Lynn Dean Decl. (Dkt. 63) at ¶ 64.) The SEC calculated that from February 2016 to March 2019, the prejudgment interest on the SEC-recommended disgorgement amounts is $64,057.72 for Wayland, $27,361.75 for Dow, $22,160.78 for Liss, and $59,461 for Blasko. (*Id.* ¶ 64, Exs. 69-72.)

The Court GRANTS the SEC's requests for disgorgement and prejudgment interest.

3.4.3. Civil Penalties

Due to their violations, Defendants are liable for penalties under Section 20(d)(1) of the Securities Act and Section 21(d)(3) of the Exchange Act. 15 U.S.C. §§ 77t(d)(1), 78u(d)(3)(A). Civil penalties are meant to serve the dual goals of punishing wrongdoers and deterring others from committing future securities law violations. *S.E.C. v. Kenton Capital, Ltd.*, 69 F. Supp. 2d

1, 17 (D.D.C. 1998). Under Section 20(d)(2)(A) of the Securities Act and Section 21(d)(3)(B) of the Exchange Act, the amount of any civil penalty "shall be determined by the court in light of the facts and circumstances." 15 U.S.C. §§ 77t(d)(2)(A), 78u(d)(3)(B).

The factors courts consider when awarding civil penalties are: (i) the degree of scienter; (ii) the isolated or recurrent nature of the infraction; (iii) the defendant's recognition of the wrongful nature of his conduct; (iv) the likelihood, because of the defendant's professional occupation, that future violations might occur; and (v) the sincerity of his assurances against future violations. *See Murphy*, 626 F.2d at 655; *see also CMKM Diamonds*, 635 F. Supp. 2d at 1192.

The Securities Act and the Exchange Act provide a three-tier system. Second-tier penalties apply to violations that "involved fraud, deceit, manipulation or deliberate or reckless disregard of a regulatory requirement." *See* 15 U.S.C. §§ 77t(d)(2)(B), 78u(d)(3)(B)(ii). Third-tier penalties apply to violations that (i) involve "fraud, deceit, manipulation, or reckless disregard of a regulatory requirement" and (ii) "directly or indirectly resulted in substantial losses or created a significant risk of substantial losses to other persons." *Id.* §§ 77t(d)(2)(C), 78u(d)(3)(B)(iii). The statute also provides for a penalty equal to "the gross amount of pecuniary gain to such defendant as the result of the violation." *Id.* §§ 77t(d)(2), 78u(d)(3)(B). For second-tier penalties involving violations that occurred between 2014 and 2016, the statutory amount, adjusted for inflation, is $80,000 for natural persons. *Id.* §§ 77t(d)(2)(C), 78u(d)(3)(B)(iii); 17 C.F.R. § 201.1003 (SEC rule setting forth inflation adjustments).

Regarding the first requirement, Wayland's, Dow's, Liss's, and Blasko's business practices were fraudulent, deceitful, and manipulative and resulted in loss to other persons. *See, e.g. CMKM Diamonds, Inc.*, 635 F. Supp. 2d at 1191-92. But the SEC hasn't engaged with the other factors from *Murphy* sufficient to justify the specific penalties sought here. The SEC must present more than a conclusory recitation of the factors, and may do so through a separate motion, if it so chooses. The Court DENIES the SEC's request for civil penalties.

4. DISPOSITION

Any facts, arguments, or authorities not addressed in this order were found unnecessary to the Court's analysis and conclusions here.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES – GENERAL

Case No.	SACV 17-01156 AG (DFMx)	Date	April 8, 2019
Title	SECURITIES AND EXCHANGE COMMISSION v. CAROL J. WAYLAND ET AL.		

Finding no material disputes of material fact to contradict the SEC's allegations in this lawsuit, the Court GRANTS summary judgment against the Defendants on all claims. The Court DENIES the SEC's request for an injunction and for civil penalties and GRANTS the SEC's requests for disgorgement and prejudgment interest. The April 29, 2019 pretrial conference and May 17, 2019 trial in this matter are VACATED.

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Initials of Preparer mku

EXHIBIT 3

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES – GENERAL

Case No.	SACV 17-01156 AG (DFMx)	Date	May 8, 2019
Title	SECURITIES AND EXCHANGE COMMISSION v. WAYLAND, ET AL.		

Present: The Honorable	ANDREW J. GUILFORD	
Melissa Kunig/Rolls Royce Paschal	Not Present	
Deputy Clerk	Court Reporter / Recorder	Tape No.
Attorneys Present for Plaintiffs:	Attorneys Present for Defendants:	

Proceedings: **[IN CHAMBERS] ORDER REGARDING PROPOSED JUDGMENTS**

The Court granted summary judgment against the Defendants on all claims in this case. (Dkt. 71.) The Court has reviewed the SEC's supplementary briefing regarding injunctive relief and civil penalties and finds that the relief sought by the SEC is justified. The SEC has submitted proposed final judgments for each Defendant. (Dkt. Nos. 74-3, 74-4, 74-5, 74-6, 74-7, 74-8, and 74-9.) The Court has concerns about expansive injunctions and the Court's ability to enforce them. *See United States Commodity Futures Trading Comm'n v. Intelligent Trades, LLC* , 2016 WL 6078718, at *1 (C.D. Cal. Oct. 12, 2016). With all this in mind, and having received no oppositions from the Defendants, the Court signs the proposed final judgments.

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Initials of Preparer mku/rrp

EXHIBIT 4

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

SOUTHERN DIVISION

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

vs.

CAROL J. WAYLAND, JOHN C. MUELLER, KENTUCKY-TENNESSEE 50 WELLS/400 BBLPD BLOCK, LIMITED PARTNERSHIP, HP OPERATIONS, LLC, C.A.R. LEASING, LLC, MITCHELL B. DOW, BARRY LISS, AND STEVE G. BLASKO,

Defendants.

Case No. 8:17-cv-01156-AG (DFMx)

FINAL JUDGMENT AS TO STEVE G. BLASKO

This matter came before the Court upon Plaintiff Securities and Exchange Commission's ("SEC") Motion for Summary Judgment against defendants Kentucky-Tennessee 50 Wells/400 BBLPD Block, Limited Partnership, HP Operations, LLC, C.A.R. Leasing, LLC, Carol J. Wayland, Mitchell B. Dow, Barry Liss, and Steve G. Blasko, made pursuant to Federal Rule of Civil Procedure 56. The Court having considered the memoranda and evidence filed by the parties, and all other argument and evidence presented to it, and good cause appearing therefor, granted the SEC's Motion on April 8, 2019.

On April 18, 2019, the SEC submitted a Supplemental Memorandum of Points and Authorities in support of its motion for permanent injunctions and civil penalties. The Court having considered the memoranda and evidence submitted by the SEC, and all other argument and evidence presented to it, and good cause appearing therefor, grants the SEC's Motion and enters this Final Judgment as to Steve G. Blasko ("Defendant").

I.

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED that Defendant is permanently restrained and enjoined from violating Section 5 of the Securities Act of 1933 [15 U.S.C. § 77e] ("Securities Act") by, directly or indirectly, in the absence of any applicable exemption:

(a) Unless a registration statement is in effect as to a security, making use of any means or instruments of transportation or communication in interstate commerce or of the mails to sell such security through the use or medium of any prospectus or otherwise;

(b) Unless a registration statement is in effect as to a security, carrying or causing to be carried through the mails or in interstate commerce, by any means or instruments of transportation, any such security for the purpose of sale or for delivery after sale; or

(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 any security, unless a registration statement has been filed with the Commission as to such security, or while the registration statement is the subject of a refusal order or stop order or (prior to the effective date of the registration statement) any public proceeding or examination under Section 8 of the Securities Act [15 U.S.C. § 77h].

IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that, as provided in Federal Rule of Civil Procedure 65(d)(2), the foregoing paragraph also binds the following who receive actual notice of this Final Judgment by personal service or otherwise: (a) Defendant's officers, agents, servants, employees, and attorneys; and (b) other persons in active concert or participation with Defendant or with anyone described in (a).

II.

IT IS HEREBY FURTHER ORDERED, ADJUDGED, AND DECREED that Defendant is permanently restrained and enjoined from violating Section 15(a) of the Securities Exchange Act of 1934 [15 U.S.C. § 78o(a)] ("Exchange Act"), in connection with the purchase or sale of a security, by the use of means or instrumentalities or interstate commerce, of the mails, or of the facilities of a national securities exchange, directly or indirectly effecting transactions in, or inducing or attempting to induce the purchase or sale of, securities without being registered with the SEC, or affiliated with a broker-dealer registered with the SEC.

IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that, as provided in Federal Rule of Civil Procedure 65(d)(2), the foregoing paragraph also binds the following who receive actual notice of this Judgment by personal service or otherwise: (a) Defendant's officers, agents, servants, employees, and attorneys; and (b) other persons in active concert or participation with Defendant or with anyone described in (a).

III.

IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that Defendant is liable for disgorgement of $59,461, representing profits gained as a result of the conduct alleged in the Complaint, together with prejudgment interest thereon in the amount of $8,197.18, and a civil penalty in the amount of $160,000 pursuant to Section 20(d) of the Securities Act and Section 21(d)(3) of the Exchange Act [15 U.S.C. §§ 77t(d), 78u(d)(3)]. Defendant shall satisfy this obligation by paying $227,658.18 to the Securities and Exchange Commission within 14 days after entry of this Final Judgment.

Defendant may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request. Payment may also be made directly from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm. Defendant may also pay by certified check, bank cashier's check, or United States postal money order payable to the Securities and Exchange Commission, which shall be delivered or mailed to

Enterprise Services Center
Accounts Receivable Branch
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

and shall be accompanied by a letter identifying the case title, civil action number, and name of this Court; Steve G. Blasko as a defendant in this action; and specifying that payment is made pursuant to this Final Judgment.

Defendant shall simultaneously transmit photocopies of evidence of payment and case identifying information to the Commission's counsel in this action. By making this payment, Defendant relinquishes all legal and equitable right, title, and interest in such funds and no part of the funds shall be returned to Defendant. The Commission shall send the funds paid pursuant to this Final Judgment to the United States Treasury.

The Commission may enforce the Court's judgment for disgorgement and prejudgment interest by moving for civil contempt (and/or through other collection procedures authorized by law) at any time after 14 days following entry of this Final Judgment. Defendant shall pay post judgment interest on any delinquent amounts pursuant to 28 U.S.C. § 1961.

IV.

IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the allegations in the complaint are true and admitted by Defendant, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Defendant under this Final Judgment or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Steve G. Blasko of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

V.

IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that this Court shall retain jurisdiction of this matter for the purposes of enforcing the terms of this Final Judgment.

VI.

There being no just reason for delay, pursuant to Rule 54(b) of the Federal Rules of Civil Procedure, the Clerk is ordered to enter this Final Judgment forthwith and without further notice.

Dated: May 7, 2019

HON. ANDREW J. GUILFORD
UNITED STATES DISTRICT JUDGE

EXHIBIT 5

Case Summary

Case Number: 13HF3365
OC Pay Number: 7868081
Originating Court: Harbor - Newport Beach Facility
Defendant: Blasko, Steve Gerald
Demographics:

Eyes:	Hazel
Hair:	Brown
Height(ft/in) :	6'0"
Weight (lbs):	185

Names:

Last Name	First Name	Middle Name	Type
Blasko	Steve	Gerald	Real Name
Blasko	Steven	Gerald	Alias
Blasko	Steve	Gepald	Alias

Case Status:

Status:	Closed
Case Stage:	
Release Status:	
Warrant:	N
DMV Hold :	N
Charging Document:	Complaint
Mandatory Appearance:	Y
Owner's Resp:	N
Amendment #:	0

Counts:

Seq	S/A	Violation Date	Section Statute	OL	Violation	Plea	Plea Date	Disposition	Disposition Date
1	0	11/07/2013	11377(a) HS	F	Possession of a controlled substance	GUILTY	11/18/2013	Pled Guilty	11/18/2013
2	0	11/07/2013	23152(a) VC	M	Driving Under the Influence of Alcohol or Drugs	GUILTY	11/18/2013	Pled Guilty	11/18/2013
3	0	11/07/2013	11550(a) HS	M	Under the influence of a controlled substance	NOT GUILTY	11/14/2013	Dismissed	11/18/2013
4	0	11/07/2013	11364.1(a) HS	M	Possession of opium pipe and/or controlled substance paraphernalia	NOT GUILTY	11/14/2013	Dismissed	11/18/2013
5	0	11/07/2013	12500(a) VC	M	Driving without valid driver license	NOT GUILTY	11/14/2013	Dismissed	11/18/2013

Participants:

Role	Badge	Agency	Name	Vacation Start	Vacation End
District Attorney		OCDA	Cazares, Craig		
Retained Attorney		RETAT	Fell, Michael Laurence		
District Attorney		OCDA	Schaniel, Jennifer Marie		

Heard Hearings:

Date	Hearing Type - Reason	Courtroom	Hearing Status	Special Hearing Result
11/12/2013	Arraignment In Custody	CJ1	Heard	Waives arraignment today
11/14/2013	Arraignment In Custody	CJ1	Heard	
11/18/2013	Pre Trial -	H1	Heard	waives statutory time for
11/26/2013	Preliminary Hearing -	H1	Cancel	

Sentences:

Seq #	Sentence Date	Sentence
1	11/18/2013	3 years Probation
2	11/18/2013	26 days Jail
3	11/18/2013	$390.00 Fines
4	11/18/2013	18 months Multiple Offender Alcohol Program
5	11/18/2013	Residential and Outpatient Program

Probation:

Sent Seq #	Type	Term	End Date
1	FORMAL	3 years	11/17/2016

History:

Status	Status Date	End Date
Active	11/18/2013	11/17/2016
Expired	11/17/2016	11/17/2016

EXHIBIT 6

LYNN M. DEAN (Cal. Bar No. 205562)
Email: deanl@sec.gov
MARISA G. WESTERVELT (Cal. Bar No. 217172)
Email: westerveltm@sec.gov

Attorneys for Plaintiff
Securities and Exchange Commission
Michele Wein Layne, Regional Director
Alka Patel, Associate Regional Director
Amy J. Longo, Regional Trial Counsel
444 S. Flower Street, Suite 900
Los Angeles, California 90071
Telephone: (323) 965-3998
Facsimile: (213) 443-1904

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

vs.

CAROL J. WAYLAND, JOHN C. MUELLER, KENTUCKY-TENNESSEE 50 WELLS/400 BBLPD BLOCK, LIMITED PARTNERSHIP, HP OPERATIONS, LLC, C.A.R. LEASING, LLC, MITCHELL B. DOW, BARRY LISS, AND STEVE G. BLASKO,

Defendants.

Case No. 8:17-CV-01156

COMPLAINT

Plaintiff Securities and Exchange Commission ("SEC") alleges:

JURISDICTION AND VENUE

1. The Court has jurisdiction over this action pursuant to Sections 20(b), 20(d)(1) and 22(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§ 77t(b), 77t(d)(1) & 77v(a), and Sections 21(d)(1), 21(d)(3)(A), 21(e) and 27(a) of the

Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§ 78u(d)(1), 78u(d)(3)(A), 78u(e) & 78aa(a).

2. Defendants have, directly or indirectly, made use of the means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange in connection with the transactions, acts, practices and courses of business alleged in this complaint.

3. Venue is proper in this district pursuant to Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a), and Section 27(a) of the Exchange Act, 15 U.S.C. § 78aa(a) because certain of the transactions, acts, practices, and courses of conduct constituting violations of the federal securities laws occurred within this district. In addition, venue is proper in this district because Defendants Wayland, Mueller, Liss, and Blasko reside in this district.

SUMMARY

4. This matter involves a $2.4 million offering fraud by Kentucky-Tennessee 50 Wells/400 BBLPD Block Limited Partnership ("K-T 50 Wells") and its founders, Carol J. Wayland and her son, John C. Mueller. From approximately May 2014 to February 2016, K-T 50 Wells fraudulently offered and sold unregistered securities to investors using a boiler room operation. Defendants misrepresented to KT-50 Wells investors that their monies would be used to fund the development and operation of oil wells for high returns; instead, Defendants misappropriated investors' funds for personal expenses, as well as to make Ponzi payments, resulting in loss of investors' principal. In addition, Defendants used investor funds to pay business expenses in excess of those set forth in the offering documents.

5. Wayland and Mueller operated K-T 50 Wells and conducted the offering through two other entities that they wholly owned and controlled, HP Operations, LLC and C.A.R. Leasing, LLC.

6. To solicit investors, Wayland and Mueller set up a boiler room under the fictitious name of "Sahara Wealth Advisors." The boiler room employed numerous

salespeople, including Defendants Mitchell B. Dow, Barry Liss, and Steve G. Blasko, all of whom had prior experience working in boiler rooms. Dow, Liss, and Blasko were the principal "closers" for the K-T Wells offerings and earned the largest amount of sales commissions.

7. K-T 50 Wells raised approximately $2.4 million from 41 investors nationwide, claiming it would use the money to develop and operate oil wells. In reality, however, the company had little legitimate business activity. Wayland and Mueller spent only about 13% of the money raised from investors on oil well drilling expenses. They also took at least $871,463, or 36%, of investor money to pay for personal expenses, including groceries, restaurant dining, car payments, the purchase of a rare coin, and cash. They also used some investor funds to make Ponzi payments to certain investors.

8. In addition, Defendants made false promises regarding the amount of returns that K-T 50 Wells investors would receive from their investments. Although the K-T 50 Wells Private Placement Memorandum ("PPM") stated that net revenue interest would be paid to investors at .075% (or .75%) per unit, and the investment brochure entitled "Kentucky-Tennessee 50 Well/400 BBLPD Block Executive Summery" [sic] ("Executive Summary") projected annual returns ranging from a minimum $43,200 (or 43.20%), to a maximum of $345,000 (or 345%), for each $100,000 unit of investment, most investors received smaller returns. In fact, at least one investor received payments as low as $17.

9. Finally, Defendants Wayland, Mueller, K-T 50 Wells, and HP Operations made false claims that Wayland and Mueller had extensive experience managing oil and gas investment projects, when in fact they had none.

THE DEFENDANTS

10. **Carol J. Wayland (a/k/a Jodi Wayland, J. Wayland)**, age 80, of Newport Beach, California, is Mueller's mother, a co-founder and member of K-T 50 Wells, managing member of HP Operations and C.A.R. Leasing, and a member of

MS Operating, LLC, a related party described in paragraph 18, below. Wayland worked with Mueller to operate K-T 50 Wells and conduct the offering. Wayland has a California real estate broker license, but holds no securities licenses.

11. **John C. Mueller (a/k/a John Clark, Bob Allison)**, age 53, of Newport Beach, California, is Wayland's son, a co-founder and member of K-T 50 Wells, a member of HP Operations, and a member and/or employee of MS Operating, LLC. Mueller worked with Wayland to operate K-T 50 Wells and conduct the offering. Mueller holds no securities licenses.

12. **Kentucky-Tennessee 50 Wells/400 BBLPD Block, Limited Partnership (a/k/a Warren County 200 Well/1,600 BBLPD Block, Kentucky-Tennessee 200 Well/1600 BBLPD Block)** is a Wyoming limited partnership, purportedly headquartered in Cheyenne, Wyoming, with its actual place of business in Newport Beach, California. Wayland and Mueller founded K-T 50 Wells and operated it through managing general partner HP Operations. K-T 50 Wells has never been registered with the SEC in any capacity. K-T 50 Wells filed a Form D on July 30, 2014, claiming a Regulation D, Rule 506(c) exemption.

13. **HP Operations, LLC** is a Wyoming limited liability company, purportedly headquartered in Cheyenne, Wyoming, with its actual place of business in Newport Beach, California. HP Operations was the managing general partner of K-T 50 Wells, with sole discretion over the business of K-T 50 Wells. HP Operations has never been registered with the SEC in any capacity.

14. **C.A.R. Leasing, LLC** is a Wyoming limited liability company, purportedly headquartered in Cheyenne, Wyoming, with its actual place of business in Huntington Beach, California. Wayland operated C.A.R. Leasing and used it to perform administrative and other tasks for K-T 50 Wells, including the administration of investments received in advance of the K-T 50 Wells Form D filing in July 2014, which were later rolled into the K-T 50 Wells offering. C.A.R. Leasing has never been registered with the SEC in any capacity.

15. **Mitchell B. Dow (a/k/a Dave Baker)**, CRD# 2355743, age 54, is a resident of Long Beach, California. Dow was a salesperson for the K-T 50 Wells offering from approximately November 2014 to at least March 2016. Dow held Series 15 and 63 licenses, with no record of disciplinary history. He was last associated with a registered broker-dealer in 1995. In 1999, Dow pleaded guilty to two counts of felony wire fraud in federal court in connection with a telemarketing scam.

16. **Barry Liss**, age 59, is a resident of Orange, California. Liss was a salesperson for the K-T 50 Wells offering from approximately August 2014 to March 2016. Liss holds no securities licenses.

17. **Steve G. Blasko (a/k/a Steve Gerald)**, age 47, is a resident of Costa Mesa, California. Blasko was a salesperson for the K-T 50 Wells offering from approximately June 2014 to February 2015. Blasko holds no securities licenses.

RELATED PARTY

18. **MS Operating, LLC (d/b/a AMS Drilling, Allison Drilling, Apple Oil Field Development & Drilling, Apple Development Oil Field Development & Drilling, Apple Oil Field Development, Apple Oil Development)** is a Wyoming limited liability company with its principal place of business in Newport Beach, California. Wayland and Mueller operated MS Operating and used it to conduct oil well-related business and other business for K-T 50 Wells. MS Operating has never been registered with the SEC in any capacity.

THE ALLEGATIONS

A. The K-T 50 Wells Offering

19. From approximately May 2014 to February 2016, K-T 50 Wells raised at least $2,417,257 from 41 investors nationwide in an unregistered securities offering of limited partnership units. Investors sent checks payable to K-T 50 Wells or wired funds directly to K-T 50 Wells bank accounts that were controlled by Wayland, or jointly by Wayland and Mueller.

20. The stated goal of the K-T 50 Wells offering was to raise up to $10 million for the development and operation of oil wells. The K-T 50 Wells offering ceased in early February 2016.

21. The K-T 50 Wells PPM offered 100 limited partnership units for $100,000, each of which represented a 1% "working interest" in the limited partnership and a "net revenue interest" per unit of 0.075%.[1] The net revenue interest, or investor return per unit, was purportedly based on the production (barrels per day) of the oil wells and the price of oil, net of costs. Investors typically invested in fractional units and received a "working interest" and a "net revenue interest" proportional to the amount of their investment.

22. One K-T 50 Wells PPM dated July 21, 2014 represented that investor funds would be used for business expenses and oil well drilling expenses. The PPM addressed the use of investor funds assuming that the offering would raise the $10 million maximum offering amount, and stated that "[t]here will be deducted from the proceeds to the Partnership amounts not in excess of $3,500,000 [35%] payable to the Managing General Partner [HP Operations] for filing, legal, bonds/insurance, advertising/marketing, sales commissions and accounting/administrative." The PPM further stated that the remaining net proceeds of "an estimated $6,500,000 [65%] shall go toward all drilling efforts . . . ." Although the PPM appears to have been revised multiple times, the representations regarding the use of investor funds did not substantively change. Wayland and Mueller leased and operated at least one well for K-T 50 Wells.

23. A few early investors, whose investments pre-dated the July 2014 K-T 50 Wells PPM, invested in C.A.R. Leasing lease positions in an oil and gas project known as "Warren County 200 Well/1600 BBLPD Block." The C.A.R. Leasing

[1] Although the PPM initially states that "Net Revenue per unit is .075%," a different part of the PPM states that the net revenue interest is 0.75% per unit, and the Executive Summary states that the net revenue interest is 75% per 100 units.

offering documents stated that the offering was to raise money to develop and operate oil wells. The lease positions purportedly gave investors a fractional "working interest" in the project proportional to the amount of their investment, and investors were supposed to receive quarterly payments based on oil well production, net of costs. These investors wired funds or sent checks to C.A.R. Leasing accounts controlled by Wayland and received an "Interim Division Order" memorializing their lease position.

24. The C.A.R. Leasing offering overlapped the K-T 50 Wells offering for a period of time in the summer of 2014. Wayland and Mueller later rolled the C.A.R. Leasing investors into the K-T 50 Wells offering on the premise that K-T 50 Wells was part of the larger 200 well project they had invested in. These investors received payments from C.A.R. Leasing and/or K-T 50 Wells bank accounts.

B. The Solicitation of Investors

25. To solicit investors, Wayland and Mueller set up a boiler room in Irvine, California under the fictitious name of "Sahara Wealth Advisors." Wayland and Mueller commissioned a website for Sahara Wealth Advisors (www.saharawealth.com) as well as other websites (including www.shopoil.net and www.ordersshopoil.com) which they set up as "landing pages" to attract and obtain information from potential investors.

26. Mueller and Wayland also set up LinkedIn and Facebook accounts for Sahara Wealth Advisors and issued at least two press releases in its name that were dated December 11, 2014 and October 15, 2015 and published online at www.pdrnewswire.com and www.thefreelibrary.com, respectively.

27. Mueller and Wayland also purchased lead lists. The boiler room salespeople called individuals identified through the websites and lead lists. Mueller and Wayland paid the salespeople commissions from accounts in the names of K-T 50 Wells, HP Operations and/or C.A.R. Leasing.

28. The salespeople were generally divided into "fronters" and "closers."

Fronters made the initial calls and generally followed a written sales script. Closers discussed the investment in more detail, fielded questions, and encouraged potential investors to send in promised investments. Closers also distributed or caused to be distributed documents to potential investors, including the PPM and the Executive Summary. In addition, closers solicited existing investors for additional investments in K-T 50 Wells.

29. Salespeople received large sales commissions, which sometimes amounted to as much as 20% of an investor's total investment. Dow, Liss, and Blasko – all of whom had prior experience working in boiler rooms – were the principal closers and earned the largest total amounts of commissions – $198,478, $160,751, and $59,461, respectively. They had frequent communications with prospective and actual investors via telephone and sometimes email. Dow used the alias "Dave Baker" for all such communications.

30. Wayland and Mueller supervised all of the K-T 50 Wells sales efforts. Mueller maintained an office at the Sahara Wealth Advisors boiler room and salespeople often overheard him speaking with Wayland on the telephone about K-T 50 Wells. Both Wayland and Mueller communicated directly with salespeople.

31. In addition, Mueller revised the PPM and Executive Summary several times, and Wayland assisted the salespeople with the distribution of these documents.

32. Mueller also drafted or revised, and Wayland reviewed or revised, other written documents for the K-T 50 Wells offering, including the subscription agreement and accredited investor representation letter that was supposed to be completed for each investment. Wayland also communicated directly with potential investors and existing investors. Salespeople and Wayland looked to Mueller for guidance in handling and responding to investor questions or concerns.

C. Violations of the Antifraud Provisions

1. Misappropriation of Investor Funds

33. Wayland and Mueller misappropriated K-T 50 Wells investor funds.

From approximately May 2014 to February 2016, K-T 50 Wells raised at least $2,417,257 from 41 investors, which was deposited in bank accounts under Wayland and/or Mueller's control. During this time, an additional $216,620 from unknown sources was deposited in bank accounts under Wayland and/or Mueller's control, for a total of $2,633,877. These bank accounts also had beginning balances from unknown sources.

34. From May 2014 to October 2016, Wayland and Mueller spent approximately $2,646,848 from the bank accounts that directly or indirectly received investor funds. They spent these funds in ways that were contrary to the use of proceeds set forth in the K-T 50 Wells PPM. Specifically, the PPM specified that 65% of the funds raised were to go to development of oil wells, with the remaining 35% to go to business expenses. Instead, Defendants spent a mere 13% of the amount raised on oil well development, and spent 42% on expenses that included internet advertising and sales commissions. In addition, they spent at least 36% of the amount raised on the personal expenses of Wayland and Mueller, and another 2.5% on Ponzi payments, though the PPM made no provision for such expenditures.

35. Specifically, contrary to the representations in the K-T 50 Wells PPM regarding the use of investor funds, Wayland and Mueller used at least $871,463 of investor funds for their own personal expenses – including, but not limited to, groceries, restaurant meals, rent payments, car payments, and the purchase of a $26,000 rare coin – and to make cash payments to themselves. Wayland and Mueller therefore personally misappropriated at least $871,463, or 36%, of K-T 50 Wells investor funds.

36. Furthermore, Wayland and Mueller used approximately $59,377, or 2.5%, of the K-T 50 Wells investor funds to make "royalty payments" to other K-T 50 Wells investors—essentially, Ponzi payments. These funds came directly from other investors, and not from income from oil well production or any other source. This use of investor funds was not disclosed in the PPM.

37. In addition, Wayland and Mueller spent approximately $1,007,276 on business expenses, including telephone and web hosting services, advertising and lead lists, and sales commissions. Wayland and Mueller spent $495,743 of this amount on sales commissions and used at least $95,000 of this amount for Internet ads alone. Pursuant to the PPM, because K-T 50 Wells raised approximately $2,417,257 from investors, Wayland and Mueller should have used a maximum of 35% of that amount, or $846,040, for business expenses.

38. Wayland and Mueller spent $430,054 on oil well drilling expenses and other expenses. Pursuant to the PPM, because K-T 50 Wells raised approximately $2,417,257 from investors, Wayland and Mueller should have used approximately 65% of that amount, or $1,571,217, for the development of oil wells. In actuality, however, Wayland and Mueller spent only about $313,755, or only 13%, on oil well drilling expenses.

39. Wayland and Mueller were each signatories on one or more of the bank accounts that received K-T 50 Wells investor funds, either directly, or indirectly through transfers from the bank accounts that directly received investor funds. As of October 2016, the funds in those accounts totaled approximately $13,689.

40. K-T 50 Wells investors were not aware that K-T 50 Wells investor funds were being used: (1) to pay Wayland and Mueller's personal expenses; (2) to pay other K-T 50 Wells investors; or (3) to pay sales commissions and other business expenses in excess of what was represented in the PPM. Investors would have considered it important in their investment decision to know that funds raised from K-T 50 Wells investors were being used for purposes other than the stated purposes.

41. Wayland, Mueller, K-T 50 Wells, HP Operations and C.A.R. Leasing engaged in a fraudulent offering scheme. Wayland and Mueller created and controlled K-T 50 Wells and C.A.R. Leasing, which were essentially sham entities with little legitimate business activity. They created and controlled the Sahara Wealth Advisors boiler room. Wayland and Mueller drafted, revised, reviewed

and/or distributed false and misleading offering and marketing materials, including the PPM and Executive Summary. Finally, Wayland and Mueller misappropriated investor funds for undisclosed purposes including payment of their personal expenses and Ponzi payments to other investors. In addition, K-T 50 Wells, its managing partner HP Operations, and C.A.R. Leasing not only issued the securities to the investors, but received investor money which was ultimately misused.

2. False Promises of High Returns

42. K-T 50 Wells made false promises regarding the amount of returns that K-T 50 Wells investors would receive from their investments. The Executive Summary projected annual returns ranging from a minimum $43,200 (or 43.20%), to a maximum of $345,000 (or 345%), for each $100,000 unit of investment, depending on factors including the amount of oil production (barrels per day) and the price of oil. Defendants had no reasonable basis for these projections, because Defendants misappropriated funds and therefore did not spend the required minimum on oil production. Indeed, most investors received smaller returns. At least one investor received payments as low as $17. When that investor complained, Wayland blamed the low payments on low oil prices or bad weather interfering with oil production. Moreover, some K-T 50 Wells investors received "returns" that were Ponzi payments from funds raised from other K-T 50 Wells investors.

43. Investors would have considered it important in their investment decision to know that the returns would be significantly lower than expected, at least in part because defendants failed to spend the required minimum on oil production, and in part because certain returns were from Ponzi payments.

3. Misrepresentations Regarding Management Experience

44. K-T 50 Wells misrepresented Wayland and Mueller's experience with managing oil and gas investment projects. The "Executive Management" section of a K-T 50 Wells PPM dated July 21, 2014 represented that the "directors" of HP Operations had a "combined 80 years" of experience with oil investment projects,

"plus 34 years' experience on the geological end." The PPM also claimed that "J. Wayland (Managing Member)" had "extensive experience in oil and gas administration." Wayland and Mueller are the only members of HP Operations, thus this reference to "directors" appears to refer to them.

45. In reality, neither Wayland nor Mueller had the kind of experience described in the offering materials. Wayland and Mueller have operated and/or worked for a variety of businesses – including real estate investment, a car wash, a photography and talent management company, and a limousine company – none of which are related to oil and gas investment projects.

46. Investors would have considered it important in their investment decision to know that neither Wayland nor Mueller had the experience in the oil and gas industry that they described. Investors were dependent upon Wayland and Mueller's business acumen in the industry for their returns, and their lack of experience in the field would have been important to investors to know.

47. K-T 50 Wells, HP Operations, Wayland, and Mueller obtained money by means of misrepresentations. As discussed above, K-T 50 Wells, and its manager, HP Operations, raised approximately $2,417,257 from investors in the offering through materially false and misleading statements in the PPM and Executive Summary. In addition, Wayland and Mueller personally obtained over $800,000 of investor money by means of these same materially false and misleading statements.

D. Defendants' Misrepresentations Were Material and Made With Scienter

48. All of the false and misleading statements in the K-T 50 Wells PPM and Executive Summary were material. A reasonable investor would have considered it important to know that K-T 50 Wells had little legitimate business activity; that Wayland and Mueller lacked the management experience described in the PPM; and that investors would receive returns that were much smaller than those described in the Executive Summary. In addition, a reasonable investor would have considered it important to know that K-T 50 Wells investor funds would be used for payment of

Wayland and Mueller's personal expenses and other purposes not disclosed in the PPM.

49. Wayland and Mueller acted with scienter. Wayland and Mueller knew, or were reckless in not knowing, that K-T 50 Wells had little legitimate business activity. They also knew that K-T 50 Wells solicited investors through website "landing sites" and the Sahara Wealth boiler room. In addition, Wayland and Mueller knew or were reckless in not knowing that the PPM contained false and misleading statements about their management experience. Moreover, Wayland and Mueller each controlled one or more of the bank accounts that received K-T 50 Wells investor funds; thus, they knew, or were reckless in not knowing, that they were misappropriating K-T 50 Wells investor funds for their own personal expenses and other undisclosed purposes.

50. In addition, Wayland, Mueller, K-T 50 Wells, HP Operations, and C.A.R. Leasing failed to exercise reasonable care by, among other things, misappropriating investor funds and making materially misleading representations, and thus were negligent.

E. Registration Violations: Sections 5(a) and 5(c) of the Securities Act

51. The K-T 50 Wells and C.A.R. Leasing offerings were not registered with the SEC. Both offerings were part of a single financing scheme to operate oil wells and the assets of both offerings were commingled. The C.A.R. Leasing offering documents were silent as to any registration exemption, but the K-T 50 Wells PPM represented that the offering was relying on a Rule 506(c) exemption. Accordingly, all of the investors in the K-T 50 Wells offering had to be accredited investors. Although salespeople asked potential investors if they were accredited investors, several investors told salespeople that they did not meet the criteria for accredited investor status but were allowed to invest anyway. In addition, Wayland sometimes attempted to obtain third party verification of accredited status after the fact.

52. K-T 50 Wells and C.A.R. Leasing are liable for the registration

violations because they were the issuers, respectively, of the limited partnership units and lease positions. HP Operations is liable for directly offering and selling the K-T 50 Wells limited partnership units because, as stated in the K-T 50 Wells PPM, HP Operations, the managing general partner of K-T 50 Wells, "is offering to sell 100 UNITS of the [K-T 50 Wells] Partnership." HP Operations was the managing general partner of K-T 50 Wells, K-T 50 Wells paid the boiler room salespeople, investors sent funds to K-T 50 Wells bank accounts, and investors sent funds to C.A.R. Leasing bank accounts.

53. Wayland and Mueller are liable under Section 5 of the Securities Act because they were intricately involved in the offer and sale of the K-T 50 Wells limited partnership units. Those units were sold through the website "landing pages" that Wayland and Mueller set up to attract investors. Wayland also communicated directly with potential investors. Additionally, Wayland and Mueller set up the fictitious Sahara Wealth boiler room and supervised the sales efforts. Each communicated directly with the salespeople. Mueller also maintained an office at the boiler room, and the salespeople looked to Mueller for guidance in handling and responding to investor concerns. Wayland and Mueller also revised various offering documents, including the subscription agreement and accredited investor representation letter that was supposed to be completed for each investment.

54. Dow, Liss, and Blasko are liable for the Section 5 violations because they communicated directly with potential investors by phone and email. As closers, they discussed the investment with potential investors, fielded investor questions, and encouraged potential investors to send funds. Each of them also distributed, or caused to be distributed, documents to potential investors, including the K-T 50 Wells PPM and Executive Summary.

F. Violation of Section 15(a) of the Exchange Act

55. Wayland, Mueller, Dow, Liss, and Blasko acted as unregistered brokers for the K-T 50 Wells offering.

56. Wayland and Mueller set up the Sahara Wealth Advisors boiler room, commissioned websites, and purchased lead lists to solicit potential investors for the K-T 50 Wells offering. They also drafted and/or distributed K-T 50 Wells offering documents, supervised the salespeople, and were involved in handling and responding to investor concerns. Neither Wayland nor Mueller was registered with the Commission as a broker-dealer in accordance with Section 15(b) of the Exchange Act, or associated with a registered broker-dealer.

57. Dow, Liss, and Blasko also acted as unregistered brokers for K-T 50 Wells. As the principal closers for the K-T 50 Wells offering, Dow, Liss and Blasko solicited investors by phone, answered investor questions, distributed offering documents, and recommended the purchase of the offering. In addition, K-T 50 Wells, HP Operations and/or C.A.R. Leasing paid each of them commissions based on their sales of securities. All three also had prior boiler room experience selling securities for other issuers. None of them were registered with the SEC as a broker-dealer in accordance with Section 15(b) of the Exchange Act, or associated with a registered broker-dealer, at the time that those sales took place.

FIRST CLAIM FOR RELIEF

Fraud in Connection with the Purchase or Sale of Securities

Violations of Section 10(b) of the Exchange Act and Rule 10b-5(a) and (c)

(against Defendants Wayland, Mueller, K-T 50 Wells, HP Operations, and C.A.R. Leasing)

58. The SEC realleges and incorporates by reference paragraphs 1 through 57 above.

59. Wayland, Mueller, K-T 50 Wells, HP Operations and C.A.R. Leasing engaged in a fraudulent offering scheme. Wayland and Mueller created and controlled K-T 50 Wells and C.A.R. Leasing, which were essentially sham entities with little legitimate business activity. They created and controlled the Sahara Wealth Advisors boiler room. Wayland and Mueller drafted, revised, reviewed

and/or distributed false and misleading offering and marketing materials, including the PPM and Executive Summary. Finally, Wayland and Mueller misappropriated investor funds for undisclosed purposes including payment of their personal expenses and Ponzi payments to other investors. In addition, K-T 50 Wells, its managing partner HP Operations, and C.A.R. Leasing not only issued the securities to the investors, but received investor money which was ultimately misused.

60. By engaging in the conduct described above, Defendants Wayland, Mueller, K-T 50 Wells, HP Operations, and C.A.R. Leasing, and each of them, directly or indirectly, in connection with the purchase or sale of a security, and by the use of means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange: (a) employed devices, schemes, or artifices to defraud; and (b) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons.

61. Defendants Wayland and Mueller are control persons for K-T 50 Wells and HP Operations, and Wayland is a control person for C.A.R. Leasing because they possessed, directly or indirectly, the power to direct or cause the direction of the management and policies of these Defendants. Accordingly, pursuant to Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a), Defendants Wayland and Mueller are liable to the SEC to same extent as each of Defendants K-T 50 Wells, HP Operations, and C.A.R. Leasing would be liable for each of their respective violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

62. By engaging in the conduct described above, Defendants Wayland, Mueller, K-T 50 Wells, HP Operations, and C.A.R. Leasing violated, and unless restrained and enjoined will continue to violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rules 10b-5(a) and 10b-5(c) thereunder, 17 C.F.R. §§ 240.10b-5(a) & 240.10b-5(c).

SECOND CLAIM FOR RELIEF

Fraud in the Offer or Sale of Securities

Violations of Section 17(a)(2) of the Securities Act

(against Defendants K-T 50 Wells, HP Operations, Wayland, and Mueller)

63. The SEC realleges and incorporates by reference paragraphs 1 through 57 above.

64. K-T 50 Wells, HP Operations, Wayland, and Mueller obtained money by means of material misrepresentations. As discussed above, K-T 50 Wells, and its manager, HP Operations, raised approximately $2,417,257 from investors in the offering through materially false and misleading statements in the PPM and Executive Summary.

65. By engaging in the conduct described above, Defendants K-T 50 Wells, HP Operations, Wayland, and Mueller and each of them, directly or indirectly, in the offer or sale of securities, and by the use of means or instruments of transportation or communication in interstate commerce or by use of the mails directly or indirectly: obtained money or property by means of untrue statements of a material fact or by omitting to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

66. By engaging in the conduct described above, Defendants K-T 50 Wells, HP Operations, Wayland, and Mueller violated, and unless restrained and enjoined will continue to violate, Section 17(a)(2) of the Securities Act, 15 U.S.C. § 77q(a)(2).

THIRD CLAIM FOR RELIEF

Fraud in the Offer or Sale of Securities

Violations of Sections 17(a)(1) and (3) of the Securities Act

(against Defendants Wayland, Mueller, K-T 50 Wells, HP Operations, and C.A.R. Leasing)

67. The SEC realleges and incorporates by reference paragraphs 1 through 56 above.

68. Wayland, Mueller, K-T 50 Wells, HP Operations and C.A.R. Leasing engaged in a fraudulent offering scheme. Wayland and Mueller created and controlled K-T 50 Wells and C.A.R. Leasing, which were essentially sham entities with little legitimate business activity. They created and controlled the Sahara Wealth Advisors boiler room. Wayland and Mueller drafted, revised, reviewed and/or distributed false and misleading offering and marketing materials, including the PPM and Executive Summary. Finally, Wayland and Mueller misappropriated investor funds for undisclosed purposes including payment of their personal expenses and Ponzi payments to other investors. In addition, K-T 50 Wells, its managing partner HP Operations, and C.A.R. Leasing not only issued the securities to the investors, but received investor money which was ultimately misused.

69. By engaging in the conduct described above, Defendants Wayland, Mueller, K-T 50 Wells, HP Operations, and C.A.R. Leasing, and each of them, directly or indirectly, in the offer or sale of securities, and by the use of means or instruments of transportation or communication in interstate commerce or by use of the mails directly or indirectly: (a) employed devices, schemes, or artifices to defraud; and (b) engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon the purchaser.

70. By engaging in the conduct described above, Defendants Wayland, Mueller, K-T 50 Wells, HP Operations, and C.A.R. Leasing violated, and unless restrained and enjoined will continue to violate, Sections 17(a)(1) and 17(a)(3) of the Securities Act, 15 U.S.C. §§ 77q(a)(1) & 77q(a)(3).

FOURTH CLAIM FOR RELIEF

Unregistered Offer and Sale of Securities

Violations of Sections 5(a) and 5(c) of the Securities Act

(Against All Defendants)

71. The SEC realleges and incorporates by reference paragraphs 1 through 57 above.

72. The K-T 50 Wells offering was not registered with the Commission. The K-T 50 Wells PPM represented that the offering was relying on a Rule 506(c) exemption, but Defendants permitted unaccredited investors to invest in it.

73. By engaging in the conduct described above, Defendants, and each of them, directly or indirectly, singly and in concert with others, has made use of the means or instruments of transportation or communication in interstate commerce, or of the mails, to offer to sell or to sell securities, or carried or caused to be carried through the mails or in interstate commerce, by means or instruments of transportation, securities for the purpose of sale or for delivery after sale, when no registration statement had been filed or was in effect as to such securities, and when no exemption from registration was applicable.

74. By engaging in the conduct described above, Defendants have violated, and unless restrained and enjoined, will continue to violate, Sections 5(a) and 5(c), 15 U.S.C. §§ 77e(a) & 77e(c).

FIFTH CLAIM FOR RELIEF

Unregistered Broker-Dealer

Violation of Section 15(a) of the Exchange Act

(against Defendants Wayland, Mueller, Dow, Liss, and Blasko)

75. The SEC realleges and incorporates by reference paragraphs 1 through 57 above.

76. Wayland, Mueller, Dow, Liss, and Blasko acted as unregistered brokers for the K-T 50 Wells offering. Wayland and Mueller set up the boiler room, solicited investors, supervised salespeople, drafted and/or distributed offering documents, and were involved in handling and responding to investor concerns. Dow, Liss, and Blasko solicited investors by phone, answered investor questions, distributed offering documents, and recommended the purchase of the offering in exchange for commissions. None of these Defendants were registered with the Commission as a broker-dealer in accordance with Section 15(b) of the Exchange Act, or associated

with a registered broker-dealer.

77. By engaging in the conduct described above, Defendants Wayland, Mueller, Dow, Liss, and Blasko, and each of them, made use of the mails and means or instrumentalities of interstate commerce to effect transactions in, and induced and attempted to induce the purchase or sale of, securities (other than exempted securities or commercial paper, bankers' acceptances, or commercial bills) without being registered with the SEC in accordance with Section 15(b) of the Exchange Act, 15 U.S.C. § 78o(b), and without complying with any exemptions promulgated pursuant to Section 15(a)(2), 15 U.S.C. § 78o(a)(2).

78. By engaging in the conduct described above, Defendants Wayland, Mueller, Dow, Liss, and Blasko have violated, and unless restrained and enjoined, will continue to violate, Section 15(a) of the Exchange Act, 15 U.S.C. § 78o(a).

PRAYER FOR RELIEF

WHEREFORE, the SEC respectfully requests that the Court:

I.

Issue findings of fact and conclusions of law that Defendants committed the alleged violations.

II.

Issue judgments, in forms consistent with Rule 65(d) of the Federal Rules of Civil Procedure, permanently enjoining Wayland, Mueller, K-T 50 Wells, HP Operations, and C.A.R. Leasing, and their officers, agents, servants, employees and attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the judgment by personal service or otherwise, and each of them, from violating Section 17(a) of the Securities Act [15 U.S.C. §77q(a)], and Section 10(b) of the Exchange Act [15 U.S.C. §§ 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

III.

Issue judgments, in forms consistent with Rule 65(d) of the Federal Rules of Civil Procedure, permanently enjoining Defendants Wayland, Mueller, Dow, Liss, Blasko, K-T 50 Wells, HP Operations, and C.A.R. Leasing, and their officers, agents, servants, employees and attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the judgment by personal service or otherwise, and each of them, from violating Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c)].

IV.

Issue judgments, in forms consistent with Rule 65(d) of the Federal Rules of Civil Procedure, permanently enjoining Defendants Wayland, Mueller, Dow, Liss, and Blasko, and their officers, agents, servants, employees and attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the judgment by personal service or otherwise, and each of them, from violating Section 15(a) of the Exchange Act [15 U.S.C. §§ 78o(a)].

V.

Order Defendants to disgorge all funds received from their illegal conduct, together with prejudgment interest thereon.

VI.

Order Defendants to pay civil penalties under Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

VII.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

VIII.

Grant such other and further relief as this Court may determine to be just and necessary.

Dated: July 6, 2017

/s/ Lynn M. Dean
Lynn M. Dean
Marisa G. Westervelt
Attorney for Plaintiff
Securities and Exchange Commission

Complaints and Other Initiating Documents

8:17-cv-01156 Securities and Exchange Commission v. Wayland et al

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

Notice of Electronic Filing

The following transaction was entered by Dean, Lynn on 7/6/2017 at 2:47 PM PDT and filed on 7/6/2017

Case Name: Securities and Exchange Commission v. Wayland et al
Case Number: 8:17-cv-01156
Filer: Securities and Exchange Commission
Document Number: 1

Docket Text:
COMPLAINT No Fee Required - US Government, filed by Plaintiff Securities and Exchange Commission. (Attorney Lynn M Dean added to party Securities and Exchange Commission(pty:pla))(Dean, Lynn)

8:17-cv-01156 Notice has been electronically mailed to:

Lynn M Dean deanl@sec.gov, irwinma@sec.gov, LAROFiling@sec.gov, longoa@sec.gov

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Original filename:C:\Users\MitchellS\Desktop\Complaint.pdf
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[STAMP cacdStamp_ID=1020290914 [Date=7/6/2017] [FileNumber=23821253-0] [a75b870bfb3bc499bf944a4f7e0c9c6cf782a29a2c93a03ff2d37c68e0a22809af53 daa2caacedb5acd05aa789331f88f93ae58e7909ccaf2f1928ff7157d00b]]

EXHIBIT 7

John R. Armstrong, Calif. Bar No. 183912
Vanoli V. Chander, Calif. Bar No. 302630
HORWITZ + ARMSTRONG APC
14 Orchard Road, Suite 200
Lake Forest, CA 92630
Telephone: (949) 540-6540
Facsimile: (949) 540-6578
Attorneys for Defendants

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

SECURTIIES AND EXCHANGE COMISSION,

Plaintiff,

vs.

CAROL J. WAYLAND, JOHN C. MUELLER, KENTUCKY-TENNESSEE 50 WELLS/400 BBLPD BLOCK, LIMITED PARTNERSHIP, HP OPERATIONS, LLC, C.A.R. LEASING, LLC, MITCHELL B. DOW, BARRY LISS, AND SETVE G. BLASKO,

Defendants.

Case No: 8:17-CV-01156

DEFENDANTS' ANSWER TO COMPLAINT AND AFFIRMATIVE DEFENSES

DEMAND FOR JURY TRIAL

Dept.: 10D
Judge: Andrew J. Guilford

Date of Filing: July 6, 2017

TO THE COURT, THE COURT CLERK, ALL PARTIES AND THEIR ATTORNEYS OF RECORD:

Defendants Carol J. Wayland, an individual; John C. Mueller, an individual; Kentucky-Tennessee 50 Wells/400 BBLPD Block, Limited Partnership; HP Operations, LLC.; C.A.R. Leasing, LLC; Mitchell B. Dow, an individual; Barry Liss, an individual and Steve G. Blasko, an individual will admit, deny and allege as follows.

ADMISSIONS AND DENIALS

1. As to Paragraphs 1-3, Defendants admit the allegations.

2. As to Paragraph 4, Defendants admit the truth of the offering allegations in this Paragraph but deny the balance of the allegations in this Paragraph for lack of sufficient information or knowledge, but believe the balance of these conclusory allegations are not true.

3. As to Paragraph 5, Defendant Wayland admits the allegations.

4. As to Paragraph 5, Defendant Mueller denies the allegations as Muller did not operate or control K-T 50 Wells.

5. As to Paragraphs 6-9, Defendants admit the allegations that K-T Wells raised funds through investors and that those funds were used to develop and operate oil wells but deny the balance of the allegations in these Paragraphs. Defendants deny that they set up a boiler room.

6. As to Paragraph 6, Defendant Mueller denies the allegations as he did not set up boiler room under the fictitious name of "Sahara Wealth Advisors."

7. As to Paragraph 10, Defendant admits the allegations but denies that she was the co-founder of K-T 50 Wells. Wayland was the founder and operator of K-T 50 Wells.

8. As to Paragraph 10, Defendant Mueller did not operate K-T 50 Wells.

9. As to Paragraph 11, Defendant Mueller admits the allegations that he is Wayland's son but denies that he was the co-founder of K-T Wells. Further, Defendant Mueller denies that he operated K-T 50 Wells or that he was a member of K-T 50 Wells, or HP Operations, or MS Operating, LLC. Defendant Mueller did not conduct any offerings. Defendant Mueller was an employee of MS Operating, LLC.

10. As to Paragraph 12, Defendant KENTUCKY-TENNESSEE 50 WELLS/400 BBLPD BLOCK, LIMITED PARTNERSHIP admits the allegations. Defendant Mueller denies that he was the founder of K-T 50 Wells.

11. As to Paragraphs 13-17, Defendants admit the allegations.

12. As to Paragraph 18, Defendant Wayland admits the allegations.

13. As to Paragraph 18, Defendant Mueller denies that he operated MS Operating. Defendant Mueller was an employee of MS Operating, LLC.

14. As to Paragraph 19, Defendant Wayland admits the allegations but Defendant Mueller denies that he controlled K-T 50 Wells bank accounts.

15. As to Paragraphs 20-23, Defendants admit the allegations.

16. As to Paragraph 24, Defendant Wayland admits the allegations relating to the offering period but denies the balance of the allegations. Defendant Wayland denies that that K-T 50 Wells offering was premised that it was part of the larger 200 well project.

17. As to Paragraph 24, Defendant Mueller denies the allegations as it relates to him.

18. As to Paragraphs 25, Defendant Wayland admits the allegations that she commissioned a website for "Sahara Wealth Advisors" but denies the

balance of the allegations.

19. As to Paragraphs 25, Defendant Mueller denies the allegations.

20. As to Paragraph 26, Defendants admit the allegations.

21. As to Paragraph 27, Defendants Muller and Wayland admit that they purchased lead lists but deny the balance of the allegations.

22. As to Paragraph 28, Defendants admit the allegations.

23. As to Paragraph 29, Defendants admit the allegations that they had prior sales experience and had frequent communications with prospective and actual investors via telephone and e-mail but deny the balance of allegations.

24. As to Paragraphs 30-32, Defendant Mueller admits that he maintained an office at the Sahara Wealth Advisors in Santa Ana. Defendant Wayland admits that she assisted the salespeople and communicated with them, she further admits that she drafted or revised written documents for the K-T 50 Wells offering. To the extent that this paragraph contains additional factual allegations requiring a response, Defendants deny these allegations. Defendants deny that they engaged in wrongdoing of any type or nature and deny that they engaged in any violation of law.

25. As to Paragraph 33 Defendants admit the allegations that they raised funds for K-T 50 Wells. Defendant Wayland admit that she had control of the K-T 50 Wells accounts and that the accounts had previous balances prior to the capitol raise for K-T 50 Wells but deny the balance of allegations as they constitute misleading and inaccurate description of relevant facts. To the extent that this paragraph contains additional factual allegations requiring a response, Defendants deny these allegations.

Defendants deny that they engaged in wrongdoing of any type or nature and deny that they engaged in any violation of law.

26. As to Paragraphs 34-38, Defendants deny these allegations as they constitute misleading and inaccurate description of relevant facts. The Paragraphs 34-36 also set forth legal conclusions that do not require a response. To the extent that these paragraphs contain factual allegations requiring a response, Defendants deny these allegations. Defendants deny that they engaged in wrongdoing of any type or nature and deny that they engaged in any violation of law.

27. As to Paragraph 39, Defendants admit the allegations.

28. As to Paragraph 40, Defendants deny these allegations as they constitute misleading and inaccurate description of relevant facts. Paragraph 40 also sets forth legal conclusions that do not require a response. To the extent that this paragraph contains factual allegations requiring a response, Defendants deny these allegations. Defendants deny that they engaged in wrongdoing of any type or nature and deny that they engaged in any violation of law.

29. As to Paragraph 41, Defendant Wayland admits the allegations that she created and controlled K-T Wells and C.A.R. Leasing. C.A.R. Leasing, LLC was started in October 2013 as a 200 well project in Kentucky and Tennessee. C.A.R. Leasing, LLC investors interests were converted into HP Operations, LLC. Defendant Wayland also admits that she drafted, revised, reviewed and distributed the PPM and Executive Summary. Defendants deny the balance of the allegations in these Paragraphs for lack of sufficient information or knowledge, but believe the balance of these conclusory allegations are not true. Paragraph 41 also sets forth legal conclusions that do not require a response. To the extent that this

paragraph contains factual allegations requiring a response, Defendants deny these allegations.

30. As to Paragraph 41, Defendant Mueller denies the allegations for lack of sufficient information or knowledge, but believes the balance of the conclusory allegations are not true. Paragraph 41 also sets forth legal conclusions that do not require a response.

31. As to Paragraphs 42-43, Defendants admit the allegations that K-T 50 Wells investors were quoted projected returns based future oil production and oil prices, as addressed in the PPM. The returns were predicated on facts that were available and reasonable future productions. Additionally, investors were advised verbally and in written form via, in PPM that oil drilling is high risk investment. Defendants deny the additional allegations as they constitute mislead and inaccurate description of relevant facts. The Paragraphs 42-43 also set forth legal conclusions that do not require a response. To the extent that this paragraph contains factual allegations requiring a response, Defendants deny these allegations.

32. As to Paragraphs 44-45, Defendants deny these allegations as they constitute misleading and inaccurate description of relevant facts. Paragraphs 44-45 includes statements that are false and distorted. Steve Blasko was the Executive Director and HP Operations, LLC was the Managing General Partner. The PPM dated July 21, 2014 states that the Managing General Partner has "no significant history of operations… its management through other companies have drilling and completions related to the oil business." Defendants deny that they engaged in wrongdoing of any type or nature and deny that they engaged in any violation of law.

33. As to Paragraphs 46-48, Defendants deny these allegations as they

constitute misleading and inaccurate description of relevant facts. Paragraphs 46-48 include statements that are false and distorted Defendants deny that they engaged in wrongdoing of any type or nature and deny that they engaged in any violation of law.

34. As to Paragraph 49, Defendant Wayland admits that she controlled bank accounts that received K-T 50 Wells investor funds but denies the balance of the allegations in this Paragraph. Paragraph 49 also sets forth legal conclusions that do not require a response. To the extent that this paragraph contains factual allegations requiring a response, Defendants deny these allegations.

35. As to Paragraph 49, Defendant Mueller denies the allegations.

36. As to Paragraph 50, Defendants deny the allegations. Paragraph 50 also sets forth legal conclusions that do not require a response.

37. As to Paragraph 51, Defendants admit that K-T 50 Wells was replying on a Rule 506(c) exemption and that all investors were requested to confirm that they were accredited investors. C.A.R. Leasing offerings and K-T 50 Wells were operating independently of each other. The remaining allegations in this Paragraph are denied for lack of sufficient information or knowledge, but believe these conclusory allegations are not true.

38. As to Paragraph 52, Defendants admit that HP Operations, LLC was the Managing General Partner of K-T 50 Wells. C.A.R. Leasing, LLC and HP Operations, LLC were not active during the same time period as C.A.R. Leasing, LLC investors interests were converted into HP Operations, LLC.

39. As to Paragraph 53, Defendant Wayland admits that she communicated directly with potential investors, revised various offering documents, including the subscription agreement and accreditor

investment representation letter as alleged in this Paragraph. Defendant further deny the balance of the allegations in this Paragraph for lack of sufficient information or knowledge, but believe the balance of the conclusory allegations are not true.

40. As to Paragraph 53, Defendant Mueller denies the allegations.

41. As to Paragraph 54, Defendants Dow, Liss & Blasko admit that they communicated directly with potential investors by phone and e-mail as alleged in this Paragraph but deny the balance of the allegations in this Paragraph for lack of sufficient information or knowledge, but believe the balance of these conclusory allegations are not true.

42. As to Paragraph 55, Defendants Wayland, Dow, Liss and Blasko admit the allegations.

43. As to Paragraph 55, Defendant Mueller denies the allegation.

44. As to Paragraph 56, Defendant Wayland admits that she set up Sahara Wealth Advisors, drafted K-T 50 Wells offering documents but deny the balance of the allegations in this Paragraph for lack of sufficient information or knowledge, but believe the balance of these conclusory allegations are not true. To the extent that this paragraph contains factual allegations requiring a response, Defendants deny these allegations.

45. As to Paragraph 56, Defendant Mueller denies the allegations.

46. As to Paragraph 57, Defendants deny these allegations as they constitute misleading and inaccurate description of relevant facts. Paragraph 57 also sets forth legal conclusions that do not require a response. To the extent that this paragraph contains factual allegations requiring a response, Defendants deny these allegations. Defendants deny that they engaged in wrongdoing of any type or nature and deny that they

engaged in any violation of law.

AFFIRMATIVE DEFENSES

Without assuming the burden of proof for such defenses that he would not otherwise have, Defendants assert the following affirmative defenses:

FIRST AFFIRMATIVE DEFENSE

The Complaint fails to state a cause of action.

SECOND AFFIRMATIVE DEFENSE

The purported claims against Defendants and the allegations upon which they are based are improperly vague, ambiguous and confusing, and omit critical facts.

THIRD AFFIRMATIVE DEFENSE

The damages, if any, should be in direct proportion to the fault of each Defendant, if any, as provided by Civil Code §§ 1431 to 1431.5.

FOURTH AFFIRMATIVE DEFENSE

Defendants are not liable pursuant to the doctrine of assumption of risk.

FIFTH AFFIRMATIVE DEFENSE

Defendants cannot be held liable for any misrepresentation or omissions that they did not make.

SIXTH AFFIRMATIVE DEFENSE

The Complaint fails to allege the existence of any material misstatement or omission.

SEVENTH AFFIRMATIVE DEFENSE

The Commission's claims are barred in whole or in part, because Defendants acted in good faith at all material times and in conformity with all applicable federal statutes, including the Securities Act and Exchange Act, and all applicable rules and regulation promulgated thereunder.

EIGHTH AFFIRMATIVE DEFENSE

The commission's claims for penalties are barred because, *inter alia*, any alleged violation was isolated and/or unintentional.

NINTH AFFIRMATIVE DEFENSE

Neither a public entity nor a public employee nor a private person is liable for any injury resulting from his act or omission where the act or omission was the result of exercise of the discretion vested in him or her.

TENTH AFFIRMATIVE DEFENSE

Neither a public entity, nor a public employee nor a private person is liable for any injury caused by the act or omission of another person.

ELEVENTH AFFIRMATIVE DEFENSE

Neither a public entity nor a public employee nor a private person is liable for his act or omission, exercising due care, in the execution or enforcement of any law or by acting within the law.

TWELFTH AFFIRMATIVE DEFENSE

Defendants lack knowledge or information at this time sufficient to form a belief as to whether they may have additional and as yet unstated defenses. Defendants reserve the right to assert additional defenses.

REQUEST FOR JUDGMENT AGAINST PLAINTIFF

WHEREFORE, Defendants, request that Plaintiff take nothing away by way of its Complaint and that these answering Defendants recover their reasonable costs of suit, their attorney's fees as provided by law and for such other and further relief as the Court may deem just and proper under the circumstances.

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DEFENDANTS DEMAND FOR TRIAL BY JURY

TO THE CLERK OF THE ABOVE ENTITLED COURT: PLEASE TAKE NOTICE that these answering Defendants demand trial by jury under Federal Rules of Civil Procedure, Rule 38(b) and Local 38-1, and under the 7th Amendment of the U.S. Constitution.

Dated: October 16, 2017

By: Vanoli Chander

John R. Armstrong
Vanoli V. Chander,
Counsel for Defendants

CERTIFICATE OF SERVICE

Case Name: Securities Exchange Commission v. Carol J. Wayland, et al.
Case No.: 8:17-CV-01156

I hereby certify that on October 16, 2017, I electronically filed the following documents with the Clerk of the Court by using the CM/ECF system:

DEFENDANTS' ANSWER TO COMPLAINT AND AFFIRMATIVE DEFENSES

All participants in the case are now represented by counsel who are registered CM/ECF users and therefore will be served by the CM/ECF system.

I declare under penalty of perjury under the laws of United States of America that the foregoing is true and correct and that this declaration was executed on October 16, 2017, at Lake Forest, California.

Vanoli V. Chander	/s/ Vanoli V. Chander
Declarant	Signature