

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES ACT OF 1933**  
**Release No. 9188 / February 17, 2011**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 63926 / February 17, 2011**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-14266**

**In the Matter of**

**JOHNNY CLIFTON,**

**Respondent.**

**ORDER INSTITUTING ADMINISTRATIVE AND  
CEASE-AND-DESIST PROCEEDINGS PURSUANT  
TO SECTION 8A OF THE SECURITIES ACT OF  
1933 AND SECTION 15(b) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) and Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) against Johnny Clifton (“Clifton” or “Respondent”).

**II.**

After an investigation, the Division of Enforcement alleges that:

**A. Respondent**

1. **Johnny Clifton**, age 43, was the president and principal of MPG Financial, LLC from April 2009 until April 2010. He is currently a registered principal with another Commission-registered broker-dealer.

**B. Relevant Entities**

2. **MPG Financial, LLC** is a Texas limited liability company, wholly owned by Managed Petroleum Group, Inc., with its principal place of business in Richardson, Texas. It

was a broker-dealer registered with the Commission (#8-67838) from August 5, 2008 until December 31, 2010.

3. **Managed Petroleum Group, Inc.** is a Texas corporation with its principal place of business in Richardson, Texas. Managed Petroleum Group is in the oil and gas exploration business. It is not registered with the Commission in any capacity and has no securities registered with the Commission.

**C. MPG Financial's 2009-1 Osage LP Offering**

4. In April 2009, MPG Financial, on behalf of Managed Petroleum Group, began offering limited partnership interests in a six-well oil and gas drilling project in Oklahoma, the 2009-1 Osage L.P. ("the Osage project"). MPG Financial offered 15 units of the Osage project at \$71,250 each, for a total offering of \$1,068,750. Ultimately, MPG Financial raised about \$500,000 from 22 investors by the time the offering closed at year-end 2009.<sup>1</sup>

**D. Development of the Osage Project**

5. Managed Petroleum Group began drilling on the Osage project in April 2009 with seed money provided by its industry partners. The first well, the Osage 1-5, was completed in early April. Well test data showed an initial production rate of 20-30 barrels of oil per day (BOPD), but after completion actual production was only about 5 BOPD because of excess water in the well. As a result, the Osage 1-5 was not commercially viable as long as the excess water had to be trucked away. Managed Petroleum Group timely informed Clifton of these developments.

6. In June 2009, Managed Petroleum Group drilled the second Osage project well, the Osage 1-1. Well testing on the Osage 1-1 initially showed some potential to produce gas, but after completion it produced excessive amounts of water. Managed Petroleum Group decided to convert Osage 1-1 into a salt water disposal well (SWDW) to eliminate much of the water transportation cost for the Osage 1-5 and its nearby wells. Obtaining the permit to convert the Osage 1-1 to a SWDW, however, required several months. In August 2009, Managed Petroleum Group decided to shut down the Osage 1-5 well until it secured the SWDW permit for the Osage 1-1. Managed Petroleum Group timely informed Clifton of these developments.

7. Managed Petroleum Group did not drill another Osage well until December 2009. On December 28, 2009, Managed Petroleum Group learned that the next well, the Osage 1-4, was a dry hole. In January 2010, the company drilled two more wells, which were also dry holes. Managed Petroleum Group decided not to complete those three wells and not to drill the last of the six wells. Ultimately, Managed Petroleum Group shut down the entire field. In February 2010, Managed Petroleum Group notified investors that it was shutting down the Osage field and returned 25% of the investors' principal. Managed Petroleum Group timely informed Clifton of these developments.

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<sup>1</sup> Managed Petroleum Group raised another \$1.4 million from its "industry partners," who were not limited partners in the 2009-1 Osage L.P.

**E. MPG Financial's Sales of the Osage Project**

8. Clifton, who became MPG Financial's principal before any Osage project sales, supervised MPG Financial's sales representatives and sales practices. Clifton held meetings at least weekly with the MPG Financial sales representatives to provide any updates or additional information about the Osage project. At these meetings, Clifton instructed the sales representatives to use the PPM and information he provided orally to pitch the Osage project, but gave them no additional written materials. Clifton was the only MPG Financial representative who received Osage project updates from the issuer.

**F. Material Misrepresentations and Omissions by MPG Financial**

9. As discussed above, early on in the Osage project the Osage 1-5 and 1-1 wells became non-commercial, leading Managed Petroleum Group to convert the Osage 1-1 into a SWDW. Although Managed Petroleum Group provided Clifton with all of the material information about the Osage project in a timely manner, Clifton failed to ensure that all MPG Financial sales representatives were informed of these developments. As a result, investors were not adequately informed about the project by MPG Financial before investing. In addition, Clifton made false and misleading statements or omitted material information in at least one sales presentation call he made that was attended by several prospective investors.

**Material misrepresentations and omissions that the Osage project had not started yet**

10. In some cases, MPG Financial sales representatives failed to disclose that drilling on the Osage project had yet to begin. Clifton, in a December 23, 2009 conference call with prospective investors, led them to believe that no drilling on the Osage project had occurred. By leading them to believe that the project was still prospective, Clifton and other MPG Financial sales representatives omitted disclosing negative information about the first two wells.

**Material misrepresentations and omissions about the Osage 1-5 well**

11. MPG Financial sales representatives also misled some prospective investors about the Osage 1-5 well's production. For example, MPG Financial sales representatives failed to disclose to certain investors who sent checks in after August 2009 that Managed Petroleum Group had shut down the Osage 1-5 well, and/or that it was converting the Osage 1-1 to a SWDW. Moreover, in e-mails sent to prospective clients as late as December 2009, MPG Financial sales representatives touted the Osage 1-5 well's initial production rate of as much as 35 BOPD, without disclosing the well's actual post-completion production rate of 5 BOPD and its shut-in status.

### **Material misrepresentations and omissions about the Osage 1-1 well**

12. MPG Financial sales representatives also failed to inform certain prospective investors that the company was converting the Osage 1-1 well to a SWDW. In the same December 2009 e-mails, sales representatives disclosed potential production (and related returns on investment) of the six Osage wells. This, of course, was not true, since converting the Osage 1-1 well to a SWDW left only five potentially producing wells.

### **Material misrepresentations and omissions about the Osage 1-4**

13. On December 28, 2009, Clifton learned that the Osage 1-4 was a dry hole. After that date, MPG Financial accepted funds from four investors who previously had submitted subscription paperwork, without disclosing the dry hole to those investors.

### **G. Clifton Failed Reasonably to Supervise MPG Financial Sales Representatives**

14. In addition to making or causing material misrepresentations and omitting material information in the offer and sale of the Osage project, Clifton failed reasonably to supervise MPG Financial's sales representatives, who violated Section 17(a) of the Securities Act.

15. Clifton was responsible for drafting and approving MPG Financial's written supervisory procedures (WSPs). Such WSPs were inadequate in two significant areas: outgoing correspondence and providing material information to investors regarding recommended investments. While MPG Financial's WSPs provide a list of do's and don'ts for its sales representatives regarding outgoing correspondence, including e-mail, they contain no instructions as to supervisory review of the outgoing correspondence. Clifton failed to establish a formal correspondence review system and failed to record whether any outgoing correspondence was reviewed. Had Clifton established an effective correspondence review process, he could have prevented and detected materially misleading statements in the sales representatives' outgoing correspondence to investors in connection with recommending the limited partnership interests offered by MPG Financial.

16. MPG Financial's WSPs also include a section on due diligence that requires MPG Financial and associated persons to "have reasonable grounds to believe, based on the information provided by the issuer, that all material facts are adequately and accurately disclosed." Further, the WSPs require the "[m]aintenance of records indicating steps taken in order to verify the adequacy of the disclosures made to investors." The WSPs, however, do not include procedures to ensure that MPG Financial provides material information it learns after completion of the initial offering memorandum to sales representatives and, consequently, to prospective investors. For example, Clifton knew that the Osage project would be drilled concurrently with the sales of Osage project interests. Yet, because Clifton failed to keep any record of the project updates he provided to sales representatives, there is no evidence that such updated information was provided timely to sales representatives. Moreover, MPG Financial had no procedures to follow up with investors after the sale to confirm that the investors had received adequate, updated information about the project at the time of their investment. If MPG Financial had maintained such records or followed up with investors, it could have learned that

its procedures were inadequate to ensure that investors received all material information about the project when they invested.

17. In addition to failing reasonably to supervise the registered representatives who solicited investors to purchase the limited partnerships offered by MPG Financial by failing to develop reasonable supervisory procedures, Clifton failed to implement day-to-day supervision over the registered representatives. He was solely responsible for providing information to sales representatives about the Osage project status, and he was responsible for supervising their sales activities. At a minimum, Clifton failed to ensure that all sales representatives were informed about the status of the projects. Instead, he only provided oral updates, which were not effective in disseminating the necessary information. He also failed to take reasonable steps, such as a systematic review of electronic correspondence, to ensure that the representatives were providing up-to-date material information to prospective investors. As a result, MPG Financial sales representatives failed to inform some prospective investors, among other things, that the Osage 1-1 was drilled or that it was to be converted to a SWDW and that the Osage 1-5 had been shut in. Further, as late as December 2009, MPG Financial sales representatives provided some investors with misleading production projections that were based on stale information. Clifton, as supervisor, failed to ensure that MPG Financial's sales representatives were providing all material information to prospective investors.

#### **H. Violations**

18. As a result of the conduct described above, Clifton willfully violated Sections 17(a)(1), 17(a)(2) and 17(a)(3) of the Securities Act which prohibits fraudulent conduct in the offer and sale of securities.

19. As a result of the conduct described above, Clifton failed reasonably to supervise MPG Financial sales representatives within the meaning of Section 15(b)(6)(A) of the Exchange Act, which incorporates by reference Section 15(b)(4)(E) of the Exchange Act, with a view to preventing and detecting violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act by MPG Financial's sales representatives.

### **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 and cease-and-desist proceedings be instituted to determine:

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

B. Whether, pursuant to Section 8A of the Securities Act, Respondent should be ordered to cease and desist from committing or causing violations of and any future violations of the provisions set forth Section II.H above; and

C. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 15(b) of the Exchange Act including, but not limited to, civil penalties pursuant to Section 21B of the Exchange Act.

#### IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III. hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by 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 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If Respondent fails to file the directed answer, or fails to appear at a hearing 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 personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

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.

By the Commission.

Elizabeth M. Murphy  
Secretary

Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 15(b) of the Securities Exchange Act of 1934 ("Order"), on the Respondent.

The attached Order has been sent to the following parties and other persons entitled to notice:

Honorable Brenda P. Murray  
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