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**STATE OF WASHINGTON  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING  
whether there has been a violation  
of the Securities Act of Washington by:

Regal Energy, L.L.C.;  
Regal Blessing #1 Joint Venture;  
Regal Boonsville #2 Joint Venture;  
Regal Waggoner #1 Joint Venture;  
Regal Waggoner #2 Joint Venture;  
Regal Cosper #1 Joint Venture;  
Regal Pierce #1 Joint Venture;  
Scott Bradley Johnson,

Respondents.

Order Number S-14-1508-17-CO01

CONSENT ORDER AS TO REGAL  
ENERGY, L.L.C.; REGAL BLESSING  
#1 JOINT VENTURE; REGAL  
BOONSVILLE #2 JOINT VENTURE;  
REGAL WAGGONER #1 JOINT  
VENTURE; REGAL WAGGONER #2  
JOINT VENTURE; REGAL COSPER  
#1 JOINT VENTURE; AND REGAL  
PIERCE #1 JOINT VENTURE

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**INTRODUCTION**

On November 12, 2015, the Securities Administrator of the Securities Division of the Department of Financial Institutions (“Securities Division”) issued a Statement of Charges and Notice of Intent to Issue an Order to Cease and Desist, Impose Fines, and Charge Costs (“Statement of Charges”), Order Number S-14-1508-15-SC01, against the Respondents Regal Energy, L.L.C., Regal Blessing #1 Joint Venture, Regal Boonsville #2 Joint Venture, Regal Waggoner #1 Joint Venture, Regal Waggoner #2 Joint Venture, Regal Cosper #1 Joint Venture, and Regal Pierce #1 Joint Venture. Pursuant to the Securities Act of Washington, Chapter 21.20 RCW, the Securities Division and the Respondents Regal Energy, L.L.C., Regal Blessing #1 Joint Venture, Regal Boonsville #2 Joint Venture, Regal Waggoner #1 Joint Venture, Regal Waggoner #2 Joint Venture, Regal Cosper #1 Joint Venture, and Regal Pierce #1 Joint Venture do hereby enter into this Consent Order in settlement of the matters alleged herein. The Respondents neither admit nor deny the Findings of Fact and Conclusions of Law stated below.

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**FINDINGS OF FACT**

CONSENT ORDER

1 **Respondents**

2 1. Regal Energy, L.L.C. (“Regal Energy”) is a Texas limited liability company formed in  
3 March 2007, with its principal place of business in Plano, Texas. Regal Energy is in the business of oil  
4 and gas exploration and development and is the “Managing Venturer” for oil and gas ventures.

5 2. Regal Blessing #1 Joint Venture (“Regal Blessing #1”) is a general partnership formed in  
6 approximately 2009 for the purpose of drilling and owning two wells in Texas. Regal Energy is the  
7 Managing Venturer for the Regal Blessing #1.

8 3. Regal Boonsville #2 Joint Venture (“Regal Boonsville #2”) is a general partnership  
9 formed in approximately 2010 for the purpose of drilling and owning two wells in Texas. Regal Energy  
10 is the Managing Venturer for the Regal Boonsville #2.

11 4. Regal Waggoner #1 Joint Venture (“Regal Waggoner #1”) is a general partnership formed  
12 in approximately 2010 for the purpose of drilling and owning one well in Texas. Regal Energy is the  
13 Managing Venturer for the Regal Waggoner #1.

14 5. Regal Waggoner #2 Joint Venture (“Regal Waggoner #2”) is a general partnership formed  
15 in approximately 2011 for the purpose of drilling and owning one well in Texas. Regal Energy is the  
16 Managing Venturer for the Regal Waggoner #2.

17 6. Regal Cosper #1 Joint Venture (“Regal Cosper #1”) is a general partnership formed in  
18 approximately 2011 for the purpose of drilling and owning one well in Texas. Regal Energy is the  
19 Managing Venturer for the Regal Cosper #1.

20 7. Regal Pierce #1 Joint Venture (“Regal Pierce #1”) is a general partnership formed in  
21 approximately 2012 for the purpose of drilling and owning one well in Texas. Regal Energy is the  
22 Managing Venturer for the Regal Pierce #1.



1           12.    On September 28, 2009, the State of Colorado, Securities Division, issued a Verified  
2 Petition for Order to Show Cause against Regal Energy, LLC, John Michael Peddecord II, and Brian  
3 Hardwick. The State of Colorado alleged that the respondents in that matter offered and/or sold  
4 unregistered joint venture units in the Regal Blessing #1 and employed an unlicensed sales  
5 representative. On October 19, 2009, the respondents entered into a Stipulation for Consent Cease and  
6 Desist Order.

7           13.    On December 2, 2011, FINRA entered into a Letter of Acceptance, Waiver and Consent  
8 with Red River Securities. FINRA alleged that from January 4, 2010 through May 27, 2010, Red River  
9 Securities failed to disclose in the Regal Boonsville #2 offering materials the prior 2009 Stipulation for  
10 Consent Cease and Desist Order. FINRA imposed a \$5,000 fine on Red River Securities.

11           14.    On July 27, 2015, FINRA issued a Complaint against Red River Securities and Brian  
12 Hardwick. FINRA alleged in the Complaint that when offering investments in Regal Boonsville #2,  
13 Regal Waggoner #1, Regal Waggoner #2, Regal Cosper #1, and Regal Pierce #1, Red River Securities  
14 and Brian Hardwick made misrepresentations and omissions of material facts to investors, failed to  
15 gather sufficient information to determine if the securities were suitable for customers, and failed to  
16 implement and enforce adequate supervisory systems and written supervisory procedures for the offer  
17 and sale of these investments. Red River Securities and Brian Hardwick requested a hearing, and the  
18 matter went before a FINRA Hearing Panel which entered a Decision on February 9, 2017. The FINRA  
19 Hearing Panel found that Red River Securities and Hardwick intentionally made misrepresentations and  
20 omissions to investors in the five oil and gas joint ventures, that Red River Securities approved unsuitable  
21 sales, and that Red River Securities and Hardwick failed to maintain and enforce an adequate supervisory  
22 system and written supervisory procedures. The Decision expelled Red River Securities from FINRA  
23 membership, barred Brian Hardwick from associating with any FINRA member firm in any capacity, and

1 ordered Red River Securities and Hardwick to jointly and severally pay approximately \$24.6 million  
2 dollars in restitution to investors.

### 3 **Background and Overview**

4 15. Between approximately August 2009 and September 2013, the Respondents offered and  
5 sold oil and gas investments, in the form of joint venture interests, to Washington residents. Five  
6 Washington residents invested a total of approximately \$661,978 in the following six joint ventures:  
7 Regal Blessing #1, Regal Boonsville #2, Regal Waggoner #1, Regal Waggoner #2, Regal Cosper #1, and  
8 Regal Pierce #1. The investments were for oil and gas drilling projects located primarily in the Barnett  
9 Shale or Rodessa Sand areas of Texas. Red River Securities, an affiliate of Regal Energy, was the  
10 distributor for at least five of the offerings. At least two Washington residents were cold-called by  
11 representatives from Red River Securities, including Johnson. The offerings were sold only to accredited  
12 investors. To date, some of the investors have lost the principal of their investment as many of the wells  
13 have been, or are going to be, plugged and abandoned.

14 16. Regal Energy was the “Managing Venturer” of each joint venture, and had authority to  
15 manage the daily operations of the joint ventures. Investors made an initial capital contribution, which  
16 ranged from approximately \$58,427 to \$120,403 per unit, depending on the offering. Once fully  
17 capitalized, each joint venture entered into a Turnkey Drilling Contract with Regal Energy for initial  
18 drilling and testing of the wells.

19 17. If the initial drilling and testing was deemed successful, Regal Energy, as the Managing  
20 Venturer, had discretion to complete the wells. If Regal Energy decided to complete the wells, investors  
21 were required to make additional capital contributions that ranged from approximately \$48,164 to  
22 \$87,641 per unit. Regal Energy would then undertake the completion of the wells, pursuant to a Turnkey

1 Completion Contract with the joint venture. If an investor did not pay the additional capital contribution  
2 for completion, their interest in the joint venture would be forfeited.

3 18. The table below details the approximate time period during which each joint venture was  
4 offered, the number of units for sale in each offering, and the total offering amount:

5 <b>Joint Venture</b>	<b>Capitalization Period (approx.)</b>	<b>Total Number of Units</b>	<b>Total Offering Amount (approx.)</b>
6 Regal Blessing #1	January 2009 – September 2009	60	\$9.99 million
7 Regal Boonsville #2	January 2010 – June 2011	72	\$9.54 million
8 Regal Waggoner #1	July 2010 – December 2010	15	\$2.52 million
9 Regal Waggoner #2	March 2011 – December 2011	15	\$2.52 million
Regal Cospers #1	September 2011 – December 2012	36	\$5.26 million
Regal Pierce #1	April 2012 – April 2013	24	\$4.05 million

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11 19. For most of the joint ventures, investors were responsible for paying all of the costs to  
12 acquire, drill, test, and complete the wells (Regal Blessing #1 investors were responsible for paying  
13 approximately 90%, and Regal Pierce #1 investors were responsible for paying approximately 93.75% of  
14 the costs). After completion of the wells, investors were entitled to a percentage of the working interest  
15 (a share of the ongoing expenses under the oil or gas lease) which ranged from 70% to 85%. If the well  
16 produced oil and/or gas, investors were entitled to a share in the proceeds, ranging from 52.50% to  
17 63.75%.

18 20. Unlike investors, Regal Energy bore little risk of loss in the initial and completion phases  
19 of the oil and gas joint ventures. Regal Energy received a management fee regardless if the wells were  
20 profitable. If the wells were profitable, Regal Energy was entitled to a share of the proceeds along with  
21 the investors.

### 22 **Investments by Washington Residents**

21. Between approximately August 2009 and September 2013, Washington residents invested a total of \$661,978 in six Regal Energy oil and gas offerings. Most of the Washington residents purchased partial unit interests. Regal Energy decided to complete the wells for each of the six offerings. Most, but not all, of the investors made the additional capital contribution for completion. For these six offerings, the table below details the number of Washington resident investors and the contributions that were made by the residents:

Joint Venture	Number of WA Investors	Initial Capital Contributions (approx.)	Completion Contributions (approx.)	Total Investments (approx.)
Regal Blessing #1	1	\$24,975	\$16,650	\$41,625
Regal Boonsville #2	3	\$59,690	\$39,750	\$99,440
Regal Waggoner #1	1	\$20,982	\$20,982	\$41,963
Regal Waggoner #2	1	\$10,491	\$10,491	\$20,982
Regal Cosper #1	4	\$105,899	\$150,394	\$256,293
Regal Pierce #1	2	\$195,655	\$6,021	\$201,676
			<b>Total</b>	<b>\$661,978</b>

22. At least two Washington residents received unsolicited telephone calls from representatives of Red River Securities. In the summer of 2009, Investor A, a Washington resident, began receiving phone calls from Johnson, a representative of Red River Securities. Johnson called the Washington resident several times to promote oil and gas investments because of their tax advantages and long-term income. Johnson asked Investor A about the annual compensation for an entry level employee in his line of work. Johnson then told Investor A that he could make a similar return in one year with an oil and gas investment. Johnson failed to provide a reasonable basis for, and assumptions underlying, this profit projection. Between August and November 2009, Investor A invested in the Regal Blessing #1. Johnson subsequently sold Investor A partial unit interests in the Regal Boonsville #2 and Regal Waggoner #1.





1 27. Three of the offering documents (Regal Waggoner #1, Regal Waggoner #2, and Regal  
2 Pierce #1) also contained projections for oil, with up to a projected 139.43% return on investment. For  
3 example, the Regal Pierce #1 Confidential Information Memorandum provided three charts for if oil sold  
4 for \$70, \$85 and \$100 per barrel. Each chart included scenarios for if the well produced 25, 100, 200 or  
5 300 barrels of oil per day. According to one scenario, if oil sold at \$100 per barrel and the well produced  
6 300 barrels of oil per day, then per unit an investor could receive monthly income of \$19,586.37 and an  
7 approximate return on investment of 139.43%.

8 28. Regal Energy failed to provide a reasonable basis for the projected amount of natural gas  
9 or oil that each well might produce per day. The charts also did not include, or give an estimate of, the  
10 expenses associated with the wells.

11 *Use of Proceeds*

12 29. For each offering, investors were provided with a Confidential Information Memorandum  
13 that included information on the use of investor proceeds. Offering documents disclosed that investor  
14 proceeds would be used for the Turnkey Drilling Contract, the Turnkey Completion Contract, the due  
15 diligence fee, and the sales commissions paid to soliciting dealers (including Red River Securities). The  
16 percentage of investor proceeds that would be used for each expense is detailed in the table below:

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<b>Joint Venture</b>	<b>Turnkey Drilling Contract</b>	<b>Turnkey Completion Contract</b>	<b>Due Diligence Fee</b>	<b>Sales Commissions</b>
Regal Blessing #1	60%	40%	Not disclosed	Not disclosed
Regal Boonsville #2	51%	34%	3%	12%
Regal Waggoner #1	42.5%	42.5%	3%	12%
Regal Waggoner #2	42.5%	42.5%	3%	12%
Regal Cospers #1	34%	51%	3%	12%
Regal Pierce #1	60.71%	24.29%	3%	12%

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1           30.     The Regal Blessing #1 offering document failed to disclose material information relating  
2 to organizational and offering expenses. The Confidential Information Memorandum for this offering  
3 generally stated that Regal Energy would use proceeds from the Turnkey Drilling Contract to pay for the  
4 organization and offering expenses, but failed to disclose the amount, including if there were due  
5 diligence fees or sales commissions for this offering. In contrast, the offering documents for the other  
6 joint ventures disclosed that Red River Securities would receive a 3% due diligence fee and a sales  
7 commission up to 12%.

8           31.     Several offering documents failed to disclose, or only partially disclosed, the management  
9 fee that Regal Energy would receive. The table below details which offerings disclosed the management  
10 fee, and the amount of the management fee if disclosed (as explained below, the management fee listed  
11 for the Regal Waggoner #2, Regal Cosper #1, and Regal Pierce #1 are estimates):

<b>Joint Venture</b>	<b>Disclosure of Management Fee</b>	<b>Management Fee (approx.)</b>
Regal Blessing #1	Yes	\$699,300
Regal Boonsville #2	No	---
Regal Waggoner #1	No	---
Regal Waggoner #2	Partial	\$741,353
Regal Cosper #1	Partial	\$1,548,318
Regal Pierce #1	Partial	\$1,191,208

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17           32.     Offering documents for the Regal Boonsville #2, Regal Waggoner #1, Regal Waggoner  
18 #2, Regal Cosper #1, and Regal Pierce #1 stated that Regal Energy would receive as a management fee  
19 the difference between the Turnkey Drilling Price and the actual cost of operations. Additionally, for  
20 offerings in which Regal Energy attempted to complete the well, Regal Energy would receive the  
21 difference between the Turnkey Completion Price and the actual cost of operations. The offering  
22 documents further stated that Regal Energy could not predict the actual cost of operations and thus could  
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1 not reasonably predict the amount of the management fee, but the management fee could be significant.  
2 The Regal Waggoner #2, Regal Cosper #1, and Regal Pierce #1 offering documents contained an  
3 estimated authorization for expenditure (the expected costs to complete the proposed project) from which  
4 the investor could calculate the estimated management fee (by subtracting the authorization for  
5 expenditure from the Turnkey Drilling Price and the Turnkey Completion Price). In contrast, the Regal  
6 Blessing #1 offering document disclosed that Regal Energy would receive a management fee of  
7 \$699,300.

### 8 *Prior Enforcement Actions*

9 33. Most of the offering documents failed to disclose material information regarding prior  
10 enforcement actions. The Regal Boonsville #2 Confidential Information Memorandum (dated January 4,  
11 2010), Regal Waggoner #1 Confidential Information Memorandum (dated July 15, 2010), Regal  
12 Waggoner #2 Confidential Information Memorandum (dated March 4, 2011), Regal Cosper #1  
13 Confidential Information Memorandum (dated September 19, 2011), and the Regal Pierce #1  
14 Confidential Information Memorandum (dated June 20, 2012) all failed to disclose the February 2009  
15 Consent Agreement entered into between the State of New Mexico and the Regal Bennet #1 Joint  
16 Venture. In addition, the Regal Pierce #1 Confidential Information Memorandum failed to disclose the  
17 December 2011 Letter of Acceptance, Waiver and Consent that FINRA entered into with Red River  
18 Securities.

### 19 **Shutting-In and Plugging Wells**

20 34. Although investors received a few monthly distributions from the joint ventures, the  
21 amount of the distributions was nominal compared to the principal invested. For the majority of months,  
22 investors did not receive any distributions, as any income the wells produced exceeded the expenses. For  
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1 example, by approximately May 2014, Investor A received only approximately \$2,394 in distributions,  
2 after investing approximately \$211,810 in the six different oil and gas investments through Regal Energy.

3 35. Beginning in approximately September 2012, Regal Energy began notifying investors that  
4 it would be shutting in some of the wells. In September 2012, Regal Energy sent letters to investors  
5 regarding temporary shut-ins of the Regal Blessing #1, Regal Waggoner #1, and Regal Waggoner #2  
6 wells. The letter regarding the Regal Blessing #1 stated that one well was shut-in due to fluid, but  
7 indicated that additional equipment was being dispatched to help begin production again. The letters  
8 regarding the Regal Waggoner #1 and Regal Waggoner #2 explained that the wells were currently shut-in  
9 due to low gas prices. Subsequently, in December 2014, Regal Energy sent a letter to investors stating  
10 that the Regal Cosper #1 was shut-in due to low gas prices.

11 36. Beginning in approximately November 2012, Regal Energy began notifying investors of  
12 the intent to plug and abandon certain wells. In November 2012, Regal Energy sent a letter stating that it  
13 would be plugging and abandoning one of the Regal Blessing #1 wells after several unsuccessful  
14 attempts to reduce or stop the well's massive water production. Subsequently, in November 2013, Regal  
15 Energy sent several letters to investors regarding the intent to plug and abandon the Regal Waggoner #1,  
16 Regal Waggoner #2, and Regal Pierce #1 wells. The letters regarding the Regal Waggoner #1 and Regal  
17 Waggoner #2 indicated that a positive cash flow from the wells was no longer a realistic goal. The letter  
18 regarding the Regal Pierce #1 stated that the well failed to show commercial quantities of hydrocarbons  
19 during several completion attempts.

### 20 **Failure to Comply with Regulation D Rule 506**

21 37. On September 1, 2009, Regal Blessing #1 Joint Venture filed with the Securities Division  
22 a claim of exemption from registration, for an offering of joint venture interests under Regulation D, Rule  
23 506 and WAC 460-44A-506.



1 **CONCLUSIONS OF LAW**

2 1. The offer and/or sale of the joint venture interests, as described above, constitutes the offer  
3 and/or sale of a security as defined in RCW 21.20.005(10) and (12).

4 2. The Regal Blessing #1 Joint Venture and the Regal Boonsville #2 Joint Venture have each  
5 violated RCW 21.20.140 because, as set forth in the Tentative Findings of Fact, they offered and/or sold  
6 securities for which no registration is on file with the Securities Administrator, and for which no valid  
7 claim of exemption exists.

8 3. Scott Bradley Johnson violated RCW 21.20.040 by offering and selling securities in the  
9 Regal Blessing #1 Joint Venture while not registered as a securities salesperson or broker-dealer in the  
10 State of Washington.

11 4. Regal Energy, L.L.C., Regal Blessing #1 Joint Venture, Regal Boonsville #2 Joint  
12 Venture, Regal Waggoner #1 Joint Venture, Regal Waggoner #2 Joint Venture, Regal Cospier #1 Joint  
13 Venture, Regal Pierce #1 Joint Venture, and Scott Bradley Johnson have each violated RCW 21.20.010  
14 because, as set forth in the Tentative Findings of Fact, they each made misstatements of material fact or  
15 omitted to state material facts necessary in order to make the statements made, in light of the  
16 circumstances under which they were made, not misleading.

17 **CONSENT ORDER**

18 Based upon the foregoing and finding it in the public interest:

19 IT IS AGREED AND ORDERED that the Respondents Regal Blessing #1 Joint Venture and  
20 Regal Boonsville #2 Joint Venture shall cease and desist from violation of RCW 21.20.140, the  
21 securities registration section of the Securities Act of Washington.

22 IT IS FURTHER AGREED AND ORDERED that the Respondents Regal Energy, L.L.C., Regal  
23 Blessing #1 Joint Venture, Regal Boonsville #2 Joint Venture, Regal Waggoner #1 Joint Venture, Regal

1 Waggoner #2 Joint Venture, Regal Cospier #1 Joint Venture, and Regal Pierce #1 Joint Venture shall  
2 cease and desist from violation of RCW 21.20.010, the anti-fraud section of the Securities Act of  
3 Washington.

4 IT IS FURTHER AGREED that the Respondents Regal Energy, L.L.C., Regal Blessing #1 Joint  
5 Venture, Regal Boonsville #2 Joint Venture, Regal Waggoner #1 Joint Venture, Regal Waggoner #2  
6 Joint Venture, Regal Cospier #1 Joint Venture, and Regal Pierce #1 Joint Venture enter into this  
7 Consent Order freely and voluntarily and with a full understanding of its terms and significance.

8 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this order.

9 IT IS FURTHER AGREED that in consideration of the foregoing, the Respondents Regal  
10 Energy, L.L.C., Regal Blessing #1 Joint Venture, Regal Boonsville #2 Joint Venture, Regal Waggoner  
11 #1 Joint Venture, Regal Waggoner #2 Joint Venture, Regal Cospier #1 Joint Venture, and Regal Pierce  
12 #1 Joint Venture waive their right to a hearing and to judicial review of this matter pursuant to RCW  
13 21.20.440 and Chapter 34.05 RCW.

14 WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE

15 SIGNED this 6 day of March, 2017.

16 Approved for Entry by:

17 \_\_\_\_\_  
18 /s/  
19 Mark A. Hendrix, Attorney for Respondents  
Texas Bar No. 09460500

20 Signed by:

21 Regal Energy, L.L.C.

22 \_\_\_\_\_  
23 /s/  
24 Brian K. Hardwick  
CEO of the Managing Venturer

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Signed by:

Regal Blessing #1 Joint Venture

\_\_\_\_\_/s/\_\_\_\_\_  
Brian K. Hardwick  
CEO of the Managing Venturer

Signed by:

Regal Boonsville #2 Joint Venture

\_\_\_\_\_/s/\_\_\_\_\_  
Brian K. Hardwick  
CEO of the Managing Venturer

Signed by:

Regal Waggoner #1 Joint Venture

\_\_\_\_\_/s/\_\_\_\_\_  
Brian K. Hardwick  
CEO of the Managing Venturer

Signed by:

Regal Waggoner #2 Joint Venture

\_\_\_\_\_/s/\_\_\_\_\_  
Brian K. Hardwick  
CEO of the Managing Venturer

Signed by:

Regal Cospers #1 Joint Venture

\_\_\_\_\_/s/\_\_\_\_\_  
Brian K. Hardwick  
CEO of the Managing Venturer



1 Signed by:

2 Regal Pierce #1 Joint Venture

3 \_\_\_\_\_/s/\_\_\_\_\_

4 Brian K. Hardwick  
CEO of the Managing Venturer

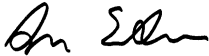
5 DATED AND ENTERED this 6 day of March, 20 17.

7 By:

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9 \_\_\_\_\_  
10 William M. Beatty  
Securities Administrator

11 Approved by:

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13 \_\_\_\_\_  
14 Suzanne Sarason  
Chief of Enforcement

11 Presented by:

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13 \_\_\_\_\_  
14 Bridgett Fisher  
Financial Legal Examiner

15 Reviewed by:

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17 \_\_\_\_\_  
18 Robert Kondrat  
Financial Legal Examiner Supervisor