

1 STATE OF ALASKA
2 DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
3 DIVISION OF BANKING AND SECURITIES

4 IN THE MATTER OF:)

5 FORTUNE OIL & GAS, LTD.,)
6 RUSSELL L. VERA, and)
7 R. GERALD BAILEY)

8 Respondents.)
9 _____)

ORDER NO. 13-1095-S

**FINAL CEASE AND DESIST ORDER
ASSESSING CIVIL PENALTIES**

10 The Director of the Department of Commerce, Community, and Economic
11 Development, Division of Banking and Securities (“Administrator”), has conducted an
12 investigation into certain business activities of Fortune Oil and Gas, Ltd. (“Fortune Oil”),
13 Russell L. Vera, and R. Gerald Bailey (collectively, the “Respondents”), and has determined
14 that Respondents violated certain provisions of the Alaska Securities Act (the “Act”), Alaska
15 Statute (AS) 45.55.

16 **I. BACKGROUND**

17 On January 3, 2014, the Administrator sent a Temporary Cease and Desist Order
18 Effective Immediately, Assessing Civil Penalties, with Notice of Hearing Rights and Notice
19 of Final Cease and Desist Order (“Temporary Cease and Desist”) by certified and first class
20 mail to: Fortune Oil’s business address at 12275 FM 1097 West, Willis, Texas, 77318; Mr.
21 Vera’s last known mailing address at 28802 Saddle Oak Dr., Montgomery, Texas, 77356; and
22 Mr. Bailey’s last known mailing address at P.O. Box 273171, Houston, Texas, 77277.

23 On January 16, 2014, Mr. Bailey contacted the Administrator by telephone and stated
24 that he had received the Temporary Cease and Desist on January 15, 2014. The Administrator

1 advised Mr. Bailey that he had until January 30, 2014 to request a hearing.

2 On January 17, 2014, Mr. Vera contacted the Administrator by telephone and stated
3 that he had received the Temporary Cease and Desist on January 15, 2014. The Administrator
4 advised Mr. Vera that he had until January 30, 2014 to request a hearing.

5 Mr. Vera and Mr. Bailey made no request for a hearing by January 30, 2014.

6 II. FACTS

7 1. Fortune Oil has a mailing and physical address at 12275 FM 1097 West, Willis,
8 Texas, 77318.

9 2. Fortune Oil was formed as a Domestic Limited Partnership in the State of Texas
10 on April 4, 2008, Tax ID no. 32036693763, and is currently in good standing. Russell L. Vera
11 is the registered agent.

12 3. Mr. Vera is the President, and R. Gerald Bailey is an Officer/Board Member of
13 Fortune Oil.

14 4. Fortune Oil claims in its company brochure that it is “primarily engaged in the
15 upstream activities of acquiring, discovering, developing and operating production of oil and
16 gas.”

17 5. Mr. Vera, with Fortune Oil as managing general partner, offered units of
18 partnership interests in four oil drilling projects to Alaska residents: Fortune Edwards
19 Limited Partnership, Ltd.; Pecan Gap 2A Limited Partnership, Ltd.; Guadalupe County
20 Leasefund, Ltd.; and DG Tiller LP, Ltd. (collectively, the “partnership interests”).

21 6. As part of an effort to obtain funding for the projects, Mr. Vera and Mr. Bailey
22 solicited investors by making presentations and meeting with potential investors at conferences,
23 seminars, and money shows in numerous states. Money shows are advertised as “the pioneer of
24 investment tradeshows offering extraordinary value to passionate individual investors eager to

1 access the advice and buy-and-hold strategies of respected market experts.” Mr. Bailey and Mr.
 2 Vera made presentations and met with Alaska residents at money shows held in hotel
 3 conference rooms in Alaska. In addition, Mr. Bailey and Mr. Vera set up booths and made
 4 presentations to Alaska residents who were traveling out of state at the Freedom Fest
 5 conferences in Las Vegas, Nevada. Freedom Fest is advertised as “an annual festival where free
 6 minds meet to celebrate great books, great ideas, and great thinkers.”

7 7. At least 16 Alaska residents purchased partnership interests for a total of \$3,072,700¹
 8 with the expectation of making a profit. The Alaska residents were not active managers.

Project Name	Alaska Investor Name	Date	Amount Invested
Fortune Edwards	C.A.F.T.	10/30/2010	\$149,700.00
Fortune Edwards	M.C. & B.C.	11/26/2010	\$149,700.00
Fortune Edwards	S.C & S.C.	08/25/2010	\$224,550.00
Fortune Edwards	C.S.	01/07/2011	\$74,850.00
Fortune Edwards	G.R.	05/17/2011	\$49,000.00
Fortune Edwards	D.C. & L.C.	05/03/2011	\$149,700.00
Fortune Edwards	M.P. & J.P.	05/04/2011	\$149,700.00
Fortune Edwards	D.M.	04/05/2011	\$149,700.00
Fortune Edwards	M.A. & C.A.	04/27/2011	\$149,700.00
Fortune Edwards	K.K. & D.K.	04/22/2011	\$74,850.00
Fortune Edwards	E.T.C.	04/06/2011	\$149,700.00
Fortune Edwards	N.W. & K.W.	03/18/2011	\$149,700.00
Fortune Edwards	C.S.	05/23/2011	\$149,700.00
Fortune Edwards	P.R. & O.R.	12/08/2011	\$149,700.00
Pecan Gap	S.C. & S.C.	01/10/2012	\$25,000.00
Pecan Gap	C.S.	01/12/2012	\$50,000.00
Pecan Gap	W.G. & L.G.	01/17/2012	\$25,000.00
Pecan Gap	C.S. & C.S.	01/24/2012	\$25,000.00
Pecan Gap	C.S.	01/26/2012	\$43,750.00
Pecan Gap	C.A.F.T.	01/31/2012	\$25,000.00
Pecan Gap	L.R. & P.R.	02/08/2012	\$25,000.00
Guadalupe County	S.C.	02/27/2012	\$294,000.00
Guadalupe County	L.R.	02/08/2012	\$98,000.00
Guadalupe County	M.A. & C.A.	02/08/2012	\$98,000.00
Guadalupe County	C.S.	02/27/2012	\$98,000.00
Guadalupe County	D.C. & L.C.	02/28/2012	\$98,000.00

¹ In addition, at least 67 individuals in 23 other states invested a total of approximately \$4,300,000.

1	Guadalupe County	G.D.	02/28/2012	\$49,000.00
2	Guadalupe County	G.R.	02/28/2012	\$49,000.00
3	DG Tiller	S.C.	06/09/2012	\$49,000.00

4 8. The Administrator has not received from Fortune Oil, either prior to or after the offer
5 and sale to Alaska investors, any registration or notice filing that is required pursuant to the
6 Act. Moreover, Fortune Oil has not provided any information to the Administrator that
7 demonstrates that the partnership interests are eligible for an exemption pursuant to the Act.

8 9. Mr. Vera and Mr. Bailey are not registered with the Administrator as broker-dealers,
9 agents or investment advisers.

10 10. On October 7, 2013, the Administrator sent a letter to Mr. Vera informing him that
11 the Administrator had no record of Fortune Oil or any of its officials being registered to sell
12 securities in Alaska, and it appeared that the partnership interests being offered and sold were
13 not exempt or federally covered. Based on the Administrator's concerns, the Administrator
14 requested a written response by November 4, 2013 as to why the partnership interests were not
15 registered in Alaska, or in the alternative, what exemption applied in this case. In addition, the
16 letter requested that Fortune Oil provide the Administrator with documentation related to
17 Fortune Oil's domestic limited partnership, the partnership interests, and any investors.

18 11. The letter was signed for by Fortune Oil employee/receptionist Tracy Taylor on
19 October 10, 2013.

20 12. The Administrator did not receive a response or any of the requested information
21 by November 4, 2013.

22 13. On November 5, 2013, the Administrator left a telephone message with Ms. Taylor
23 at Fortune Oil stating that the requested information had not been received and asked that Mr.
24 Vera contact the Administrator to discuss this matter.

1 14. On November 7, 2013, the Administrator received an email from Mr. Vera's wife,
2 Melissa Vera, apologizing for the delayed response and promising that that the requested
3 information would be sent to the Administrator by November 12, 2013.

4 15. On November 12, 2013, the Administrator received another email from Ms. Vera
5 stating that 90% of the information had been gathered, and promising that all of the requested
6 information would be sent by overnight mail the next day.

7 16. On November 14, 2013, the Administrator received a package from Fortune Oil
8 that included private placement memorandums for the partnership interests, a list of Alaska
9 investors, and documentation related to Fortune Oil's domestic limited partnership; however,
10 Fortune Oil did not answer the question as to why the partnership interests were not registered
11 in Alaska or what exemption it believed applied in this matter. In addition, Fortune Oil did not
12 provide a list of investors in states other than Alaska.

13 17. On November 20, 2013, the Administrator sent a letter to Mr. Vera informing him
14 that he failed to fully respond to Administrator's previous letter. The Administrator requested a
15 complete response within seven days of the receipt of the letter.

16 18. The letter was signed for by Ms. Taylor on November 26, 2013.

17 19. The Administrator did not receive a response or any of the requested information
18 by December 3, 2013.

19 20. On December 4, 2013, the Administrator wrote Ms. Vera an email stating that the
20 Administrator did not receive the requested information within seven days. Later that day, Ms.
21 Vera responded to the email and stated that she would send the requested documents as soon as
22 copies were made. Again later that day, the Administrator responded to Ms. Vera's email and
23 stated that the requested information was due by December 9, 2013 at the latest.

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1 21. The Administrator did not receive any of the requested information by December 9,
2 2013.

3 22. On December 10, 2013, the Administrator left a telephone message with Ms.
4 Taylor at Fortune Oil stating that the requested information had not been received and asked
5 that Mr. Vera or Ms. Vera contact the Administrator to discuss this matter. In addition, the
6 Administrator sent an email to Ms. Vera requesting that she call the Administrator as soon as
7 possible.

8 23. As of the date of the Temporary Cease and Desist, the Administrator did not
9 receive a response from Fortune Oil or any of the requested information.

10 **III. CONCLUSIONS OF LAW**

11 1. The partnership interests that Respondents offered and sold to Alaska residents are
12 “securities” as that term is defined in AS 45.55.990(32) of the Act.

13 2. Respondents violated AS 45.55.070 of the Act because the securities being offered
14 and sold to Alaska residents are not registered with the Administrator, federally covered in
15 compliance with Alaska law, or exempt from registration.

16 3. Respondents are subject to a civil penalty pursuant to AS 45.55.920(b) because
17 Respondents knowingly and intentionally offered and sold securities to Alaska residents that
18 are not registered with the Administrator, federally covered in compliance with Alaska law, or
19 exempt from registration.

20 **IV. ORDER and NOTICE**

21 The Administrator, pursuant to AS 45.55.920, hereby ORDERS Respondents to:

22 1. CEASE AND DESIST from offering and selling securities in Alaska without the
23 securities being registered, federally covered in compliance in with Alaska law, or exempt
24 from registration;

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- 2. Comply with all provisions of the Act, including associated regulations;
- 3. Pay a civil penalty in the amount of twenty-five thousand dollars (\$25,000).

Pursuant to AS 45.55.940(a), Respondents may obtain a review of this Final Order in the superior court by filing, in accordance with the Rules of Appellate Procedure, a notice of appeal. Pursuant to Appellate Rule 602(a)(2), the notice of appeal must be filed within 30 days from the date this Final Order is mailed or otherwise distributed to Respondents.

IT IS SO ORDERED.

SUSAN BELL, Commissioner
Department of Commerce, Community and
Economic Development

DATED: 02/03/2014

/s/ Kevin Anselm
BY: Kevin Anselm, Director
Division of Banking and Securities