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IN THE MATTER OF §
TEXAS SHALLOW OIL & GAS, LLC § **Order No. ENF-20-CDO-1802**
AND KENNETH WAYNE WOOLDRIDGE §

Texas Shallow Oil & Gas, LLC
112 Gleese Street, Graham, Texas 76450
PO Box 1611, Graham, Texas 76450

Kenneth Wayne Wooldridge
112 Gleese Street, Graham, Texas 76450
PO Box 1611 Graham, Texas 76450

EMERGENCY CEASE AND DESIST ORDER

This is your OFFICIAL NOTICE of the issuance by the Securities Commissioner of the State of Texas (the "**Securities Commissioner**") of an EMERGENCY CEASE AND DESIST ORDER pursuant to Section 23-2 of The Securities Act, Tex. Rev. Civ. Stat. Ann. arts. 581-1-581-45 (the "**Securities Act**").

The Enforcement Division of the Texas State Securities Board (the "**Enforcement Division**") has presented evidence sufficient for the Securities Commissioner to find:

FINDINGS OF FACT

1. Texas Shallow Oil & Gas, LLC ("**Respondent Texas Shallow**") is an oil and gas operator. It can be served by certified mail, return receipt requested, addressed to its principal office at 112 Gleese Street, Graham, Texas 76450, and its mailing address at PO Box 1611 Graham, Texas 76450. Respondent Texas Shallow can also be served through Kenneth Wayne Wooldridge, its registered agent, at its registered office at 112 Gleese Street, Graham, Texas 76450.
2. Kenneth Wayne Wooldridge ("**Respondent Wooldridge**") is the Owner and Director of Respondent Texas Shallow. He can be served by certified mail, return receipt requested, addressed to his principal office at 112 Gleese Street, Graham, Texas 76450, and his mailing address at PO Box 1611 Graham, Texas 76450.

OVERVIEW

3. Respondents are publicly soliciting investments in oil and gas wells through an internet website, an online marketplace and social media.
4. Despite the recent decline in the price of oil, Respondents are touting the profitability of the investments in oil as gas wells. They even claim they can make money if the price of oil declines to or remains at \$20 per barrel.
5. Respondents have, however, neither fulfilled their obligations to prior investors nor paid promised returns to prior investors.
6. The Securities Commissioner is entering this Emergency Cease and Desist Order to stop their illegal and fraudulent scheme and protect the public from irreparable harm.

THE CLAIMS OF EXPERIENCE AND EXPERTISE AND THE OFFER OF "SILENT INVESTMENT PROGRAMS" IN OIL AND GAS WELLS

7. Respondent Wooldridge is representing he has 39 years of experience in the oil and gas industry, and he is touting his relationships with Schlumberger, Haliburton and Patterson-UTI.
8. Respondents are also claiming expertise in the exploration and drilling of leases in northern Young County, Texas, and the Gun Sight Oil Sands Formation, a formation that runs through Young County, Texas.
9. Respondents are now offering "silent investment programs" tied to oil and gas drilling programs in Young County, Texas, and the Gun Sight Oil Sands Formation.

SOLICITATION OF THE PUBLIC THROUGH AN INTERNET WEBSITE

10. Respondent Texas Shallow maintains an internet website accessible by the public at www.texasshallow.com (the "Texas Shallow Website").
11. The Texas Shallow Website describes "silent investment programs," including the following:
 - A. New well drilling projects in the Gun Sight Oil Sands Formation for \$1,000 per one percent working interest with a potential to produce one to seven barrels of oil per day and potential production increases as high as 55-110 barrels of oil per day;
 - B. The Johle Rework for \$1,000 per one percent working interest with a potential to produce one to three barrels of oil per day and potential production increases as high as 30-60 barrels of oil per day;

- C. The Matthews/Mattie Rework for \$1,000 per one percent working interest with a potential to produce one to three barrels of oil per day and potential production increases as high as 30-60 barrels of oil per day; and
 - D. The Texas Shallow Website also represents Respondent Texas Shallow may drill new wells after completing the Johle Rework and Matthews/Mattie Rework, and Respondent Texas Shallow plans to offer investments in such wells for \$900.00 per one percent working interest.
12. The Texas Shallow Website permits potential investors, regardless of accreditation, to contact Respondents through an embedded messaging platform. It also provides a telephone number, electronic mail address and mailing address for the company.

ADVERTISEMENTS PUBLISHED IN DEALSTREAM

13. Respondents are also publishing advertisements for investments in oil and gas wells through DealStream.com ("DealStream"). DealStream is an online marketplace with more than 500,000 members in 100 countries. It facilitates the purchase and sale of businesses, real estate, oil and gas assets, and private investments.
14. These advertisements solicit investments in oil and gas wells. They include the following:
- A. On or about April 7, 2020, Respondents published an advertisement soliciting investors to fund five new oil wells, one injection well, and one water supply for \$17,500 per well, and they are claiming the project has a potential to produce 25 to 60 barrels of oil per day and production could rise as high as 125 to 300 barrels of oil per day;
 - B. On or about March 30, 2020, Respondents published an advertisement soliciting investors to fund three new oil wells for \$65,000, claiming the wells have a potential to produce 3 to 5 barrels of oil per day; and
 - C. On or about March 26, 2020, Respondents published an advertisement for a single well setup for \$35,000, a six well project for \$175,000 and a nine well project for \$250,000. The advertisement claims the wells have the potential to produce three to five barrels of oil per day and production could rise as high as 30 to 66 barrels of oil per day.
15. The advertisements permit potential investors, regardless of accreditation, to contact Respondent Wooldridge through an embedded messaging platform. The advertisements also provide his electronic mail address and telephone number, indicate he maintains a profile in LinkedIn and hyperlink to the Texas Shallow Website.

THE SOLICITATION OF THE PUBLIC THROUGH LINKEDIN

16. Respondent Wooldridge is publishing information through LinkedIn.com ("LinkedIn"), a social media platform that claims the world's largest professional network with nearly 660+ million users in more than 200 countries and territories.
17. The information describes Respondent Wooldridge, his experience in the oil and gas industry, and the operation of Respondent Texas Shallow.
18. Respondent Wooldridge is using LinkedIn to solicit purchasers of investments in oil and gas wells.
19. The solicitations direct potential investors, regardless of accreditation, to contact Respondent Wooldridge by electronic mail, by telephone, or through WhatsApp.

THE CURRENT OFFERING OF WORKING INTERESTS IN WELLS IN THE GRAGG PROJECT

20. Potential investors are responding to the public solicitations. Respondent Wooldridge is offering these potential investors the opportunity to purchase investments in oil and gas wells.
21. Respondents are now offering these potential investors the opportunity to pay \$205,000 to purchase 100 percent of the working interest in four producing wells, one injection well, and one water supply well to be drilled on the Gragg Lease in Young County, Texas.
22. Respondent Texas Shallow serves as the operator for the project. Upon completion of the wells, it will charge a monthly fee of \$750 to operate the wells.

THE PURPORTED PROFITABILITY OF THE OIL AND GAS INVESTMENTS

23. Respondents are touting the profitability of the investments in oil and gas wells as follows:
 - A. Investors can expect to receive returns within 60 to 90 days after the wells are completed and begin producing oil;
 - B. Investors can receive a return of initial investment in as little as eight to 16 months;
 - C. Wells may "produce for decades" providing "[m]onthly passive income & cash flow (mailbox money);" and
 - D. The investments represent an [e]asy oil investment with a quick return" that can "set [the investor] up for retirement."

THE PROMISE OF PROFITABILITY DESPITE THE DECLINE IN THE PRICE OF OIL

24. Respondents are continuing to promote their oil and gas investments even though the price of WTI Crude has declined from more than \$61 per barrel on April 1, 2019, to around \$21 per barrel on April 1, 2020, and the price of Brent Crude has declined from more than \$69 per barrel on April 1, 2019, to around \$25 on April 1, 2020.
25. Although the price of oil has been declining, Respondents are continuing to claim they can make money for purchasers of investments in oil and gas wells.
26. Respondents are also claiming they can make money if the price of oil declines to or remains at \$20 per barrel.

FAILURE TO PAY PROFITS TO PRIOR INVESTORS

27. Although Respondents are touting the profitability of their investments to new investors, Respondents have neither fulfilled their obligations to prior investors nor paid promised returns to prior investors.
28. Additionally, although Respondents are touting the profitability of their investments to new investors, they are not disclosing pending litigation filed against Respondent Texas Shallow.
29. For example, on or around October 10, 2019, BSC Energy Investments, Inc., filed a First Amended Original Petition in BSC Energy Investments, Inc., v. Texas Shallow Oil & Gas, L.L.C., Cause No. 33795, in the 90th Judicial District Court for Young County, Texas.
30. The First Amended Original Petition alleges Respondent Texas Shallow breached its contract with a purchaser of working interests, and it prays for \$20,500 in damages and attorney's fees and costs.
31. The First Amended Original Petition also alleges the following information:
 - A. The plaintiff paid \$20,500 to Respondent Texas Shallow to purchase 16.065 percent working interest in the O.R. Carpenter Lease in Young County, Texas;
 - B. Respondent Texas Shallow agreed to buy back the investment for \$20,500, less any revenue earned from the well, and net of operating expenses, in the event the plaintiff desired to dispose of its interests;
 - C. On February 7, 2019, the plaintiff demanded Respondent Texas Shallow repurchase the investment and return money; and

- D. Respondent Texas Shallow failed to comply with the terms of its agreement and failed to return money.
- 32. On October 10, 2019, the plaintiff served Respondent Texas Shallow with its First Amended Original Petition, and the lawsuit is still pending in district court.

ADMINISTRATIVE ACTIONS BY THE TEXAS RAILROAD COMMISSION

- 33. On or about October 16, 2018, the Office of the General Counsel of the Texas Railroad Commission entered a Master Agreed Order. The Master Agreed Order reflects the Texas Railroad Commission considered and approved various Stipulation, Agreed Settlement and Consent Orders, and adopted the stipulations and agreements contained therein, including the following:
 - A. Docket No. 09-0297328 against Respondent Texas Shallow, whereby Respondent Texas Shallow "must bring into compliance and pay penalty of \$44,500.00 less \$4,500.00 already paid;"
 - B. Docket No. 09-0297329 against Respondent Texas Shallow, whereby Respondent Texas Shallow "must pay penalty of \$7,500;" and
 - C. Docket No. 09-0299152 against Respondent Texas Shallow, whereby Respondent Texas Shallow must "bring into compliance and pay penalty of \$5,000.00."
- 34. Respondent Texas Shallow has not yet fully satisfied the financial obligations collectively assessed in Docket Nos. 09-0297328, 09-0297329, and 09-0299152. Its debt remains outstanding.

REGISTRATION VIOLATIONS

- 35. Respondent Texas Shallow has not been registered with the Securities Commissioner as a dealer at any time material hereto.
- 36. Respondent Wooldridge has not been registered with the Securities Commissioner as an agent of Respondent Texas Shallow at any time material hereto.
- 37. The oil and gas investments identified herein have not been registered by qualification, notification or coordination at any time material hereto, and no permit has been granted for their sale in Texas at any time material hereto.

FRAUD AND THE FAILURE TO DISCLOSE INFORMATION ABOUT THE FAILURE TO PAY PRIOR INVESTORS

- 38. In connection with the offer of investments in oil and gas wells, Respondents are intentionally failing to disclose they have neither fulfilled their obligations to prior

investors nor paid promised returns to prior investors, and this information constitutes material facts.

39. In connection with the offer of investments in oil and gas wells, Respondents are intentionally failing to disclose the information set forth herein relating to BSC Energy Investments, Inc., v. Texas Shallow Oil & Gas, L.L.C., Cause No. 33795, in the 90th Judicial District Court for Young County, Texas, and this information constitutes material facts.

FRAUD AND THE FAILURE TO DISCLOSE INFORMATION ABOUT
ADMINISTRATIVE ACTIONS BROUGHT BY THE TEXAS RAILROAD COMMISSION

40. In connection with the offer of investments in oil and gas wells, Respondents are intentionally failing to disclose the information set forth herein relating to Texas Railroad Commission Docket Nos. 09-0297328, 09-0297329, and 09-0299152, as well as the outstanding financial obligations derived therefrom, and this information constitutes material facts.

FRAUD AND THE FAILURE TO
DISCLOSE RISKS RELATING TO INVESTMENTS IN OIL AND GAS WELLS

41. In connection with the offer of investments in oil and gas wells, Respondents are intentionally failing to disclose material facts, including the following risks associated with investments in oil and gas wells:
- A. The occurrence of "dry holes" or productive wells that do not produce sufficient revenues to generate a profit may negatively impact the profitability of investments in oil and gas wells;
 - B. Changes in the price of oil or declines in demand for oil may negatively impact the profitability of investments in oil and gas wells;
 - C. Promoters may fail to accurately evaluate oil wells and successfully identify and exploit oil and gas opportunities, and this may negatively impact the profitability of investments in oil and gas wells;
 - D. Promoters may fail to accurately estimate costs associated with the exploration and operation of oil and gas wells, and this may negatively impact the profitability of investments in oil and gas wells;
 - E. The marketability of production is dependent on the availability, proximity and capacity of transportation and facilities, and the impairment or unavailability of transportation or facilities may negatively impact the profitability of investments in oil and gas wells;
 - F. Unusual or unexpected geological formations, fires, natural disasters and adverse weather conditions may require the curtailing, delaying or

canceling of drilling and production, and the occurrence of these events may negatively impact the profitability of investments in oil and gas wells;

- G. Equipment failures, including explosions, burnouts and pipe and cement failure, including equipment failures that result in natural gas leaks or oil spills, may negatively impact the profitability of investments in oil and gas wells;
- H. An increase in the price of crude oil or the demand for equipment and services may correlate with an increase in the cost of securing, repairing or replacing drilling rigs, equipment and supplies, and these market forces may negatively impact the profitability of investments in oil and gas wells; and
- I. Oil drilling and production operations are subject to numerous and significant federal, state and local laws, and other requirements governing or relating to the environment, and changes in regulation may negatively impact the profitability of investments in oil and gas wells.

**DECEPTIVE AND MISLEADING
STATEMENTS RELATING TO LIABILITIES OF PURCHASERS**

- 42. As described herein, Respondents' offer contains statements that reflect they are selling working interests in oil and gas wells.
- 43. These statements are materially misleading or otherwise likely to deceive the public because Respondents are not disclosing that purchasers of working interests may be liable for personal injuries and damage to the environment, and they may be subject to various other causes of action associated with drilling and production operations.
- 44. These statements are also materially misleading or otherwise likely to deceive the public because Respondents are not disclosing the tax implications of purchasing working interests, including the taxation of income derived from working interests as self-employment income and the need to pay estimated tax payments based on current Internal Revenue Service standards and rates.

**DECEPTIVE AND MISLEADING
STATEMENTS RELATING TO GEOLOGICAL AND GEOPHYSICAL DATA**

- 45. As described herein, Respondents' offer contains statements that tout their expertise in the exploration and drilling of leases in northern Young County, Texas, and the Gun Sight Oil Sands Formation, a formation that runs through Young County, Texas.
- 46. As also described herein, Respondents' offer contains statements that reflect they are selling working interests in oil and gas wells in Young County, Texas, and the Gun Sight Oil Sands Formation.

47. These statements are materially misleading or otherwise likely to deceive the public because Respondents are not disclosing any geological or geophysical information that may be used to independently evaluate the said oil and wells or verify the claims of profitability of investments in the oil and gas wells.

CONCLUSIONS OF LAW

1. The investments in oil and gas wells are securities as the term is defined by Section 4.A of the Securities Act.
2. Respondents are violating Section 7 of the Securities Act by offering securities for sale in Texas at a time when the securities are not registered with the Securities Commissioner.
3. Respondents are violating Section 12 of the Securities Act by offering securities for sale in Texas without being registered pursuant to the provisions of Section 12 of the Securities Act.
4. Respondents are engaging in fraud in connection with the offer for sale of securities.
5. Respondents have made an offer containing a statement that is materially misleading or otherwise likely to deceive the public.
6. Respondents' conduct, acts, and practices threaten immediate and irreparable public harm.
7. The foregoing violations constitute bases for the issuance of an Emergency Cease and Desist Order pursuant to Section 23-2 of the Securities Act.

ORDER

1. It is therefore ORDERED Respondents immediately CEASE AND DESIST from offering for sale any security in Texas until the security is registered with the Securities Commissioner or is offered for sale pursuant to an exemption from registration under the Securities Act.
2. It is further ORDERED Respondents immediately CEASE AND DESIST from acting as securities dealers or agents in Texas until Respondents are registered with the Securities Commissioner or are acting pursuant to an exemption from registration under the Securities Act.
3. It is further ORDERED Respondents immediately CEASE AND DESIST from engaging in any fraud in connection with the offer for sale of any security in Texas.

4. It is further ORDERED Respondents immediately CEASE AND DESIST from offering securities in Texas through an offer containing a statement that is materially misleading or otherwise likely to deceive the public.

NOTICE

Pursuant to Section 23-2 of the Texas Securities Act, you may request a hearing before the 31st day after the date you were served with this Order. The request for a hearing must be in writing, directed to the Securities Commissioner, and state the grounds for the request to set aside or modify the Order. Failure to request a hearing will result in the Order becoming final and non-appealable.

You are advised under Section 29.D of the Texas Securities Act that any knowing violation of an order issued by the Securities Commissioner under the authority of Section 23-2 of the Texas Securities Act is a criminal offense punishable by a fine of not more than \$10,000, or imprisonment in the penitentiary for two to ten years, or by both such fine and imprisonment.

SIGNED AND ENTERED by the Securities Commissioner this 16th day of April 2020.



TRAVIS J. ILES
Securities Commissioner