

1 **STATE OF WASHINGTON**
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**
3 **SECURITIES DIVISION**

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

5 J1S Energy, LLC;
6 Kirk D. Jones;
Josh Childress;

7 Respondents.

Order No. S-19-2622-21-SC01

STATEMENT OF CHARGES AND NOTICE OF
INTENT TO ENTER ORDER TO CEASE AND
DESIST, TO IMPOSE FINES, AND TO CHARGE
COSTS

8 THE STATE OF WASHINGTON TO:

J1S Energy, LLC
Kirk D. Jones
Josh Childress

10 **STATEMENT OF CHARGES**

11 Please take notice that the Securities Administrator of the state of Washington has reason to believe
12 that Respondents J1S Energy, LLC, Kirk D. Jones, and Josh Childress have each violated the Securities Act
13 of Washington. The Securities Administrator believes that these violations justify the entry of an order against
14 Respondents to cease and desist from such violations and to charge costs pursuant to RCW 21.20.390, and to
15 impose fines pursuant to RCW 21.20.395. The Securities Administrator finds as follows:

16 **TENTATIVE FINDINGS OF FACT**

17 **Respondents**

18 1. J1S Energy, LLC (J1S Energy) is an inactive Texas limited liability company that was formed
19 on November 8, 2012. Its principal place of business was in Fort Worth, Texas. J1S Energy was in the business
20 of selling units of fractional undivided working interests in oil and gas prospects.

21 2. Kirk D. Jones (Jones) is a resident of Texas. He was the President of J1S Energy.

22 3. Josh Childress (Childress) is a resident of Texas. His title with J1S Energy was Lease
23 Acquisition Manager.

1 **Nature of the Conduct**

2 *Overview*

3 4. Between about February 2014 and December 2014, JIS Energy, Jones, and Childress offered
4 and sold three unregistered oil and gas investments totaling about \$198,000 to a Washington resident. JIS
5 Energy, Jones, and Childress did not have a substantive, preexisting relationship with the investor at the time
6 that the investor was offered and sold the investments. JIS Energy, Jones, and Childress failed to disclose
7 material information to the Washington investor about the investments, including the specific risks of
8 investing, information related to profit projections, and Jones's background.

9 *The Offerings*

10 5. In or around February 2014, Childress called the Washington investor and offered him
11 fractionalized working interests in two oil and gas prospects. The investor did not know Childress when
12 Childress called him. The investor did not have experience investing in oil and gas at the time that Childress
13 contacted him. Over the following months, Childress was the investor's main contact at JIS Energy, while
14 Jones occasionally spoke with the investor about progress reports and paperwork requirements.

15 6. On February 28, 2014, Childress and JIS Energy emailed the investor offering documents for
16 the investments being offered, which consisted of Subscription Agreements for the two prospects, a turnkey
17 contract for one of the prospects, and profit projections for each of the prospects. The investor declined to
18 invest but researched JIS Energy online.

19 7. In or around May 2014, Childress called the investor and offered him fractionalized working
20 interests in the Doc Hays-5 Well Project (Doc Hays Project). Childress told the investor that the Doc Hays
21 Project had two wells in Kentucky, and that the wells were already producing oil. Childress and JIS Energy
22 emailed the investor the subscription agreement for the investment. On May 19, 2014, JIS Energy, Childress,
23 and Jones sold the investor a \$50,000 investment in the Doc Hays Project.

1 8. After the Washington investor's initial investment with JIS Energy, Childress continued to
2 call the investor. Childress provided updates to the investor about the Docs Hays Project, and Childress offered
3 the investor additional JIS Energy oil and gas investments.

4 9. In or around October 2014, Childress called the Washington investor and offered him
5 fractionalized working interests in the Meeks #3 and Person #3 Prospects. Childress told the investor that a
6 well on the Person #3 Prospect was already drilled but not producing oil yet. Childress represented to the
7 investor that his investment funds would be used to hook the well up to oil tanks.

8 10. On October 21, 2014, Childress and JIS Energy emailed the investor offering documents for
9 the two investments, which consisted of an overview of the geological characteristics of the area where the
10 two prospects were located, profit projections for each of the prospects, and subscription agreements for each
11 of the prospects. In the profit projections, JIS Energy estimated potential annual returns of 43% to 150% for
12 the Meeks #3 Prospect, and 45% to 194% for the Person #3 Prospect. On October 22, 2014, JIS Energy,
13 Jones, and Childress sold the investor a \$72,643.43 investment in the Person #3 Prospect.

14 11. In or around December 2014, Childress called the Washington investor about investing in the
15 Meeks #3 Prospect. Childress told the investor that the Meeks #3 well had been drilled and tested, and that
16 they were waiting for it to produce oil or gas. Childress also offered the investor a new investment in the
17 McNeill 124 Prospect. Childress emailed the investor profit projections for the two investments.

18 12. On December 16, 2014, Childress emailed the investor and told him that JIS Energy was going
19 to credit the investor with a 2.5% working interest in the Margaret Mitchell Joint Venture. Childress told the
20 investor that he was receiving an interest in the Margaret Mitchell lease because of the investor's "help with
21 funding" some of JIS Energy's other oil and gas prospects. On December 17, 2014, Childress emailed the
22 investor that the Margaret Mitchell lease was a "producing property," and that JIS Energy would be drilling
23 an additional six wells on the property. Childress told the investor that the approximate value of the credit that

1 the investor was receiving was \$540,000. Childress explained that this value was calculated because they were
2 planning on drilling 6 wells on the property and each well should yield between \$4,500,000 and \$9,000,000
3 in production. Childress failed to provide the investor with a reasonable basis for these production projections.

4 13. Later the same day, the investor emailed Childress asking about the income he could expect
5 on a monthly basis from his investments. Childress told the investor that he could expect \$1,200 to \$1,500 a
6 month for the first few months before any new wells were drilled. The investor could then expect an additional
7 \$5,000 to \$6,000 for each new well drilled.

8 14. On December 17, 2014, J1S Energy, Jones, and Childress sold the Washington investor a
9 \$75,768.43 investment in the Meeks #3 Prospect. The investor also accepted the working interest in the
10 Margaret Mitchell lease that J1S Energy credited to the investor.

11 15. In February 2015, J1S Energy and Jones notified the investor that the Doc Hays-5 Project was
12 deemed a dry hole in January 2015 and had been plugged and abandoned.

13 16. In or around March 2015, Childress called the investor to notify him that J1S Energy was
14 requesting a cash call for the Person #3 Prospect. Childress told the investor that the cash call was related to
15 increased drilling costs. In response, the investor paid \$19,658.57 to J1S Energy.

16 17. Despite J1S Energy, Jones, and Childress's representations regarding profit projections and
17 monthly income, the investor did not receive any income from the Doc Hays Project, the Person #3 Prospect,
18 or the Meeks #3 Prospect. Over several months, Childress, J1S Energy, and Jones told the investor that income
19 payments were delayed due to permitting issues, dry wells, weather related issues, and a purported lawsuit
20 with the operator for the Meeks #3 and Person #3 prospects.

21 18. Between June 2015 and December 2015, Jones and J1S Energy credited the investor with
22 working interests in three different oil and gas prospects. Childress told the investor that these credits were to
23

1 show appreciation and offset production delays. The investor received less than \$700 of income from these
2 new prospects.

3 19. In January 2019, the Securities Division received a complaint against JIS Energy, Jones, and
4 Childress on behalf of the Washington investor. In April 2019, the Securities Division issued subpoenas duces
5 tecum to JIS Energy, Jones, and Childress. The subpoena required that the respondents produce records
6 related to the offer and sale of securities to the investor, including offering documents and subscription
7 agreements entered into with the investor. JIS Energy and Jones did not produce a response to the subpoena,
8 and Childress denied having any records related to his time with JIS Energy or recalling anything in regards
9 to his work with JIS Energy.

10 *Misrepresentations and Omissions*

11 20. JIS Energy, Jones, and Childress failed to provide the investor with material information
12 related to the risks of investing in oil and gas. While Childress told the investor that oil and gas investments
13 were risky and that there were no guarantees, the investor understood the risk to be reduced because Childress
14 told him that wells were online and producing before the investor's investments. In addition, JIS Energy,
15 Jones, and Childress failed to disclose the specific risks of investing in oil and gas, including but not limited
16 to delays in the distribution of income, equipment shortages, and delays due to weather.

17 21. JIS Energy, Jones, and Childress failed to disclose material information related to the profit
18 projections that Childress and JIS Energy provided to the investor. The profit projections were calculated by
19 multiplying the prospect's estimated production of oil or gas per day by the price of oil or natural gas. Below
20 are the profits projections provided to the investor for the Meeks #3 Prospect:

| Daily Production | Price | Net Revenue Interest | Monthly Revenue | Annual Revenue | Annual Return on Investment |
|-------------------------------------|--------------|-----------------------------|------------------------|-----------------------|------------------------------------|
| 200 BO | \$74.63 | 2.28% | \$10,209.38 | \$122,512.56 | 161.6% |
| 150 BO | \$74.63 | 2.28% | \$7,657.03 | \$91,884.45 | 121.27% |
| 100 BO | \$74.63 | 2.28% | \$5,104.69 | \$61,256.30 | 80.8% |
| Daily Natural Gas Production | | | | | |
| 2 MMCFG | \$4 | 2.28% | \$5,472.00 | \$65,664.00 | 86% |
| 1.5 MMCFG | \$4 | 2.28% | \$4,104.00 | \$49,248.00 | 64% |
| 1 MMCFG | \$4 | 2.28% | \$2,736.00 | \$32,832.00 | 43% |
| O&G Potential Returns | | | | | |
| 200 BO/2 MMCFG | \$74.63/\$4 | 2.28% | \$15,681.38 | \$188,176.56 | 248% |
| 100 BO/1 MMCFG | \$74.63/\$4 | 2.28% | \$7,840.69 | \$94,088.28 | 124% |

While the profit projections noted that the monthly operating expenses and other costs were not included, JIS Energy, Jones, and Childress failed to provide the investor with an estimate of the expenses and costs, and they failed to disclose that the operating costs and expenses could exceed the revenue earned from the wells' production. In addition, JIS Energy, Jones, and Childress failed to disclose to the investor a reasonable basis for the production and price estimates that JIS Energy used to create the profit projections. JIS Energy, Jones, and Childress also failed to disclose to the investor that the wells could produce substantially less oil or gas than anticipated, that the cost of oil or gas could fall, or that a producing well could be shut in if the daily production or price of oil or gas fell below a certain threshold.

22. JIS Energy, Jones, and Childress failed to disclose to the investor information material to Jones's background. In February 2009, Jones was convicted of the charge of Theft of Property Under \$1,500 and Two Prior Convictions by the 297th District Court, Tarrant County, Texas. He was sentenced to 9 months in prison. JIS Energy, Jones, and Childress failed to disclose to the investor that Jones had been convicted of felony theft about five years before the investor was offered an investment.

23. In addition, JIS Energy, Jones, and Childress failed to disclose information material to Jones's background in oil and gas. As described on JIS Energy's website, Jones spent six years with Couch Oil and

1 Gas, Inc., a company that offered and sold oil and gas investments. In 1999 and 2009, Couch Oil and Gas,
2 Inc. was the subject of Summary Orders to Cease and Desist issued by the Pennsylvania Securities
3 Commission, which alleged that Couch Oil and Gas, Inc. violated the securities registration section of the
4 Securities Act of Pennsylvania. In 2005, Couch Oil and Gas, Inc. was the subject of an Order of Prohibition
5 and Revocation issued by the Wisconsin Division of Securities, which alleged that Couch Oil and Gas, Inc.
6 violated the securities registration and securities salesperson registration sections of the Securities Act of
7 Wisconsin.

8 24. In 2008, Couch Oil and Gas, Inc. was sued by two oil and gas investors who alleged that Couch
9 Oil & Gas, Inc. offered and sold oil and gas investments in violation of the Texas Securities Act. In November
10 2011, a jury found that Couch Oil and Gas, Inc. committed a securities act violation when it offered or sold a
11 security to the investors by means of an untrue statement or omission of a material fact. However, the jury
12 also found that the statute of limitations had already expired by the time the investors filed suit, and the judge
13 entered a judgment in favor of Couch Oil and Gas, Inc.

14 25. As further described on JIS Energy's website, between 2009 and 2012, Jones served as Vice
15 President of Langley Energy, Inc., a company that offered and sold oil and gas investments. In 2011, Langley
16 Energy, Inc. entered into a Consent Cease and Desist Order with the Colorado Division of Securities, which
17 alleged that Langley Energy, Inc. violated securities registration, securities salesperson registration, and anti-
18 fraud sections of the Colorado Securities Act. JIS Energy, Jones, and Childress failed to disclose to the
19 investor that two other oil and gas companies that Jones had been associated with were the subjects of
20 regulatory actions and a civil action.

21 **Registration Status**

22 26. Respondent JIS Energy, LLC is not currently registered to sell its securities in the state of
23 Washington and has not previously been so registered.

1 27. Respondent Kirk D. Jones is not currently registered as a securities salesperson or broker-
2 dealer in the state of Washington and has not previously been so registered.

3 28. Josh Childress is not currently registered as a securities salesperson or broker-dealer in the
4 state of Washington and has not previously been so registered.

5 *Failure to Comply with Regulation D, Rule 506(b) and WAC 460-44A-503*

6 29. Between February 2014 and March 2015, JIS Energy, LLC filed with the Securities and
7 Exchange Commission multiple claims of exemption for its offerings under Regulation D, Rule 506(b). The
8 filings did not specify which offering each claim of exemption applied to. JIS Energy, LLC did not file any
9 of these claims of exemption with the Securities Division.

10 30. WAC 460-44A-503(1)(a)(i)(A) requires that an issuer claiming an exemption from registration
11 under Regulation D, Rule 506(b) in Washington State file a notice of exemption with the Securities Division
12 no later than 15 days after the issuer's first sale of securities in the state. JIS Energy, LLC did not file any
13 notices of exemption with the Securities Division.

14 31. In addition, Regulation D, Rule 506(b) prohibits an issuer, or any person acting on behalf of
15 an issuer, from offering or selling securities through any form of general solicitation. JIS Energy, LLC, Kirk
16 D. Jones, and Josh Childress offered and/or sold oil and gas securities to the Washington investor, with whom
17 they did not have a substantive, preexisting relationship. This constitutes general solicitation and violates
18 Regulation D, Rule 506(b).

19
20 Based upon the above Tentative Findings of Fact, the following Conclusions of Law are made:

21 **CONCLUSIONS OF LAW**

22 1. The offer and sale of the fractionalized working interests described above constitutes the offer
23 and sale of securities as defined in RCW 21.20.005(14) and RCW 21.20.005 (17).

1 2. J1S Energy, Kirk D. Jones, and Josh Childress have each violated RCW 21.20.140 because, as
2 set forth in the Tentative Findings of Fact, Respondents offered and/or sold securities for which no registration
3 is on file with the Securities Administrator.

4 3. Kirk D. Jones and Josh Childress have each violated RCW 21.20.040 because, as set forth in
5 the Findings of Fact, Jones and Childress offered and/or sold securities while not being registered as a
6 securities salesperson or broker-dealer in the state of Washington.

7 4. J1S Energy, LLC, Kirk D. Jones, and Josh Childress have each violated RCW 21.20.010
8 because, as set forth in the Tentative Findings of Fact, Respondents made untrue statements of material fact
9 or omitted to state material facts necessary to make the statements made, in light of the circumstances in which
10 they were made, not misleading.

11
12 **NOTICE OF INTENT TO ORDER RESPONDENTS TO CEASE AND DESIST**

13 Pursuant to RCW 21.20.390(1), and based upon the above Tentative Findings of Fact and Conclusions
14 of Law, the Securities Administrator intends to order that Respondents J1S Energy, LLC, Kirk D. Jones, and
15 Josh Childress, and their agents and employees, shall each cease and desist from violations of RCW 21.20.010
16 and RCW 21.20.140, and that Respondents Kirk D. Jones and Josh Childress, and their agents and employees,
17 shall each cease and desist from violations of RCW 21.20.040.

18 **NOTICE OF INTENT TO IMPOSE FINES**

19 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of Law,
20 the Securities Administrator intends to order that:

- 21 a. Respondent J1S Energy, LLC shall be liable for and shall pay a fine of \$10,000;
22 b. Respondent Kirk D. Jones shall be liable for and shall pay a fine of \$10,000; and
23 c. Respondent Josh Childress shall be liable for and shall pay a fine of \$10,000.

1 **NOTICE OF INTENT TO CHARGE COSTS**

2 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of Law,
3 the Securities Administrator intends to order that Respondents shall be liable for and shall pay the costs, fees,
4 and other expenses incurred in the administrative investigation and hearing of this matter as follows:

- 5 a. Respondent J1S Energy shall be liable for an shall pay costs of not less than \$1,500;
- 6 b. Respondent Kirk D. Jones shall be liable for and shall pay costs of not less than \$1,500; and
- 7 c. Respondent Josh Childress shall be liable for and shall pay costs of not less than \$1.500.

8 **AUTHORITY AND PROCEDURE**

9
10 This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject
11 to the provisions of Chapter 34.05 RCW. Respondents J1S Energy, LLC, Kirk D. Jones, and Josh Childress
12 may each make a written request for a hearing as set forth in the Notice of Opportunity for Hearing
13 accompanying this Order. If a respondent does not make a hearing request in the time allowed, the Securities
14 Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and to
15 enter a permanent order to cease and desist as to that respondent, to impose any fines sought against that
16 respondent, and to charge any costs sought against that respondent.

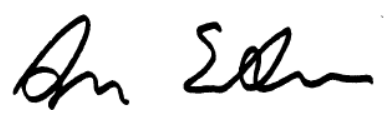
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19 Signed and Entered this 16th day of April 2021.

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22 _____
23 William M. Beatty
Securities Administrator

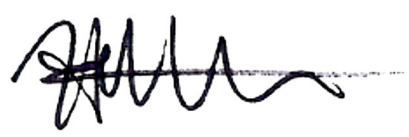
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Approved by:



Suzanne Sarason
Chief of Enforcement

Presented by:



Holly Mack-Kretzler
Financial Legal Examiner

Reviewed by:



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Financial Legal Examiner Supervisor