

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES  
 DIVISION OF FINANCE AND CORPORATE SECURITIES  
 ENFORCEMENT SECTION  
 BEFORE THE DIRECTOR OF THE DEPARTMENT OF CONSUMER AND  
 BUSINESS SERVICES

<p>4 <b>In the Matter of:</b></p> <p>5 <b>DOUGLAS GOODRUM, ALPHA</b></p> <p>6 <b>ENERGY, INC., ALLIANCE</b></p> <p>7 <b>RESOURCES GROUP, INC., ALEX</b></p> <p>8 <b>BAILEY, and JAY REYNOLDS,</b></p> <p>9 <b>Respondents.</b></p>	<p>)</p>	<p>No. S-07-0025 (B)</p> <p><b>ORDER TO CEASE AND DESIST,</b></p> <p><b>DENYING EXEMPTIONS, AND</b></p> <p><b>ASSESSING CIVIL PENALTIES</b></p> <p><b>ENTERED BY CONSENT AS TO ALEX</b></p> <p><b>BAILEY ONLY</b></p>
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11 **WHEREAS**, the Director of the Oregon Department of Consumer and Business  
 12 Services, Division of Finance and Corporate Securities (hereafter the "Director"), acting by and  
 13 pursuant to the authority of the Oregon Securities Law, ORS 59.005 *et seq.*, and other applicable  
 14 authority, has a pending investigation into the activities of **DOUGLAS GOODRUM** (hereafter  
 15 "**GOODRUM**"), **ALPHA ENERGY, INC.** (hereafter "**ALPHA ENERGY**"), **ALLIANCE**  
 16 **RESOURCES GROUP, INC.** (hereafter "**ALLIANCE RESOURCES**"), **ALEX BAILEY**  
 17 (hereafter "**BAILEY**"), and **JAY REYNOLDS** (hereafter "**REYNOLDS**"),

18 **WHEREAS**, Respondent **BAILEY** does not wish to incur the expenditure of additional  
 19 time or costs on this matter and seeks to obtain finality without invoking his right to a hearing  
 20 before the Director;

21 **NOW THEREFORE**, the Director hereby issues the following Findings of Fact and  
 22 Conclusions of Law, which Respondent **BAILEY** neither admits nor denies, and issues the  
 23 following Order, to which Respondent **BAILEY** consents, as evidenced by the Consent to Entry  
 24 of Order attached hereto.  
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**FINDINGS OF FACT**

The Director **FINDS** that:

**Part One: Respondents**

1. **DOUGLAS GOODRUM**, at all times material herein, solicited money from members of the public for investments in oil and gas ventures. Goodrum engaged in these actions through **ALPHA ENERGY**, an entity that he owned, and **ALLIANCE RESOURCES**, an entity that he controlled. Goodrum's last known address is 3850 South Hampton Court, West Linn, Oregon 97068.

2. **GOODRUM** was not, at all times material herein, licensed as a securities issuer salesperson or broker-dealer salesperson in the State of Oregon.

3. **ALPHA ENERGY** was, at all times material herein, a Nevada corporation (Nevada Corporation #C21397-2002). Alpha Energy was incorporated on August 28, 2002. **GOODRUM**, the corporation's only shareholder, served as the President, Secretary, and Treasurer of Alpha Energy. Alpha Energy registered with the Oregon Secretary of State as a foreign corporation authorized to do business in Oregon (Business Registry #247447-99) on October 19, 2004. Alpha Energy's last known address is 111 SW Fifth Avenue, Suite 2115, Portland, Oregon 97204.

4. **ALPHA ENERGY** was not, at all times material herein, licensed as a broker-dealer in the State of Oregon.

5. **ALLIANCE RESOURCES** was, at all times material herein, a Nevada corporation (Nevada Corporation #C21552-2002). Alliance Resources was incorporated on August 29, 2002.

**ALEX BAILEY** served as the President, Secretary, and Treasurer of Alliance Resources. Alliance Resources's last known address is 111 SW Fifth Avenue, Suite 2115, Portland, Oregon 97204.

6. **ALLIANCE RESOURCES** was not, at all times material herein, licensed as a broker-dealer in the State of Oregon.

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1           7. **ALEX BAILEY** was, at all times material herein, **GOODRUM**'s second in  
2 command at Alliance Resources, aiding Goodrum, who controlled the entity, by handling  
3 administrative matters, managing staff members, and soliciting investments from members of the  
4 public. Bailey's last known address is 5075 Mapleton Drive, West Linn Oregon 97068.

5           8. **BAILEY** was not, at all times material herein, licensed as a securities issuer  
6 salesperson or broker-dealer salesperson in the State of Oregon.

7           9. **JAY REYNOLDS** was, at all times material herein, an Alliance Resources  
8 salesperson. Reynolds's last known address is 111 SW Fifth Avenue, Suite 2115, Portland,  
9 Oregon 97204.

10          10. **REYNOLDS** was not, at all times material herein, licensed as a securities issuer  
11 salesperson or broker-dealer salesperson in the State of Oregon.

12          **Part Two: Douglas Goodrum Sells Unregistered Securities Through Leading Solutions**

13          11. On June 20, 1996, **GOODRUM** incorporated Leading Solutions, Inc. (hereafter  
14 "Leading Solutions") with the Oregon Secretary of State (Business Registry #523563-84).  
15 Goodrum was the President and sole shareholder of Leading Solutions, Inc. Leading Solutions  
16 sold investments in oil and gas projects to members of the public.

17          12. Beginning in 1997, Leading Solutions sold investments in oil and gas projects  
18 operated by Energy 2000, Inc. (hereafter "Energy 2000"), a Texas corporation that purportedly  
19 acquired and managed oil and gas wells in Texas and Oklahoma. The President of Energy 2000  
20 is Jim Morisett.

21          13. Energy 2000 was responsible for operating and managing the wells of its oil and gas  
22 projects, including but not limited to installing necessary equipment, pumping the oil or gas,  
23 selling the oil or gas, and engaging in required equipment maintenance. Leading Solutions  
24 undertook no activity with respect to the Energy 2000 oil or gas projects beyond soliciting  
25 money from members of the public.

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1           14. **GOODRUM** solicited money for Energy 2000 projects from members of the public  
2 by contacting individuals throughout the United States by telephone to tout oil and gas  
3 investments (so called "cold calling"). Goodrum had no pre-existing business or personal  
4 relationship with the individuals he contacted. Rather, Goodrum obtained lists of names,  
5 addresses, and telephone numbers of potential sales prospects by purchasing such data from  
6 direct marketing companies.

7           15. **GOODRUM** employed salespersons to aid his solicitation efforts. Goodrum  
8 required salespersons to closely adhere to scripts he authored during sales calls. Salespersons  
9 typically earned commissions of between twelve percent (12%) and fifteen percent (15%) of  
10 each sale.

11           16. Members of the public that invested in Energy 2000 oil and gas projects through  
12 **GOODRUM** and Leading Solutions were lured by promises of substantial profits and immediate  
13 tax "write offs." Investors had no role in the management or operation of the oil and gas projects  
14 they invested in.

15           17. Confining her analysis exclusively to the period from March, 1999 through April,  
16 2001, the Director of the Oregon Department of Consumer and Business Services issued an  
17 Order to Cease and Desist against **GOODRUM** and Leading Solutions on September 18, 2002  
18 for numerous violations of the Oregon Securities Law. Goodrum and Leading Solutions  
19 consented to the entry of the Order. The conclusions included:

- 20           • The investments **GOODRUM** and Leading Solutions marketed and sold to members of  
21 the public in Energy 2000 oil and gas projects from March 1999 through April 2001  
22 constituted "securities", as defined by ORS 59.015 (19) (a).  
23           • **GOODRUM** and Leading Solutions sold securities in and from Oregon without a  
24 securities license from March 1999 through April 2001, in violation of ORS 59.165.  
25           • **GOODRUM** and Leading Solutions sold unregistered securities in Oregon from March  
26 1999 through April 2001, in violation of ORS 59.055.

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1 • **GOODRUM** and Leading Solutions made material misrepresentations or omissions in  
2 connection with the sale of securities in or from Oregon from March 1999 through April  
3 2001, in violation of ORS 59.135.

4 18. The Director ordered that, effective September 18, 2002, **GOODRUM**, Leading  
5 Solutions, and any successor business immediately cease and desist from violating any provision  
6 of the Oregon Securities Law.

7 **Part Three: Goodrum Continues Selling Oil and Gas Investments**

8 19. In August 2002 **GOODRUM** was aware that the Director would soon issue her Cease  
9 and Desist Order because his attorney was in the midst of settlement negotiations with the  
10 Director's staff. Nevertheless, during this period Goodrum formulated a two part scheme  
11 designed to continue his highly profitable sales of investments in Energy 2000 oil and gas  
12 projects to members of the general public after entry of the Cease and Desist Order. First,  
13 Goodrum sought a "safe harbor" from securities registration requirements by preparing  
14 documents for filing with the United States Securities and Exchange Commission (hereafter  
15 "SEC") under Regulation D, Rule 506 (hereafter "506D"). 506D permits the sale of unregistered  
16 securities under limited circumstances so long as "general solicitation" (for example, advertising  
17 on television or "cold calling" by telephone), is not utilized. Second, Goodrum created several  
18 intermediate entities to mask his cold calling sales operation from public and regulatory view.

19 20. On August 28, 2002, three weeks before the issuance of the Director's Cease and  
20 Desist Order, **GOODRUM** incorporated **ALPHA ENERGY**. Goodrum was the company's sole  
21 shareholder. Alpha Energy was formed exclusively for the purpose of being a "pass through"  
22 entity: it received funds from the sale of investments in Energy 2000 oil and gas projects to  
23 members of the public and, after tendering some portion of the funds to Morisett, transmitted all  
24 remaining amounts to Goodrum.

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1           21. **GOODRUM** created **ALLIANCE RESOURCES** for the purpose of managing his  
2 sales operation, filing 506D related documents with the SEC, and issuing offering memoranda to  
3 potential investors.

4           22. At some point in August, 2002, **GOODRUM** informed **BAILEY** that he was  
5 interested in “stepping back from the business” and “moving towards retirement.” Goodrum  
6 asked Bailey, then a Leading Solutions salesperson whose previous work experience was as a  
7 restaurant manager, to manage and operate **ALLIANCE RESOURCES** on his behalf, with the  
8 inference that Bailey would take over full ownership at some unspecified point in the future.

9           23. **GOODRUM** retained an agent to prepare corporate formation documents for  
10 **ALLIANCE RESOURCES**, which **BAILEY** signed at his request. Bailey was putatively the  
11 sole shareholder of Alliance Resources, yet he did not contribute capital, time, or expertise to the  
12 new entity in return for his “ownership” interest. **GOODRUM** forwarded Alliance Resources  
13 incorporation documents for filing concurrent with the filing of incorporation materials for  
14 **ALPHA ENERGY**.

15           24. **GOODRUM**, **ALPHA ENERGY**, **ALLIANCE RESOURCES**, **BAILEY**, and  
16 **REYNOLDS** were all located in the same Portland, Oregon office.

17           25. **ALLIANCE RESOURCES** performed the same activities Leading Solutions had  
18 engaged in prior to the Director’s Cease and Desist Order. Under **GOODRUM**’s overall  
19 direction and control, the firm had salespersons that, using purchased lists of names and phone  
20 numbers, contacted members of the public and, closely adhering to sales scripts, solicited  
21 investments in Energy 2000 oil and gas projects.

22           26. Although **BAILEY** was nominally the President and owner of **ALLIANCE**  
23 **RESOURCES**, **GOODRUM** exercised complete authority over Alliance Resources and its day  
24 to day operations. Goodrum provided startup funding for Alliance Resources. Goodrum  
25 interviewed and hired Alliance Resources salespersons. Goodrum authored the sales scripts  
26 employed by Alliance Resources. Goodrum provided all training for Alliance Resources

1 salespersons. Goodrum moderated all staff meetings. Goodrum occupied the only corner suite in  
2 the office. Goodrum approved and authorized all expenditures. Goodrum "loaned" funds to  
3 Alliance Resources when it was short of money to meet its payroll. Goodrum determined staff  
4 policies and procedures. Goodrum – and not Bailey - offered Alliance Resources salespersons  
5 monetary incentives for increased sales activity. Goodrum presided over Alliance Resources  
6 Christmas parties, handing out awards for company activity - including one to **BAILEY**, his  
7 putative boss.

8           27. **ALLIANCE RESOURCES** paid for all of **GOODRUM**'s business related expenses,  
9 including expenses incurred by **ALPHA ENERGY**.

10           28. **GOODRUM** jealously guarded his professional relationship with Jim Morisett and  
11 Energy 2000. He strictly prohibited **BAILEY**, the putative owner of Alliance Resources, from  
12 engaging in any communications with Morisett. In point of fact, Goodrum required Bailey to  
13 sign a non-compete agreement to ensure that Bailey would not have the ability to usurp his  
14 authority.

15           29. **GOODRUM** rarely initiated telephone sales calls to members of the public directly.  
16 Rather, Goodrum had **ALLIANCE RESOURCES** salespersons "open" prospective purchasers,  
17 using the sales script and training he provided. Goodrum's role was to communicate with  
18 prospective investors by telephone for the purpose of "closing" the sale.

19           30. **GOODRUM** was compensated for his activities in two ways. First, Goodrum was  
20 paid the sum of three thousand dollars (\$3,000.00) a month by **ALLIANCE RESOURCES** as  
21 an "employee." Second, **GOODRUM**, through **ALPHA ENERGY**, received fifty-eight and  
22 one-half percent (58.5%) of every sale made by Alliance Resources, some portion of which was  
23 passed on to Energy 2000. In the numerous instances in which Goodrum personally "closed" a  
24 sale, Goodrum, through Alpha Energy, received an additional fifteen percent (15%) sales  
25 commission.

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1 **Part Four: Benavides #1 Limited Partnership**

2 31. **GOODRUM**, through **ALLIANCE RESOURCES**, solicited investments from  
3 hundreds of members of the general public for an Energy 2000 single natural gas well project in  
4 Laredo, Texas called "Benavides #1 Limited Partnership" (hereafter "Benavides partnership.")

5 32. **ALLIANCE RESOURCES** served as general partner and issuer of the Benavides  
6 partnership. Alliance Resources filed a "Form D" for this entity with the SEC on October 15,  
7 2002, permitting it to engage in securities sales *in compliance with strict 506D guidelines*.

8 33. In January 2003, Jay Reynolds, an **ALLIANCE RESOURCES** salesperson,  
9 telephoned Jack Lipsky, a resident of the State of New York. Reynolds did not have a previous  
10 business or personal relationship with Lipsky. In contravention of 506D requirements, Reynolds  
11 "cold called" Lipsky to attempt to sell him an investment in the Benavides partnership. While  
12 somewhat receptive, Lipsky was not willing to commit to making an investment at the time of  
13 his telephone conversations with Reynolds.

14 34. On January 23, 2003 **ALLIANCE RESOURCES** mailed Lipsky written materials  
15 about the Benavides partnership, including its offering memorandum (dated September 1, 2002)  
16 and a Benavides "Project Summary." The project summary stated that in March 1985 the  
17 Benavides well had to be sealed due to *overproduction*, as it was eliciting twice its "allowable"  
18 quantity of gas. Furthermore, the summary noted that since the seals on the well had been  
19 removed, new compressors produced "consistent results."

20 35. In February, 2003 **GOODRUM**, in an effort to "close" the sale of a Benavides unit to  
21 Lipsky, spoke with the New York resident by telephone on several occasions. Goodrum and  
22 Lipsky had substantive discussions about the Benavides investment. During those discussions:

- 23 • Lipsky explicitly asked **GOODRUM** whether the limited partnership interests in  
24 question were registered for sale with New York State authorities. Goodrum responded  
25 that they were indeed so registered. In point of fact, the Benavides partnership offering  
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1 memorandum had not been registered, or otherwise reviewed, by any regulatory body in  
2 New York.

3 • **GOODRUM** did not disclose to Lipsky that he had been the subject of a Cease and  
4 Desist Order issued by the Oregon Division of Finance and Corporate Securities with  
5 respect to his sale of investments in oil and gas projects less than six (6) months  
6 beforehand. Furthermore, this information was not contained in the Benavides offering  
7 memorandum.

8 • **GOODRUM** did not disclose to Lipsky that he owned **ALPHA ENERGY**, which is  
9 described in the offering memorandum as a non-operating participant. Furthermore, this  
10 information was not contained in the offering memorandum.

11 • **GOODRUM** did not disclose that a substantial portion of the offering's gross proceeds,  
12 which had been earmarked for the development and maintenance of the gas well, would  
13 actually be tendered to Alpha Energy as remuneration for Goodrum, thereby substantially  
14 reducing the amount of money available for gas well related operations.

15 • **GOODRUM** did not disclose to Lipsky that he controlled the operations of the  
16 Benavides general partner, **ALLIANCE RESOURCES**. Furthermore, this information is  
17 not stated in the offering memorandum. Additionally, the offering memorandum  
18 erroneously describes **BAILEY** as the representative of the general partner, and states  
19 that he has "held several management positions in a broad range of organizations." In  
20 point of fact, Bailey was previously a restaurant manager.

21 Had Lipsky been apprised of any of this information, he would not have invested in the  
22 Benavides partnership.

23 36. On February 25, 2003 Lipsky purchased a half-unit in the Benavides partnership from  
24 **GOODRUM** and **ALLIANCE RESOURCES** for eleven thousand dollars (\$11,000.00).

25 37. In a March, 2004 letter, Jim Morisset declared the Benavides well to be a "complete  
26 loss."

CONCLUSIONS OF LAW

2 The Director **CONCLUDES** that:

3 38. The Benavides partnership unit Respondents offered for sale and/or sold is a security,  
4 as defined by ORS 59.015 (19) (a).

5 39. Respondents offered for sale and/or sold securities that were not registered with the  
6 Oregon Division of Finance and Corporate Securities from the State of Oregon, in violation of  
7 ORS 59.055.

8 40. Respondents offered for sale and/or sold securities from the State of Oregon without  
9 being licensed as a broker-dealer or broker-dealer salesperson, in violation of ORS 59.165 (1).

10 41. In connection with the sale of securities to Jack Lipsky in February 2003,  
11 Respondents made an untrue statement of a material fact, in violation of ORS 59.135 (2), by  
12 falsely representing that Benavides partnership units were registered for sale with the State of  
13 New York.

14 42. In connection with the sale of securities to Jack Lipsky in February 2003,  
15 Respondents omitted to state a material fact necessary in order to make the statements made, in  
16 the light of the circumstances under which they are made, not misleading, in violation of ORS  
17 59.135 (2), by failing to inform Lipsky that **GOODRUM** had been the subject of a Cease and  
18 Desist Order issued by the Oregon Division of Finance and Corporate Securities on September  
19 11, 2002.

20 43. In connection with the sale of securities to Jack Lipsky in February 2003,  
21 Respondents omitted to state a material fact necessary in order to make the statements made, in  
22 the light of the circumstances under which they are made, not misleading, in violation of ORS  
23 59.135 (2), by failing to inform Lipsky that **GOODRUM** owned **ALPHA ENERGY**.

24 44. In connection with the sale of securities to Jack Lipsky in February 2003,  
25 Respondents omitted to state a material fact necessary in order to make the statements made, in  
26 the light of the circumstances under which they are made, not misleading, in violation of ORS

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1 59.135 (2), by failing to inform Lipsky that a substantial portion of the Benavides offering's  
2 gross proceeds, which had been earmarked for the development and maintenance of the gas well,  
3 would actually be tendered to Alpha Energy as a sales commission for **GOODRUM**.

4 45. In connection with the sale of securities to Jack Lipsky in February 2003,  
5 Respondents omitted to state a material fact necessary in order to make the statements made, in  
6 the light of the circumstances under which they are made, not misleading, in violation of ORS  
7 59.135 (2), by failing to inform Lipsky that **GOODRUM** controlled the operations of the  
8 Benavides general partner, **ALLIANCE RESOURCES**.

9 46. **GOODRUM** willfully or repeatedly violated, or failed to comply with, an Order of  
10 the Director, in violation of ORS 59.205 (3), by selling securities of a type that were the subject  
11 of a September 11, 2002 Order to Cease and Desist by the Director.

### 12 ORDER

13 Therefore, the Director **ORDERS**:

14 47. That Respondent **BAILEY** shall, pursuant to the authority granted by ORS 59.245,  
15 **CEASE AND DESIST** from offering and/or selling securities to persons in or from the State of  
16 Oregon in violation of the Oregon Securities Law, ORS 59.005 *et seq*, and accompanying  
17 administrative rules.

18 48. That Respondent **BAILEY** is, pursuant to the authority contained in ORS 59.995,  
19 ordered to pay the sum of **ONE HUNDRED THOUSAND DOLLARS (\$100,000)** as a civil  
20 penalty for all violations of ORS 59.055, ORS 59.135, and ORS 59.165 described herein. Of this  
21 sum, **EIGHTY FIVE THOUSAND DOLLARS (\$85,000)** shall be **SUSPENDED** so long as  
22 **BAILEY** does not violate the securities laws and accompanying administrative rules of the State  
23 of Oregon – or the terms of this Order - for a period of **THREE (3) YEARS** from the date of  
24 entry of this Order, in which case said amount shall be **WAIVED**. (In the event  
25 that Respondent **BAILEY** violates the securities laws and accompanying administrative rules of  
26 the State of Oregon or the terms of this Order the entire civil penalty of **ONE HUNDRED**

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1 **THOUSAND DOLLARS (\$100,000)**, minus amounts paid, shall be immediately due and  
2 owing.) The remaining **FIFTEEN THOUSAND DOLLARS (\$15,000)** may be paid in monthly  
3 installment payments, due on or before the first calendar day of each month (timely payment  
4 shall be deemed to be of the essence; failure to make a payment in a timely fashion will  
5 constitute a violation of this Order), commencing with six separate monthly payments of **ONE**  
6 **HUNDRED FIFTY DOLLARS (\$150)** and continuing thereafter with monthly payments of  
7 **THREE HUNDRED DOLLARS (\$300)** until the entire **FIFTEEN THOUSAND DOLLARS**  
8 **(\$15,000)** has been paid.

9 49. That Respondent **BAILEY** is hereby **DENIED THE USE OF EXEMPTIONS**  
10 authorized by ORS 59.025 and ORS 59.035, for a period of five (5) years, pursuant to ORS  
11 59.045.

12 **IT IS SO ORDERED.**

13 Dated this <sup>12</sup>18 day of April, 2008 at Salem, Oregon.

14  
15 CORY STREISINGER, Director  
16 Department of Consumer and Business Services

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18 David C. Tatman, Administrator  
19 Division Of Finance And Corporate Securities  
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