

**ADMINISTRATIVE PROCEEDING  
BEFORE THE  
SECURITIES COMMISSIONER OF SOUTH CAROLINA**

**IN THE MATTER OF:**

**Cannon Operating Company, LLC,  
and John Griffin,**

**Respondents.**

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**ORDER TO CEASE AND DESIST  
File No. 14093**

**WHEREAS**, the Securities Division of the Office of the Attorney General of the State of South Carolina (the “Division”) has been authorized and directed by the Securities Commissioner of South Carolina (the “Securities Commissioner”) to administer the provisions of S.C. Code Ann. § 35-1-101, *et seq.*, the South Carolina Uniform Securities Act of 2005 (the “Act”); and

**WHEREAS**, the Division received information regarding alleged securities-related activities of John Griffin (“Griffin”) and Cannon Operating Company, LLC (“Cannon”)(collectively, the “Respondents”); and

**WHEREAS**, based on the information received, the Division decided it was necessary and appropriate to open an investigation pursuant to S.C. Code Ann. § 35-1-602 to determine whether the Respondents had violated, were violating, or were about to violate the Act; and

**WHEREAS**, in connection with the investigation, the Division has determined that evidence exists to support the following findings of fact and conclusions of law:

**I. JURISDICTION**

1. The Securities Commissioner has jurisdiction over this matter pursuant to S.C. Code Ann. § 35-1-601(a).

## **II. RESPONDENTS**

2. Respondent Cannon Operating Company, LLC is a Texas limited liability company with a last known address of 3200 Broadway, Suite 220, Garland, Texas 75043.

3. Respondent John Griffin is or was an employee of Respondent Cannon with a last known address of 3200 Broadway, Suite 220, Garland, Texas 75043.

## **III. FINDINGS OF FACT**

4. Respondent Cannon is based in Garland, Texas and claims to be engaged in the business of oil and gas exploration and production.

5. According to its website,<sup>1</sup> Respondent Cannon “offer[s] industry level opportunities to the individual investor,” with the goal of helping investors “increase [their] wealth.”

6. In June of 2014, a South Carolina resident (the “Investor”) with an interest in oil and gas investment opportunities, was cold-called by Respondent Griffin and offered an opportunity to invest with Respondent Cannon.

7. Respondent Griffin offered the Investor a chance to invest in an oil well project allegedly being developed by Respondent Cannon in Louisiana (the “Oil Well Project”).

8. In exchange for an investment of \$18,000, the Investor was to receive a 1/8th interest in the profits of the Oil Well Project, once Respondent Cannon had completed its development (the “Investment Opportunity”).

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<sup>1</sup> Cannon Operating, <http://www.cannonoperating.info/> (last visited Jan. 26, 2015).

9. Following the initial cold-call by Respondent Griffin, the Investor decided to invest in the Investment Opportunity. Subsequently, he wrote a check in the amount of \$18,000 to Respondent Cannon on June 27, 2014.

10. However, neither Respondent Griffin nor the Investment Opportunity were registered with the United States Securities and Exchange Commission, the Division, or exempt from registration.

11. When the Investor invested in the Investment Opportunity, Respondent Cannon provided him with a subscription agreement for the Investment, but did not provide him with a prospectus, private placement memorandum, or offering document of any kind.

12. Unbeknownst to the Investor, Respondent Cannon had, on May 7, 2013, been the subject of a Final Order issued by the Railroad Commission of Texas which cancelled Respondent Cannon's Certificates of Compliance and severed its pipeline and other carrier connections in the State of Texas.

13. Further, Respondent Cannon's President and Chief Operating Officer and primary control person was still serving probation for an earlier felony conviction in Dallas County, Texas. This information was, likewise, not disclosed to the Investor.

14. Subsequent to his investment, the Investor sought the return of his money from Respondent Canon.

15. In connection with the offer and sale of the Investment to the Investor, the Respondents made numerous material omissions, including, but not limited to the following:

- a. Omitting to disclose the adverse Final Order from the Railroad Commission of Texas which has the effect of preventing Respondent Cannon from engaging in its alleged principal business in its home state;
- b. Omitting to disclose Respondent Cannon's primary control person's ongoing probation for a criminal conviction;
- c. Omitting to disclose that the Investment Opportunity could not be legally offered for sale in the State of South Carolina; and
- d. Omitting to disclose the contingent liability faced by the Respondents in light of Respondent Cannon's failure to register the Investment Opportunity with the Division and the lack of applicability of any exemption from registration.

#### **IV. CONCLUSIONS OF LAW**

16. The South Carolina Uniform Securities Act of 2005, S.C. Code Ann. § 35-1-101, *et seq.*, governs the offer and sale of securities in this State.

17. Pursuant to S.C. Code Ann. § 35-1-102(29), investment contracts, *inter alia*, constitute securities.

18. Pursuant to S.C. Code Ann. § 35-1-301, it is unlawful for a person to offer or sell a security in this State unless that security is registered, a federal covered security, or exempt from registration.

19. Pursuant to S.C. Code Ann. § 35-1-402(a), it is unlawful for an individual to transact business as an agent in this State unless that individual is registered or exempt from registration.

20. Pursuant to S.C. Code Ann. § 35-1-402 (d), it is unlawful for an issuer, engaged in offering, selling, or purchasing securities in this State, to employ or associate with an agent who transacts business in this State on behalf of that issuer unless that agent is registered under S.C. Code Ann. § 35-1-402 (a).

21. Pursuant to S.C. Code Ann. § 35-1-501, it is unlawful for a person in connection with the offer or sale of a security in this State: (1) to employ a scheme, device, or artifice to defraud; (2) to make an untrue statement of material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances in which they were made, not misleading; or (3) to engage in an act, practice, or course of business that operates or would operate as a fraud or deceit upon another person.

22. Pursuant to S.C. Code Ann. §35-1-604(a)(1), if the Securities Commissioner determines that a person has engaged, is engaging, or is about to engage in an act, practice, or course of business constituting a violation of the Act or a rule adopted or order issued under the Act, the Securities Commissioner may issue an order directing the person to cease and desist from engaging in the act, practice, or course of business or to take other action necessary or appropriate to comply with the Act.

23. Pursuant to S.C. Code Ann. § 35-1-604(b), an order issued under § 35-1-604(a) is effective on the date of issuance and must include a statement of any civil penalty or costs of investigation sought, a statement of the reasons for the order, and notice that, within fifteen (15)

days after the receipt of a request in a record from a Respondent, the matter will be scheduled for a hearing as to that Respondent.

24. The Investment Opportunity as offered and sold by the Respondents constitutes an investment contract and is therefore a security as defined by the Act.

25. The Investment Opportunity offered and sold by the Respondents was neither a federal covered security, exempt from registration, nor registered with the Division and was therefore sold in violation of the Act.

26. Respondent Griffin acted as an unregistered agent in violation of the Act.

27. Respondent Cannon employed an unregistered agent in violation of the Act.

28. The Respondents sold a security in this State: (1) while employing a scheme, device, or artifice to defraud; (2) through the making of untrue statements of material fact or omitting to state a material fact necessary in order to make the statements made, in light of the circumstances in which they were made, not misleading; and (3) by engaging in an act, practice, or course of business that operated as a fraud or deceit upon another person.

29. It is in the public interest, for the protection of investors, and consistent with the purposes of the Act that the Respondents be ordered to cease and desist from engaging in the above enumerated practices which constitute violations of the Act and pay an appropriate civil penalty for their wrongdoing.

#### **V. CEASE AND DESIST ORDER**

**NOW THEREFORE**, pursuant to S.C. Code Ann. § 35-1-604(a)(1), it is hereby **ORDERED** that:

- a. The Respondents and every successor, affiliate, control person, agent, servant, and employee of each Respondent, and every entity owned, operated, or indirectly or directly controlled by or on behalf of any Respondent **CEASE AND DESIST** from transacting business in this State in violation of the Act, and, in particular, §§ 35-1-301, 35-1-402, and 35-1-501 thereof;
- b. Respondent Cannon shall pay a civil penalty in the amount of \$30,000.00 if this Order becomes effective by operation of law, or, if Respondent Cannon seeks a hearing and any legal authority resolves this matter, pay a civil penalty in an amount not to exceed \$10,000.00 for each violation of the Act by Respondent Cannon, and the actual cost of the investigation or proceeding; and
- c. Respondent Griffin shall pay a civil penalty in the amount of \$30,000.00 if this Order becomes effective by operation of law, or, if Respondent Griffin seeks a hearing and any legal authority resolves this matter, pay a civil penalty in an amount not to exceed \$10,000.00 for each violation of the Act by Respondent Griffin, and the actual cost of the investigation or proceeding.

**IT IS FURTHER ORDERED** that, pursuant to S.C. Code Ann. § 35-1-604(a)(2) and (3), any exemption from registration with the Division that the Respondents may claim to rely upon under S.C. Code Ann. §§ 35-1-201(3)(C), (7), or (8); 35-1-202; 35-1-401(b)(1)(D) or (F); or 35-1-403(b)(1)(C), has been and is **PERMANENTLY REVOKED**.

## **VI. REQUIREMENT OF ANSWER AND NOTICE OF OPPORTUNITY FOR HEARING**

The Respondents are hereby notified that they each have the right to a hearing on the matters contained herein. To schedule such a hearing, a Respondent must file with the Securities Division, Post Office Box 11549, Rembert C. Dennis Building, Columbia, South Carolina, 29211-1549, attention: Thresechia Navarro, within thirty (30) days after the date of service of this Order to Cease and Desist, a written Answer specifically requesting a hearing. If a Respondent requests a hearing, the Division, within fifteen (15) days after receipt of a request in a record from a Respondent, will schedule the hearing for the requesting Respondent(s).

In the written Answer, a Respondent, in addition to requesting a hearing, shall admit or deny each factual allegation in this Order, shall set forth specific facts on which the Respondent relies, and shall set forth concisely the matters of law and affirmative defenses upon which the Respondent relies. A Respondent without knowledge or information sufficient to form a belief as to the truth of an allegation shall so state.

Failure by a Respondent to file a written request for a hearing in this matter within the thirty-day (30) period stated above shall be deemed a waiver by that Respondent of the right to such a hearing. Failure of a Respondent to file an Answer, including a request for a hearing, shall result in this Order, including the stated civil penalty and any assessed costs, becoming final as to that Respondent by operation of law.

This Order does not prevent the Division or any other law enforcement agency from seeking additional civil or criminal remedies that are available under the Act, including remedies related to the offers and sales of securities by the Respondents set forth above.



ENTERED, this the 24<sup>th</sup> day of February, 2015.

ALAN WILSON  
SECURITIES COMMISSIONER

By: Tracy Meyers  
TRACY A. MEYERS  
Deputy Securities Commissioner

**ISSUANCE REQUESTED BY:**



IAN P. WESCHLER  
Assistant Attorney General  
Securities Division  
Rembert C. Dennis Building  
1000 Assembly Street  
Columbia, South Carolina 29201

STATE OF SOUTH CAROLINA  
OFFICE OF THE ATTORNEY GENERAL  
SECURITIES DIVISION

CERTIFICATE OF SERVICE AND  
AFFIDAVIT OF COMPLIANCE  
File Number 14093

I hereby certify that I served upon the individual/entity listed below a copy of the document indicated below and dated February 27, 2015, by serving a copy of said document upon the Securities Commissioner of the State of South Carolina and by placing a copy of said document in the United States mail, certified mail, return receipt requested, first class postage prepaid and addressed to:

Cannon Operating Company, LLC  
3200 Broadway, Suite 220  
Garland, Texas 75043

Certified Article Number

9314 7699 0430 0011 0049 02

SENDERS RECORD

Document(s): Order to Cease and Desist

Mailed March 3, 2015 from Columbia, South Carolina.

I further hereby certify, swear and affirm that, service of the above-listed entity is in compliance with Section 35-1-611, Code of Laws of South Carolina.

By:



Thresechia P. Navarro  
South Carolina Attorney General's Office  
Securities Division  
Post Office Box 11549  
Columbia, SC 29211-1549  
(803) 734-4731

Subscribed and sworn to before me on  
this 3<sup>rd</sup> day of March, 2015.

  
Notary Public for South Carolina

My commission expires: 6-29-21

STATE OF SOUTH CAROLINA  
OFFICE OF THE ATTORNEY GENERAL  
SECURITIES DIVISION

CERTIFICATE OF SERVICE AND  
AFFIDAVIT OF COMPLIANCE  
File Number 14093

I hereby certify that I served upon the individual/entity listed below a copy of the document indicated below and dated February 27, 2015, by serving a copy of said document upon the Securities Commissioner of the State of South Carolina and by placing a copy of said document in the United States mail, certified mail, return receipt requested, first class postage prepaid and addressed to:

Mr. John Griffin  
3200 Broadway, Suite 220  
Garland, Texas 75043

Certified Article Number

9314 7699 0430 0011 0049 40

SENDERS RECORD

Document(s): Order to Cease and Desist

Mailed March 3, 2015 from Columbia, South Carolina.

I further hereby certify, swear and affirm that, service of the above-listed entity is in compliance with Section 35-1-611, Code of Laws of South Carolina.

By:

*Thresechia P. Navarro*

Thresechia P. Navarro  
South Carolina Attorney General's Office  
Securities Division  
Post Office Box 11549  
Columbia, SC 29211-1549  
(803) 734-4731

Subscribed and sworn to before me on  
this 3<sup>rd</sup> day of March, 2015.

*Susan H. Ballinger*  
Notary Public for South Carolina

My commission expires: 6-29-21