BEFORE THE
DEPARTMENT OF CORPORATIONS
STATE OF CALIFORNIA

In the Matter of the Desist and Refrain Order Against: CHEROKEE OIL AND NATURAL GAS ACQUISITION COMPANY, LLC, and IAN SCOTT-GROSS Formerly known as RAYMOND CHARLES GROSS, Respondents.	OAH No.: L2007070922

DECISION

The attached Proposed Decision of the Administrative Law Judge of the Office of Administrative Hearings, dated September 27, 2007, is hereby adopted by the Department of Corporations as its Decision in the above-entitled matter with the following technical and minor change pursuant to Government Code Section 11517(c)(2)(C).

Page 4, paragraph 6(C), line 4, after "Scott-Gross asked", strike "abut" and insert "about".

This Decision shall become effective on November 27, 2007.

IT IS SO ORDERED this 26th day of NOVEMBER 2007.

CALIFORNIA CORPORATIONS COMMISSIONER

Preston DuFauchard

BEFORE THE
DEPARTMENT OF CORPORATIONS
STATE OF CALIFORNIA

In the Matter of the Desist and Refrain Order Against: CHEROKEE OIL AND NATURAL GAS ACQUISITION COMPANY, LLC, and IAN SCOTT-GROSS Formerly known as RAYMOND CHARLES GROSS, Respondents.	OAH No. L-2007070922

PROPOSED DECISION

This matter was heard by Vincent Nafarrete, Administrative Law Judge of the Office of Administrative Hearings, on August 28, 2007, at Los Angeles. Marlou De Luna, Senior Corporations Counsel, represented complainant Commissioner of Corporations. Ian Scott Gross was present and represented himself and Cherokee Oil and Natural Gas Acquisition Company, LLC.

Oral and documentary evidence having been received and the matter submitted for decision, the Administrative Law Judge finds as follows:

FACTUAL FINDINGS

1. (A) On June 1, 2007, Alan S. Weinger in his official capacity as Lead Corporations Counsel, Enforcement Division, and on behalf of Preston DuFauchard, California Corporations Commissioner (hereinafter Commissioner), made and issued the subject Desist and Refrain Order to Cherokee Oil and Natural Gas Acquisition Company, LLC (hereinafter Cherokee Oil), and Ian Scott-Gross, formerly known as Raymond Charles Gross (hereinafter Scott-Gross), 468 North Camden Drive, Beverly Hills, California 90210

(hereinafter also respondents), pursuant to the provisions of Corporations Code[1] section 25532.

(B) On or about July 5, 2007, respondent Scott-Gross on behalf of himself and Cherokee Oil requested a hearing to object to the Desist and Refrain Order in accordance with section 25532. On July 12, 2007, respondent Scott-Gross waived his right under section 25532, subdivision (d), to have a hearing within 15 days.

(C) On July 26, 2007, Marlou de Luna in her official capacity as Senior Corporations Counsel, Enforcement Division, and on behalf of the Commissioner made and filed the Complaint in Support of Desist and Refrain Order, OAH Case No. L-2007070922.

(D) On August 2, 2007, respondents Cherokee Oil and Scott-Gross were properly served with the Notice of Hearing. On August 2, 2007, respondents were also served with a Notice of Request to Appear at the hearing on the Desist and Refrain Order under Government Code section 11450.50 and Code of Civil Procedure section 1987. This matter ensued.

2. As of August 17, 2007, the records of the Department of Corporations do not show that any qualification or permit or consent to transfer, or any application for such qualification, permit, or consent to transfer; the filing of a notice of issuance under section 25102, subdivision (h); a notice of transaction under section 25102, subdivisions (f) or (n); a notice filed under section 25102.1; a notice of transaction under California Code of Regulations, title 10, Rule 260.105.33 or 260.105.34; or any other notice, for respondent Cherokee Oil.

3. (A) As of August 17, 2007, the records of the Department of Corporations do not show that any qualification or permit or consent to transfer, or any application for such qualification, permit, or consent to transfer; the filing of a notice of issuance under section 25102, subdivision (h); a notice of transaction under section 25102, subdivisions (f) or (n); a notice filed under section 25102.1; a notice of transaction under California Code of Regulations, title 10, Rule 260.105.33 or 260.105.34; or any other notice, for Cherokee Energy Income I, LP.

(B) The records of the Department of Corporations do show that, on June 4, 2007, Form D Notice of Sale of Securities Pursuant to Regulation D Section 4(6), and/or Uniform Limited Offering Exemption, was filed on behalf of issuer Cherokee Energy Income I, LP, 468 North Camden Drive, Beverly Hills, California 90201. On Form D, it was noted that the business of Cherokee Energy Income I, LP, was oil and gas exploration and production and that the limited partnership was organized in April 2007. Respondent Scott-Gross signed Form D as managing general partner of Cherokee Energy Income I, LP.

---

[1] All further statutory references are to the Corporations Code, unless stated otherwise.

(C) Under Rule 506 of Regulation D of section 402, subdivision (2), of the Securities Act of 1933, a company, such as Cherokee Energy Income I, LP, or respondent Cherokee Oil, cannot use general solicitation or advertising to market securities in this state. As shown herein, respondents offered securities over the internet, a form of advertising, and therefore have not satisfied criteria which are necessary to validly claim an exemption under the Form D Notice of Sale of Securities.

4. (A) At all times relevant herein, Scott-Gross is and has been the sole owner, president, and general manager of Cherokee Oil, a California limited liability company engaged in the business of acquiring proven and producing oil and gas royalty assets from individuals, groups, or oil and gas companies.

(B) Respondent Scott-Gross is formerly known as Raymond Charles Gross as follows: On June 28, 1999, a Petition for Change of Name and Order to Show Cause for Change of Name were filed in the Los Angeles Superior Court and given case number SS008663. In the filing, petitioner Raymond Charles Gross, born in Newark, New Jersey, sought to legally change his name to Ian Scott-Gross. The stated reason for the name change was stated as, "Actor using Ian Scott for 30 years wishes to injoin [sic] both names as Ian Scott-Gross." A Name Change Criminal History Assessment prepared by an investigator for the Los Angeles County Probation Department showed that Raymond Charles Gross had previously used the name "Ian Scott." On August 12, 1999, the Superior Court issued Decree Changing Name, granting the petition and ordering that the name of Raymond Charles Gross be changed to Ian Scott-Gross.

5. On or about February 1, 1996, before the Securities and Exchange Commission, United States of America, in the Matter of Raymond Charles Gross and James Eugene Hammonds, Administrative Proceeding File No. 3-8810, respondent Scott-Gross was sanctioned and barred under his former name of Raymond Charles Gross from association with any broker, dealer, investment company, investment advisor, or municipal securities dealer.

Sale of Unqualified Securities

6. (A) On or about May 4, 2007, which was prior to the issuance of the Desist and Refrain Order, a staff services analyst under the direction of counsel in the Enforcement Division, Department of Corporations, conducted an undercover investigation of respondents Cherokee Oil and Scott-Gross. The analyst accessed the internet website of Cherokee Oil and printed information from the website.

(B) The Cherokee Oil website stated that the business of Cherokee Oil was to acquire proven and/or producing oil and gas royalty assets; sell these assets to cash and investors looking for "steady, risk-adjusted" returns of 10 to 22 percent; and to manage investors' royalty and working interests. The website further stated that a person could invest in existing oil and gas producing properties and increase one's income tenfold. The website indicated that Cherokee Oil's goal was to buy long term producing oil and gas

properties and that the company focuses "exclusively on helping qualified, high net worth investors." The Cherokee Oil website also explained the terms of a direct participation program, listed oil and gas properties owned by the company, and provided information about how to inquire about Cherokee Oil services and to obtain more information on private royalty ownership. Respondent Scott-Gross was named in the website along with his address, mailing address, and telephone number.

(C) Subsequently, the Department's analyst called Cherokee Oil and spoke with respondent Scott-Gross in an undercover capacity. The analyst advised that she and her husband wanted to invest and obtain brochures and materials about the Cherokee Oil investment program. Scott-Gross asked abut her investments, net worth, and source of money. About one week later, on or about May 23, 2007, the analyst received a letter and business card from respondent Scott-Gross who also included an "Investors Package" brochure containing the most recent information on Cherokee Oil's acquisitions. In his letter, Scott-Gross stated that Cherokee Oil offered a "very high return on investment from both current and future distributions." The Investor Package brochure indicated that the minimum investment was $25,000 for the purchase of oil and natural gas producing reserves, set forth investor highlights, and explained direct working interests and "private royalty ownership" in oil and gas properties. Respondent Scott-Gross also forwarded to the analyst a confidential private placement memorandum for investment in Cherokee Energy Income I, LP.

7. (A) Based on Findings 2 – 3 and 6 above, the investments offered by respondent Scott-Gross in Cherokee Oil constituted securities in the form of investment contracts, or certificates of interest or participation, in an oil or gas title or lease, or in payments out of the production under that title or lease. Investment contracts, or certificates of interest or participation, in an oil or gas title or lease, or in payments out of production under that title or lease, are expressly included in the list of "securities" under section 25019.

(B) Based on Findings 2 – 3 and 6 above, the securities offered and/or sold by respondents Scott-Gross and Cherokee Oil constituted "issuer transactions" within the meaning of sections 25010 and 25011.

(C) Based on Findings 2 – 3 and 6 above, respondents Scott-Gross and Cherokee Oil offered securities in the State of California within the meaning of sections 25008 and 25017.

8. The Commissioner has not issued to respondent Cherokee Oil or to Cherokee Energy Income I, LP, a permit or other form of qualification authorizing the offer and sale of securities in the State of California, as set forth in Findings 2 and 3 above. The offers of securities by respondents Scott-Gross, Cherokee Oil, and Cherokee Energy Income I were not shown to be exempt from the qualification requirement under section 25110.

9. Based on Findings 2 – 3 and 6 – 8 above, respondents Scott-Gross and Cherokee Oil in this state offered unqualified securities in issuer transactions and

respondents failed to establish that such securities or transactions were exempt from the qualification requirement.

Omission of Material Fact

10. On the Cherokee Oil website, respondent Scott-Gross is named as the person that prospective investors are to contact to obtain more information on investing or purchasing securities in Cherokee Oil investment contracts, or certificates of interest or participation, in oil or gas titles or leases. The website does not state that respondent Scott-Gross, under his former name of Raymond Charles Gross, was barred by the Securities and Exchange Commission from association with any broker, dealer, investment company, investment advisor, or municipal securities dealer.

11. When he sent the prospectus and investment information and agreement for Cherokee Oil to the analyst, respondent Scott-Gross signed the cover letter and included his business card. The business card states that he is the President of the U.S. Region of Cherokee Oil. The prospectus and investment information do not state that respondent Scott-Gross under his former name of Raymond Charles Gross was barred by the Securities and Exchange Commission from association with any broker, dealer, investment company, investment advisor, or municipal securities dealer.

12. The confidential private placement memorandum, or investment brochure and prospectus, for Cherokee Energy Income I, LP, contains an Agreement of Limited Partnership in which respondent Scott-Gross is named as the president of Cherokee Oil, special limited partner, and participant. As such, Scott-Gross would be a signatory in any limited partnership agreement among Cherokee Oil, the managing general partner, and any person who executes the subscription agreement and becomes a limited partner. The memorandum does not state that respondent Scott-Gross, under his former name of Raymond Charles Gross, was barred by the Securities and Exchange Commission from association with any broker, dealer, investment company, investment advisor, or municipal securities dealer.

13. The fact that respondent Scott-Gross, under his former name of Raymond Charles Gross, was barred by the Securities and Exchange Commission from association with any broker, dealer, investment company, investment advisor, or municipal securities dealer constitutes a material fact within the meaning of section 25401, which should have been disclosed in the prospectuses and materials of Cherokee Oil to make the written communications not misleading.

14. Based on Findings 2 – 14 above, respondents Scott-Gross and Cherokee Oil offered and/or sold securities in this state by means of a written communication which omits to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, in violation of section 25401.

15. In this proceeding, respondent Scott-Gross claims that the Cherokee Oil website was not used to solicit sales of securities but was created by his son for a college project and established solely for respondent's own private use. He testified that the website had been inadvertently opened by a technical person but closed immediately. Respondent testified that he did not "openly" solicit the public and no securities were sold to the public through the website. He states that he was the only person to have bought any oil or gas interests in Cherokee Oil or Cherokee Energy Income I. He adds that he only gives information to persons that he knows are referred to him and, if they are interested in buying oil and gas interests, he refers them to another firm. He adds he relies on the advice of attorneys and has been told that he did not violate any securities laws or have to disclose the fact that he had been barred by the Securities and Exchange Commission. The claims of respondent Scott-Gross were not credible.

16. Respondent Scott-Gross has held a real estate license since 1973 and has been employed as a mortgage broker by a bank and mortgage loan company for the past six or seven years. He states that he is a registered broker with Windsor Capital Corporation of San Diego. He has two sons and a daughter.

* * * * * * *

Pursuant to the foregoing findings of fact, the Administrative Law Judge makes the following determination of issues:

LEGAL CONCLUSIONS

1. Grounds exist to uphold the Desist and Refrain Order issued to respondents Cherokee Oil and Scott-Gross under Corporations Code section 25532 in that respondents offered securities in the State of California in the form of investment contracts or certificates of interest or participation in oil or gas titles or leases, or in payments out of production under those titles or leases, without issuance of a qualification for such offers of securities, and not pursuant to any exemption from qualification, in violation of Corporations Code section 25110, based on Findings 2 – 14 above.

2. Grounds also exist to uphold the Desist and Refrain Order issued to respondents Cherokee Oil and Scott-Gross issued under Corporations Code section 25532 in that respondents Cherokee Oil and Scott-Gross offered and/or sold securities in the State of California by making written or oral communications that omitted to state a material fact necessary to make the statements, in light of the circumstances under which they were made, not misleading, in violation of Corporations Code section 25401, based on Findings 2 – 14 above.

* * * * * * *

WHEREFORE, the following Order is hereby made:

ORDER

The Desist and Refrain Order, OAH Case No. L-2007070922, issued by the California Corporations Commissioner against respondents Cherokee Oil and Natural Gas Acquisition Company, LLC, and Ian Scott-Gross, formerly known as Raymond Charles Gross, 468 North Camden Drive, Beverly Hills, California 90210, is sustained.

Dated: Sept 27, 2007

Vincent Nafarrete
Administrative Law Judge
Office of Administrative Hearings