

**IN THE DISTRICT COURT OF OKLAHOMA COUNTY
STATE OF OKLAHOMA**

Oklahoma Department of Securities)
ex rel. Irving L. Faught,)
Administrator,)
)
Plaintiff,)
)
v.)
)
David E. Grose,)
)
Defendant.)

CJ-2009-1763

Case No. FILED IN THE DISTRICT COURT
OKLAHOMA COUNTY, OKLA.

FFR 2 5 2009

PATRICIA PRESLEY, COURT CLERK
by _____
DEPUTY

**PETITION FOR INJUNCTION
AND OTHER EQUITABLE RELIEF**

COMES NOW the Plaintiff, Oklahoma Department of Securities, *ex rel.* Irving L. Faught, (Department), and alleges and states as follows:

OVERVIEW

1. This case involves violations of the Oklahoma Uniform Securities Act of 2004 (the "Act"), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (Supp. 2003). Specifically, the Department alleged in its petition filed in Oklahoma County District Court Case No. CJ-2008-7963 that Jerry D. Cash (Cash) violated the Act by engaging in fraudulent financial activities involving Quest Resource Corporation and/or its subsidiaries and affiliates (collectively, "Quest") through which he converted funds for his personal benefit and use. The Department alleges herein that Defendant David E. Grose (Grose) directly participated and/or materially aided the fraudulent conduct of Cash and engaged in fraudulent financial activities through which he converted Quest funds for his personal benefit and use.

JURISDICTION

2. The Administrator of the Department brings this action pursuant to Section 1-603 of the Act and is the proper party to bring this action against Defendant Grose.

3. Pursuant to Sections 1-102 and 1-610 of the Act, Defendant Grose, in connection with the offer, sale, and purchase of securities, is subject to the provisions of the Act. By virtue of his transaction of business by contract and otherwise and commission of other acts in this state, Defendant Grose is subject to the jurisdiction of this Court and to service of summons within or outside of this state.

4. Defendant Grose has engaged in acts and practices in violation of the Act and materially aided violations of the Act by Cash. Unless enjoined, he will continue to engage in the acts and practices set forth herein and acts and practices of similar purport and object.

QUEST ENTITIES

5. Quest Resource Corporation (QRCP) is a Nevada corporation with its principal offices in Oklahoma City, Oklahoma. At all times material hereto, the common stock of QRCP was publicly traded on the NASDAQ Global Market System.

6. Quest Energy Partners, L.P. (QELP) is a Delaware limited partnership with its principal offices in Oklahoma City, Oklahoma. At all times material hereto, the limited partnership interests in QELP were publicly traded on the NASDAQ Global Market System.

7. Quest Energy GP, LLC (Quest Energy GP) is a Delaware limited liability company with its principal offices in Oklahoma City, Oklahoma. Quest Energy GP is the general partner of QELP.

8. Quest Cherokee, LLC (Quest Cherokee) is a Delaware limited liability company with its principal offices in Oklahoma City, Oklahoma. Quest Cherokee was formed as a subsidiary of QRCP that was transferred to QELP in November of 2007. Quest Cherokee owns the Cherokee Basin oil and gas leases.

9. Quest Midstream Partners, L.P. (QMLP) is a Delaware limited partnership with its principal offices in Oklahoma City, Oklahoma. At all times material hereto, QMLP was used by QRCP to conduct its natural gas pipeline operation. QMLP made two exemption notice filings under the Act in November of 2007.

10. Quest Midstream GP, LLC (Quest Midstream) is a Delaware limited liability company with its principal offices in Oklahoma City, Oklahoma. Quest Midstream is the general partner of QMLP.

11. Bluestem Pipeline, LLC (Bluestem) is a Delaware limited liability company with its principal offices in Oklahoma City, Oklahoma. Bluestem is a wholly-owned subsidiary of QMLP.

12. At all times material hereto, the financial statements for Quest were presented on a consolidated basis.

INDIVIDUALS

13. Cash is a resident of Oklahoma and was, until August 23, 2008, the Chief Executive Officer and a director of QRCP and the Chief Executive Officer and Chairman of the Board of Quest Energy GP.

14. Grose, a resident of Oklahoma, was hired by Cash in June of 2004, and was until September 13, 2008, the Chief Financial Officer (CFO) of Quest. As CFO, Grose's responsibilities included supervision of the Quest accounting department, coordination of quarterly reviews and annual audits by Quest auditors, and certifying the accuracy of reports filed with the United States Securities and Exchange Commission (SEC).

BACKGROUND

15. At all times material hereto, Cash controlled Rockport Energy, L.L.C., a Texas limited liability company (Rockport Energy). At all times material hereto, required filings by Quest with the SEC did not disclose or identify Rockport Energy as an affiliate of Cash.

16. Beginning in at least 2005, Cash caused Quest money to be transferred to a bank account held in the name of Rockport Energy (the "Rockport Account"). Grose assisted Cash with the transfers into the Rockport Account by authorizing and/or effecting the wire transfers. By July 2008, transfers to the Rockport Account from Quest totaled Ten Million Dollars (\$10,000,000).

17. Cash maintained sole signatory authority over the Rockport Account. Cash expended the Quest money from the Rockport Account for personal expenses and/or other business activities not related to Quest.

18. To create the illusion that the money transferred to Rockport Energy was returned to Quest, Cash directed a series of suspicious financial transactions between Rockport Energy and Quest. Specifically, on or within a day of the end of each Quest fiscal quarter, Cash issued a check drawn on the Rockport Account, made payable to a

Quest entity. The check would then be deposited into the bank account of the payee. At all times material hereto, the balance in the Rockport Account at the time each check was issued was not sufficient to cover the check. The balance in the Rockport Account rarely exceeded Two Thousand Dollars (\$2,000).

19. Within days of the end of each Quest fiscal quarter, Cash directed that Quest funds, in an amount identical to the amount of the recent check from Rockport Energy, be wired to the Rockport Account enabling each of the Rockport Account checks to clear the bank. Grose directly participated in the fraudulent quarter-end transactions by authorizing and/or effecting the wire transfers from Quest to the Rockport Account.

20. The transactions between Rockport Energy and Quest were not disclosed in filings by Quest with the SEC.

NATURE OF THE CASE AGAINST GROSE

A. Fraudulent Fund Transfers

21. While the unauthorized transfers were occurring, Quest faced numerous financial difficulties. In September, 2006, Quest took steps to reduce its budget by laying off employees and cutting lease operating expenses and capital expenditures.

Sarbanes-Oxley Issues

22. Despite questions relating to Sarbanes-Oxley matters, Grose continued to effect the wire transfers at the request of Cash.

23. On November 28, 2005, Grose sent an e-mail to Cash stating: "Also, with the Sarbanes/Oxley compliance under way, we need to discuss the dollar transactions with Quest, as the reviewers will note the transactions and we will have an SEC matter and more. P/S advise where we are at, so I can plan accordingly. Thanks."

24. On March 4, 2006, Grose received an e-mail from an audit partner for the Quest engagement inquiring about the transfers to Rockport Energy and raising the question of whether the transactions should be brought to the attention of the audit committee. Grose deflected the inquiry by falsely representing that the transfers were actually in connection with Quest activity and not Rockport Energy activity.

Continuing Transfers

25. Despite repeated statements from Cash that the transfers would end, Grose continued to effect the wire transfers without hesitation as described below.

26. In response to Grose's email of November 28, 2005, Cash stated: "Rockport will have funds back into Quest before the end of the year and there should be no more transferring of funds after that" On or about December 13, 2005, an additional One Million Dollars (\$1,000,000) was transferred from Quest by Grose to the Rockport Account at the request of Cash.

27. On January 3, 2006, Cash sent an e-mail to Grose stating: "Will need to do one last wire from Bluestem to RE [Rockport Energy] NBC account today for 500k, will have back b/f end of month, there will be no need for any more." Grose responded twenty-one minutes later: "Wire sent."

28. Seven days later, Cash sent Grose another e-mail requesting more money: "RE [Rockport Energy] funding delayed to the end of Jan., will need to wire an additional \$500k into RE's NBC account today, this and other \$500k will be wired back before 1/31." Grose responded: "Will do" and the wire was effected the same day.

29. On March 3, 2006, Cash sent an e-mail to Grose again stating that the transfers to Rockport Energy would end: "Will need one last 500k wire into RE

[Rockport Energy] today, everything in place to return full \$2mil b/f end of month."

Grose responded the same day: "Wire sent."

30. Thirteen days later, Cash, via e-mail, requested more money: "please wire \$1mil more to RE [Rockport Energy] NBC, will return the \$3mil by 3/31." Grose responded the same day: "wire sent."

The Concealment

31. Prior to August of 2008, Grose concealed the true nature of the monetary transfers by falsely describing the transactions to auditors and others as money set aside by Quest to "scout" potential oil and gas prospects without using the Quest name, thereby gaining an advantage over competitors and enabling Rockport Energy to represent to counter-parties that Rockport Energy had sufficient assets to complete any proposed transaction. No acquisition or similar transaction for the benefit of Quest originated from the monetary transfers to Rockport Energy.

32. At all times material hereto, Grose routinely spoke with independent auditors, outside legal counsel, Sarbanes-Oxley compliance professionals and/or audit committee members about a range of matters from budgets to what he considered unnecessary business expenditures directed by Cash. Despite numerous opportunities to have auditors, outside counsel or others determine whether further investigation and/or disclosure was necessary or appropriate, Grose continued to conceal the fraudulent conduct.

33. In April, 2008, a Ten Million Dollar (\$10,000,000) check drawn on the Rockport Account was returned to Quest as insufficient when a wire from Quest to Rockport Energy in the amount of Ten Million Dollars (\$10,000,000) was not effected by

the time the Rockport Energy check was processed by the drawer bank. Grose did not notify independent auditors, outside legal counsel, Sarbanes-Oxley compliance professionals and/or audit committee members of the fact that the Rockport Energy check was returned. Had he done so, it would have been evident to those from whom the fraudulent transactions were concealed that the wire transfer from Quest was necessary to clear the check drawn on the Rockport Account and that the purported return of monies by Rockport Energy to Quest was nothing more than a sham transaction.

B. Kickback Scheme

34. Prior to his employment with Quest, Grose was employed as the chief financial officer of an Oklahoma based oil and gas drilling contractor. At the time, Brent Mueller (Mueller) was employed by the same contractor. Following his employment with the drilling contractor, Mueller became an employee of an Oklahoma based company engaged in the business of obtaining oil and gas equipment and supplies on behalf of oil and gas entities owned by Rodger H. Brooks (Brooks). Subsequent to Grose's employment by Quest, Mueller became the purchasing manager for Quest.

35. In or about December, 2005, Grose and Mueller began receiving kickbacks from Brooks in exchange for Quest business directed to Brooks. Over a two year period, the payments from Brooks to Grose and Mueller exceeded Eight Hundred Thousand Dollars (\$800,000) each. Grose failed to disclose this information on a required officer and director questionnaire and management representation letters submitted in connection with Quest quarterly reviews and year-end audits. The kickback scheme orchestrated by Grose and Mueller was not disclosed in filings made by Quest with the SEC.

36. Grose used the money received from Brooks to construct a new home at 7201 Tangle Vine Road, Edmond, Oklahoma.

C. Conversion of Quest money

37. In June of 2008, an Oklahoma limited liability company was formed to retrofit vehicles to operate on hydrogen fuel (the "Hydrogen LLC"). The managing member of the Hydrogen LLC was previously the general manager of an auto dealership from whom Quest, through Mueller, had purchased numerous vehicles for the Quest fleet.

38. After being approached by the Hydrogen LLC managing member about retrofitting vehicles in the Quest fleet, Grose and Mueller formed their own limited liability company for purposes of investing in the Hydrogen LLC. In return for a \$1,000,000 investment, Grose and Mueller were to receive four percent (4%) of the Hydrogen LLC's revenue.

39. On or about July 1, 2008, Grose directed and caused a wire transfer of One Million Dollars (\$1,000,000) of Quest money to the bank account of Brooks. Grose then instructed Brooks to wire the money to the bank account of the Hydrogen LLC.

40. Grose attempted to conceal the transaction on the books of Quest by describing the transfer from Quest to Brooks as a "deposit for pipe" causing the subsequent filings made by Quest with the SEC to be inaccurate.

D. Inaccurate Securities Filings

41. Section 13 of the Securities and Exchange Act of 1934 (the "Exchange Act") and rules promulgated thereunder require public companies to make and keep

books, records and accounts which accurately reflect the company's transactions and all dispositions of its assets.

42. The financial statements incorporated into Quest's quarterly and annual reports for the years 2004 through 2008 failed to accurately reflect the transactions described above and contained material omissions regarding the fraudulent nature of the activities and the impact of the transactions on company operations. As a consequence of Defendant Grose's conduct described above, Quest quarterly and annual reports for the years 2004 through 2008, were in violation of Section 13 of the Exchange Act. Defendant Grose, as CFO, assisted with preparation of such reports and certified that the information contained in the reports fairly presented, in all material respects, the financial condition and results of operations for Quest.

FIRST CAUSE OF ACTION
(Violation of Section 1-501 of the Act:
Engaging in any Act, Practice, or Course of Business Which Operates or
Would Operate as a Fraud or Deceit upon any Person)

43. The Department realleges and incorporates by reference each and every allegation contained in the preceding paragraphs.

44. Defendant Grose, in connection with the offer, sale or purchase of securities, and as described above, has engaged in acts, practices, or a course of business that has operated as a fraud or deceit upon other persons.

45. By reason of the foregoing, Defendant Grose, directly and indirectly, has violated and unless enjoined, will continue to violate Section 1-501 of the Act.

SECOND CAUSE OF ACTION
(Violation of Section 1-501 of the Act:
Untrue Statements and Omissions of Material Fact in Connection With Offer, Sale
or
Purchase of Securities)

46. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding paragraphs.

47. Defendant Grose, in connection with the offer and/or sale of securities, directly and indirectly, made untrue statement statements of a material fact.

48. Defendant Grose, in connection with the offer and/or sale of securities, directly and indirectly, omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

49. By reason of the foregoing, Defendant Grose, directly and indirectly, has violated and unless enjoined, will continue to violate Section 1-501 of the Act.

THIRD CAUSE OF ACTION
(Materially Aiding Securities Fraud
Under Section 1-603 of the Act)

50. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding paragraphs.

51. As set forth more fully above, Cash, in connection with the offer, sale, or purchase of securities, directly and indirectly, engaged in an act, practice, or course of business that operated as a fraud or deceit upon other persons, in violation of Section 1-501 of the Act.

52. As detailed above, Defendant Grose knew, or in the exercise of reasonable care should have known, that the transfers to the Rockport Account were not authorized

and that the money was being utilized by Cash for personal expenditures. Defendant Grose provided substantial assistance to Cash's securities law violations.

53. By reason of the foregoing, Defendant Grose materially aided Cash's violations of Section 1-501 of the Act.

PRAYER FOR RELIEF

Defendant Grose has engaged in violations of the Act and materially aided violations of the Act by Cash.

WHEREFORE, based upon the foregoing, and pursuant to the authority specifically granted by Section 1-603 of the Act, the Department prays for the court to grant the following relief against Defendant Grose:

I.

A permanent injunction, restraining and enjoining Defendant Grose, his agents, servants, employees, assigns and all those persons, directly or indirectly, acting on his behalf, under their direction and control, and/or in active concert or participation with him, who receive actual notice hereof, by personal service, facsimile or otherwise, and each of them from violating the Act;

II.

An order *instanter* prohibiting Defendant Grose from transferring, assigning, mortgaging, pledging, or otherwise encumbering his primary residence, at 7201 Tangle Vine Road, Edmond, Oklahoma;

III.

An order *instanter* prohibiting Defendant Grose, his agents, servants, employees, assigns and all those persons, directly or indirectly, acting on his behalf, under his

direction and control, and/or in active concert or participation with him, who receive actual notice of the order, by personal service, facsimile or otherwise, and each of them from tampering with, mutilating, altering, erasing, concealing, removing, destroying or otherwise disposing of any and all books, records, documents, files, correspondence, computer disks, tapes or other data recordings of any type, pertaining to or referring to Defendant Grose; Quest Resource Corporation; Quest Energy Partners L.P.; Rockport Energy, LLC; Rodger H. Brooks; RHB Global LLC; Affiliated Energy Partners, L.L.C.; Oklahoma Hydrogen Technology, LLC; and any of their subsidiaries or affiliates;

IV.

An order imposing a civil penalty against Defendant Grose in the amount of Two Hundred Fifty Thousand Dollars (\$250,000.00);

V.

An order requiring Defendant Grose to disgorge all ill-gotten gains; and

VI.

Such other equitable relief as the Court may deem necessary, just and proper in connection with the enforcement of the Act.

Respectfully submitted,

OKLAHOMA DEPARTMENT OF SECURITIES
Irving L. Faught, Administrator

By:



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STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA) SS.

Irving L. Faught, of lawful age, being first duly sworn deposes and says: that he is the Administrator of the Oklahoma Department of Securities, that he has read the foregoing Petition for Injunction and Other Equitable Relief and knows the contents thereof, and that the matters and things stated therein have been provided to him by staff members of the Department under his authority and direction, and are true and correct to the best of his knowledge, information and belief.

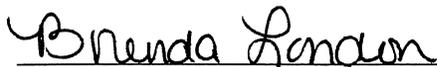
(SEAL)



Irving L. Faught, ADMINISTRATOR OF THE
OKLAHOMA DEPARTMENT OF SECURITIES
120 North Robinson, Suite 860
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Subscribed and sworn to before me this 24th day of February, 2009.

(NOTARIAL SEAL)



Notary Public

