



STATE OF MISSOURI
OFFICE OF SECRETARY OF STATE

IN THE MATTER OF:)
)
B&B WORM FARMS, INC.;)
LYNN BRADLEY;) Case No. AP-04-01
JAMES WOODY; and)
LISA WOODY,)
)
Respondents.)

Serve B&B Worm Farms, Inc. and Lynn Bradley at:
Route 1, Box 163B
Meeker, OK 74855

Serve James Woody and Lisa Woody at:
4413 S. 70th Road
Bolivar, MO 65613

ORDER TO CEASE AND DESIST

On the 17th day of December 2003, Omar Davis, counsel for the Enforcement Section of the Securities Division ("Enforcement Section"), submitted a petition for a Cease and Desist Order. After reviewing the petition, the Commissioner issues the following findings of fact, conclusions of law and order:

FINDINGS OF FACT

1. B & B Worm Farms Inc. ("B&B") is a Nevada corporation with a company address of RR1, Box 163B, Meeker, OK, 74855. It was incorporated on November 17, 2000, and its registered agent is David Desormeau, 1603 Mowbray Court, Henderson, NV, 89014. According to Nevada corporate records, Gregory Bradley serves as President and Lynn Bradley serves as Treasurer and Secretary for B & B Worm Farms, Inc.
2. Following the recent death of Gregory Bradley, Lynn Bradley assumed the position of chief executive officer and Director of B&B and has an address of RR1, Box 163B, Meeker, OK, 74855.
3. James Woody is an individual with an address of 4413 S. 70th Road, Bolivar, MO, 65613. During the times referenced in this Cease and Desist Order, James Woody was a manager at the Missouri distributorship for B&B.

4. Lisa Woody is an individual with an address of 4413 S. 70th Road, Bolivar, MO, 65613. During the times referenced in this Cease and Desist Order, Lisa Woody was a manager at the Missouri distributorship for B&B.
5. As used in this Cease and Desist Order, the term "Respondents" refers to B&B, Lynn Bradley, James Woody and Lisa Woody.
6. On March 11, 2003, the Missouri Securities Division ("the Division") received information, which indicated that the Respondents offered and/or sold unregistered securities in the State of Missouri.
7. In October 2001, a Missouri resident ("MR1") saw an ad in the classified ads section of the Kansas City Star Newspaper. This ad was an offer to become a worm grower and provided a telephone number to call for more information.
 - a. Upon calling the phone number in the ad, MR1 spoke to Larry Bateman, a B&B representative, who told MR1 that the investment was a 3-year, \$8,000 contract between MR1 and B&B. This contract would include 100,000 breeder worms delivered to MR1, a harvester and a buy back policy in which B&B would purchase any amount of cultivated worms produced by MR1 at the price of \$7.00 per pound for the term of the contract.
 - b. The B&B representative mailed a brochure entitled "The Natural Solution" to MR1. Among other things, this brochure stated:
 1. The hypothetical earnings projections, based on an \$8,000 package and 80 day 100% reproduction rate, showed earnings of \$5,600 by the fourth harvest period.
 2. B&B strongly encouraged growers to wait at least 6 months before harvesting their worms.
 3. An \$8,000 package may be "earned back" in less than 12 months.
 4. The worms double in quantity every 80 days.
 5. "If you were to cash out and harvest all of your worms after only 12 months, you would earn a **net profit of \$3200.00** even after you subtract the initial cost of the package." (emphasis in original)
 6. "You are purchasing an extremely valuable buyback agreement at a **guaranteed fixed price.**" (emphasis in original)
 7. "...B & B will buy all the worms that your worm farm can produce PERIOD. The major benefit to you is that you as a grower don't have to become skilled at marketing and spend much of your time and money finding buyers for your worms."
 8. B&B can survive on the sales of its existing products to end-users without selling

breeder-contracts for at least six months.

9. B&B has a one-year money back guarantee.
- c. During the fall of 2001, MR1 traveled to Bolivar, Missouri, to the farm of James and Lisa Woody and met with the Woodys and Greg Bradley. During this meeting, Greg Bradley made the following representations to MR1:
 1. B&B needed worms, more than MR1 could grow;
 2. B&B would limit the number of growers to 2,000;
 3. A B&B contract purchase was like owning a franchise; and
 4. MR1 would be buying the privilege of having B&B buy back cultivated worms.
- d. MR1 decided to purchase a 3-year, \$8,000 contract by paying \$4,000 down with an agreement that the remaining balance would be collected as MR1's worms were harvested.
- e. MR1 received, via mail, a purchase contract from B&B Worm Farms, Inc., signed by Lynn M. Bradley and dated October 30, 2001. MR1 signed the contract on November 1, 2001 and returned it, and the \$4,000.00, to B&B Worm Farms in Oklahoma.
- f. On February 25, 2002, MR1 paid an amount of \$1,500 for an additional 100,000 breeder worms.
- g. James Woody delivered the breeder worms to MR1 on March 5, 2002.
- h. MR1, based on the Growth and Cash Flow Projection provided in B&B's brochure "The Natural Solution", believed that a monthly income of \$11,200 beginning January, 2003 until October 30, 2004 (the expiration of the contract with B&B) could be achieved solely by reselling harvested worms through the buy-back provision of the contact with B&B.
- i. MR1 stated that prior to purchasing the B&B contract, MR1 would receive return phone calls from B&B representatives in the Oklahoma office. After the signing of the contact, the only persons who would return phone calls were James and Lisa Woody.
- j. In approximately January, 2003, MR1 spoke with Lisa Woody. During that telephone conversation, Lisa Woody complained to MR1 that there was no place to put all of the worms that have been taken in by the Woodys in accordance with the B&B buyback contracts. MR1 then asked why worms weren't being shipped out and questioned the existence of end-users for the worms. MR1 was told by Lisa Woody that the issue of end-users wasn't MR1's concern, that all MR1 needed to worry about was growing the worms.

- k. On March 26, 2003, MR1 spoke with James Woody. James Woody told MR1 that he was not accepting any worms from growers because he was uncertain whether B&B would pay the growers for the worms. During the conversation, James Woody informed MR1 that he believed B&B's doors had been closed since March 19, 2003 due to the Oklahoma Securities serving B&B with "paperwork".
8. During the summer of 2002, a Missouri resident ("MR2") found information regarding B&B Worm Farms on B&B's internet website at <http://www.bandbworms.com>.
- a. MR2 visited a Missouri distributorship for B&B approximately 3 times during the summer. Each time, MR2 gathered information regarding B&B's product from James and Lisa Woody.
 - b. During these visits, James Woody took MR2's name and address and requested that B&B send information regarding the investment to MR2. MR2 received information and brochures outlining B&B's investment. In addition, James Woody advised MR2 that B&B was preparing to increase the price on the basic worm farm packages from \$10,000 to \$15,000.
 - c. On MR2's third visit in October, 2002, MR2 decided to invest with B&B and told James Woody that he wanted to purchase before B&B increased the price for the package. James Woody provided a postage paid envelope for MR2 to mail a check for \$10,000 to B&B headquarters in Oklahoma.
 - d. MR2 signed the B&B contract and mailed it and a check for \$10,000 to B&B in Oklahoma.
 - e. The purchase contract contained the following provisions: 1) MR2 would pay \$10,000 to B&B; 2) B&B would provide a 3-year guaranteed buy-back provision at \$7.00 per pound (plus an extra \$1.00 per pound if MR2 delivered the worms to the Missouri distributorship); 3) B&B would provide a small harvester; 4) A money back guarantee for one year; 5) B&B would provide 100 pounds of worms.
 - f. MR2 received a signed contract back from B&B, signed by Greg Bradley.
 - g. After the purchase contract was signed, MR2's contact with B&B representatives in Oklahoma was minimal. After that point, MR2 dealt only with James and Lisa Woody.
 - h. MR2 received an email from Lisa Woody that strongly encouraged Missouri growers to attend the B&B growers convention scheduled in February 2003 in St. Louis, Missouri.
 - i. James Woody delivered the breeder worms to MR2, but did not deliver the harvester.
9. An investigator with the Division spoke with Oklahoma Securities Investigators and was informed of the following:

- a. On August 13, 2002, Oklahoma Securities entered into an agreement with B&B Worm Farms wherein B&B agreed to cease and desist from the offer and/or sale of any business opportunity unless said business opportunity was registered or exempted under the Oklahoma Business Opportunity Act.
- b. B&B continued to sell purchase contracts in violation of the Oklahoma Business Opportunity Act until April 1, 2003.
- c. On April 14, 2003, The Oklahoma Department of Securities filed its *Petition for Permanent Injunction and other Equitable Relief*, Case No. CJ-2003-3174. That case is currently pending, in the discovery stage, in the District Court of Oklahoma City, State of Oklahoma.
- d. On April 17, 2003, the Oklahoma Department of Securities filed an *Application for Temporary Restraining Order and Asset Freeze and Brief in Support*. In support of its application, the Oklahoma Department of Securities alleged:
 1. "It is believed that in excess of Twenty Million Dollars (\$20,000,000) has been received by Defendants in connection with the business opportunity. During the months of February and March, 2003, over Two and One-Half Million Dollars (\$2,500,000) was deposited into the primary business account of B & B Worm Farms, Inc. During this same period, over Three Million Six Hundred Thousand Dollars (\$3,600,000) was withdrawn from the account."
 2. "Defendants have used proceeds from the sales of the Grower Contracts to pay personal expenses of Gregory and Lynn Bradley; to make wire transfers to a relative's auto parts business in Arizona; and to make wire transfer to an adult entertainment enterprise in Las Vegas."
- e. On April 17, 2003, a *Temporary Restraining Order and Order Freezing Assets* was entered by the District Court of Oklahoma County, State of Oklahoma.
- f. In June, 2003, an Oklahoma Department of Securities investigator informed an investigator with the Division that approximately \$29 million was received by B&B from the sale of purchase contracts from February 2002 until late March, 2003.
- g. The Oklahoma Department of Securities is currently working closely with the Trustee in B&B's bankruptcy case to provide assistance in analyzing bank records and tracing the funds that B&B received from investments in worm-growing contracts.
- h. That Oklahoma Department of Securities investigators, while reviewing B&B business records, has identified 50 purchase contracts between B&B and Missouri residents that generated in excess of \$684,500 for B&B.
- i. That James Woody contacted the Oklahoma Department of Securities on several occasions in early 2003, and in March 2003, advised investigators there that he (Woody) felt he was in a dilemma as to whether to close a \$60,000 purchase contract in March 2003, given that Woody had come to realize B&B had problems. Woody

told Oklahoma securities investigators that he felt if he scared off new investors, he feared B&B would not pay him over \$50,000 due for services and commissions on earlier sales.

- j. That Oklahoma Department of Securities investigators, while reviewing B&B business records could not find evidence of the existence of end-users for the worms or worm products produced by B&B worm farmers.
10. Neither the Bradley's, nor any other representative of B&B, ever disclosed to MR1 or MR2 that Oklahoma had issued a C&D against B&B.
 11. On April 22, 2003, B&B filed a Voluntary Petition for Chapter 7 Bankruptcy in the United States Bankruptcy Court of the Western District of Oklahoma, case no. 03-14379BH. The petition was signed by Lynn M. Bradley, President of B&B Worm Farms, Inc.
 - a. As part of the bankruptcy case, B&B filed a list of creditors that included approximately 50 Missouri residents.
 12. The purchase contracts offered by Respondents are investment contracts for the following reasons:
 - a. Investment of money: Investors are required to pay \$8,000 minimum for a contract to include 100 lbs. of worms, a harvester, consultation, and a 3 year buy back provision.
 - b. Common enterprise: The contracts were promoted as an opportunity for the investor to become part of the B&B network of growers. B&B, through Greg and Lynn Bradley, B&B sales representatives and distributors, including James and Lisa Woody, represented to investors, through promotional materials and meetings, that B&B had contracted with end users to buy cultivated worms from B&B and that B&B made enough profit from the sale of worms to these end-users that it did not need to sell breeder contracts to generate income. Breeders were merely needed to supply B&B with an abundant supply of worms as there was a strong demand for them.
 - c. Expectation of profit: The purchase contract included a buy-back provision. Under this provision, B&B guaranteed to purchase all cultivated worms produced by the growers. This provision did not have a capacity restriction, but was limited to the life of the contract, generally 3 years from the date of purchase. The buy-back price set forth in the contract was at least \$7.00 per pound of cultivated worms, and if the grower self-delivered the worms to the distributorship, B&B would pay an extra \$1 per pound for the worms.
 - d. From the significant managerial or entrepreneurial efforts of others: B&B representatives told potential growers that B&B had contracted with companies to produce end-users and that there was a demand for the cultivated worms produced by growers. Potential growers relied on this representation when deciding to purchase a contract with B&B. B&B promoted their end-user contracts as a way that growers

could focus their efforts on growing worms, rather than marketing them.

13. A check of the records maintained by the Missouri Commissioner of Securities confirmed no registration, granted exemption or notice filing indicating status as a “federal covered security” for any of the securities offered by the Respondents in the State of Missouri.
14. On March 26, 2003, the Division sent a letter of inquiry via certified mail to Respondents B&B and Lynn Bradley requesting a claim of exemption from registration or exception from definition of a security upon which Respondent relied in offering and/or selling unregistered securities in or from the State of Missouri. The letter also requested additional information about the offers, and advised Respondent that failure to respond constituted proper ground for the entry of an order by the Commissioner.
15. On July 29, 2003, the Division sent a letter of inquiry via certified mail to Respondent James Woody requesting a claim of exemption from registration or exception from definition of a security upon which Respondent relied in offering and/or selling unregistered securities in or from the State of Missouri. The letter also requested additional information about the offers, and advised Respondent that failure to respond constituted proper ground for the entry of an order by the Commissioner.
16. Respondents B&B and Lynn Bradley failed to respond to the Division’s letter.
17. Respondents James and Lisa Woody responded to the Division’s letter on August 29, 2003. Among other things, the response contained the following information:
 - a. James and Lisa Woody (“the Woodys”) served as a “shipping and receiving point for B&B growers”.
 - b. The Woodys showed people how to grow worms successfully.
 - c. The Woodys took people to other worm farms to demonstrate worm operations.
 - d. The Woodys deny selling B&B contracts and state that all contracts sold were processed through B&B’s main office in Meeker, Oklahoma.
 - e. The Woodys signed a grower contract with B&B.
 - f. The Woodys were involved in establishing a meeting between the Missouri growers, potential growers and Greg Bradley on April 27, 2002. This meeting was conducted at the Bolivar Fairgrounds. The speaker at this meeting was Greg Bradley.
 - g. The Woodys deny presenting information of any kind at the April 27, 2002 meeting, but state that James Woody introduced Greg Bradley to the attendees, and answered questions about the subject of growing worms.
 - h. Approximately 100 people attended the April 27, 2002 meeting.
 - i. Greg Bradley and B&B supplied all written promotional material.

- j. As a distributorship, the Woodys received cultivated worms from growers, and delivered worms, harvesters and sometimes compost to growers' facilities. In addition, the Woodys maintained a toll-free number for growers in the event there were questions concerning worm growing. In return, B&B paid the Woodys \$1.00 per pound of worms they took in from worm growers, and reimbursed the Woodys' fuel or mileage, food, and other related distributorship expenses.
 - k. The Woodys deny receiving commissions or any other compensation for talking to people about growing worms.
 - l. The Woodys stated that they received approximately \$4,600 from B&B for referring five individuals who purchased contracts with B&B.
 - m. In late September or early October of 2002, the Woodys received a \$10,000 bonus from B&B.
 - n. In late September 2002, the Woodys received approximately \$7,000 from B&B in order to buy a delivery truck. The Woodys agreed to repay B&B by hauling and delivering harvesters for B&B.
 - o. The Woodys deny soliciting for B&B. They stated that they received calls from people who had been referred to them by B&B representatives. The Woodys deny paying for any B&B advertising, but stated that a couple of local papers did stories of a public interest nature about their worm farm operation.
- 18. Respondents were not registered to offer and/or sell securities in the State of Missouri.
 - 19. Respondents offered and/or sold unregistered, non-exempt securities, in the form of investment contracts, to Missouri residents.
 - 20. The securities offered and/or sold by Respondents were not federal covered securities.
 - 21. This Order is in the public interest.

CONCLUSIONS OF LAW

- 1. §409.401(o), RSMo, Cumulative Supp. 2002, includes "investment contracts" within the definition of a security. "Investment contract" within the definition of a security is an investment of money in a common enterprise with the expectation of profit from the significant managerial efforts of others. *State v. Reber*, 977 S.W.2d 934 (Mo.App.S.D. 1998); *State v. Kramer*, 804 S.W.2d 845 (Mo.App.E.D. 1991). The interests offered and/or sold by Respondents as described in the above findings of fact constitute securities.
- 2. Section 409.101(2), RSMo 2000, provides that it is unlawful, in connection with the offer, sale or purchase of any security for any person to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading. The conduct

described in the above findings of fact constitutes a violation of this section.

3. §409.201(a), RSMo 2000, provides that it is unlawful for any person to transact business in this state as a broker-dealer or agent unless he is registered under Sections 409.101 to 409.419. The conduct described in the above findings of fact constitutes a violation of this section.
4. §409.301, RSMo 2000, provides that it is unlawful for any person to offer or sell any security in this state unless (1) it is registered under this act; (2) the security or transaction is exempted under section 409.402; or (3) it is a federal covered security. The conduct described in the above findings of fact constitutes a violation of this section.
5. §409.402(f), RSMo, Cumulative Supp. 2002, provides that the burden of proving an exemption, qualification as a federal covered security, or an exception from a definition is upon the person claiming it.
6. §409.408(b), RSMo 2000 provides, in part, that:

[I]f the commissioner shall believe, from evidence satisfactory to him, that such person is engaged or about to engage in any of the fraudulent or illegal practices or transactions above in this subsection referred to, he may issue and cause to be served upon such person and any other person or persons concerned or in any way participating in or about to participate in such fraudulent or illegal practices or transactions, an order prohibiting such person and such other person or persons from continuing such fraudulent or illegal practices or transactions or engaging therein or doing any act or acts in furtherance thereof.
7. Transacting business as an unregistered broker-dealer, as described in the above findings of fact, constitutes an illegal practice under §409.408(b), RSMo 2000.
8. Transacting business as an unregistered agent, as described in the above findings of fact, constitutes an illegal practice under §409.408(b), RSMo 2000.
9. Omitting to disclose, during the sale to MR2 in October, 2002, that an agreement had been entered into in August, 2002, whereby B&B had agreed to cease offering business opportunities unless those business opportunities were registered or exempted under the Oklahoma Business Opportunity Act. This failure to disclose constitutes an illegal practice under §409.101(2), RSMo 2000.
10. The offer or sale of unregistered securities, as described in the above findings of fact, constitutes an illegal practice under §409.408(b), RSMo 2000.
11. The Missouri Commissioner of Securities is empowered to issue such orders as he may deem just. §409.408(b), RSMo 2000.

ORDER

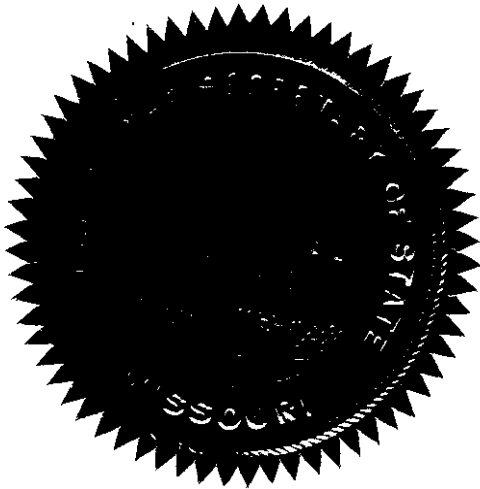
NOW, THEREFORE, it is hereby ordered that Respondents, their agents, employees and servants, and all other persons participating in or about to participate in the above-described violations with knowledge of this order are prohibited from:

- A. Offering or selling investments in investment contracts into B&B Worm Farms.
- B. Violating §409.101(2), RSMO 2000, by omitting to state a material fact:
 - 1. That B&B had agreed to cease offering business opportunities in violation of the Oklahoma Business Opportunity Act.
- C. Violating §409.201(a), RSMo 2000, by transacting business as a broker-dealer or agent without an effective registration;
- D. Violating §409.301, RSMo 2000 by offering or selling any security that is not a federal covered security, that is not registered, or does not have an effective exemption from registration.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY,
MISSOURI THIS 2nd DAY OF January, 2004.

MATT BLUNT
SECRETARY OF STATE



A handwritten signature in black ink, appearing to read "Douglas M. Ommen", written over a horizontal line.

DOUGLAS M. OMMEN
COMMISSIONER OF SECURITIES