

**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
OFFICE OF HEARING OFFICERS**

**DEPARTMENT OF ENFORCEMENT,
COMPLAINANT,**

v.

**BRENDAN W. COUGHLIN
CRD NO. 4917244**

and

**HENRY D. HARRISON
CRD NO. 4919907**

RESPONDENTS

**DISCIPLINARY PROCEEDING
NO. 2009017497202**

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. From September 2006 through January 2009, Provident Asset Management, LLC, a firm registered with FINRA, marketed and sold preferred stock interests in a series of twenty-three private placements offered by an affiliated issuer, Provident Royalties, LLC, a non-registered entity. Provident Asset Management's only business line was acting as the wholesaling broker-dealer for the Provident Royalties' affiliated offerings, which were sold to customers through more than fifty retail broker-dealers nationwide and which raised over \$485 million from at least 7,700 investors.

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2. Respondents Brendan W. Coughlin and Henry D. Harrison were co-founders, managing partners and registered principals of Provident Asset Management, LLC. In addition, they were founders of the affiliated issuer, Provident Royalties LLC, and collectively owned approximately twenty-five percent of the issuer.
3. Coughlin and Harrison made material misrepresentations to investors in order to induce them to purchase the private placements offered by Provident Royalties. They represented that each Provident Royalties affiliated offering was to be a separate entity claiming an exemption from the registration of its securities pursuant to Rule 506 of Regulation D of the federal securities laws. The Provident Royalties private placement memoranda promised investors returns of up to 18% per year and represented that the funds raised through each offering would be used to purchase interests in all aspects of the oil and gas business, including acquiring real estate, oil and gas leases, mineral rights and conducting exploration and development activity.
4. In an effort to market the Provident Royalties offerings, Coughlin and Harrison falsely represented that: (i) investors' funds would be used by each individual Provident Royalties' offering to purchase interests in the oil and gas business for that offering; (ii) the subscription proceeds of each offering would be deposited into an account for that offering and become assets for that offering; and (iii) dividends paid to investors in the offerings would be derived from revenues, primarily from the sale of oil and gas assets.

5. Coughlin and Harrison failed to disclose material information to the investors regarding the true ownership of the affiliated issuer, Provident Royalties LLC. Specifically, they failed to disclose that Joseph Blimline, an individual with a disciplinary history had a significant ownership interest in Provident Royalties LLC.
6. Further, Coughlin and Harrison failed to disclose material information and investors were not told that, rather than being invested in oil and gas assets, their funds would be used to pay earlier investors' dividends and/or principal.
7. Specifically, Coughlin and Harrison directed that millions of dollars of investors' funds be transferred from one affiliated offering to the issuer, Provident Royalties, LLC, in the form of undisclosed and undocumented loans, and be used to pay dividends and returns of capital to investors in an earlier affiliated offering.
8. As a result of the foregoing conduct, Respondents Coughlin and Harrison willfully violated of Section 10(b) of the Securities Exchange Act of 1934, and Rule 10b-5 thereunder; and from September 1, 2006, through December 14, 2008, NASD Conduct Rules 2120 and 2110; and from December 15, 2008, through July 2, 2009, FINRA Rules 2020 and 2010.

RESPONDENTS AND JURISDICTION

9. Respondent Brendan W. Coughlin is a founder, managing partner and registered principal of Provident Asset Management, LLC, a Delaware limited liability company and broker-dealer, whose only office is in Dallas, Texas. Coughlin first entered the securities industry in March 2004 and became registered with FINRA

on May 25, 2005. He currently holds Series 22, 39, 62 and 63 licenses, and his only association has been with Provident Asset Management. Coughlin is also a founder and member of the Board of Managers of Provident Royalties, LLC, a non-registered entity. On December 31, 2009, Provident Asset Management filed a Form U5 terminating his employment from the firm. Coughlin is not currently associated with a firm registered with FINRA.

10. Respondent Henry D. Harrison is a founder, managing partner and registered principal of Provident Asset Management, LLC, a Delaware limited liability company and broker-dealer, whose only office is in Dallas, Texas. Coughlin first entered the securities industry in March 2004 and became registered with FINRA on May 16, 2005. He currently holds Series 22, 24, 39, 62 and 63 licenses, and his only association has been with Provident Asset Management. Harrison is also a founder and member of the Board of Managers of Provident Royalties, LLC, a non-registered entity. On December 31, 2009, Provident Asset Management filed a Form U5 terminating his employment from the firm. Harrison is not currently associated with a firm registered with FINRA.
11. Although Respondents have not been associated with a FINRA member firm since December 31, 2009 they remain subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because (1) the Complaint was filed within two years after the date upon which they ceased to be associated with a FINRA member and (2) the Complaint

charges them with misconduct committed while they were associated with a FINRA member.

CAUSE OF ACTION

(Fraud in Connection with the Purchase or Sale of Securities)
(Willful Violations of Section 10(b) of the Securities Exchange Act of 1934, and Rule 10b-5 thereunder; NASD Conduct Rules 2120 and 2110; and FINRA Rules 2020 and 2010)

PROVIDENT ROYALTIES' FRAUDULENT PRIVATE PLACEMENT OFFERINGS

12. The Department realleges and incorporates by reference paragraphs 1 through 11 above.
13. Provident Asset Management, LLC ("PAM"), a Dallas, Texas-based firm and Delaware limited liability company, became registered with FINRA on March 9, 2004.¹ The firm's only business line was acting as the managing and wholesaling broker-dealer for the private placements offered by an affiliated issuer, Provident Royalties, LLC. The firm's managing partners and registered principals were Respondents Coughlin and Harrison, who were also founders and members of the Board of Managers of Provident Royalties.
14. Provident Royalties, LLC ("Provident Royalties"), a non-registered entity, was a Delaware limited liability company with its principal office in Dallas, Texas. Provident Royalties' business plan included the acquisition of a combination of producing and non-producing sub-surface mineral interests, working interests and production payments in real property located within the United States.

¹ On March 18, 2010, FINRA expelled Provident Asset Management, LLC from membership for marketing a series of fraudulent private placements offered by its affiliate, Provident Royalties, LLC. [Case No. 2009017497201]

15. From at least September 2006 through June 2009, Coughlin and Harrison, acting through PAM, marketed and sold preferred stock in a series of private placements offered by Provident Royalties.
16. The Provident Royalties' offerings designated as Shale Royalties, Inc., numbered II through 20 ("Shale offerings"), offered two series of non-convertible redeemable cumulative preferred stock. Provident Royalties was a beneficial owner in each of the numerous affiliated entities which offered and sold preferred stock to investors.
17. The Shale offerings each claimed an exemption from the registration pursuant to Rule 506 of Regulation D of the federal securities laws.
18. Coughlin and Harrison conducted each offering through a syndicate of more than fifty participating retail broker-dealers across the country that executed participation agreements with PAM. The Shale offerings were sold nationwide to customers through these retail broker-dealers and raised approximately \$485 million from over 7,700 investors. The retail broker-dealers received fees and/or commissions for soliciting investors in these Shale offerings, including a sales commission and a specific fee related to due diligence purportedly performed by the broker-dealers in connection with each Shale offering.
19. The retail broker-dealers attended sales presentations for the offerings in PAM's Dallas, Texas offices at the expense of PAM.

20. Coughlin and Harrison employed wholesalers who assisted the retail broker-dealers with product training and in providing sales and marketing materials designed to encourage the purchase of Shale offerings by individual investors.
21. Coughlin and Harrison participated in the drafting, preparation, approval and/or dissemination of various materially false and misleading statements contained in the private placement memoranda issued by the Provident Royalties, LLC.
22. For each of the Shale offerings, Coughlin and Harrison disseminated a substantially identical private placement memorandum describing the nature of the investment. Most of the Shale offerings consisted of two series of non-convertible redeemable cumulative preferred stock, Series A and Series B. The Shale offerings were supposed to pay investors a Preferred Stock dividend monthly, beginning four months after the initial investment. Promised returns ranged from 14-18% per year.
23. Shale II through Shale 5 offered Class A Preferred Stock that was supposed to pay 1.5% per month for 24 months. Shale 6 through Shale 17 issued Class A Preferred Stock that was supposed to pay 1.5% per month for 36 months and Class B Preferred Stock that was supposed to pay 1.25% per month for 24 months. Shale 18 through Shale 20 issued Class A Preferred Stock that was supposed to pay 1.375% per month for 48 months, and Class B Preferred Stock that was supposed to pay 1.167% per month for 36 months.
24. According to the offering documents, at the end of the redemption period, each Shale offering would buy back investors' interests for the redemption price, which was the value of the initial principal invested plus any accrued dividends. For

example, redemptions for Shale II, a \$9.755 million offering, were scheduled to begin as early as September 2008, two years after the original offering commenced. Numerous additional redemptions were scheduled to commence early in 2009.

25. The Shale offerings were virtually identical in their terms, had the same investment purpose, and took place continuously over a 30-month period. The periods of many of the Shale offerings overlapped others. Each Shale offering was also limited to 500 investors and to varying dollar amounts, and as an offering would approach a limit, the next Shale offering would be created.
26. The Shale offerings were nearly identical in their terms and stated investment goals.

The private placement memorandum for Shale 12, for example, presented the following business plan:

The Corporation was organized to engage in all aspects of the oil and gas business, including acquiring real estate, oil and gas leases and mineral interests, and conducting exploration and development activities. The Corporation intends to acquire a combination of various producing and non-producing mineral interests [including royalty interests and working interests] in real property located within the United States. The Corporation may acquire oil and gas leases and subsequently farm-out or sublease such leases. The Corporation may acquire real estate, including surface rights, and subsequently hold or sever and sell the surface rights. The Corporation may acquire real estate, mineral interests and leases from affiliates of the Corporation or may sell real estate, mineral interests or leases to affiliates. The Corporation anticipates that its properties will be developed by oil and gas exploration and development companies, which may include affiliates of the Corporation. The Corporation may participate in oil and gas drilling programs, directly as a working interest owner or indirectly through investment in others. The Corporation may issue and sell additional securities, sell assets, or incur debt, to finance its activities or to participate on or redeem the Preferred Stock.

27. The private placement memorandum for Shale 12 also represented that the proceeds from the offering would be used in the following manner:

Proceeds of the offering are intended to be used primarily to acquire Properties, and may be used to pay intangible Property Acquisition Costs, which may include an allocated portion of costs incurred by affiliates. The Corporation will use the proceeds of the offering to pay organization and offering costs, to pay non-accountable due diligence and syndication fees and sales commissions to securities broker/dealers, including an affiliate of the Corporation, and to implement its plan of business.

28. Each of the private placement memoranda represented that investor funds would be placed in a separate account belonging to the Shale offering at issue. Each private placement memorandum included a chart setting forth the use of proceeds from that offering, indicating the percentage of the investors' funds dedicated to oil and gas investments. For example, in Shale 12, the private placement memorandum indicated that 86% of investor proceeds were designated for oil and gas investments.

29. Under "Oil and Gas Investments," the private placement memorandum stated:

The proceeds of the Offering, after payment of expenses, fees and commissions, will be used to implement the Corporation's plan of business. Proceeds will be used primarily to acquire Properties and may be used to pay overhead and administrative expenses and Property Acquisition Costs.

THE PONZI SCHEME COLLAPSES

30. The Respondents failed to disclose the sources of funds used to pay distributions and dividends to investors. Specifically, Coughlin and Harrison directed that millions of dollars of investors' funds be transferred from one affiliated offering

to the issuer, Provident Royalties, LLC, in the form of undisclosed and undocumented loans, and be used to pay dividends and returns of capital to investors in an earlier affiliated offering.

31. In addition to failing to disclose the source of funds used to pay dividends and redemptions, Respondents affirmatively represented that the source of dividend payments was production revenue when that was not so. This created a false impression as to the relative success of the earlier entities and misled investors about the relative success of earlier Shale offerings and whether the Shale offerings could generate any true income. For example, Shale Royalties 5, LLC paid over \$4.5 million in dividends in 2008 and thus appeared highly successful. In fact, the production revenue from the assets held by that entity was only \$121,136.13 according to its own records. Likewise, Shale Royalties 6, LLC paid over \$3.2 million in dividends, when its own records show that its production revenue proceeds were only \$88,685.00.

BLIMLINE AND PROVIDENT

32. Joseph Blimline was a founder, owner and manager of Provident Royalties, and maintained a substantial ownership interest in Provident Royalties until the fraudulent scheme collapsed in January 2009.
33. On March 7, 2006, Blimline entered into a Consent Order and Stipulation with the State of Michigan, Department of Labor & Economic Growth, Office of Financial and Insurance Services (the "Michigan DOL") in connection with an offering of unregistered securities by a Nevada corporation of which he was an officer and

director, Longhorn Energy Corporation. Blimline agreed to pay a civil penalty in the amount of \$1,000. Several months later, Blimline was ordered by the Michigan DOL to cease and desist in connection with another offering of unregistered securities by another Nevada corporation of which he was an officer and director, Jordan River Resources. Blimline was ordered to pay a civil penalty in the amount of \$1,000.

34. Coughlin and Harrison engaged an attorney experienced in securities transactions to draft private placement memoranda for the Shale offerings. They knew that Blimline had been charged and disciplined by the Michigan DOL, and the attorney advised them that Blimline's prior disciplinary history had to be disclosed in the Shale offerings' private placement memoranda. Contrary to the attorney's advice, Coughlin and Harrison failed to disclose Blimline's prior disciplinary history, as well as, his ownership and involvement in the management and of the Provident Royalties in the Shale offerings' private placement memoranda.
35. Further, acting on instructions from Coughlin and Harrison, Provident Royalties' accounting department transferred funds to Blimline ostensibly to acquire oil and gas interests, with little, if any, documentation of the purpose of the transfers. Specifically, Provident Royalties advanced tens of millions of dollars of Shale offerings' investors' funds to Blimline, and a series of entities he operated and controlled, for the purported purchase of oil and gas interests.

36. In fact, Blimline acquired properties at prices far greater than the fair market value and, in many cases, charged Provident Royalties a higher price than he actually paid.
37. None of the material facts with respect to Provident Royalties' improper financial dealings with Blimline and the undocumented loans and transfers were disclosed to investors by Coughlin and Harrison.
38. Respondents Coughlin and Harrison, with scienter, by use of the means or instrumentalities of interstate commerce or of the mails, in connection with the purchase or sale of securities: (i) employed devices, schemes, or artifices to defraud; (ii) made untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and/or (iii) engaged in acts, practices or courses of business that operated or would operate as a fraud or deceit.
39. As a result of the foregoing conduct, Respondents Coughlin and Harrison willfully violated of Section 10(b) of the Securities Exchange Act of 1934, and Rule 10b-5 thereunder; and from September 1, 2006, through December 14, 2008, NASD Conduct Rules 2120 and 2110; and from December 15, 2008, through July 2, 2009, FINRA Rules 2020 and 2010.

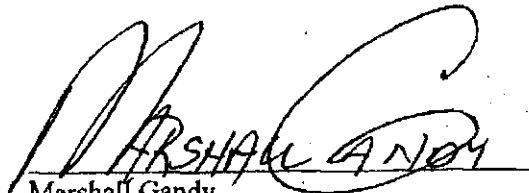
RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that the Respondents be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest.
- B. order that the Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.
- C. make specific findings that Respondents Coughlin and Harrison willfully violated Section 10(b) of the Securities Exchange Act of 1934, and Rule 10b-5 thereunder.

FINRA DEPARTMENT OF ENFORCEMENT

Date: December 10, 2010.



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