

FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Darren D. Gibson
CRD No. 2311950
and

Charles T. Mason
CRD No. 2206257

Respondents

DISCIPLINARY PROCEEDING
No. 2011026598101

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. This matter involves a scheme to defraud investors through series of private placement oil and gas lease offerings orchestrated by Brendan W. Coughlin and Henry D. Harrison, the co-founders, managing partners and registered principals of Provident Asset Management, LLC. In addition, they were founders and co-owners of the affiliated issuer, Provident Royalties LLC.¹

¹ On December 10, 2010, Brendan W. Coughlin and Henry D. Harrison were named as respondents in a FINRA complaint alleging willful violations 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 in connection with the sale of the securities offerings of Provident Royalties, LLC. *Department of Enforcement v. Brendan W. Coughlin and Henry D.*

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2. 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 Provident Royalties, LLC, ("Shale Royalties offerings"). 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.
3. To implement their fraudulent scheme, Coughlin and Harrison hired Respondents Darren D. Gibson and Charles T. Mason as the national sales coordinators (national wholesalers) for Provident Asset Management, to market and secure Selected Dealer Agreements ("selling agreements") from retail broker-dealers for the sale of the Shale Royalties offerings to investors.
4. In an effort to sell the Shale Royalties offerings, Coughlin and Harrison falsely represented that: (i) investors' funds would be used by each individual Shale 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.

Harrison, FINRA Disciplinary Proceeding No. 2009017497202. The proceeding is pending at the time of the filing of this complaint.

5. Coughlin and Harrison failed to disclose material information, including a failure to disclose to investors that, rather than being invested in oil and gas assets, their funds would be used to pay earlier investors' dividends and principal. 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.
6. Further, 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 involving unregistered securities, had a significant ownership interest in Provident Royalties LLC.
7. Based on the foregoing conduct, Coughlin and Harrison willfully violated 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.
8. Throughout their employment at Provident, Gibson and Mason read most of the third-party due diligence reports regarding the Shale Royalties offerings but ignored negative information, or red flags, contained in those reports, including the lack of audited financials, combined operating losses, maximized leverage, the

lack of sufficient production revenue for the payment of investor dividends, conflicts of interest, and ownership questions.

9. In addition, Gibson and Mason assisted the retail broker-dealers in the sale of the Shale Royalties offerings with product training and by providing sales and marketing materials designed to encourage the purchase of the fraudulent offerings by investors.
10. With knowledge or scienter of the fraudulent scheme orchestrated by Coughlin and Harrison and as a part of and in furtherance of the scheme to defraud investors, Respondents, while employed as the national wholesalers at Provident Asset Management, substantially assisted in the achievement of the fraudulent scheme and aided and abetted fraud in connection with the purchase or sale of securities offerings of Provident Royalties, LLC. Based on the foregoing conduct, Respondents Darren D. Gibson and Charles T. Mason, from September 1, 2006, through December 14, 2008, violated NASD Conduct Rules 2120 and 2110; and from December 15, 2008, through July 2, 2009, violated FINRA Rules 2020 and 2010.

RESPONDENTS AND JURISDICTION

11. Respondent Darren D. Gibson first entered the securities industry in January 1993 when he became associated with a firm registered with FINRA. He was employed with three other firms before his association with Provident Asset Management from July 10, 2006, through March 13, 2009. He currently holds Series 6, 7, 24 and 63 licenses. His most recent employer filed a Form U5

terminating his registration with the firm on July 9, 2009. Gibson is not currently associated with a firm registered with FINRA.

12. Although Gibson has not been associated with a FINRA member firm since July 9, 2009 he remains 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 he ceased to be associated with a FINRA member and (2) the Complaint charges him with misconduct committed while he was associated with a firm registered with FINRA.
13. Respondent Charles T. "Chip" Mason first entered the securities industry in December 1991 when he became associated with a firm registered with FINRA. He was employed with three other firms before his association with Provident Asset Management from May 29, 2007, through February 27, 2009. He currently holds Series 7, 24 and 63 licenses. His most recent employer filed a Form U5 terminating his registration with the firm on August 28, 2009. Mason is not currently associated with a firm registered with FINRA.
14. Although Mason has not been associated with a FINRA member firm since August 28, 2009, he remains 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 he ceased to be associated with a FINRA member and (2) the Complaint charges him with

misconduct committed while he was associated with a firm registered with FINRA.

OTHER INDIVIDUALS AND ENTITIES

15. 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, which is not a broker-dealer. 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.
16. 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. 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.

17. Provident Asset Management, LLC, a Dallas, Texas-based firm and Delaware limited liability company, became registered with FINRA on March 9, 2004.² 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.
18. Provident Royalties, LLC, which is not a broker-dealer, 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.

SECURITIES LAW VIOLATIONS BY A PRIMARY PARTY

Provident Royalties' Fraudulent Private Placement Offerings

19. From at least September 2006 through June 2009, Coughlin and Harrison, acting through Provident Asset Management, marketed and sold preferred stock in a series of private placements offered by Provident Royalties.
20. The Provident Royalties' securities offerings designated as Shale Royalties, Inc., numbered II through 20 ("Shale Royalties offerings"), offered two series of non-

² On March 18, 2010, FINRA expelled Provident Asset Management, LLC from membership on findings that the firm had marketed a series of fraudulent private placements offered by its affiliate, Provident Royalties, LLC. In concluding this settlement with FINRA, Provident Asset Management neither admitted nor denied the charges, but consented to the entry of FINRA's findings.

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.

21. Each Shale Royalties offering claimed an exemption from registration pursuant to Rule 506 of Regulation D of the federal securities laws.
22. Coughlin and Harrison conducted each securities offering through a syndicate of more than fifty participating retail broker-dealers across the country that executed selling agreements with Provident Asset Management. The Shale Royalties offerings were sold nationwide to customers through these retail broker-dealers and raised approximately \$485 million from over 7,700 investors.
23. Coughlin and Harrison participated in the drafting, preparation, approval and dissemination of various materially false and misleading statements contained in the private placement memoranda issued by the Provident Royalties, LLC.
24. For each of the Shale Royalties 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 Royalties 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.
25. Shale II through Shale 5 offered Class A Preferred Stock that was promoted as paying 1.5% per month for 24 months. Shale 6 through Shale 17 issued Class A

Preferred Stock that was promoted as paying 1.5% per month for 36 months and Class B Preferred Stock that was promoted as paying 1.25% per month for 24 months. Shale 18 through Shale 20 issued Class A Preferred Stock that was promoted as paying 1.375% per month for 48 months, and Class B Preferred Stock that was promoted as paying 1.167% per month for 36 months.

26. According to the offering documents, at the end of the redemption period, each of the Shale Royalties offerings 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.
27. The Shale Royalties 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 Royalties offering was also limited to 500 investors and to varying dollar amounts, and as an offering would approach a limit, the next Shale Royalties offerings would be created.
28. The Shale Royalties offerings were nearly identical in their terms and stated investment goals. The private placement memorandum for Shale Royalties 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.

29. The private placement memorandum for Shale Royalties 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.

30. Each of the private placement memoranda represented that investor funds collected for a particular Shale Royalties offering would be placed in a separate account belonging to that offering. 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

Royalties 12, the private placement memorandum indicated that 86% of investor proceeds were designated for oil and gas investments.

31. 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

32. Coughlin and Harrison failed to disclose to investors the sources of funds used to pay distributions and dividends to investors. Specifically, they failed to disclose that they 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 earlier affiliated offerings.
33. In addition, Coughlin and Harrison affirmatively represented to investors 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 Royalties offerings and whether the Shale Royalties offerings could generate any true income. For example, Shale Royalties 5 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 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

34. 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.
35. 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. 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. As a result of that regulatory action, Blimline was ordered to pay a civil penalty in the amount of \$1,000.
36. 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 Royalties 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 of Provident Royalties in the Shale offerings' private placement memoranda.

FIRST CAUSE OF ACTION

**AIDING AND ABETTING FRAUD IN CONNECTION WITH THE
PURCHASE AND SALE OF SECURITIES OFFERINGS**

**VIOLATIONS OF NASD CONDUCT RULES 2120 AND 2110 AND
FINRA RULES 2020 AND 2010 BY RESPONDENTS GIBSON AND MASON**

37. The allegations set forth above in paragraphs 1 through 36 are realleged and incorporated herein by reference.
38. Gibson was employed at Provident Asset Management from July 10, 2006, through March 13, 2009. During his employment, Gibson, through his wholesaling efforts related to the Shale Royalties offerings, secured selling agreements from thirty-three retail broker-dealers, who in turn raised over \$300 million from investors. During Gibson's employment at Provident Asset Management, he earned \$2,930,000.
39. Mason was employed at Provident Asset Management from May 29, 2007, through February 27, 2009. During his employment, Mason, through his wholesaling efforts related to the Shale Royalties offerings, secured selling agreements from twenty-two broker-dealers, who in turn raised over \$132 million from investors. During Mason's employment at Provident Asset Management, he earned approximately \$2,000,000.

40. In addition, Gibson and Mason assisted the retail broker-dealers with product training by providing sales and marketing materials designed to encourage the purchase of Shale Royalties offerings by individual investors.
41. While both had prior experience as wholesalers—Gibson having marketed the securities offerings of Medical Capital Holdings, Inc. and Mason for several managing broker-dealer firms—neither had experience in the oil and gas industry or in marketing energy private placements.
42. The extent of their independent investigation prior to accepting employment at Provident Asset Management was spending a few hours conducting Google searches focusing mainly on drilling efforts in the Texas and Oklahoma shale formations.
43. Significantly, during those Google searches both Respondents discovered that Joseph Blimline, the undisclosed owner and control person of the issuer Provident Royalties, had been the subject of a disciplinary action by the State of Michigan related to unregistered sales of an oil and gas private placement offering.
44. Although Gibson and Mason were originally told by the principals at Provident that Blimline had a significant ownership stake in the issuer, Provident Royalties, neither questioned why his role was never disclosed in the Shale Royalties offering documents.
45. Throughout their employment at Provident Asset Management, Gibson and Mason read most of the third-party due diligence reports produced by Mick & Associates, PC for the Shale Royalties offerings but ignored indications of

multiple red flags contained in those reports, including:

- a. the lack of audited financials despite the repeated assurances from Provident management for over a year that they were being prepared;
- b. the affiliated Shale entities collectively reporting net operating losses of \$8 million throughout 2008;
- c. by the second quarter of 2008 Provident had used the full amount of its credit line, which had a principal balance of about \$175 million;
- d. ongoing expenses that would have to be serviced by Provident's affiliated entities including: (i) the payment of ongoing interest accrued on the credit line, which was expected to be about \$9 million in 2009, and (ii) overhead expenses, which was expected to be about \$6.5 million in 2009;
- e. in the first six months of 2009 dividends of approximately \$86.2 as well as \$85.2 million in anticipated preferred stock redemptions;
- f. estimations that approximately \$203.7 million in operating cash flow needed to service Provident's administrative costs, loans, dividends, and redemptions in 2009;
- g. without additional credit line funds, Provident's operating funds would need to come from (i) a higher level of production revenues going forward, or (ii) future divestitures of lease/mineral assets, neither of which occurred in 2008;
- h. increased loans between the affiliated Shale Royalties offerings;

- i. the lack of proper disclosure of those loans and the lack of limitations placed their use; and
 - j. continued questions regarding Blimline's ownership and control person status with the issuer, Provident Royalties.
- 46. In connection with the purchase or sale of securities offerings of Provident Royalties, LLC, 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.
- 47. With knowledge or scienter of the fraudulent scheme orchestrated by Coughlin and Harrison, and as a part of and in furtherance of the scheme to defraud investors, Respondents Gibson and Mason, while employed as the national wholesalers at Provident Asset Management substantially assisted in the achievement of the fraudulent scheme and aided and abetted fraud in connection with the purchase or sale of securities offerings of Provident Royalties, LLC. Based on the foregoing conduct, Respondents Darren D. Gibson and Charles T. Mason from September 1, 2006, through December 14, 2008, violated NASD Conduct Rules 2120 and 2110; and from December 15, 2008, through July 2, 2009, violated FINRA Rules 2020 and 2010.

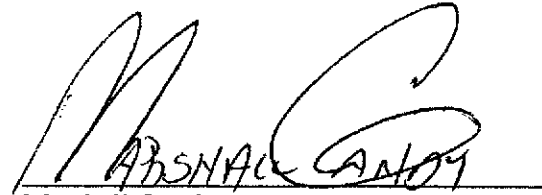
RELIEF REQUESTED

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 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.

FINRA DEPARTMENT OF ENFORCEMENT

Date: July 7, 2011.

A handwritten signature in black ink, appearing to read 'MARSHALL GANDY', is written over a horizontal line.

Marshall Gandy
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