

FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Red River Securities, LLC,
(CRD No. 149860)

and

Brian Keith Hardwick
(CRD No. 4522460),

Respondents.

DISCIPLINARY PROCEEDING
NO. 2013035344201

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. From December 8, 2009 to September 2013 (the “Relevant Period”), almost the entire period of its existence as a FINRA Member Firm, Red River Securities, LLC (“Red River”), a broker/dealer, acted as exclusive placement agent in five joint venture offerings conducted by Regal Energy LLC (“Regal Energy”), an affiliated non broker/dealer issuer.

2. Red River and Brian Keith Hardwick, its Chief Executive Officer, raised approximately \$23.9 million from at least 447 investors located throughout the United States for five Regal Energy offerings – Boonsville #2, Waggoner #1, Waggoner #2, Cosper #1, and Pierce #1. For their efforts, Red River received a 12% commission and 3% due diligence fee.

3. Four of the joint ventures were organized as Texas general partnerships for the purpose of engaging in oil and gas drilling in the Barnett Shale, a geological formation located in the Bend Arch-Fort Worth Basin. One joint venture was an exploratory “wildcat” oil well also organized as a Texas general partnership. All of the joint ventures, however, were in fact limited partnerships or securities, because the investors did not exercise any real control over the enterprises and instead of sharing in revenues, expenses, and assets, the investors paid for expenses and received virtually nothing in return.

4. At present, all of the wells drilled pursuant to the five Red River joint ventures have been plugged, are waiting to be plugged, or are shut in. None of the wells returned more than a fraction of investor money, and two of the five offerings did not return a single dollar to investors. The well drilled in connection with the Pierce #1 offering was plugged almost as soon as it was completed. The wells drilled pursuant to the Waggoner #1 offering and the Waggoner #2 offering were each “shut in” roughly a year after completion because they were not economically viable and have been scheduled for plugging since the end of 2013. Even while in operation, Waggoner #2 never produced any return for investors and Waggoner #1 never produced a return after the first month of operation. Cosper #1 barely produced over \$10,000 in total distributions for the investors and has had zero production since early 2015 when it was shut in. One of the two wells drilled in connection with the Boonsville #2 offering, (the 2H well) was shut in by May 2013, barely a year after it came online. The other well drilled pursuant to the Boonsville #2 offering (the 3H well) provided investors with meager returns, but did not come close to returning the investors’ principal. It too was shut in during the first half of 2015 after only three years of production.

5. In connection with the offerings, Red River and Hardwick repeatedly violated Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 10b-5 thereunder and Section 17(a)(2)-(3) of the Securities Act of 1933, by making misrepresentations and omissions of material facts to prospective investors. Specifically, Red River and Hardwick:

- (1) misrepresented to investors in the Cosper #1 and Pierce #1 offerings that prior Regal Energy wells were producing and profitable, when they were not;
- (2) omitted from the Boonsville #2 and Waggoner #1 offerings the authorizations for expenditures (“AFEs”) - the expected costs to complete the proposed projects - although the AFEs for those offerings had been prepared and relied upon by Hardwick in pricing the offerings;
- (3) misrepresented to investors in the Boonsville #2 offering the amount of income investors in prior wells managed by Regal Energy had received by wildly inflating those prior income distributions;
- (4) failed to disclose conflicts of interest to investors in the Boonsville #2, Waggoner #1, Waggoner #2, Cosper #1, and Pierce #1 offerings;
- (5) failed to disclose to investors in the Pierce #1 offering that they were investing in a “wildcat” well that was subject to additional specific development risks than those disclosed in the offerings for well drilling in general; and
- (6) failed to disclose to the investors in Boonsville #2, Waggoner #1, Waggoner #2, and Cosper #1 offerings that the purportedly independent geologist report in the offering documents had actually been written by Hardwick himself.

6. Moreover, Red River and Hardwick’s conduct in making the foregoing misrepresentations and omissions of material facts also constituted a failure to observe high

standards of commercial honor and just and equitable principles of trade, in violation of FINRA Rule 2010.

7. Furthermore, Red River and Hardwick also (1) engaged in the offer and sale of unregistered securities to the public in connection with the Boonsville #2 and Cosper #1 offerings in violation of Section 5 of the Securities Act, (2) recommended the five offerings without having first obtained sufficient customer information from which to determine that the securities were suitable investments for those customers, in violation of NASD Rules 2310 (for conduct occurring before July 9, 2012) and FINRA Rule 2111 (for conduct occurring on or after July 9, 2012); and (3) failed to implement and enforce adequate supervisory systems and written supervisory procedures to supervise the offer and sale of the offerings in violation of NASD Rule 3010.

RESPONDENTS AND JURISDICTION

8. During all times relevant hereto, Red River was a FINRA member and registered as a broker/dealer with the U.S. Securities and Exchange Commission. Red River filed an initial membership application with FINRA in March 2009 and received notice of its membership approval on December 8, 2009. Red River employed 17 individuals in one Dallas Branch office. Approximately 14 of these individuals were registered representatives. On March 5, 2014, Red River filed a Uniform Request for Broker Dealer Withdrawal ("Form BDW"). The Firm remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article IV, Section 6 of FINRA's By-Laws, because the Complaint was filed within two years after the effective date of termination of Respondent's registration, namely, May 5, 2014.

9. Hardwick initially worked in a registered capacity at another FINRA Member Firm from January 2002 through March 2007. He reentered the industry in January 2009 and

associated with another FINRA Member Firm. In March 2009, Red River filed a Uniform Application for Securities Industry Registration and Transfer (“Form U4”) on behalf of Hardwick. Hardwick associated with Red River until February 25, 2014, when Red River filed a Uniform Termination Notice for Securities Industry Registration (“Form U5”) that terminated his registration. Hardwick is not currently registered with FINRA or associated with a FINRA member, but continues to raise money from individual investors to drill for oil and gas. Hardwick remains subject to FINRA’s jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA’s By-Laws, because the Complaint was filed within two years after the effective date of termination of Respondent’s registration with Red River, namely, February 25, 2014.

FIRST CAUSE OF ACTION

**MATERIAL MISREPRESENTATIONS AND OMISSIONS
BY RED RIVER AND HARDWICK**

***(Willful Violations of Section 10(b) of the Securities Exchange Act of 1934
 (“Exchange Act”) and Rule 10b-5 thereunder, and Violations of FINRA Rules 2010 and 2020.***

10. The Department realleges and incorporates by reference paragraphs 1-9 above.
11. Section 10(b) of the Exchange Act and Rule 10b-5 entitled “Employment of Manipulative and Deceptive Practices” provide that:

It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange,
(a) To employ any device, scheme, or artifice to defraud,
(b) 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 were made, not misleading, or
(c) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security.

12. FINRA Rule 2020 provides that: “No member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.”

13. FINRA Rule 2010 requires members and associated persons, in the conduct of their business, to “observe high standards of commercial honor and just and equitable principles of trade.”

Interests in The Five Red River Joint Venture Offerings Are Securities.

14. The five joint ventures marketed by Red River and Hardwick by mail and telephone were managed and operated by two entities controlled by Hardwick, Regal Energy and Regal Energy Operating LLC (“Regal Operating”). Regal Energy served as the issuer and Managing Venturer of each joint venture. Regal Operating, a subsidiary of Regal Energy, drilled and also served as the operator of each well.

15. Red River was officed in the same building as Regal Energy and several officers of Red River were also officers of Regal Energy and/or Regal Operating. Red River’s sole business was the offer and sale of offerings issued by Regal Energy.

16. Red River and Hardwick marketed interests in the offerings to the general public by utilizing lead lists to cold call potential investors.

17. The investors identified pursuant to these tactics generally had no expertise in oil and gas operations and were primarily interested in deriving profits from *investing* in oil and gas wells. The investors were not entrepreneurs looking for businesses to own and operate. They were, instead, passive investors looking to earn a return on their investment dollars.

18. The investors relied on Red River and Hardwick as their sole sources of information about the offerings.

19. In each of the five offerings, Red River heavily promoted and touted Hardwick, Regal Energy, and Regal Operating's unique experience in the oil and gas industry, all with the goal of inducing investors to invest in the offerings. A glossy marketing brochure distributed by Red River to the general public and available on Red River's website included the following statements:

"Experience at Work/Brian Hardwick, CEO, and Terry Gray, President, have participated in the development of over 150 wells in the Barnett Shale. In March 2007 they formed Regal Energy, LLC to offer their industry expertise in this growing market."

"Value and Cost Savings . . . REO has an overall understanding of a well's operating expenses and an exact, detailed knowledge of each production cost, resource and equipment rental rate, and the value of the difference of performance vs. cost that expert drilling and completion services bring to the well site's bottom line. As such, Regal Energy Operating draws on a unique advantage in that the management has consistently attained some of the lowest drilling and operation costs in North Texas."

20. Each offering is governed by a Joint Venture Agreement ("Agreement").

21. Pursuant to the terms of the Agreements, the power to run the day-to-day operations of each joint venture was held exclusively by the Managing Venturer, Regal Energy, which was Hardwick's company.

22. The Agreement significantly limited an individual investor's ability to act on behalf of each joint venture. Section 7.1 of the Boonsville #2 agreement, which is substantially similar to the other Agreements, provided that the Managing Venturer, Regal Energy, had the exclusive right to *"act on behalf of, sign for or bind the Joint Venture with respect to Operations of the Joint Venture."* Section 5.8.2 of the Agreement required unanimous approval of the investors, including the Managing Venturer, to take any significant action on behalf of the joint

venture. Investors were even prohibited from inspecting the books and records of the joint venture without “a showing of a proper purpose” under Section 9.1.

23. The Agreements provided for the drilling of each well be conducted by Regal Energy as Managing Venturer on a turnkey basis. A turnkey contract is a type of construction contract under which one party is obligated to complete a project according to pre-specified criteria for a price that is fixed at the time the contract is signed. According to the offering materials and the Confidential Information Memorandum (“CIM”) for each of the offerings, Regal Energy would be paid out of the offering proceeds for this turnkey arrangement. Specifically, Regal Energy was able to retain as profits (described as a “management fee”) any amount of the net offering proceeds (including the offering price and the additional completion assessment) in excess of (i) the costs of drilling (or re-entering) and completing the wells and (ii) any other organizational costs incurred by Regal Energy as Managing Venturer. Under this turnkey structure, the investors were entirely dependent on Regal Energy for the drilling of the wells.

24. The most powerful right afforded the investors in the Agreement was the right to remove the Managing Venturer, Regal Energy, by a 60% vote. This right, however, was illusory as Red River and Hardwick did not provide investors with contact information for other investors, and the investors were thus prevented from contacting each other to exercise their right to remove the Managing Venturer.

25. In fact, the investors did not and could not take any role in the operation or management of the joint ventures, notwithstanding statements in the offering materials that investors were expected to take an active role in business operations. Most of the investors did not know each other, Hardwick and Red River did not provide investors with contact information

for other investors, and, as a result, the investors did not have ready access to information regarding the identity of other investors.

26. The investors' only role with respect to the offerings was to provide the funding for the operations of the joint ventures. After their initial contribution, the investors were asked to decide whether to send more funds to cover completion costs. If an investor failed to send the funds, the Agreement provided that his joint venture interest would be forfeited to the Managing Venturer, who could keep or resell the interest.

27. Regal Energy and Regal Operating did not fund any of the operations. They retained the difference between amounts raised and the cost of drilling, testing, and completing pursuant to the turnkey arrangement. Additionally, they were entitled to share with the investors in any revenue that might be generated once the wells were profitable. They bore no risk of loss in the drilling, testing, and completion, which was shouldered by the investors in its entirety.

28. In view of all of the above, the five joint ventures were not true ventures or general partnerships, but were in fact, securities.

Red River and Hardwick Made Material Misrepresentations and Omissions in Connection With Offers and Sales of Securities to the Public.

29. During the Relevant Period, Red River and Hardwick made multiple material misrepresentations and omitted multiple material facts in the CIMs that were distributed to investors in connection with offer and sale of the offerings. Both Red River and Hardwick were the "makers" of the statements in the CIMs, with authority over the contents of the CIMs.

30. Hardwick, as CEO of both Red River, the placement agent, and Regal Energy, the managing venturer, had ultimate control and authority over the statements made in the CIMs, with authority over both the contents of the CIMs and whether and how the statements in the CIMs would be communicated to prospective investors. Hardwick also was responsible for and

authored all of the pages included in the CIMs for the offerings, including drafting the initial narrative, selecting and placing each picture, selecting and partially drafting the reports, and preparing charts in the exhibits. Red River, through Hardwick, also had ultimate control and authority over the statements made in the CIMs, with authority over both the contents of the CIMs and whether and how the statements in the CIMs would be communicated to prospective investors. Red River also was prominently listed as the placement agent for the Offerings in the CIMs, so that the statements in the CIMs are attributable to Red River.

1. *Red River and Hardwick misrepresented to investors in two offerings that prior Regal Energy wells were profitable when, in fact, they were not.*

31. The CIMs for the Cosper #1 and the Pierce #1 offerings made material misrepresentations regarding the production status of past Regal Energy projects. Specifically, the CIMs stated that prior Regal Energy wells were producing when, in reality, the wells were not producing and had been “shut-in.” A “shut-in” well is one where production has been suspended.

32. The Cosper #1 and Pierce #1 CIMs included a list of eleven Regal Energy wells titled “Current Activities within the Barnett Shale”; however, five of these wells, the Waggoner #1V, Boonsville #1H, Waggoner #2V, Blessing #1H, and Boonsville #2H, were, in fact, “shut-in” for at least part of the time that the Cosper #1 and/or Pierce #1 offering documents were marketed to investors.

Well Name	Number	Shut-In Date	Cosper Offering Period (9/2011 – 1/2013)	Pierce Offering Period (4/2012 – 9/2013)
Blessing	2H	8/10/2010	Listed as Shut-in	Listed as Plugging
Waggoner	1v	2/1/2012	Listed as Producing	Listed as Producing

Well Name	Number	Shut-In Date	Cosper Offering Period (9/2011 – 1/2013)	Pierce Offering Period (4/2012 – 9/2013)
Boonsville	1H	7/18/2012	Listed as Producing	Listed as Producing
Waggoner	2v	8/1/2012	Listed as Completed and Awaiting Hookup	Listed as Producing
Blessing	1H	12/1/2012	Listed as Producing	Listed as Producing
Boonsville	2H	5/17/2013	Listed as Drilled and Awaiting Completion	Listed as Producing

33. The characterization of the five wells as producing when the wells were actually “shut-in” was a material misrepresentation to investors. The Cosper #1 and Pierce #1 CIMs specifically touted “prior activities,” but failed to disclose that almost half of the wells listed lacked production and were “shut-in.”

2. Red River and Hardwick did not disclose to investors AFE Information used to price two offerings.

34. Both the Boonsville #2 and Waggoner #1 CIMs failed to disclose AFE information in Red River and Hardwick’s possession.

35. An AFE outlines the expected line item costs associated with the drilling, testing, and completion of each well. It allows an investor to consider how the total turnkey price for the offering compares to the actual expected costs of the drilling, testing, and completion. With this information, an investor can calculate how much the Managing Venturer, Regal Energy, is writing into the offering as an expected “management fee.” In fact, Hardwick relied on the AFEs to calculate the total amount of the turnkey price in each offering.

36. Red River and Hardwick, however, never disclosed to potential investors that Regal Operating, and related parties JR and JN, had prepared an AFE for Boonsville #2 and Waggoner #1. The AFEs for the Boonsville #2 wells were prepared in November 2009, while the CIM, without the AFEs, began being marketed in January 2010. The AFE for the Waggoner #1 well was prepared in April 2010, while the CIM, without the AFE, began being marketed in July 2010.

37. The CIMs for these two offerings stated (on page 4) that “Regal cannot reasonably predict the amount of the one-time management fee, if any. The one-time management fee could be significant.” However, if investors had been provided AFE information prepared by Regal Energy and Hardwick, they would have had access to the same information that Hardwick was basing his calculation on and could have calculated an estimate of the management fee.

38. The chart below shows the estimated Regal Energy management fee for Boonsville #2 and Waggoner #1 based on the undisclosed AFE prepared by Hardwick and the actual management fee Red River later obtained. The undisclosed estimated management fees were approximately 35% of the turnkey amounts raised for drilling, testing, and completing the wells.

Offering	Total Turnkey Contracts (minus Red River commission and due diligence fees)	Undisclosed AFE	Estimated Regal Energy Management Fee Based on Undisclosed AFE	Actual Management Fee Received
Boonsville #2	\$8,109,000	\$5,300,000	\$2,809,000	\$3,293,524.04

Offering	Total Turnkey Contracts (minus Red River commission and due diligence fees)	Undisclosed AFE	Estimated Regal Energy Management Fee Based on Undisclosed AFE	Actual Management Fee Received
Waggoner #1	\$2,140,133.40	\$1,398,780	\$741,353.40	\$418,616.67

3. *Red River and Hardwick misrepresented to certain investors the amount of income distributions generated to investors in prior wells managed by Regal Energy.*

39. The Boonsville #2 CIM provided false information regarding income distributions to investors on four prior Regal Energy offerings, Regal Boonsville #1, Regal Nash #1, Regal Nash #2, and Regal Bennett #1.

40. The Boonsville #2 CIM included the following statement on page 3 of the Geological Review Section regarding Boonsville #1, the parent well of Boonsville #2: “As of December 31, 2009 the Boonsville #1 joint venture well has been in production for 14 months with distributions to venturers of \$478,186 and has incurred operating expenses of \$150,620. We believe that the #1H well could be a profitable well for many years to come.”

41. This information was false and misleading. The “\$478,186” did not represent distributions to investors or even total distributions, but rather the gross revenue on the well. Investors received only a portion of this amount and only after the majority of any expenses were deducted from their distributions. Most of the \$478,186 noted in the CIM actually went toward well expenses and distributions to royalty owners, Regal Energy, and Regal Operations. As of December 31, 2009, the actual distributions to investors for the Boonsville #1 well were only \$154,499.97, or approximately 32% of the amount stated in the Boonsville #2 CIM.

42. The Prior Activities section in the Boonsville #2 CIM contained similar misrepresentations for three other prior projects, Regal Nash #1, Regal Nash #2, and Regal Bennett #1.

43. The Boonsville #2 CIM stated that Regal Nash #1 had “been in production for 19 months with distributions to venturers of \$435,851 and has incurred operating expenses of \$202,130.” As of December 31, 2009, the actual distributions to investors for the Regal Nash #1 well were only \$102,839.18, or approximately 24% of the amount stated in the Boonsville #2 CIM.

44. The Boonsville #2 CIM stated that Regal Nash #2 had “been in production for 14 months with distributions to venturers of \$212,204 and has incurred operating expenses of \$133,308.” As of December 31, 2009, the actual distributions to investors for the Regal Nash #2 well were only \$22,241.35, or approximately 10% of the amount stated in the Boonsville #2 CIM.

45. The Boonsville #2 CIM stated that Regal Bennett #1 had “been in production for 8 months with distributions to venturers of \$854,355 and has incurred operating expenses of \$239,421.” As of December 31, 2009, the actual distributions to investors for the well were only \$293,349.93, or approximately 34% of the amount stated in the Boonsville #2 CIM.

4. Red River and Hardwick Failed to Disclose Material Conflicts of Interest in the Offerings.

46. The CIMs for Waggoner #1 and Waggoner #2 did not disclose that the lease for these wells was acquired from related parties, JR and JN of TRC. JR and JN were officers of Regal Operating, the subsidiary of Red River’s affiliate, Regal Energy, and were responsible for acquiring leases and preparing AFEs for the offerings marketed by Red River.

47. JR and JN also had their own well operating company, TO, which maintained the same business address as Regal Operating and had previously purchased a low-producing well,

Cosper Whitehorn #1H, on the same pad where the Cosper #1 joint venture later planned to drill. Although the Cosper #1 Geological Review did disclose the existence of the prior well (Cosper Whitehorn #1H), it did not disclose that the prior well was low producing, had been drilled on the same pad as the proposed Cosper #1 well, or that related parties JR and JN had previously purchased the well.

48. Furthermore, the CIMs for Boonsville #2, Waggoner #1, Waggoner #2, Cosper #1, and Pierce #1 failed to disclose that a large percentage of the cost would be paid to related parties JR and JN for the drilling, testing, and completion of the well.

5. Red River and Hardwick failed to disclose the Fact that the Pierce #1 Well was a "Wildcat."

49. The Pierce #1 CIM and offering documents failed to disclose that the well was a "wildcat." A wildcat well is an exploratory oil well drilled on land and in a formation that has no concrete historic production records and has been unexplored as a site for potential oil and gas output. The Pierce #1 well was a "wildcat" because there was no established well in the field and formation where the Pierce #1 well was to be drilled. Prior to the Offering, SH, the reviewing geologist and seller of the lease, informed Red River, Regal Energy, and Hardwick that the well was a "wildcat." The fact that a well is a "wildcat" presents a significant risk and is a material fact that should have been, but was not, disclosed to potential investors.

6. Red River and Hardwick did not disclose to the investors in four offerings that the purportedly independent geologist report in the offering documents had actually been written by Hardwick himself.

50. Red River and Hardwick misrepresented to investors that an independent geologist drafted the expert geologist reports included in the Boonsville #2, Waggoner #1, Waggoner #2, and Cosper #1 CIMs. In reality, the reports were drafted by Hardwick and then sent to the independent geologist, TA, who received \$500 to affix his geologist stamp and make slight edits before returning the reports for inclusion in the CIMs. Hardwick, not TA, was

responsible for each chart, picture, and narrative included in the geologist reports. Moreover, the reports themselves did not contain some of the most important information about the area where the wells were to be drilled. For example, the Boonsville #2 geological review did not discuss the poor performance of Regal Energy's prior Boonsville #1 well.

Red River and Hardwick's Conduct Constituted Willful Violations of Rule 10b-5

51. During the Relevant Period, in connection with the offer and sales of these securities, Red River and Hardwick, directly or indirectly, by the use of means or instrumentalities of interstate commerce, or of the mails, knowingly, willfully or recklessly: (i) employed devices, schemes, or artifices to defraud, (ii) made untrue statements of a material fact or omitted 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, concerning investments in the various security offerings, or (iii) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon investors.

52. Red River and Hardwick acted with scienter because they intentionally and recklessly engaged in a prolonged effort to lure investors into purchasing the various securities by making material misrepresentations and omitting to disclose certain material facts.

53. The misrepresentations and omissions were material because a reasonable investor would consider them important in making investment decisions.

54. Red River and Hardwick utilized the means or instrumentalities of interstate commerce, or of the mails in connection the offer and sale of the securities, including: (a) telephone calls to customers and prospective customers; and (b) the use of the mail to send offering materials to customers and prospective customers concerning the security offerings.

55. By engaging in the foregoing conduct, Red River and Hardwick willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and violated FINRA Rules 2020 and 2010.

SECOND CAUSE OF ACTION

**MATERIAL MISREPRESENTATIONS AND OMISSIONS
BY RED RIVER AND HARDWICK**

*(Violations of FINRA Rule 2010, by contravening
Sections 17(a)(2) and (a)(3) of the Securities Act)*

(Pled in the Alternative to the First Cause of Action)

56. The Department realleges and incorporates by reference paragraphs 1-55 above.

57. Sections 17(a)(2) and 17(a)(3) of the Securities Act entitled “Fraudulent Interstate Transactions,” provide that:

- (a) It shall be unlawful for any person in the offer or sale of any securities ... by the use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly-
- (2) to obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;
- or
- (3) to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser.

58. A violation of Sections 17(a)(2) and 17(a)(3) is a violation of FINRA Rule 2010.

59. During the Relevant Period, in connection with the offers and sales of these securities by mail and telephone, Red River and Hardwick obtained money (specifically the offering proceeds paid by investors who purchased units of interest in Boonsville #2, Waggoner #1, Waggoner #2, Cosper #1, and Pierce #1), either directly or indirectly: (i) by means of untrue statements of material facts and omissions to state material facts necessary in order to make

statements made, in light of the circumstances under which they were made, not misleading, or (ii) by engaging in transactions, practices, or courses of business that operated as a fraud or deceit upon investors in connection with the joint ventures.

60. By engaging in the foregoing conduct, Red River and Hardwick violated FINRA Rule 2010 by contravening Sections 17(a)(2) and (a)(3) of the Securities Act.

THIRD CAUSE OF ACTION

**MATERIAL MISREPRESENTATIONS AND OMISSIONS
BY RED RIVER AND HARDWICK**

(Violations of FINRA Rule 2010)

(Pled in the Alternative to the First and Second Cause of Action)

61. The Department realleges and incorporates by reference paragraphs 1-60 above.

62. During the Relevant Period, Red River and Hardwick engaged in conduct inconsistent with just and equitable principles of trade. They obtained money from the public for five different investments, the Regal Energy offerings described above, by making material misrepresentations and omissions of fact regarding those investments while registered with FINRA. This conduct occurred in the conduct of their business and was unethical.

63. By engaging in the foregoing conduct, Red River and Hardwick violated FINRA Rule 2010.

FOURTH CAUSE OF ACTION

**OFFER AND SALE OF UNREGISTERED SECURITIES
BY RED RIVER AND HARDWICK**

*(Violations of FINRA Rule 2010 by
contravening Section 5 of the Securities Act)*

64. The Department realleges and incorporates by reference paragraphs 1-63 above.

65. Section 5 of the Securities Act of 1933 prohibits the sale of unregistered securities. It provides:

- (a) Unless a registration statement is in effect as to a security, it shall be unlawful for any person, directly or indirectly—
 - (1) to make use of any means or instruments of transportation or communication in interstate commerce or of the mails to sell such security through the use or medium of any prospectus or otherwise;

66. The Boonsville #2 and Cosper #1 offerings are unregistered, and they are securities, as detailed above.

67. As such, the Boonsville #2 and Cosper #1 offerings could only be sold under the Regulation D, Rule 506 private offering registration exemption in effect during the time that the offerings were being marketed. Boonsville #2 was offered from January, 2010 to December 2011. Cosper #1 was offered from September 2011 to January 2013.

68. Between January 2010 and January 2013 Regulation D, Rule 506, provided that such offerings could not be sold through any general solicitations. Specifically, Regulation D, then codified at Title 17 of the Code of Federal Regulations as §§ 230.501-.508, provided that Section 5 did not apply to:

- transactions involving offers or sales by an issuer solely to one or more accredited investors, if the aggregate offering price of an issue of securities offered in reliance on this paragraph does not exceed the amount allowed under section 3(b) of this title, if there is no advertising or public solicitation in connection with the transaction by the issuer or anyone acting on the issuer's behalf, and if the issuer files such notice with the Commission as the Commission shall prescribe. Securities Act of 1933, § 4(6), 15 U.S.C. § 77d.

69. Nevertheless, Red River and Hardwick sold private placements in the Boonsville #2 and Cosper #1 offerings in violation of the general solicitation prohibition, including to

fifteen new customers with whom the Firm did not have a preexisting relationship, and who invested in the offerings as a result of “cold calls” made by Red River representatives while Boonsville #2 and Cosper #1 were current offerings.

70. In January 2010, Red River began raising money through an unregistered offering for Boonsville #2. Between January 4, 2010 and December 2011, Red River raised \$9,540,000 from 156 investors. In total, Red River solicited 5,569 customers for the Boonsville #2 offering. The following chart identifies 10 investors who were initially contacted by Red River while Boonsville #2 was a current offering and who filled out the initial contact sheet:

Customer Name	First Contact Date	Investment Date	Investment Amount
JE	4/13/2010	Boonsville #2 – 5/19/2010	\$314,687.50
FB	4/7/2010	Boonsville #2 – 6/11/2010	\$39,750
RS	4/28/2010	Boonsville #2 – 6/9/2010	\$281,562.50
AMG	4/30/2010	Boonsville #2 – 7/1/2010	\$16,562.50
OS	5/5/2010	Boonsville #2 – 7/27/2010	\$198,750
RH	5/10/2010	Boonsville #2 – 8/23/2010	\$33,125
LR	6/2/2010	Boonsville #2 – 9/2/2010	\$139,125
SL	7/28/2011	Boonsville #2 – 8/23/2011	\$16,562.50
VS	7/13/2011	Boonsville #2 – 7/18/2011	\$26,500
RG	3/18/2010	Boonsville #2 – 11/12/2010	\$132,500

71. Boonsville #2 was Red River’s first offering and Red River had no prior relationship with any customers at the time it cold called these ten Boonsville #2 investors. Once

thirty days had passed from the date of the cold call, a Red River representative contacted the same ten customers to solicit for Boonsville #2.

72. In September 2011, Regal Energy began raising money through an unregistered offering for Cosper #1. Between September 19, 2011 and January 2013, Regal Energy raised \$5,258,437.20 from 125 investors. In total, Red River solicited 4,020 customers for the Cosper #1 offering. The following chart identifies five investors who were initially contacted while Cosper #1 was a current offering and filled out the initial contact sheet:

Customer Name	First Contact Date	Investment Date	Investment Amount
AA	12/9/2011	Cosper #1- 2/24/2012	\$200,843.09
JH	12/13/2011	Cosper #1 – 7/9/2012	\$191,713.87
WP	12/15/2011	Cosper #1- 5/9/2012	\$27,387.70
VR	1/4/2012	Cosper #1 - 5/23/2012	\$182,584.65
GS	3/7/2012	Cosper #1 - 1/24/2013	\$27,387.69

73. Red River had no other offering available at the time it cold called these five Cosper #1 investors. Once thirty days had passed from the date of the cold call, a Red River representative contacted each of these five customers to solicit for Cosper #1.

74. In total, fifteen customers for the Boonsville #2 and Cosper #1 offerings did not have preexisting substantive relationships with Red River before the two offerings became available for purchase. The fifteen customers derived from cold calls invested a total of \$1,829,042 in the two offerings after the customers had been improperly solicited for an unregistered security offering.

75. Red River and Hardwick utilized the means or instrumentalities of interstate commerce, or of the mails in connection with the offer and sale of the Boonsville #2 and Cosper #1 securities, including: (a) telephone calls to customers and prospective customers; and (b) the use of the mail to send offering materials to customers and prospective customers concerning the Boonsville #2 and Cosper #1 offerings.

76. The Boonsville #2 and Cosper #1 offerings failed to comply with all of the conditions of the registration exemption in Regulation D, Rule 506.

77. By engaging in the foregoing conduct, Red River and Hardwick violated FINRA Rule 2010 by contravening Section 5 of the Securities Act by selling unregistered securities without complying with the requirements of the offering registration exemptions.

FIFTH CAUSE OF ACTION

SUITABILITY VIOLATIONS BY RED RIVER AND HARDWICK

(Violations of NASD Rule 2310 and FINRA Rules 2111 and 2010)

78. The Department realleges and incorporates by reference paragraphs 1-77 above.

79. NASD Rule 2310 (effective prior to July 9, 2012) entitled “Recommendations to Customers (Suitability)” provided that:

(a) In recommending to a customer the purchase, sale or exchange of any security, a member shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs.

(b) Prior to the execution of a transaction recommended to a non-institutional customer, other than transactions with customers where investments are limited to money market mutual funds, a member shall make reasonable efforts to obtain information concerning:

- (1) the customer's financial status;
- (2) the customer's tax status;
- (3) the customer's investment objectives; and

(4) such other information used or considered to be reasonable by such member or registered representative in making recommendations to the customer.

80. FINRA Rule 2111 (effective as of July 9, 2012) entitled “Suitability” provides that:

(a) A member or an associated person must have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer's investment profile. A customer's investment profile includes, but is not limited to, the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose to the member or associated person in connection with such recommendation.

81. During the Relevant Period, Red River principals supervised by Hardwick indicated approval for investors in Boonsville #2, Waggoner #1, Waggoner #2, Cosper #1 and Pierce #1 with incomplete information or approved investors who appeared to be unsuitable without further inquiry documented.

82. Specifically, in 15 instances a principal indicated approval, sometimes repeatedly, for an investor when the investor's paperwork disclosed the investor was unsuitable for the investment and no further inquiry was documented. Specifically, seven customers over eighty years of age, including two with \$20,000 in liquidity and two with no liquidity, were approved for the offerings. Five other customers with \$20,000 or less in liquidity and another with \$30,000 in liquidity were also approved. Two other customers were missing income and one of these was missing liquidity and tax bracket status also. These 15 instances are as follows:

Investor Name	Investor Not Suitable	Offering
JH	83 years old	Boonsville #2, Waggoner #2
JE	\$0 liquidity, 83 years old	Boonsville #2, Waggoner #1, Waggoner #2, Casper #1
AR	\$20,000 liquidity	Boonsville #2, Waggoner #1, Waggoner #2
AMG	\$15,000 liquidity	Boonsville #2
EV	\$30,000 liquidity	Boonsville #2, Casper #1
SB	\$20,000 liquidity	Boonsville #2
ED	\$20,000 liquidity, 84 years old	Boonsville #2, Waggoner #1, Waggoner #2
DA	\$20,000 liquidity, 80 years old	Boonsville #2, Waggoner #1
JI	\$20,000 liquidity, tax bracket not known, income \$50,000	Boonsville #2, Waggoner #1, Waggoner #2
JP	82 years old	Boonsville #2, Pierce #1
WP	83 years old	Casper #1, Pierce #1
RS	Missing income	Boonsville #2
FB	Missing liquidity, income, tax bracket	Boonsville #2
OS	Missing liquidity, 82 years old	Boonsville #2, Waggoner #1, Waggoner #2
JM	\$20,000 liquidity	Boonsville #2, Waggoner #1, Waggoner #2

83. Red River and Hardwick did not have a reasonable basis for recommending the Boonsville #2, Waggoner #1, Waggoner #2, Cosper #1, and Pierce #1 offerings to the foregoing 15 customers. By engaging in the foregoing conduct, Red River and Hardwick violated NASD Rule 2310 (effective prior to July 9, 2012) and FINRA Rule 2111 (effective on July 9, 2012) and FINRA Rule 2010.

SIXTH CAUSE OF ACTION

DEFICIENT SUPERVISORY SYSTEMS AND WRITTEN SUPERVISORY PROCEDURES BY RED RIVER AND HARDWICK

(Violations of NASD Rule 3010 and FINRA Rule 2010)

84. The Department realleges and incorporates by reference paragraphs 1-83 above.

85. NASD Conduct Rule 3010(a) entitled "Supervision" required that:

(a) Supervisory System

Each member shall establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules. Final responsibility for proper supervision shall rest with the member. A member's supervisory system shall provide, at a minimum, for the following:

(1) The establishment and maintenance of written procedures as required by paragraphs (b) and (c) of this Rule.

Conflicts of Interest

86. During the Relevant Period, Red River and Hardwick failed to establish, maintain and enforce a reasonable supervisory system and written supervisory procedures to address the conflicts of interest created by Red River and Hardwick's participation in affiliated offerings.

87. Hardwick controlled all aspects of each offering. He was the owner of: (1) the issuer, (2) the operator, and (3) the broker-dealer that offered and sold interests in the joint ventures to the public. Hardwick controlled the preparation, content, and dissemination of all of

the offering documents and marketing materials related to the offerings. Moreover, the investors in the offerings “carried” the working interest in the offering for Hardwick’s various entities, including Regal Energy, the Managing Venturer, and Regal Operating, the drilling operator. This meant that the investors were responsible to pay for Regal Energy and Regal Operating’s share of the drilling, testing, and completion expenses, as outlined in the offering documents. Hardwick’s entities earned millions in fees simply for drilling, testing, and completing the wells, while having their own portion of these well expenses paid by the investors. In the unlikely event that a well was profitable, Hardwick’s entities stood to receive a slice of the revenue. In contrast, the investors covered 99% of drilling, testing, and completing before they saw a penny in earnings.

88. Hardwick was also responsible for performing due diligence on the offerings on behalf of the broker-dealer. As a result, there was no independent or arms-length due diligence on the offerings. During the relevant time period, Red River’s supervisory systems and written procedures failed to address how Red River would overcome the inherent conflicts of interests created by Hardwick’s roles at Red River and the affiliated entities, Regal Energy and Regal Operating.

89. FINRA Regulatory Notice 10-22, issued in April 2010, reminds member firms that a broker-dealer affiliated with an issuer must ensure that its affiliation does not compromise the firm’s independence as it performs due diligence investigations. The broker-dealer is expected to resolve any conflicts of interest that could impair its ability to conduct thorough and independent due diligence. Yet this did not occur.

Section 5

90. During the Relevant Period, Red River and Hardwick, failed to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to ensure compliance with applicable rules and regulations regarding the sale of securities in private placements.

91. Specifically, Red River and Hardwick failed to establish and maintain a supervisory system, including written supervisory procedures: (1) prohibiting general solicitations of private placement offerings; (2) prohibiting customers who did not have a preexisting substantive relationship with Red River from purchasing private placements; and (3) creating a review process wherein supervisors would ensure compliance with the required supervisory procedures.

Unsuitable Recommendations

92. Red River and Hardwick also failed to establish and maintain adequate supervision systems and procedures reasonably designed to supervise Red River's representatives, resulting in Red River and Hardwick's failure to detect red flags for potentially unsuitable recommendations made by its representatives, as well as marketing and sales tactics violations.

93. Specifically, in 10 instances customer checks were returned due to insufficient funds, which may indicate a potential concern regarding the customer's financial stability or liquidity needs. On notes accompanying several checks, investors wrote comments such as the following: "This check not to be cashed until we speak next week on funds" and "Do not deposit this before you call me. It will take a mirical [sic] to cover this at this time." These red flags were disregarded, and these investors were approved to invest in the offerings.

94. Also, in several instances, the Firm's sales manager, SS, made exaggerated representations regarding the expected return for Red River's Cosper #1 offering, including a statement that investors could expect returns as high as 50% per annum on their investment and that he sees a "good chance of a 30-50% rate of return." SS also stated to one potential investor that the Barnett Shale provides a "long term steady cash flow machine."

95. In addition to failing to adequately supervise the foregoing sales practices, Red River and Hardwick failed to adequately supervise the representatives' efforts to gather basic investor profile information. The chart above showed 15 instances where a principal indicated approval of an investor with incomplete investor information or where the investor did not appear to be suitable. Without a record of proper investor profile information, Red River and Hardwick could not determine whether the representatives' recommendations that the customers invest in the offerings were suitable.

96. Moreover, in 17 instances, a principal indicated approval to contact a potential investor with incomplete information provided regarding four areas: Age, Liquidity, Income, and Tax Bracket. In 10 instances, all four of the four areas were missing; in 4 instances, three of the four areas were missing; and in 3 instances, two of the four areas were missing. Nevertheless, a principal of the Firm, who reported to Hardwick, approved these 17 potential investors for contact:

Investor Name	Information Missing	Offering
RS	Age, Liquidity, Income, Tax Bracket	Boonsville #2
TM	Age, Income	Cosper #1
JY	Age, Liquidity, Income, Tax Bracket	Boonsville #2
KS	Age, Liquidity, Income, Tax Bracket	Cosper #1
RM	Age, Liquidity, Income, Tax Bracket	Cosper #1

Investor Name	Information Missing	Offering
RH	Age, Liquidity, Income, Tax Bracket	Cosper #1
SD	Age, Liquidity, Income, Tax Bracket	Cosper #1
SB	Age, Liquidity, Income, Tax Bracket	Boonsville #2
EC	Age, Liquidity, Income	Boonsville #2
FE	Age, Liquidity, Income, Tax Bracket	Boonsville #2
JW	Age, Income, Tax Bracket	Cosper #1
CW	Age, Liquidity, Income, Tax Bracket	Cosper #1
DD	Age, Liquidity, Income, Tax Bracket	Boonsville #2
SW	Age, Income	Cosper #1
DW	Liquidity, Tax Bracket	Boonsville #2
RZ	Age, Income, Tax Bracket	Boonsville #2
RD	Age, Income, Tax Bracket	Boonsville #2

97. By engaging in the foregoing conduct, Red River and Hardwick violated NASD Rule 3010 and FINRA Rule 2010.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondents committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that Respondents be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest;
- C. make specific findings that Respondents Red River and Hardwick willfully violated Section 10 of the Exchange Act and Rule 10b-5 promulgated thereunder;

D. order that 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:

7/27/15



Albert A. Starkus III
Principal Regional Counsel
Penelope Brobst Blackwell
Deputy Regional Chief Counsel
12801 North Central Expressway, Suite 1050
Dallas, Texas 75243
Phone: (972) 716-7663
Fax: (972) 716-7612
E-Mail: albert.starkus@finra.org

Christopher Burky
Senior Regional Counsel
55 West Monroe St, Suite 2600
Chicago, IL 60603
Phone: (312) 899-4348
Fax: (312) 899-4600
Email: christopher.burky@finra.org

Danielle I. Schanz
Senior Litigation Counsel
One World Financial Center, 11th Floor
200 Liberty Street
New York, NY 10281-1003
Phone: (646) 315-7402
Fax: (202) 689-3467
E-mail: danielle.schanz@finra.org

David B. Klafter
Regional Chief Counsel
FINRA — Enforcement Department
5200 Town Center Circle, Suite 200
Boca Center Tower 1, Boca Raton, FL 33486
Phone: (561) 443-8110; Fax: (561) 443-7998
E-Mail: david.klafter@finra.org
Authorized House Counsel
Admitted in NY and NJ Only