FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement, Complainant, v. Sandlapper Securities, LLC (CRD No. 137906), Trevor Lee Gordon (CRD No. 2195122), and Jack Charles Bixler (CRD No. 22331), Respondents.	DISCIPLINARY PROCEEDING No. 2014041860801

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. From April 2011 through November 2015 (the "relevant period"), Respondents Trevor Lee Gordon, Jack Charles Bixler and Sandlapper Securities, LLC ("Sandlapper" or the "Firm") defrauded investors by selling investments in saltwater disposal wells at excessive, undisclosed markups through a middleman "development" company they owned and controlled. The fraudulent markups totaled over $8 million.

2. Gordon was CEO of Sandlapper during the entire relevant period, had supervisory responsibility for all sales at the Firm, and for some of the relevant period, served as CCO of the Firm. Bixler was President of the Capital Markets Division of Sandlapper during the relevant period.

3. Saltwater disposal wells earn revenue by accepting saltwater and other byproducts of oil and gas extraction. In 2011, Gordon, Bixler and two former registered representatives formed a fund to invest in saltwater disposal wells. They sold interests in the fund, through Sandlapper, and made all investment decisions for the fund, including which wells to acquire and what prices to pay for the investments. Shortly after starting the fund, they formed a "development" company, purportedly for the purpose of investing directly in, or facilitating the fund's investment in, saltwater disposal wells. The fund's offering documents represented that the fund would mitigate conflicts of interest by adhering to certain "investment guidelines" and would obtain independent appraisals in transactions with affiliates, such as the development company.

4. Contrary to these representations, Gordon and Bixler, rather than acting in the best interests of fund investors, extracted ill-gotten profits for themselves through their control of the fund. Between December 2012 and July 2013, Gordon and Bixler interposed their development company between the fund and the best available market for interests in two wells. The fund had the resources to directly purchase interests in these wells. But instead, Gordon and Bixler had their development company purchase interests in the wells and sell those interests to the fund at undisclosed, excessive markups ranging (with one exception) between 161 and 270 percent. Independent appraisals were never obtained for these transactions. Sandlapper served as the managing broker-dealer for the fund and was aware of the scheme through Gordon and Bixler. By participating in a fraudulent scheme, and by misrepresenting and omitting material facts regarding the development company's role, the excessive markups and independent appraisals, Gordon, Bixler and Sandlapper willfully violated Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5(a)–(c) thereunder, and FINRA Rules 2020 and 2010.

5. As managers of the fund, Gordon and Bixler owed fiduciary duties to the fund. They violated their fiduciary duties by causing their development company to usurp the fund's investment opportunities and resell those investments to the fund at excessive prices, and by failing to take steps to ensure fair pricing to the fund. As a result, they violated FINRA Rule 2010.

6. Beginning in January 2013, Gordon used the development company to extract ill-gotten profits from retail investors who purchased interests in individual saltwater disposal wells outside the fund. The development company purchased these interests and resold them to retail investors, sometimes through Sandlapper, at undisclosed, excessive markups ranging from 67 to 376 percent. As a result, Sandlapper and Gordon willfully violated Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5(b) thereunder, and FINRA Rules 2020 and 2010.

7. The development company was largely engaged in buying and reselling well interests, which were securities. Although this rendered it a dealer of securities, Gordon and Bixler failed to register the development company with FINRA or the SEC. As a result, Gordon and Bixler violated Section 15(a) of the Securities Exchange Act of 1934 and FINRA Rule 2010.

8. Despite deriving a substantial portion of its revenue from private offerings by affiliates, Sandlapper failed to adopt or implement reasonable procedures to address conflicts of interest in transactions involving affiliates. In overseeing all the Firm's sales activities, including sales of fund interests and interests in individual saltwater disposal wells, Gordon labored under numerous and obvious conflicts of interest. Nonetheless, the Firm failed to adopt or implement an alternate supervisory structure for offerings where Gordon was conflicted. Moreover, because Gordon and Sandlapper were aware of the frauds being perpetrated in connection with sales of fund and well interests, and permitted registered representatives of the Firm to sell the interests,

Gordon and Sandlapper failed to reasonably supervise the Firm's sales activities. During some of the relevant period, Gordon and the Firm did not even acknowledge that individual well interests were securities and allowed them to be sold away from the Firm for compensation without *any* supervision, other than requiring registered representatives to submit "outside business activity" disclosures. As a result, Gordon and Sandlapper violated NASD Rule 3010 and FINRA Rules 3110 and 2010.

RESPONDENTS AND JURISDICTION

9. **Sandlapper Securities, LLC** (CRD No. 137906) has been a registered broker-dealer with the SEC and a member of FINRA since 2006. The Firm is a full-service broker-dealer and dealer-manager of investment products. Sandlapper currently has approximately 60 registered representatives and 13 branch offices. The Firm's main office is located in Greenville, South Carolina.

10. **Trevor Lee Gordon** (CRD No. 2195122) is the founder and majority owner of Sandlapper. During the relevant period, he served as the Firm's Chief Executive Officer and Managing Member. He first became registered with a FINRA member firm in 1997 and became registered with Sandlapper in 2006. He is currently registered with the Firm as a General Securities Representative (Series 7), General Securities Principal (Series 24) and Operations Professional (Series 99).

11. **Jack Charles Bixler** (CRD No. 22331) is a principal and Vice President of Sandlapper. He first became registered with a FINRA member firm in 1970 and became registered with Sandlapper in 2006. He is currently registered with the Firm as a General Securities Representative (Series 7), General Securities Principal (Series 24) and Operations Professional (Series 99).

FACTS

I. In 2011, Gordon and Bixler Formed Three Entities to Facilitate Investment in Saltwater Disposal Wells

12. During the process of oil and gas extraction, saltwater is brought to the surface. In accordance with regulatory requirements, oil producers utilize saltwater disposal wells to dispose of the saltwater byproduct of oil extraction by either piping the saltwater directly into the well or trucking the saltwater in tankers to the well.

13. Oil producers pay the saltwater disposal well owner for each barrel of saltwater taken by the well. The well operator can extract skim oil from the water and sell it to refineries to generate a second source of revenue for the well.

14. With respect to the saltwater disposal wells at issue in this case, the well interests were originally acquired from property owners in the Permian Basin of Texas by RBJ & Associates ("RBJ"), which develops and operates the wells and otherwise oversees the day-to-day activities of the wells. RBJ funded its activities by issuing fractional interests in its saltwater disposal wells to investors.

15. In 2011, Gordon, Bixler and two former registered representatives (JS and PB) formed Tiburon Saltwater Reclamation Fund I, LLC ("Fund I"), TSWR Fund Management, LLC ("Fund Management"), which managed Fund I, and TSWR Development, LLC ("TSWRD"), all to facilitate investment in saltwater disposal wells. All of these entities were housed in Sandlapper's main office.

16. Fund Management and the brokers selling interests in Fund I received substantial disclosed compensation for their efforts. Pursuant to the Confidential Private Placement Memorandum for Fund I (the "PPM"), commissions, fees and allowances totaled *over 16 percent* of investor funds (plus additional fees if the well was undeveloped). For example, as the

managing broker-dealer for Fund I, Sandlapper was entitled to commissions of seven percent in addition to other "allowances" that, together with commissions, totaled 11 percent of the gross proceeds raised in the offering. Fund Management was also entitled to various fees and allowances, including a two percent annual "asset management fee," reimbursements totaling up to two percent of the offering's gross proceeds, and a "placement fee" of 1.5 percent of the purchase price of investments made by Fund I.

17. Although they earned substantial disclosed fees, Gordon and Bixler, through their ownership and control of Fund Management, TSWRD and Sandlapper, executed a scheme to cause Fund I to purchase interests in saltwater disposal wells at artificially inflated prices by passing the investments through TSWRD as a middleman. Gordon and Bixler also caused TSWRD to sell direct working interests ("DWIs") in individual wells to retail investors outside of the fund, again acting as a middleman solely to inflate the price.

18. All told, TSWRD charged over $8 million in fraudulent markups to investors, as shown in Appendices A, B and C.

A. The Fund, its Manager, and the Middleman

i. Tiburon Saltwater Reclamation Fund I, LLC ("Fund I")

19. Fund I was formed in March 2011 as a Delaware limited-liability company. It is a blind pool, meaning that investors have no opportunity to evaluate or approve investment decisions of the fund.

20. Fund I has purchased interests in multiple saltwater disposal wells from RBJ. The fund receives a portion of the revenue of each well based upon its percentage ownership of the well.

21. According to the PPM, the "principal objectives of the Fund are to . . . [p]reserve and protect investors' capital" and provide a long-term 15 percent return.

22. Pursuant to the PPM, Fund I was not permitted to borrow in order to fund investments.

23. Fund I segregated funds for operations, including acquisitions, in an "operating account" and maintained a reserve account "to hold proceeds earmarked for future development or capital needs on assets owned by the Fund."

24. An Investment Committee consisting of Gordon, Bixler, JS, and PB made all investment decisions for Fund I. Each of the committee members had veto power over any transaction. Under the fund's LLC Agreement, the members of the Investment Committee were required to "exercise their duties . . . in accordance with their good faith business judgment as to the best interests of the Fund."

25. Sandlapper was the managing broker-dealer for Fund I.

26. Between approximately August 2011 and December 2013, approximately 170 investors purchased units in Fund I totaling approximately $12.5 million.

ii. TSWR Fund Management, LLC ("Fund Management")

27. Fund Management, a Delaware limited-liability company, was formed contemporaneously with Fund I to create, manage, and sell funds through which investors could hold interests in saltwater disposal wells.

28. Since its creation, Fund Management has been owned and controlled by Gordon, Bixler, JS, and PB, through affiliated companies, with Gordon serving as CEO and Bixler serving as Vice President of Marketing.

29. In addition to managing Fund I, Fund Management was the asset manager for investments in DWIs.

30. As CEO of Fund Management, Gordon participated in drafting the PPM and had ultimate authority of its content. The PPM lists Gordon as the contact person for Fund Management and provides his Sandlapper telephone number, email address and physical address for investments in and communications with Fund I.

31. Bixler, in his capacity as Vice President of Marketing for Fund Management, marketed Fund I and, like Gordon, had ultimate authority over the content of the PPM.

32. Under the PPM, Fund Management was entitled to an annual "asset management fee" of up to two percent of the gross proceeds in the fund, a "placement fee" of 1.5 percent of the purchase price of any investments by the fund, and a "development fee" of five percent of the acquisition and development costs related to any new well interests acquired by the fund. Fund Management was also entitled to "Carried Interest" in the fund, which was "generally equal to between 20% and 50% of the profits generated by the Fund" for any distributions to investors above a 10 percent return of their investment in a given year. In addition, Fund Management was entitled to expense reimbursement of up to two percent of the gross proceeds of the fund.

iii. TSWR Development, LLC ("TSWRD")

33. TSWRD, a Delaware limited-liability company, was formed in June 2011 by Gordon, Bixler, JS, and PB for the purpose of acquiring interests in saltwater disposal wells to sell to Fund I or retail investors or to hold for proprietary investment.

34. TSWRD has never been registered as a dealer of securities with the SEC.

35. Since its creation, TSWRD has been owned and controlled by Gordon, Bixler, JS and PB, through affiliated companies.

36. TSWRD was not capitalized when it began acquiring interests in saltwater disposal wells in December 2012 and reselling them to either Fund I or to retail investors as DWIs.

37. TSWRD paid for its well interests with funds obtained by selling the interests to Fund I or retail investors at excessively marked up prices, or by taking loans it later repaid by selling well interests to these investors at excessively marked up prices.

38. All or nearly all of TSWRD's income has consisted of profits from excessive markups on sales of well interests and returns from well interests it retained after selling a portion of its holdings to investors at artificially inflated prices.

B. Assurances to Investors Regarding Conflicts of Interests in "Affiliated Transactions"

39. The PPM disclosed that "[a]ctual and potential conflicts of interest exist between the Fund and the Manager and its Affiliates" and that the "relationship among the Fund, the Manager, and their Affiliates could result in various conflicts of interest." For example, the PPM disclosed that one of the "actual conflicts of interest involving the Fund and [Fund Management]" is that agreements between them were "not the result of arm's-length negotiation."

40. With respect to conflicts of interest in "Dealings with Affiliates," the PPM disclosed that Fund Management had formed TSWRD and that TSWRD would sell interests in saltwater disposal wells to Fund I. The PPM assured investors, however, that TSWRD was formed to *assist* Fund I in taking advantage of investment opportunities that arose when it lacked available funds to invest:

> The primary reason this new company was formed was (a) to take advantage of entire facilities that were available and could be taken down with various cash and financing options given the limitation to the Fund to leverage for the purposes of

> acquisition and (b) to maximize cash flow in the Fund by attempting to remain fully invested at all times by negating the need to raise idle funds for the purposes of new development.

41. To mitigate the obvious conflict of interest in purchasing investments directly from an affiliate of Fund Management, the PPM assured investors that "affiliated transactions must continue to meet the investment guidelines of the Fund and the Fund will require an independent appraisal prior to consummating any affiliated transaction." The PPM also represented that Fund I had "adopted a conflicting opportunity procedure to address circumstances when an investment may be an appropriate investment opportunity for the Fund and another investor or fund affiliated with the Manager or one of its Affiliates." In addition, the PPM assured investors that Fund Management would "exercise business judgment . . . in an attempt to fulfill its fiduciary obligations."

42. Despite these assurances, Fund Management never developed written investment guidelines or written conflicting opportunity procedures for Fund I. Moreover, nobody obtained an appraisal for any purchases by Fund I from TSWRD.

43. Instead, as alleged below, Gordon and Bixler repeatedly caused Fund I to purchase well interests from TSWRD, which was acting as nothing more than a middleman, at excessively marked up prices.

44. Investors were not informed in the PPM or otherwise that Fund Management would cause Fund I to purchase well interests at excessively marked up prices from TSWRD or that Fund Management would interpose TSWRD between the fund and RBJ for the purpose of marking up the cost of investing in wells. Further, investors were not informed in the PPM or otherwise that TSWRD would, as alleged below, use a combination of revenue obtained from

excessively marked up sales to Fund I and loans from Fund I investors to finance its purchases of well interests that it resold to Fund I at excessively marked up prices.

II. Beginning in Late 2012, Gordon and Bixler Caused Fund I to Purchase Interests in Two Wells From TSWRD at Excessively Marked Up Prices

45. As set forth in Appendix A, Fund I initially invested in seven different wells over an eight-month period by directly purchasing those interests from the well operator, RBJ. Beginning in December 2012, Gordon and Bixler, through their ownership and control of Fund Management and TSWRD, caused TSWRD to purchase interests in two wells from RBJ and then caused Fund I to purchase those interests from TSWRD at excessively marked up prices.

46. TSWRD did not even have funds to make its initial purchases of interests in these two wells. Only by delaying payment for the interests until it had resold a portion of its interests to Fund I, and by borrowing from investors in Fund I, was TSWRD able to acquire its interests in the first place. By contrast, Fund I and its investors had sufficient funds to purchase its interests directly from RBJ. In effect, Gordon and Bixler caused Fund I and its investors to unwittingly facilitate riskless principal transactions by TSWRD that benefited Gordon and Bixler at the expense of fund investors. TSWRD typically distributed the profits of these transactions to its owners, including Gordon and Bixler (through affiliated companies), shortly after obtaining them from Fund I.

A. The Tom Well

47. Fund I initially invested in the Tom well by purchasing its interest directly from RBJ in October 2012. Fund I paid $225,000 for a five percent interest in the Tom well, which equated to a price of $45,000 per one percent interest.

48. On December 1, 2012, TSWRD entered into an agreement to purchase a 20 percent interest in the Tom well for $900,000, which was the same price of $45,000 per one

percent interest that Fund I had paid six weeks earlier. This was TSWRD's first investment activity.

49. However, TSWRD was not sufficiently capitalized as of December 1, 2012, to make any investments. TSWRD had only $273.74 in its bank account as of December 1, 2012 and was not able to pay RBJ the purchase price at that time.

50. By contrast, on December 1, 2012, Fund I had approximately $640,000 in its operating account, which could have been used to purchase interests in the Tom well directly from RBJ. Had Fund I paid the price offered by RBJ, it could have purchased an approximately 13.5 percent interest in the Tom well.

51. Five days later, on December 6, 2012, TSWRD — which had not paid (and could not pay) for its December 1, 2012 purchase of the Tom well — sold 5.2 percent of its interest in the Tom well to Fund I for $610,158.76, which was a price of $117,338 per one percent interest and a markup of 161 percent over the price it had agreed to pay to acquire the interest. TSWRD effectively recouped over two thirds of the price it had agreed to pay five days earlier and still retained three quarters of the interest it had acquired.

52. Given that TSWRD had *no funds* to pay for its purchase of *any interest* in the Tom well until after Fund I had paid an excessive markup to acquire a fraction of TSWRD's interest, the fund's December 6, 2012 purchase was part of a scheme to cause Fund I to finance most of TSWRD's acquisition costs for the Tom well. TSWRD's involvement in these transactions served no function other than to siphon profits from investors in Fund I.

53. On December 7, 2012, after Fund I had transferred $610,158.76 to TSWRD to purchase an interest in the Tom well, TSWRD paid $612,500 of the amount it owed RBJ for its

purchase on December 1, 2012. TSWRD still owed $287,500, which it funded through further sales to Fund I at artificially inflated prices and loans from investors in Fund I.

54. Because it was unable to obtain financing from commercial lenders, TSWRD sought loans from customers of Sandlapper. Between December 11 and 19, 2012, TSWRD borrowed a total of $200,000 from three customers (DS, RG and CG), each of whom were existing investors in Fund I. TSWRD immediately wired the proceeds from these loans to RBJ, after which it still owed $87,500 for the December 1, 2012 purchase.

55. On January 4, 2013, TSWRD sold an additional 0.75 percent of its interest in the Tom well to Fund I for $88,003.67, which allowed TSWRD to immediately pay the remaining $87,500 of the purchase price for its interest in the Tom well. For this sale to Fund I, TSWRD again charged a price of $117,338 per one percent interest, a 161 percent markup.

56. On March 7, 2013, TSWRD sold an additional 2.5 percent interest in the Tom well to Fund I for $293,345.58. TSWRD charged the same price of $117,338 per one percent, a 161 percent markup. Subsequently, between March 11 and 13, 2013, TSWRD paid $225,000 to fully satisfy the loans obtained from customers DS, RG and CG on December 1, 2012, including interest. Investors in Fund I thus unwittingly financed TSWRD's scheme to siphon profits from them by charging excessive, undisclosed markups for investments in the Tom well. Through this scheme, TSWRD acquired a 10.5 percent interest in the Tom well essentially free of cost, without Gordon, Bixler or the other owners of TSWRD ever risking their own capital.

57. As a result of the markups TSWRD charged to Fund I in these three purchases of interests in the Tom well, Fund I paid $991,508.01 — well in excess of TSWRD's price to purchase 20 percent of the Tom well — but obtained less than 8.5 percent of the Tom well. Fund I was in a position to directly acquire a 14 percent interest in the Tom well the same day

that TSWRD acquired its interest, and Fund I subsequently had sufficient funds to acquire a greater interest in the Tom well.

58. The markups charged by TSWRD for interests in the Tom well were never disclosed to investors. Rather, according to the PPM, investors would only be charged certain disclosed fees in connection with the fund's acquisition of well interests, such as a "Placement Fee."

59. There was no basis to charge any of the markups on the interests in the Tom well that TSWRD sold to Fund I.

60. Although the PPM in effect at the time of these transactions required an "independent appraisal" for any transaction with an affiliate, such as TSWRD, no appraisals were obtained in connection with TSWRD's sales of interests in the Tom well to Fund I.

61. As alleged below and shown in Appendix B, TSWRD sold additional interests in the Tom well totaling 7.6 percent of the well as DWIs to retail investors at excessively marked up prices, and collected a total of $888,631 on these sales.

62. By charging undisclosed, excessive markups to Fund I and retail investors, TSWRD was able to retain an approximately four percent interest in the Tom well and over $1.15 million in cash from investors.

B. The Clark Well

63. Fund I initially invested in the Clark well by purchasing its interest directly from RBJ on March 20, 2013. Fund I paid $585,000 for a 13 percent interest in the Clark well, which, like the price it initially paid for the Tom well, equated to a price of $45,000 per one percent interest.

64. On March 25, 2013, TSWRD entered into an agreement to purchase a 12 percent interest in the Clark well for $540,000, which was the same price of $45,000 per one percent interest that Fund I had paid five days earlier.

65. However, TSWRD had only $3,044.53 in its bank account as of March 25, 2013 (which included a $2,000 loan from Fund Management that day) and was not able to pay RBJ the purchase price for its interest in the Clark well at that time.

66. By contrast, on March 25, 2013, Fund I had approximately $194,256.20 in its operating account, which could have been used to purchase interests in the Clark well directly from RBJ. Had Fund I paid the price offered by RBJ, it could have purchased an approximately 4.3 percent interest in the Clark well. Two days later, after investors had infused an additional $125,000 into Fund I, the fund could have purchased an additional 2.78 percent interest in the well.

67. Like the Tom well, TSWRD funded its March 25, 2013 acquisition of a 12 percent interest in the Clark well after the fact, by borrowing from the same three customers (DS, RG and CG) and by charging excessive markups in reselling a fraction of its interest to Fund I.

68. On March 27 and 28, 2013, TSWRD borrowed a total of $350,000 from DS, RG and CG, which TSWRD used to pay to RBJ on March 29, 2013, leaving an unpaid balance of $190,000.

69. On April 5, 2013, ten days after TSWRD had acquired its interests in the Clark well, TSWRD sold a four percent interest in the well to Fund I for $200,000, which was a price of $50,000 per one percent interest and an undisclosed markup of 11 percent. That same day, TSWRD paid its remaining $190,000 balance to RBJ.

70. On June 5, 2013, ten weeks after TSWRD had acquired its interest in the Clark well, TSWRD sold an additional 2.5 percent of its interest in the well to Fund I for $416,297.22, which was a price of approximately $166,519 per one percent interest and a markup of 270 percent.

71. As a result of the markups TSWRD charged to Fund I in these two purchases, Fund I paid $616,297 — well in excess of TSWRD's price to purchase a 12 percent interest — but obtained only 6.5 percent of the Tom well.

72. The markups charged by TSWRD for interests in the Clark well were never disclosed to investors. Rather, according to the PPM, investors would only be charged certain disclosed fees in connection with the fund's acquisition of well interests, such as a "Placement Fee."

73. There was no basis to charge any of the markups on interests in the Clark well that TSWRD sold to Fund I.

74. Although the PPM in effect at the time of these transactions required an "independent appraisal" for any transaction with an affiliate, such as TSWRD, no appraisals were obtained in connection with TSWRD's sales of interests in the Clark well to Fund I.

75. As alleged below and shown in Appendix B, TSWRD sold interests in the Clark well totaling six percent of the well as DWIs to retail investors at excessively marked up prices, and collected a total of $1,246,521 on these sales.

76. By charging undisclosed markups to Fund I and retail investors, TSWRD was able to retain an approximately 1.5 percent interest in the Clark well and over $1 million in cash from investors.

III. Beginning in Early 2013, Gordon Caused TSWRD to Sell DWIs in Various Wells at Undisclosed, Excessive Markups

77. From January 2013 through November 2015, TSWRD offered DWIs, which it acquired from RBJ, to investors, some of whom were securities customers of Sandlapper.

78. The DWIs were fractional ownership interests in individual saltwater disposal wells. Under a purchase and sale agreement, an investor in a DWI acquired a certain percentage of TSWRD's "right, title and interest in and to" the well's "operations, associated equipment and lease interest."

79. DWI investors also entered into a management agreement with Fund Management, under which the investor engaged Fund Management as "its asset manager for all interests in salt water disposal wells." Fund Management was obligated to "exercise sole discretion and responsibility . . . to determine, supervise, undertake, operate and manage" the DWIs, including by maintaining each investor's books and records, providing monthly and year-end reports to investors and distributing monthly income to investors. A well operator, such as RBJ, performed all tasks necessary for the day-to-day operations of each well in which DWIs were offered by TSWRD.

80. TSWRD obtained the DWIs from RBJ and sold over $11.5 million of them to investors at excessive, undisclosed markups that, with one exception, ranged between approximately 67 and 376 percent, as shown in Appendices B and C. As with its sales to Fund I, TSWRD typically distributed the profits of these transactions to its owners, including Gordon and Bixler (through affiliated companies) shortly after obtaining them from retail investors. The owners of TSWRD never capitalized the company with their own funds, instead using the profits of excessively marked up sales to fund future acquisitions.

81. Many of TSWRD's sales of DWIs to investors were made within a short period of time before or after TSWRD acquired the interest. For example:

(a) On December 1, 2012, TSWRD agreed to purchase an interest in the Tom well from RBJ at $45,000 per one percent interest. Seven weeks later, on January 23, 2013, TSWRD sold DWIs in the Tom well through Sandlapper at $125,552 per one percent, a markup of 179 percent. (Appendix B.)

(b) On June 5, 2014, TSWRD paid for an interest in the Merket well from RBJ at $40,000 per one percent interest. *Twelve days prior*, on May 23, 2014, TSWRD sold the interest in the Merket well it would later acquire as a DWI at $90,000 per one percent, a markup of 125 percent. (Appendix B.)

(c) On July 14, 2014, TSWRD agreed to purchase an interest in the Haney well from RBJ at $45,000 per one percent interest. Two weeks later, on August 1, 2014, TSWRD sold DWIs in the Haney well at $149,639 per one percent, a markup of 233 percent. (Appendix B.)

(d) On July 14, 2014, TSWRD agreed to purchase an interest in the Hughes well from RBJ at $55,000 per one percent interest. Five weeks later, on August 19, 2014, TSWRD sold DWIs in the Hughes well at $150,004 per one percent, a markup of 173 percent. (Appendix B.)

(e) On February 1, 2015, TSWRD agreed to purchase an interest in the Rojo well from RBJ at $70,000 per one percent interest. Less than four weeks later, on February 27, 2015, TSWRD sold DWIs in the Rojo well at $128,750 per one percent, a markup of 84 percent. (Appendix C.)

82. Because of the excessive markups, investors in the DWIs owned proportionally smaller interests in each well than they could have otherwise obtained. As a result, the investors earned lower distributions, and their investments had lower values for resale purposes.

83. As with the well interests it sold to Fund I, TSWRD paid for many of the well interests it resold as DWIs in installments, using proceeds of its excessively marked up sales to Fund I and DWI investors to fund the acquisitions.

84. For example, TSWRD's purchase of an interest in the Merket well was financed entirely with the proceeds of its excessively marked up sale of a DWI in the well to a retail investor eleven days prior. Thus, TSWRD did not pay for its interest in the Merket well until *after* it had sold its interest in the well as a DWI at an excessively marked up price, and it retained the excessive markup entirely as profit, without having taken any risk.

85. Similarly, TSWRD did not begin paying for its interest in the Rojo well until after it had begun selling DWIs in the well at markups of at least 84 percent.

86. There was no basis to charge any of the markups for the DWIs that TSWRD sold to retail investors.

87. Gordon participated in almost all aspects of TSWRD's offerings of DWIs: He helped determine which DWIs to purchase and sell and at what prices; he prepared offering documents, marketing materials and other disclosures; he marketed the interests to broker-dealers for sale to retail customers; and he signed many of the sales or subscription agreements on behalf of TSWRD.

88. Prior to approximately November 20, 2014, the DWIs were neither registered as securities nor offered pursuant to an exemption from registration under the federal securities laws. The interests were instead marketed as "real estate" interests.

89. Notwithstanding their characterization as "real estate," DWIs were securities because: (a) the investors purchased the interests with the expectation that they would receive profits from the successful operation of the wells; (b) at the time of each purchase, investors entered into a management agreement that rendered the investors passive and obligated Fund Management to exercise "sole discretion and responsibility . . . to determine, supervise, undertake, operate and manage [the well] on behalf of [the investors]," among other duties; and (c) the investors wholly relied upon the efforts of the manager and the well operator for the success of, and profits resulting from, their investments.

90. In late July 2014, FINRA staff sent a request for information pursuant to FINRA Rule 8210 to Gordon and Sandlapper requesting that they provide their "basis for concluding" that the DWIs are not securities. Shortly thereafter, TSWRD began offering the DWIs as private placements, exempt from registration under Regulation D of the Securities Act and sold through Sandlapper. In recognition that the earlier DWIs "may be considered securities for purposes of the Securities Act," TSWRD offered rescission to some investors who had purchased DWIs marketed as "real estate."

91. The DWIs marketed as "real estate" were sold only by registered representatives, at Sandlapper and other broker-dealers, but because they were purportedly real estate investments, they were sold away from these firms by registered representatives.

92. As with the well interests sold to investors through Fund I, the offering documents for the DWIs marketed and sold as securities disclosed that Fund Management and the broker-dealer selling the DWIs would be paid substantial commissions, allowances and other fees.

93. However, none of the offering documents or sales contracts for DWIs disclosed the price TSWRD had paid to acquire the well interests or that TSWRD was selling DWIs at

excessively marked up prices. For interests sold as securities through Sandlapper, the Firm was aware, through Gordon and Bixler, that TSWRD was selling DWIs at excessively marked up prices without disclosure to customers.

94. In total, TSWRD earned approximately $7.3 million from markups charged on the DWIs.

IV. Sandlapper Lacked Reasonable Policies and Procedures to Supervise Securities Sold Through the Firm by Affiliates

95. During the relevant period, a substantial portion of Sandlapper's revenues derived from serving as broker-dealer on private placements and private offerings by affiliates.

96. Fund Management and TSWRD were both affiliates of Sandlapper due to their common ownership and management by Gordon and Bixler.

97. The affiliation of Fund Management, TSWRD and Sandlapper created conflicts of interest that compromised Sandlapper's ability to assess the suitability of securities sold through the Firm by those entities. As Fund Management conceded in the PPM, "[u]nder federal securities laws, the Managing Broker Dealer may be expected to take such steps as may be necessary to ensure that the information contained in the [PPM] is accurate and complete," but Sandlapper's "review and investigation in this regard will not be independently performed."

98. Despite the conflicts posed by transactions involving affiliates, Sandlapper failed to adopt or implement reasonable procedures to address conflicts of interest related securities sold through the Firm by affiliates of either Sandlapper or its management.

99. Although Gordon labored under numerous conflicts of interest, Gordon was the designated supervisor for "sales" under the WSPs for the relevant period and, among other supervisory duties, was responsible for supervising sales of private placements by affiliates, such as Fund I and DWIs.

100. Despite Gordon's obvious conflicts of interests in supervising sales of private placements by affiliates, Sandlapper failed to adopt or implement an alternate supervisory structure in instances where Gordon was tainted by conflicts of interests.

101. Additionally, Gordon and Bixler were members of the Firm's Investment Committee, which was responsible under the WSPs for "reviewing and accepting" the Firm's participation in private placements, direct participation programs and underwritings. The Firm lacked written procedures to resolve conflicts of interest by members of the Investment Committee, and the WSPs did not require that Gordon or Bixler recuse themselves from the Investment Committee's review or approval of transactions by affiliates.

102. With respect to DWIs marketed as "real estate" and sold by Sandlapper representatives away from the Firm, Sandlapper failed to enforce its own written policies. The WSPs during the relevant period prohibited all Sandlapper employees from engaging in private securities transactions or selling away:

> Employees are not permitted to engage in private securities transactions (as defined by FINRA), whether or not there is compensation paid for effecting the transaction. Private securities transactions are defined by FINRA as any securities transaction outside the regular course or scope of an employee's employment with SANDLAPPER Securities, LLC (sometimes referred to as "selling away").
>
> * * *
>
> RRs are required to conduct their selling activities through SANDLAPPER Securities, LLC.

103. Gordon was aware that the DWIs marketed as "real estate" were being sold by Sandlapper representatives in private securities transactions away from the Firm. Nonetheless, neither Gordon nor anyone else at Sandlapper identified them as securities, prohibited their sale by Sandlapper representatives, recorded the DWI transactions on Sandlapper's books and records, or otherwise reasonably supervised DWIs marketed as "real estate." Instead,

Sandlapper only required registered representatives who sold DWIs away from the Firm to submit "outside business activity" disclosures.

FIRST CAUSE OF ACTION
Willful Fraud in the Sale of Fund I Units
(Section 10(b) of the Securities Exchange Act, Rule 10b-5 Thereunder, and FINRA Rules 2020 and 2010)
(Gordon, Bixler, and Sandlapper)

104. The Department realleges and incorporates all previous paragraphs.

105. Section 10(b) of the Securities Exchange Act of 1934 makes it unlawful for any person to employ "any manipulative or deceptive device or contrivance in contravention of such rules and regulations as the Commission may prescribe." Rule 10b-5 thereunder makes it unlawful for any person, directly or indirectly:

(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.

106. FINRA Rule 2020 provides: "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."

107. FINRA Rule 2010 requires that members and associated persons, in the conduct of their business, "observe high standards of commercial honor and just and equitable principals of trade." A violation of the SEC's or FINRA's anti-fraud rules also violates FINRA Rule 2010.

108. Beginning in 2012, Gordon, Bixler, and Sandlapper implemented a scheme to defraud investors in Fund I by interposing TSWRD between Fund I and RBJ in the fund's

purchases of interests in the Tom and Clark saltwater disposal wells, solely to charge artificially inflated prices for those well interests.

109. Through their control of Fund Management and TSWRD, and their membership on the Investment Committee for Fund I, Gordon and Bixler caused Fund I to purchase interests in the Tom and Clark wells from TSWRD at undisclosed, excessive markups. As a result, Fund I repeatedly overpaid for its interests in the Tom and Clark wells, as set forth on Appendix A, and Gordon and Bixler (along with PB and JS), through their ownership of TSWRD, retained the markups. There was no basis to charge any of the markups on the Tom or Clark well interests that TSWRD sold to Fund I.

110. With respect to each purchase by Fund I from TSWRD, Fund I could have purchased all of its interest directly from RBJ on or within days of TSWRD's purchase. TSWRD, by contrast, could not even fund its own purchases of interests in the Tom and Clark wells until after agreeing to the acquisitions and had to rely upon subsequent sales of excessively marked up interests to Fund I and loans from Fund I investors to complete its earlier purchases from RBJ.

111. Investors were not informed, in the PPM or otherwise, that Fund I would pay or had paid excessive markups for its purchases of interests in saltwater disposal wells from TSWRD.

112. Beginning in July 2011, the PPM represented that "the Fund will require an independent appraisal prior to consummating any affiliated transaction."

113. Nobody obtained an independent appraisal in connection with any transaction by Fund I with its affiliate, TSWRD.

114. The undisclosed scheme to interpose TSWRD to inflate prices at which Fund I obtained interests in saltwater disposal wells was material to an investor's decision to invest in Fund I.

115. The undisclosed, excessive markups paid by Fund I for its well interests were material to an investor's decision to invest in Fund I.

116. The failure of Fund I to abide by the requirement in the PPM to obtain independent appraisals in transactions with affiliates was material to an investor's decision to invest in Fund I.

117. Gordon and Bixler, by virtue of their ownership and control of Fund Management, TSWRD, and Sandlapper, and their membership on the Investment Committee of Fund I, directed and participated in the scheme to interpose TSWRD for the purpose of charging excessive markups to Fund I in its purchases of well interests.

118. As principals of Fund Management, and as members of the Investment Committee for Fund I, Gordon and Bixler were fiduciaries of Fund I, and had duties to disclose to fund investors the scheme to interpose TSWRD in the fund's purchases of well interests and the excessive markups charged by TSWRD to Fund I.

119. Sandlapper, by selling units in Fund I and by serving as "Managing Broker-Dealer" for all sales of units in Fund I (including sales by other broker-dealers), participated in the scheme to interpose TSWRD for the purpose of charging excessive markups to Fund I in its purchases of well interests.

120. As broker-dealer for units of Fund I sold through the Firm and as "Managing Broker-Dealer" for all sales of units of Fund I, Sandlapper had a duty to disclose to fund

investors the scheme to interpose TSWRD in the fund's purchases of well interests and the excessive markups charged by TSWRD to Fund I.

121. Between approximately August 2011 and December 2013, approximately 170 investors purchased units in Fund I totaling approximately $12.5 million.

122. For *all sales* of units in Fund I, Gordon and Bixler were aware, or reckless in not knowing, that Fund I would pay and had paid excessive markups in transactions with TSWRD.

123. Gordon and Bixler were also aware, or reckless in not knowing, that Fund I was not going to obtain any independent appraisals prior to consummating transactions with affiliates.

124. For sales of Fund I *through Sandlapper*, the Firm, through Gordon and Bixler, was aware, or reckless in not knowing, that Fund I would pay and had paid excessive markups in transactions with TSWRD.

125. Sandlapper was also aware, or reckless in not knowing, in connection with sales of Fund I through the Firm, that Fund I was not going to obtain any independent appraisals prior to consummating transactions with affiliates.

126. Fund I units were securities and were sold through Sandlapper and other FINRA member firms using means and instrumentalities of interstate commerce and mails.

127. As a result of the foregoing conduct, Respondents Sandlapper, Gordon and Bixler willfully violated Section 10(b) of the Securities Exchange Act of 1934, Rule10b-5(a)–(c) thereunder, and FINRA Rules 2020 and 2010.

SECOND CAUSE OF ACTION
Breach of Fiduciary Duty in Management of Fund I
(FINRA Rule 2010)
(Gordon and Bixler)

128. The Department realleges and incorporates all previous paragraphs.

129. A breach of a fiduciary duty is inconsistent with high standards of commercial honor and just and equitable principles of trade, and therefore violates FINRA Rule 2010.

130. As principals of Fund Management, and as members of the Investment Committee for Fund I, Gordon and Bixler owed fiduciary duties of loyalty and care to Fund I.

131. The duty of loyalty required Gordon and Bixler to protect and advance the interests of Fund I, rather than act self-interestedly.

132. The duty of care required Gordon and Bixler to exercise informed business judgment in managing Fund I.

133. Gordon and Bixler repeatedly violated their fiduciary duties of loyalty to Fund I by causing TSWRD to usurp opportunities to invest in the Tom and Clark wells and by causing Fund I to purchase interests in those wells from TSWRD at excessively marked up prices.

134. Gordon and Bixler breached their fiduciary duties of care to Fund I by engaging in transactions with affiliates without taking steps to ensure that Fund I was paying fair prices for its investments, such as abiding by the promise to obtain independent appraisals as represented in the PPM.

135. As a result, among other things, Fund I owned a smaller percentage of each well it purchased, and investors in Fund I earned correspondingly lower distributions resulting from the fund's well interests.

136. By breaching their fiduciary duties of loyalty and care to Fund I, Gordon and Bixler failed to observe high standards of commercial honor and just and equitable principals of trade.

137. As a result of the foregoing conduct, Respondents Gordon and Bixler violated FINRA Rule 2010.

THIRD CAUSE OF ACTION
Fraudulent Omissions of Material Fact in Sales of DWIs, *Through Sandlapper* (Section 10(b) of the Securities Exchange Act, Rule 10b-5(b) Thereunder, and FINRA Rules 2020 and 2010) (Gordon and Sandlapper)

138. The Department realleges and incorporates all previous paragraphs.

139. Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5(b) thereunder make it unlawful for any person, by the use of any means or instrumentality of interstate commerce, or of the mails, 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 light of the circumstances under which they were made, not misleading, in connection with the purchase or sale of a security.

140. FINRA Rule 2020 provides: "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."

141. A violation of the SEC's or FINRA's anti-fraud rules also violates FINRA Rule 2010.

142. From late 2014 through November 2015, TSWRD sold DWIs as securities through Sandlapper to retail customers at excessive markups from the prices TSWRD paid to acquire the interests, as set forth in Appendix C.

143. Gordon, and Sandlapper through Gordon, were aware, or were reckless in not knowing, of the price TSWRD paid to acquire the interests it resold as DWIs to retail investors and the excessive markups from those prices charged to investors.

144. Sandlapper representatives sold the DWIs to investors without disclosing the markups. Gordon participated in these sales through his ownership and management of both TSWRD and Sandlapper.

145. The undisclosed, excessive markups charged for DWIs were material to an investor's decision to invest in the DWIs.

146. The DWIs were securities and were sold using the means and instrumentalities of interstate commerce and mails.

147. As a result of the foregoing conduct, Respondents Sandlapper and Gordon willfully violated Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5(b) thereunder, and FINRA Rules 2020 and 2010.

FOURTH CAUSE OF ACTION
Fraudulent Omissions of Material Fact in Sales of DWIs as Securities Through Brokers, *Other Than Sandlapper, or as "Real Estate"*
(Section 10(b) of the Securities Exchange Act, Rule 10b-5(b) Thereunder, and FINRA Rules 2020 and 2010)
(Gordon)

148. The Department realleges and incorporates all previous paragraphs.

149. Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5(b) thereunder make it unlawful for any person, by the use of any means or instrumentality of interstate commerce, or of the mails, 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 light of the circumstances under which they were made, not misleading, in connection with the purchase or sale of a security.

150. 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."

151. A violation of the SEC's or FINRA's anti-fraud rules also violates FINRA Rule 2010.

152. From January 2013 through November 2015, registered representatives at Sandlapper and other FINRA member firms sold DWIs to investors at excessive markups from the prices TSWRD paid to acquire the interests, as set forth in Appendix B.

153. DWIs marketed by TSWRD as "real estate" were sold by registered representatives at both Sandlapper and other broker dealers, but the DWIs were sold away from the firms.

154. Registered representatives of Sandlapper and other broker-dealers also sold DWIs as securities through their firms.

155. Whether marketed as "real estate," or later as securities, TSWRD did not disclose the excessive markups to investors.

156. The undisclosed, excessive markups charged for DWIs were material to an investor's decision to invest in the DWIs.

157. Gordon participated in these sales through his ownership and management of TSWRD.

158. Gordon was aware, or was reckless in not knowing, of the price TSWRD paid to acquire the well interests resold as DWIs to investors and the excessive markups from those prices charged to investors.

159. In its DWI transactions, TSWRD acted as a dealer of securities under the Securities Act of 1933. Under the Securities Act (15 U.S.C. § 77b(a)(12)), a "dealer" is defined as anyone "who engages either for all or part of his time, directly or indirectly, as agent, broker, or principal, in the business of offering, buying, selling, or otherwise dealing or trading in

securities issued by another person." TSWRD acted as a dealer by regularly buying interests in wells as a principal from RBJ and selling the interests to retail investors and Fund I.

160. The DWIs were securities. The DWIs marketed as "real estate" interests without being registered or offered in reliance on an exemption from registration were securities because: (a) the investors purchased the interests with the expectation that they would receive profits from the successful operation of the wells; (b) at the time of each purchase, investors entered into a management agreement that rendered the investors passive and obligated Fund Management to exercise "sole discretion and responsibility . . . to determine, supervise, undertake, operate and manage [the well] on behalf of [the investors]," among other duties; and (c) the investors wholly relied upon the efforts of the manager and the well operator for the success of, and profits resulting from, their investments.

161. The DWIs were sold using the means and instrumentalities of interstate commerce and mails.

162. As a result of the foregoing conduct, Respondent Gordon willfully violated Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5(b) thereunder, and FINRA Rules 2020 and 2010.

FIFTH CAUSE OF ACTION
Willfully Causing TSWRD to Act as an Unregistered Dealer
(Section 15(a) of the Securities Exchange Act and FINRA Rule 2010)
(Gordon and Bixler)

163. The Department realleges and incorporates all previous paragraphs.

164. Section 15(a) of the Securities Exchange Act (15 U.S.C. § 78o(a)) makes it "unlawful for any broker or dealer . . . to make use of the mails or any means or instrumentality of interstate commerce to effect any transactions in, or induce or attempt to induce the purchase or sale of, any security . . . unless the broker or dealer is registered" with the SEC.

165. Under the Securities Act (15 U.S.C. § 77b(a)(12)), a "dealer" is defined as anyone "who engages either for all or part of his time, directly or indirectly, as agent, broker, or principal, in the business of offering, buying, selling, or otherwise dealing or trading in securities issued by another person."

166. As Gordon and Bixler were aware, TSWRD acted as a dealer by regularly buying DWIs as a principal from RBJ and selling the interests to retail investors and Fund I. Nonetheless, TSWRD failed to register as a dealer with the SEC. By virtue of their ownership and control of TSWRD, Gordon and Bixler had the ability to cause TSWRD to register as a dealer but failed to do so.

167. By causing TSWRD to act as an unregistered dealer, Respondents Gordon and Bixler willfully violated Section 15(a) of the Securities Exchange Act of 1934 and FINRA Rule 2010.

SIXTH CAUSE OF ACTION
Failure to Establish, Maintain, and Enforce a System and Written Procedures to Supervise Its Business and Associated Persons (NASD Rule 3010 and FINRA Rules 3110 and 2010) (Gordon and Sandlapper)

168. The Department realleges and incorporates all previous paragraphs.

169. NASD Rule 3010(a) and FINRA Rule 3110(a) (which superseded NASD Rule 3010(a) on December 1, 2014) require FINRA members to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with securities laws and regulations and with NASD and FINRA Rules.

170. NASD Rule 3010(b) and FINRA Rule 3110(b) (which superseded NASD Rule 3010(b) on December 1, 2014) require each member to establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its

associated persons that are reasonably designed to achieve compliance with securities laws and regulations and with NASD and FINRA rules.

171. A violation of NASD Rule 3010 or FINRA Rule 3110 also violates of FINRA Rule 2010.

172. Gordon was Chief Executive Officer and Managing Member of Sandlapper during the entire period when the violations alleged herein were committed. He was also the designated supervisor for sales. For some of the relevant period, he was the CCO. Through his ownership and management of Fund Management, TSWRD and Sandlapper, he was aware of, and participated in, the activities of these companies, including sales of units of Fund I and sales of DWIs by TSWRD at undisclosed, excessive markups.

173. During the relevant period, Sandlapper and Gordon failed to establish, maintain, and enforce a reasonable supervisory system and written supervisory procedures to address the conflicts of interest created by the participation of Sandlapper and its registered representatives in offerings by or through affiliates of the Firm or its management.

174. Despite Gordon's numerous and obvious conflicts of interest in supervising the Firm's sales of private placements by affiliates, the Firm failed to adopt or implement a supervisory system to address Gordon's conflicts in supervising affiliated transactions for compliance with securities laws and FINRA rules, including the Firm's suitability obligations.

175. In addition, the Firm relied on its Investment Committee, which included Gordon and Bixler, to review and accept the Firm's participation in private placements, direct participation programs and underwritings, but lacked written procedures to resolve conflicts by members of the Investment Committee, such as requiring recusal of conflicted members.

176. As a result, the Firm's procedures were not reasonably tailored to its business, a substantial portion of which involved serving as broker-dealer on private placements and private offerings by affiliates.

177. Further, through his ownership and management of Sandlapper, Fund Management, and TSWRD, Gordon was aware of and participated in the fraudulent scheme, the breaches of fiduciary duties, and the fraudulent misrepresentations and omissions by Fund Management, TSWRD and Sandlapper, as alleged herein.

178. By participating in the violations themselves, and knowingly permitting Sandlapper registered representatives to facilitate the violations by soliciting investments in DWIs and units of Fund I, Gordon and Sandlapper failed to reasonably supervise the activities of the Firm's registered representatives.

179. As a result of the foregoing conduct, Respondents Gordon and Sandlapper violated NASD Rule 3010(a) and (b) and FINRA Rules 3110(a) and (b) and 2010.

SEVENTH CAUSE OF ACTION
Failure to Supervise Sales of DWIs Marketed as "Real Estate"
(NASD Rule 3010 and FINRA Rules 3110 and 2010)
(Gordon and Sandlapper)

180. NASD Rule 3010(a) and FINRA Rule 3110(a) require FINRA members to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with securities laws and regulations and with NASD and FINRA Rules.

181. A violation of NASD Rule 3010 or FINRA Rule 3110 also violates FINRA Rule 2010.

182. Sandlapper's WSPs "required [representatives] to conduct their selling activities through" the Firm and prohibited representatives from participating in "private securities

transactions" or "selling away" from the Firm. Because the Firm prohibited representatives from selling away, Sandlapper had no procedures for compliance with NASD or FINRA Rules regarding private securities transactions (NASD Rule 3040(b) and (c) and FINRA Rule 3280(b) and (c)).

183. NASD Rule 3040(b) and FINRA Rule 3280(b) require associated persons, prior to participating in any private securities transaction, to provide written notice to their member firm describing in detail the proposed transaction and the person's proposed role therein and stating whether he has received or may receive selling compensation in connection with the transaction.

184. Pursuant to NASD Rule 3040(c) and FINRA Rule 3280(c), if the member approves a person's participation in a private securities transaction for compensation, the transaction must be recorded on the books and records of the member, and the member must supervise the transaction as if the transaction were executed on behalf of the member.

185. Notwithstanding their characterization as "real estate," the DWIs were securities. They were sold away from the Firm in private securities transactions.

186. Gordon and Sandlapper knowingly permitted, and expressly or tacitly approved, the Firm's registered representatives to sell interests in DWIs marketed as "real estate" to retail investors and to receive selling compensation for those transactions.

187. In addition to allowing representatives to engage in private securities transactions in violation of the Firm's WSPs, Gordon and Sandlapper failed to record the sales on the Firm's books and records, failed to supervise the sales as if the transactions were executed on behalf of Sandlapper, and failed to otherwise reasonably supervise the transactions.

188. As a result of the foregoing conduct, Respondents Gordon and Sandlapper violated NASD Rule 3010 and FINRA Rules 3110 and 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 Respondent be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest;

C. order that Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330;

D. make specific findings that Respondents Sandlapper, Gordon and Bixler willfully violated Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5 thereunder and that Respondents Gordon and Bixler willfully violated Section 15(a) of the Securities Exchange Act of 1934.

FINRA DEPARTMENT OF ENFORCEMENT

Date: September 29, 2017

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Appendix A of the Complaint
Purchases by TSWRD and Fund I of Interests in the Tom and Clark Wells

Department of Enforcement v. Sandlapper Securities, LLC et al., Disciplinary Proceeding No. 2014041860801

Well Name	Transaction Date	Buyer	Seller	Well Percentage	Total Price	Price per 1%	TSWRD Cost	Markup to Buyer	Markup Percentage
Tom	10.18.2012	Fund 1	RBJ	5	$225.000	$45.000			
Tom	12.01.2012	TSWRD	RBJ	20	$900,000[1]	$45,000			
Tom	12.06.2012	Fund 1	TSWRD	5.2	$610,158.76	$117.338.22	$234,000	$376.158.76	160.75
Tom	01.04.2013	Fund 1	TSWRD	.75	$88.003.67	$117.338.22	$33.750	$54.253.67	160.75
Tom	03.07.2013	Fund 1	TSWRD	2.5	$293,345.58	$117.338.22	$112,500	$180.845.58	160.75
Tom Totals				**8.45**	**$991,508.01**		**$380,250**	**$611,258.01**	**160.75**
Clark	03.20.2013	Fund 1	RBJ	13	$585.000	$45.000			
Clark	03.25.2013	TSWRD	RBJ	12	$540,000[2]	$45.000			
Clark	04.05.2013	Fund 1	TSWRD	4	$200.000	$50.000	$180.000	$20.000	11.1
Clark	06.05.2013	Fund 1	TSWRD	2.5	$416,297.22	$166.518.89	$112,500	$303,797.22	270
Clark Totals				**6.5**	**$616,297.22**		**$292,500**	**$323,797.22**	**110.7**
Total of Totals					**$1,607,805.23**		**$672,750**	**$935,055.23**	**138.99**

[1] TSWRD paid $612,500 to RBJ for the Tom well interest on December 7, 2012, $50.000 on December 13, 2012, $100.000 on December 14, 2012, $50.000 on December 20, 2012, and $87,500 on January 4, 2013.

[2] TSWRD paid $350,000 to RBJ for the Clark well interest on March 29, 2013 and $190,000 on April 5, 2013.

Appendix B of the Complaint
Sales by TSWRD of Saltwater Disposal Well DWIs as "Real Estate"
Department of Enforcement v. Sandlapper Securities, LLC et al., Disciplinary Proceeding No. 2014041860801

Well Name	Transaction Date	Buyer	Seller	Well Percentage	Total Price	Price per 1%	TSWRD Cost	Markup to Buyer	Markup Percentage
Tom	12.01.12	TSWRD	RBJ	20	$900,000[1]	$45,000			
Tom	01.23.13	BU LLC	TSWRD	2.15	$269,937	$125,552	$96,750	$173,187	179
Tom	09.05.13	BFT	TSWRD	1.05	$119,231	$125,193	$47,250	$71,981	152
Tom	10.01.13	SI	TSWRD	4.40	$499,463	$113,514	$198,000	$301,463	152
Tom Totals				**7.6**	**$888,631**		**$342,000**	**$546,631**	**160**
Clark	03.25.13	TSWRD	RBJ	12	$540,000[2]	$45,000			
Clark	09.13.13	BE	TSWRD	.5	$107,000	$214,000	$22,500	$84,500	376
Clark	10.01.13	SI	TSWRD	3.5	$639,521	$182,720	$157,500	$482,021	306
Clark	01.17.14	TSWRD	RBJ	2	$300,000[3]	$150,000			
Clark	01.30.14	ACF I	TSWRD	1	$250,000	$250,000	$150,000	$100,000	66.7
Clark	02.12.14	SRF I	TSWRD	1	$250,000	$250,000	$150,000	$100,000	66.7
Clark Totals				**6**	**$1,246,521**		**$480,000**	**$766,521**	**160**

[1] TSWRD paid RBJ $612,500 for the Tom well interest on December 7, 2012, $50,000 on December 13, 2012, $100,000 on December 14, 2012, $50,000 on December 20, 2012, and $87,500 on January 4, 2013.

[2] TSWRD paid RBJ $350,000 for the Clark well interest on March 29, 2013 and $190,000 on April 5, 2013.

[3] Details regarding this transaction are based upon representations by Respondent Trevor Gordon in a letter to FINRA dated March 18, 2015 in response to a request made pursuant to FINRA Rule 8210.

Appendix B of the Complaint
Sales by TSWRD of Saltwater Disposal Well DWIs as "Real Estate"

Department of Enforcement v. Sandlapper Securities, LLC et al., Disciplinary Proceeding No. 2014041860801

Well Name	Transaction Date	Buyer	Seller	Well Percentage	Total Price	Price Per 1%	TSWRD Cost	Markup to Buyer	Markup Percentage
Merket	06.05.14	TSWRD	RBJ	4	$160,000[4]	$40,000			
Merket	05.23.14[5]	SRF I	TSWRD	4	$360,000	$90,000	$160,000	$200,000	125
Merket Totals				**4**	**$360,000**		**$160,000**	**$200,000**	**125**
Moreland	07.01.13	TSWRD	RBJ	40.9	$2,250,383[6]	$55,022			
Moreland	01.07.14	PFT	TSWRD	1.58	$255,030	$161,411	$86,935	$168,095	193
Moreland	01.07.14	MFT	TSWRD	2.02	$325,000	$160,891	$111,144	$213,856	192
Moreland	01.23.14	BTC	TSWRD	.93	$150,000	$161,290	$51,170	$98,830	193
Moreland	02.14.14	JK	TSWRD	3.33	$499,850	$150,105	$183,223	$316,627	173
Moreland	02.14.14	JL	TSWRD	3.33	$499,850	$150,105	$183,223	$316,627	173
Moreland	02.17.14	PFFT	TSWRD	1.71	$300,000	$175,439	$94,088	$205,912	219
Moreland	02.26.14	SRF I	TSWRD	2	$300,000	$150,000	$110,044	$189,956	173
Moreland	03.06.14	HFT	TSWRD	2.12	$350,000	$165,094	$116,647	$233,353	200
Moreland	03.05.14	GGRT	TSWRD	.77	$125,000	$162,338	$42,367	$82,633	195

[4] Details regarding this transaction are based upon representations by Respondent Trevor Gordon in a letter dated January 12, 2015 in response to a request made pursuant to FINRA Rule 8210.

[5] SRF I and TSWRD executed a Purchase and Sale Agreement on May 23, 2014 for SRF I's purchase of a 4% interest in the Merket well from TSWRD. However, TSWRD did not pay RBJ for its interest in 4% of the Merket well until June 5, 2014, after receiving payment from SRF I, as TSWRD did not have sufficient funds to purchase its 4% interest in the Merket well on May 23, 2014.

[6] On July 1, 2013, TSWRD executed a Purchase and Sale Agreement with RBJ to purchase a 40.9% interest in the Moreland well for $150,000. TSWRD's bank records show that TWSRD paid RBJ $500,000 for the Moreland well interest on December 19, 2013, $300,000 on February 14, 2014, and $1,300,383 on March 3, 2014. TSWRD's purchase price reflected herein is based upon all of TSWRD's payments to RBJ for the Moreland well interest, which totaled $2,250,383.

Appendix B of the Complaint
Sales by TSWRD of Saltwater Disposal Well DWIs as "Real Estate"

Department of Enforcement v. Sandlapper Securities, LLC et al., Disciplinary Proceeding No. 2014041860801

Well Name	Transaction Date	Buyer	Seller	Well Percentage	Total Price	Price per 1%	TSWRD Cost	Markup to Buyer	Markup Percentage
Moreland	03.05.14	LGRT	TSWRD	.77	$125,000	$162,338	$42,367	$82,633	195
Moreland	03.05.14	GM	TSWRD	1.55	$250,000	$161,290	$85,284	$164,716	193
Moreland	04.23.14	GG	TSWRD	2.50	$375,000	$150,000	$137,555	$237,445	173
Moreland	07.08.14	JRB	TSWRD	1.5	$225,000	$150,000	$82,533	$142,467	173
Moreland	07.08.14	HI 1 LLC	TSWRD	5.33	$800,000	$150,094	$293,267	$506,733	173
Moreland	07.08.14	TS LLC	TSWRD	3.37	$505,000	$149,852	$185,424	$319,576	172
Moreland	07.08.14	DW	TSWRD	.45	$55,500	$123,333	$24,759	$30,740	124
Moreland Totals				**33.26**	**$5,140,230**		**1,830,031**	**$3,310,199**	**181**
Haney	07.14.14	TSWRD	RBJ	29	$1,305,000[7]	$45,000			
Haney	08.01.14	DM	TSWRD	1.83	$273,840	$149,639	$82,350	$191,490	233
Haney	08.19.14	O LP	TSWRD	2.82	$422,995	$149,998	$126,900	$296,095	233
Haney	08.19.14	SWI 2 LLC	TSWRD	2.18	$327,009	$150,004	$98,100	$228,909	233
Haney Totals				**6.83**	**$1,023,844**		**$307,350**	**$716,494**	**233**

[7] TSWRD paid RBJ $450,000 for the Haney well interest on July 15, 2014, $750,000 on August 20, 2014, and $105,000 on August 21, 2014.

Appendix B of the Complaint
Sales by TSWRD of Saltwater Disposal Well DWIs as "Real Estate"
Department of Enforcement v. Sandlapper Securities, LLC et al., Disciplinary Proceeding No. 2014041860801

Well Name	Transaction Date	Buyer	Seller	Well Percentage	Total Price	Price per 1%	TSWRD Cost	Markup to Buyer	Markup Percentage
Hughes	07.14.14	TSWRD	RBJ	10	$550,000	$55,000			
Hughes	08.19.14	SWI 2 LLC	TSWRD	2.18	$327,009	$150,004	$119,900	$207,109	173
Hughes	08.19.14	O LP	TSWRD	2.82	$422,995	$149,998	$155,100	$267,895	173
Hughes Totals				**5**	**$750,004**		**$275,000**	**$475,004**	**173**
Total of Totals					**$9,409,230**		**$3,394,381**	**$6,014,849**	**177**

Appendix C of the Complaint
Sales by TSWRD of Saltwater Disposal Well DWIs as Securities

Department of Enforcement v. Sandlapper Securities, LLC et al., Disciplinary Proceeding No. 2014041860801

Well Name	Transaction Date	Buyer	Seller	Well Percentage	Total Amount	Price per 1%	TSWRD Cost	Markup to Buyer	Markup Percentage
Moreland	07.01.13	TSWRD	RBJ	40.9	$2,250,383[1]	$55,022			
Moreland	02.27.15	SWI 3 LLC	TSWRD	1	$128,750	$128,750	$55,022	$73,728	134
Moreland	05.11.15	FFMT	TSWRD	.237	$33,333	$140,646	$13,205	$20,128	152
Moreland	05.19.15	MA	TSWRD	.237	$33,313	$140,561	$13,205	$20,108	152
Moreland	04.23.15	AP	TSWRD	.79	$110,675	$140,095	$43,467	$67,208	155
Moreland	05.28.15	RB	TSWRD	.237	$30,991	$130,764	$13,205	$17,786	135
Moreland Totals				**2.50**	**$337,062**		**$138,104**	**$198,958**	**144**
Haney	07.14.14	TSWRD	RBJ	29	$1,305,000[2]	$45,000			
Haney	07.16.15	JP	TSWRD	.67	$75,000	$111,940	$30,150	$44,850	149
Haney Totals[3]				**.67**	**$75,000**		**$30,150**	**$44,850**	**149**

[1] On July 1, 2013, TSWRD executed a Purchase and Sale Agreement with RBJ to purchase a 40.9% interest in the Moreland well for $150,000. TSWRD's bank records show that TWSRD paid RBJ $500,000 for the Moreland well interest on December 19, 2013, $300,000 on February 14, 2014, and $1,300,383 on March 3, 2014. TSWRD's purchase price reflected herein is based upon all of TSWRD's payments to RBJ for the Moreland well interest, which totaled $2,250,383.

[2] TSWRD paid RBJ $450,000 for the Haney well interest on July 15, 2014, $750,000 on August 20, 2014, and $105,000 on August 21, 2014.

[3] The information reflected herein for the Haney well does not include a purchase made by a household member of one of the Respondents.

Appendix C of the Complaint
Sales by TSWRD of Saltwater Disposal Well DWIs as Securities
Department of Enforcement v. Sandlapper Securities, LLC et al., Disciplinary Proceeding No. 2014041860801

Well Name	Transaction Date	Buyer	Seller	Well Percentage	Total Amount	Price per 1%	TSWRD Cost	Markup to Buyer	Markup Percentage
Hughes	07.14.14	TSWRD	RBJ	10	$550,000	$55,000			
Hughes	12.23.14	BI LLC	TSWRD	1	$125,000	$125,000	$55,000	$70,000	127
Hughes Totals				**1**	**$125,000**		**$55,000**	**$70,000**	**127**
Hughes #2	10.07.14	TSWRD	RBJ	4	$220,000	$55,000			
Hughes #2	11.11.14	TSWRD	RBJ	1	$65,000	$65,000			
Hughes #2	12.23.14	BI LLC	TSWRD	2	$250,000	$125,000	$130,000	$120,000	92
Hughes #2 Totals				2	**$250,000**		**$130,000**	**$120,000**	**92**
137	11.06.14	TSWRD	RBJ	10	$550,000[4]	$55,000			
137	02.27.15	SWI 3 LLC	TSWRD	2	$257,500	$128,750	$110,000	$147,500	134
137	05.22.15	TW	TSWRD	1	$140,449	$140,449	$55,000	$85,449	155
137	05.19.15	TTB	TSWRD	1	$140,449	$140,449	$55,000	$85,449	155
137	05.19.15	MA	TSWRD	1	$140,449	$140,449	$55,000	$85,449	155
137	07.16.15	JP	TSWRD	.53	$75,000	$141,509	$29,150	$45,850	157

[4] TSWRD paid RBJ $225,000 for the 137 well interest on November 3, 2014, $150,000 on December 30, 2014, and $175,000 on March 4, 2015.

Appendix C of the Complaint
Sales by TSWRD of Saltwater Disposal Well DWIs as Securities

Department of Enforcement v. Sandlapper Securities, LLC et al.. Disciplinary Proceeding No. 2014041860801

Well Name	Transaction Date	Buyer	Seller	Well Percentage	Total Amount	Price per 1%	TSWRD Cost	Markup to Buyer	Markup Percentage
137	08.10.15	CH LLC	TSWRD	1	$130,613	$130,613	$55,000	$75,613	137
137	11.01.15	OT	TSWRD	.71	$100,000	$140,845	$39,050	$60,950	156
137 Totals				**7.24**	**$984,460**		**$398,200**	**$586,260**	**147**
Rojo	02.01.15	TSWRD	RBJ	15	$1,150,000[5]	$70,000			
Rojo	02.27.15	SWI 3 LLC	TSWRD	1	$128,750	$128,750	$70,000	$58,750	84
Rojo	08.10.15	CH LLC	TSWRD	1	$130,613	$130,613	$70,000	$60,613	87
Rojo	09.18.15	TL LLC	TSWRD	1	$140,449	$140,449	$70,000	$70,449	101
Rojo	09.25.15	CH LLC	TSWRD	1	$130,613	$130,613	$70,000	$60,613	87
Rojo	11.22.15	OT	TSWRD	.71	$100,000	$140,845	$49,700	$50,300	101
Rojo Totals				**5**	**$630,425**		**$329,700**	**$300,725**	**91**
Total of Totals					**$2,401,947**		**$1,081,154**	**$1,320,793**	**122**

[5] On February 1, 2015, TSWRD did not have funds to pay for any portion of its purchase of a 15% interest the Rojo Well. TSWRD paid RBJ $125,000 for the Rojo well on May 15, 2015, $125,000 on May 22, 2015, $70,000 on July 24, 2015 and $140,000 on August 11, 2015.

A courtesy copy of the Complaint and Notice of Complaint were sent by electronic mail to:

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William L. Thompson III
Senior Counsel
FINRA Department of Enforcement