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BEFORE THE ARKANSAS SECURITIES COMMISSIONER ARKANSAS SECURITIES DEPT.
CASE NO. S-10-0060
ORDER NO. S-10-0060-13-OR03

IN THE MATTER OF

CREWS & ASSOCIATES, INC.

RESPONDENT

CONSENT ORDER

This Consent Order is entered pursuant to the Arkansas Securities Act, codified at Ark. Code Ann. §§ 23-42-101 through 23-42-509 (“Act”), the Rules of the Arkansas Securities Commissioner (“Rules”) promulgated under the Act, and the Arkansas Administrative Procedures Act, codified at Ark. Code Ann. §§ 25-15-201 through 25-15-219, in accordance with an agreement by and between the staff of the Arkansas Securities Department (“Staff”) and Crews & Associates, Inc. (CRD# 8052) (“Crews”), in full and final settlement of all claims that could be brought against Crews by the Staff on the basis of the facts set forth herein.

Crews admits the jurisdiction of the Act and the Arkansas Securities Commissioner (“Commissioner”), waives its right to a formal hearing, and without admitting or denying the findings of fact or conclusions of law made herein, consents to the entry of this Order and agrees to abide by its terms in the settlement of any possible violations committed by Crews concerning the matters detailed in this Order.

FINDINGS OF FACT

INTRODUCTION

1. Between August 2005 and December 2008, Bamco Gas, LLC (“Bamco”), a Delaware limited liability company (“LLC”) engaged in the oil and gas industry; Ernest Ancin Bartlett, III (CRD# 1581684) (“Ernest Bartlett” or “Bartlett”); Howard Miller Appel (CRD# 1293152) (“Howard Appel” or “Appel”) and related persons or entities conducted

securities offerings of senior debentures (“Senior Bamco Debentures”) and subordinate debentures (“Subordinate Bamco Debentures”) (collectively “Bamco Debentures”) collateralized by the revenue and assets of Bamco, including its oil and gas properties, which raised a total of \$17 million from investors in Alabama, Arkansas, Colorado, Connecticut, Florida, Kentucky, Kansas, Louisiana, Massachusetts, Michigan, Ohio, Oklahoma, Texas, Washington, West Virginia, and Wisconsin. Crews served as the private placement agent (“Placement Agent”) for Bamco for the Bamco Debenture offerings and, as such, was responsible for and conducted the due diligence investigation into Bamco, drafted and revised the offering documents (“private placement memoranda” or “PPMs”) for the Bamco Debenture offerings, and sold all of the Bamco Debentures to accredited investors and qualified institutional buyers (“QIBs”).

2. The PPM for the Senior Bamco Debenture offering failed to include certain information regarding some “principal interest holders” (“Principal Members”) of Bamco which controlled Bamco, including the significant regulatory and legal backgrounds of the control persons of certain Principal Members. The PPM for the Subordinate Bamco Debenture offering failed to include equivalent information regarding the same Principal Members, failed to adequately describe the use of the Subordinate Bamco Debenture proceeds, and failed to disclose the improper dispensation of assets by Bamco after the Senior Bamco Debenture offering and the encumbrances upon assets sought to be obtained with the Subordinate Bamco Debenture proceeds.

3. As detailed in this Order, Crews did not conduct a reasonable due diligence investigation into Bamco and its related persons or entities and, as a result, sold the Bamco Debentures without an adequate understanding of Bamco, the Bamco Debenture offerings, or whether Crews’ recommendations of the Bamco Debentures were suitable investments for at

least some investors under a reasonable-basis suitability analysis. Crews ignored a number of red flags and certain information about Bamco, Bamco's control persons, and the Bamco Debentures which should have alerted Crews as the Placement Agent for the Bamco Debentures to both the duty of additional inquiries and investigation into Bamco and the Bamco Debentures, and the potential need for disclosure of additional facts or clarification of information submitted to its customers regarding the Bamco Debentures. Crews' failure to conduct a reasonable due diligence investigation into Bamco and the Bamco Debentures ultimately caused the distribution of inaccurate and insufficient information to its customers.

4. Furthermore, Crews failed to reasonably supervise its agents by failing to enforce its internal written supervisory procedures ("WSP") for the approval for sale of, recommendation to its customers of, and reasonable due diligence investigation into the Bamco Debenture offerings made pursuant to the United States Securities and Exchange Commission's ("SEC") Regulation D ("Reg D") under Section 4(2) of the Securities Act of 1933 ("Securities Act"), codified at 17 C.F.R. §§ 230.501 through 230.508, commonly known as Reg D offerings or private placement offerings.

RESPONDENT

5. Crews is an Arkansas corporation and wholly-owned subsidiary of First Security Bancorp of Searcy, Arkansas, with its principal place of business and sole office of supervisory jurisdiction located in Little Rock, Arkansas. Crews has been registered with the Arkansas Securities Department ("Department") as a broker-dealer and investment adviser since March 25, 1980, and maintains Arkansas branch offices in Cabot, Clarksville, Conway, Fayetteville, Heber Springs, Little Rock, Maumelle, Mountain Home, Mountain View, Searcy, and Springdale.

Additionally, Crews has ten out-of-state branch offices located in Alabama, Louisiana, Maryland, Mississippi, Missouri, Ohio, Texas, and West Virginia.

6. Crews and its agents involved in the matters set forth herein have fully cooperated with the Staff throughout its investigation and, without admitting or denying the findings of fact and conclusions of law contained in this Order, consents to the entry of this Order. Crews and its agents involved in the matters set forth herein have assured the Staff that appropriate steps have been taken to prevent further violations of the Act and Rules.

Bamco Debenture Offerings

7. Bamco is a private, manager-managed Delaware LLC, which was formed in 2004 to participate in various areas of the oil and natural gas industry, including acquiring, exploring, drilling, and developing oil and gas properties; and acquiring ownership interests in oil and gas properties, projects, or entities. Its focus was to acquire exploration and development assets in the Texas Gulf Coast Region. During the time period set forth herein, Bamco's main office was located at 111 Presidential Boulevard, Suite 158, Bala Cynwyd, Pennsylvania 19004 ("Main Office Address"). Bamco registered as a foreign LLC in Arkansas on June 22, 2006, which status, according to the Arkansas Secretary of State, was subsequently revoked on December 31, 2007.

8. Bamco offered and sold two series of Bamco Debentures. On or about August 9, 2005, Bamco closed a private placement offering of Series 2005, \$10,000,000 8.25% Debentures—the Senior Bamco Debentures. Similarly, on or about March 28, 2008, Bamco closed a subsequent private placement offering of Series 2008, \$7,000,000 10.00% Subordinate Debentures—the Subordinate Bamco Debentures. On August 16, 2005, and April 14, 2008, respectively, Bamco filed Notices of Sales of Securities on SEC Form D ("Form D") with the

Department for the Senior Bamco Debenture offering and the Subordinate Bamco Debenture offering. Bamco made the Form D filings pursuant to Ark. Code Ann. §§ 23-42-501(3) and 23-42-509(c)(1) in order to offer or sell the Bamco Debentures in and from Arkansas as federal covered securities in private placement offerings.

9. The Senior Bamco Debentures were issued by Bamco under a trust indenture in 2005 (“2005 Trust Indenture”) to raise funds to pay off the outstanding balance of prior debts or loans from Texas Capital Bank headquartered in Dallas, Texas, in the amount of \$1,836,543.00; RMS Advisors, Inc. (“RMS Advisors”), described in the PPM for the Senior Bamco Debenture offering as a Bamco “related party” in the amount of \$1,253,341.00; FEQ Gas, Inc. (“FEQ Gas”), a related party, in the amount of \$56,338.00; DDH Resources II, Limited (“DDH Resources”), in the amount of \$734,956.00; and Westwood AR, Inc., a related party, in the amount of \$310,389.00; provide working capital for Bamco; fund a debt service reserve account in the amount of \$750,000.00; and pay the costs of the issuance of the Senior Bamco Debentures. The Senior Bamco Debenture holders possessed a security interest in and senior lien on Bamco’s revenues, any property or funds held by the trustee for the Bamco Debentures (“Trustee”) pursuant to the 2005 Trust Indenture, and all other assets of Bamco existing at the time of the offering or acquired after the offering.

10. The Subordinate Bamco Debentures were issued by Bamco pursuant to a supplemental trust indenture in 2008 (“2008 Trust Indenture”) (collectively with the 2005 Trust Indenture, “Trust Indentures”) to provide approximately \$6,079,350.00 in working capital that Bamco expected to use to acquire a 45% interest in Freedom Pipeline, LLC (“Freedom Pipeline”), a Texas LLC, from its current owner, Striker Petroleum, LLC (“Striker”), a Texas LLC also engaged in the oil and gas industry; provide approximately \$500,000.00 for working

capital purposes; and pay the costs of issuance of the Subordinate Bamco Debentures. The Subordinate Bamco Debenture holders obtained a subordinate security interest in Bamco's revenues, the property or funds held by the Trustee pursuant to the 2008 Trust Indenture, and all other assets of Bamco then held or acquired after the offering, including the 45% interest in Freedom Pipeline that was to be acquired with the proceeds of the Subordinate Bamco Debentures.

11. On December 3, 2009, the SEC filed a complaint against Striker in the United States District Court for the Northern District of Texas, Dallas Division, for violations of the federal securities fraud provisions found in Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10b of the Securities Exchange Act of 1934 [15 U.S.C. § 78j(b)] ("Exchange Act"), and Rule 10b-5 of the Exchange Act [17 C.F.R. 240.10b-5] in the offer and sale of debentures by Striker collateralized by oil and gas properties, which raised approximately \$57 million from investors across the country from September 2006 through September 2008. Specifically, the offering materials for the debentures were alleged to have included misstatements and omissions regarding Striker's assets, earnings, use of investor proceeds, and employment of an independent trustee for the debentures. The SEC's action resulted in agreed permanent injunctions against Striker and its principals, the freezing of Striker's assets, and the appointment of a receiver, attorney Dennis L. Roossien, Jr. ("Roossien") of Munsch Hardt Kopf & Harr, P.C., of Dallas, Texas. *See SEC v. Striker Petroleum, LLC, Mark S. Roberts, and Christopher E. Pippin*, Case No. 3:09-CV-2304-D (N.D. Tex. Dec. 3, 2009).

12. Roossien's *Receiver's First Interim Report* filed with the court on July 30, 2010, stated, in pertinent part, as follows:

The structure of these [debenture] offerings was such that Striker was the manager of each of the issuer entities, and Reichmann Petroleum Corp. would serve as the

operator of the properties. Later offerings raised another \$57 million, and they were premised upon the use of funds to drill new wells on essentially the same leases and to fund the acquisition of a pipeline [, held by Freedom Pipeline, LLC,] that served certain of the properties. In these offerings, Striker itself was the issuer of what were called the debenture investments

Parallel to Mark Roberts [, Striker's president, director, and sole owner ("Mark Roberts" or "Roberts")], *there were others raising money on the same assets under the Bamco banner, principally by Earnest [sic] Bartlett and Howard Appel.* The extent of this fundraising is unknown, but there were at least two debenture offerings that were similar to the Striker debenture offerings, and *the land records show that Bamco also received percentage interests in the same wells in which Striker had percentage interests. Additionally, there were multiple transfers of the oil and gas properties and the pipeline back and forth between Striker and Bamco.* (Emphasis added).

In 2010, after notification of Bamco's potentially-overlapping interests in Striker's oil wells, the Staff initiated an investigation into Bamco and the circumstances surrounding the sales of the Bamco Debentures.

13. Bamco sold the Bamco Debentures through Crews, which served as the Placement Agent for the Senior Bamco Debenture offering and the Subordinate Bamco Debenture offering, using PPMs that were prepared by Bamco, Crews, and Crews' outside counsel. As the Placement Agent, Crews functioned as the exclusive marketer and seller of the Bamco Debentures and was responsible for conducting the due diligence investigation into Bamco and the Bamco Debentures. As a result, Crews was considerably involved with Bamco, Bamco's affiliates and control persons, and the issuance of the Bamco Debentures. Through 17 of its agents, Crews sold the Bamco Debentures to accredited investors and QIBs. Crews received a Placement Agent fee of \$600,000.00 for the Senior Bamco Debenture offering and \$525,000.00 for the Subordinate Bamco Debenture offering, totaling \$1.125 million, from which Crews' agents received a total of approximately \$666,900.00 in commissions from the sales of the Bamco Debentures.

14. First Security Bank of Searcy, Arkansas, an Arkansas state bank; wholly-owned subsidiary of First Security Bancorp; and affiliate of Crews, served as the Trustee for the Bamco Debentures. The Senior Bamco Debentures were sold pursuant to the 2005 Trust Indenture dated August 1, 2005, between Bamco and the Trustee. The Subordinate Bamco Debentures were sold pursuant to the 2008 Trust Indenture dated March 15, 2008, between Bamco and the Trustee. Bamco and the Trustee also entered into certain corresponding continuing disclosure agreements (“Disclosure Agreements”) for the Bamco Debenture offerings.

15. FEQ Gas, a manager-managed Delaware LLC, served as the manager of Bamco. The manager of FEQ Gas is FEQ Investments, Inc. (“FEQ Investments”) (collectively with FEQ Gas, “FEQ Entities”), a Delaware corporation. Ernest Bartlett, a resident of Little Rock, Arkansas, serves as the president of FEQ Investments and as the principal for both FEQ Entities. Bartlett was given substantial authority to manage Bamco on a daily basis through his control of the manager entity, FEQ Gas. Furthermore, Bartlett was a Principal Member with control of Bamco, owning approximately 8.32% of Bamco through his control of the FEQ Entities – FEQ Gas, which owned approximately 2.03% of Bamco, and FEQ Investments, which owned approximately 6.29% of Bamco.

16. Howard Appel is a resident of Pennsylvania. For the Senior Bamco Debenture offering, Appel served as an “Authorized Company Representative” of Bamco and as Bamco’s Secretary. Appel served as the general partner of 1025 Partners, LP (“1025 Partners”), a Delaware limited partnership (“LP”); as the president of RMS Advisors, a Nevada corporation described by Bamco as a related party; and as the president of DDH Resources, an entity of unidentified origin. RMS Advisors served as the manager of various entities, including, but not

limited to, RMS Gas, LLC (“RMS Gas”), a Delaware LLC; and PHT Gas, LLC (“PHT Gas”), a Delaware LLC.

17. During the Bamco Debenture offerings, Appel was the single largest Principal Member with control of Bamco, owning an approximate 27.29% interest in Bamco through his control of 1025 Partners, which owned approximately 10.04%; RMS Gas, which owned approximately 7.99%; PHT Gas, which owned approximately 5.71%; 1025 Investments, Inc. (“1025 Investments”), a Nevada corporation for which Appel served as president and director, which owned approximately 1.99%; and RMS Advisors, which owned an approximate 1.56% interest in Bamco. Appel also controlled or had interests in numerous other entities with interests in Bamco and Bamco related parties, several of which shared Bamco’s Main Office Address. Bartlett, Appel, and entities with which they are associated have been involved in a myriad of complex securities offerings spanning an undetermined period of time.

18. During the time period set forth herein, Bartly Williams Barnwell (CRD# 1413781) (“Bart Barnwell” or “Barnwell”) and David Paul Crews (CRD# 1382369) (“David Crews” or “D.Crews”) were agents of Crews. Barnwell and D.Crews had been actively engaged in oil and gas projects prior to the Bamco Debenture offerings and had personally invested in various oil and gas interests. During the time period set forth herein, due to Barnwell’s and D.Crews’ background in the oil and gas sector, Barnwell and D.Crews were the agents at Crews who typically fielded requests from outside parties to put together oil and gas financing projects.

19. Barnwell and D.Crews were personally acquainted with Ernest Bartlett, Howard Appel, and other Principal Members of Bamco and became aware of Bamco through these relationships. In 2005, Bartlett contacted Barnwell and D.Crews about coordinating the Senior

Bamco Debenture offering for Bamco, which subsequently led to the Subordinate Bamco Debenture offering in 2008, as well.

20. Crews' WSP state that Crews' Chief Executive Officer, Rush Flowers Harding, III (CRD# 501131) ("Rush Harding" or "Harding"), is the registered principal with supervisory responsibility over Crews' participation in private placement offerings. Harding also serves as the direct supervisor for Barnwell, D.Crews, and all of the agents who sold the Bamco Debentures. Harding approves Crews' participation in private placement offerings based on certain information provided by issuers of securities, like Bamco, and issuers' counsel. Harding is to either conduct the due diligence investigations for the private placement offerings or engage counsel or otherwise qualified persons to conduct the due diligence investigations. Moreover, Harding documents Crews' due diligence file, establishes any limitations on private placement offerings, and decides what information to provide to Crews' selling agents. For this reason, Barnwell and D.Crews approached Harding about putting together the initial Senior Bamco Debenture offering for Bamco. Harding subsequently approved Crews' participation in and coordination of the Senior Bamco Debenture offering and the Subordinate Bamco Debenture offering for Bamco as the Placement Agent.

21. Barnwell and D.Crews sold the majority of the Bamco Debentures for Crews. Barnwell made approximately 71 sales of the Bamco Debentures, totaling approximately \$346,255.00 in selling commissions. D.Crews made approximately 135 sales of the Bamco Debentures, with selling commissions totaling approximately \$202,701.00. The remaining Bamco Debentures were sold by 15 other agents at Crews, including Harding, for total of approximately \$118,000.00 in commissions.

22. In addition to selling the Subordinate Bamco Debentures in 2008, Barnwell and D.Crews formed Completion Consultants, LLC (“Completion”), an Arkansas LLC, on March 17, 2008. Both Barnwell and D.Crews served as 50% owners and co-managers of Completion. As Completion, Barnwell and D.Crews executed an “Agreement of the Servicing Agent” for the benefit of Crews and the Trustee, and acted as the servicing agent for the Subordinate Bamco Debenture offering. Barnwell’s and D.Crews’ participation in Completion was proposed to, disclosed to, and permitted by Harding as an outside business activity.

23. As Completion, Barnwell and D.Crews split a fee of \$172,500.00 from the Subordinate Bamco Debenture proceeds for assisting with the due diligence investigation for the Subordinate Bamco Debenture offering, reviewing drafts of the PPM for the Subordinate Bamco Debenture offering for revision, and providing financial consulting services and post-closing compliance consulting and assistance to Bamco. The post-closing compliance consulting and assistance conducted by Barnwell and D.Crews included, but was not limited to, assisting Bamco in complying with the 2008 Trust Indenture and meeting Bamco’s obligations under the Disclosure Agreements with the Trustee. The PPM for the Subordinate Bamco Debenture offering disclosed the responsibilities of Completion, Barnwell’s and D.Crews’ concurrent involvement in Completion and role as selling brokers for the Subordinate Bamco Debentures, and Completion’s receipt of the \$172,500.00 fee for acting as the servicing agent for the Subordinate Bamco Debenture offering.

24. Barnwell and D.Crews performed similar tasks for the Senior Bamco Debenture offering, but with no formal agreement or supplemental compensation received for the equivalent work in 2005. For the Bamco Debenture offerings, Barnwell and D.Crews were in regular contact with Bamco and Bamco’s affiliates and control persons, and had continuous

access to information about Bamco, the Bamco Debentures, and Bamco's compliance with the Trust Indentures and other agreements with the Trustee.

25. Paul Edward Phillips (CRD# 3019520) ("Paul Phillips" or "Phillips"), an agent of Crews, led the due diligence investigation into Bamco for the Bamco Debenture offerings. Crews' due diligence team included Phillips, Barnwell, D.Crews, additional analysts at Crews, and outside legal counsel, in addition to Bamco and Bamco's legal counsel and experts. Unlike Barnwell and D.Crews, the Bamco Debenture offerings were Phillips' first oil and gas financing transactions. During the time set forth herein, Phillips did not own oil and gas interests and had never invested in the area. Rush Harding also served as Phillips' direct supervisor.

Bamco Receivership

26. Frank Faust ("Faust"), Senior Vice President & Trust Officer for the Trustee, sent a letter to Bamco on February 25, 2009, reminding Bamco of the following requirements under the Trust Indentures:

Pursuant to Section 5.01 of the [Trust] Indentures, "[a]ll Revenues shall, as and when received by [Bamco], be deposited into the Revenue Fund." To date, while Bamco has not missed a payment on any of the debentures issued under the [Trust] Indentures, [Bamco] has not been following these agreed upon procedures. I have to insist that Bamco immediately commence depositing its Revenues as and when received into the Revenue Fund

Faust also detailed certain additional, monthly deposits required by Bamco. Regarding additional irregularities in Bamco's compliance with its agreements with the Trustee, Faust stated as follows:

Bamco has also not delivered certain required financial disclosure, including the 12/31/07 Year End Reviewed Statement and the 3/31/08, 6/30/08 and 9/30/08 unaudited quarterly statements

With the giving of notice and the passage of time, upon the direction of the debenture holders, it would be incumbent upon me to declare a default as a result of the above violations of the [Trust] Indentures.

Please provide assurance to me that Bamco will bring itself into compliance with the Indentures immediately.

27. On May 4, 2009, the Trustee filed a complaint against Bamco in the Pulaski County Circuit Court in Little Rock, Arkansas, which initiated a receivership action against Bamco and requested the appointment of a receiver over Bamco's assets. *See First Sec. Bank v. Bamco Gas, LLC*, Case No. 60CV-09-3218 (Ark. Sixth Jud. Cir. – Div. 2; May 4, 2009). In its complaint, the Trustee alleged, in pertinent part, as follows:

Bamco Gas has not provided the Financial Statements, accounting information, and disclosures contractually required by the [2005] Trust Indenture.

....

Despite its contractual obligations in the Trust Indenture and demands made by the Trustee, Bamco Gas has refused to deposit all its revenues into the Revenue Fund.

Bamco Gas is in violation of its contractual trust obligations to deposit all of its revenues into the Revenue Fund at First Security Bank.

It is believed, and therefore alleged, that the revenues of Bamco Gas, which are the security for its Debenture obligations under the Trust Indenture, are being held and transferred in derogation of the Trustee's security interest and its contractual rights under the Trust Indenture.

It is believed, and therefore alleged, that the Trustee's security interest in the revenues of Bamco Gas is being impaired by such funds being transferred and depleted outside of the Revenue Fund, and its protective provisions established by the Trust Indenture.

....

Despite its contractual obligations in the Trust Indenture and demands made by the Trustee, Bamco Gas has failed and refused to provide Trustee the Financial Statements, accounting information, and disclosures.

28. The last semiannual distribution payments to Subordinate Bamco Debenture holders occurred on or about December 1, 2008, less than nine months after the Subordinate Bamco Debenture offering, and to Senior Bamco Debenture holders on or about June 1, 2009.

29. The court appointed Llano Consolidated Resources, LLC (“Llano”), a Texas LLC managed by Steven E. Looper (“Looper”) of Amarillo, Texas, as the receiver for Bamco on May 6, 2009, tasked with taking charge and possession of the offices, assets, facilities, records, correspondence, and books of Bamco; collection of Bamco’s revenues and gross receipts; and other managerial and operational duties. On May 13, 2010, the court removed Llano and Looper as Bamco’s receiver for failure to abide by the court’s orders and appointed Alan Wayne Barksdale (CRD# 4538369) of Little Rock, Ernest Bartlett’s step-son-in-law, as the successor receiver for Bamco (“Barksdale” or “Successor Receiver”).

30. Barksdale was registered with the Department as an agent with Crews from July 12, 2002, through September 11, 2003; as an agent with Stephens, Inc. (“Stephens”) from September 15, 2003, through October 30, 2003; and, again, as an agent with Crews from January 22, 2004, through June 18, 2010. From on or about May 17, 2004, through June 16, 2004, Barksdale served a 31-day suspension from association with any NASD-registered broker-dealer and was fined \$5,000.00 by the National Association of Securities Dealers, Inc. (“NASD”), now known as the Financial Industry Regulatory Authority (“FINRA”), the federal self-regulatory organization for securities firms in the United States, for soliciting an attorney to make contributions to an issuer with which Stephens was engaging in municipal securities business at the time.

31. The June 1, 2010 *Sworn Affidavit of Alan Barksdale* as Successor Receiver stated as follows:

Prior to my appointment as the Successor Receiver, I was employed as an investment banker by Crews & Associates, Inc. . . . I was a Director in the Capital Markets Group . . . [and] resigned from my position at Crews & Associates effective June 1, 2010.

....

. . . I was employed by Crews & Associates during the time Crews & Associates placed the Bamco 2005 Debentures and the Bamco 2008 Debentures, and was aware of Crews & Associates' representation in the matter and its appointment as the Placement Agent. However, I was not part of the team which worked on the [Bamco Debentures].

. . . .

My first contact with Bamco was in late 2008 when Mr. Bartlett asked me, as a personal favor, to look at some documents relating to transactions among Bamco, Striker . . . MSB Energy, Inc. ("MSB"), and Freedom Pipeline I told my future father-in-law that the transactions I looked at gave me concerns and suggested that he seek counsel. I also advised Crews & Associates and First Security Bank. Upon learning of the transactions that Bamco was involved in, Crews & Associates asked me to look into the transactions involving Striker, MSB, Freedom, and the principals of those entities. From my review I advised Crews & Associates that I thought Bamco was operating its business in a manner that put Bamco's assets at serious risk of dissipating. Thereafter, First Security Bank initiated this case resulting in the appointment of Llano as the Receiver for Bamco.

32. In the *Trustee's Eighth Notice to Debenture Holders of Bamco Gas, LLC* ("Trustee's Eighth Notice"), dated September 21, 2011, the Trustee disclosed the following information which had come to its attention regarding Barksdale and his role as Successor Receiver:

Alan Barksdale, Successor Receiver, was a principal and shareholder in Black Rock Capital, LLC, a Texas Corporation ("Black Rock"), which was believed to have been formed to acquire certain oil and gas working interests. Black Rock has acquired working interests in oil and gas wells in which [Bamco] has interests. Alan Barksdale may be involved in other companies that act as operating companies managing wells in which [Bamco] has working interests.

Through a Reorganization and Share Exchange Agreement, all of the shares of Black Rock have been acquired by Red Mountain Resources, Inc., (f/k/a Teaching Time, Inc.), a corporation formed in the State of Florida

. . . It appears from [a Form 8-K report filed by Red Mountain with the SEC] that Alan Barksdale is the largest shareholder in Red Mountain with 18,000,000 shares, and that Mr. Barksdale is the new proposed chief executive officer.

Red Mountain has submitted proposals to acquire all of the assets of [Bamco].

The Trustee further encouraged the Bamco Debenture holders to review RMR's filings with the SEC and to take into consideration Barksdale's involvement with RMR, Black Rock, and other entities controlling the oil and gas wells in which Bamco also owned interests and its potential effect on the assessment and valuation of Bamco's assets.

33. On June 15, 2012, the Successor Receiver filed his *Motion of Receiver for Approval of (A) Sale Transaction, (B) Proposed Distribution of Receivership Assets, and (C) Related Relief* ("Receiver's Motion") with the court. On October 1, 2012, the court entered an *Order Granting Motion of Receiver for Approval of: (A) Sale Transaction; (B) Proposed Distribution of Receivership Assets; and (C) Related Relief* ("Approval Order"). Specifically, the Receiver's Motion detailed the following proposed sale transaction of Bamco's assets:

The [Successor] Receiver, Mr. Barksdale, is also the Chairman and Chief Executive Officer of, and the owner of the largest equity interest in, Red Mountain Resources, Inc. ("RMR"), a [Florida corporation and] publicly traded entity. RMR is engaged in the oil and gas exploration and production business

Mr. Barksdale, on behalf of RMR, is proposing to purchase . . . from [Bamco's] Receivership Estate [assets] . . . all of [Bamco's] rights, title and interest in the Lease Assets[, Bamco's fractional interests in oil and gas leases located in the state of Texas;] Whitewater Pipeline Interest[, oil and gas working interests in an exploration project located in Delta and Mesa Counties, Colorado, and the corresponding pipeline assets;] and [Bamco's] Miscellaneous Assets[, including office furniture, computers, and related equipment worth approximately \$10,000.00] As consideration for the purchase of [Bamco's assets,] RMR will issue, and/or cause to be delivered, to the Receivership Estate 5,375,000 shares of RMR's common stock

. . . .

The [Successor] Receiver makes no representations or warranties with respect to the value of the Asset Sale Shares and would state, for informational purposes only, that as of the close of trading on May 21, 2012, RMR's stock closed at \$1.42 per share.

....

... [T]he [Successor] Receiver proposes that once RMR has tendered the Asset Sale Shares to the Receiver at the close of the Sale Transaction (which tender shall occur within five (5) days of the final approval of the Sale Transaction by the Court), the Receiver shall deliver the Asset Sale Shares to the Trustee within three (3) business days thereafter for distribution to the Class 1 Secured Senior Debenture Claims, followed by distributions to the Class 2 Secured Subordinate Debenture Claims.

34. Pursuant to the Approval Order, Barksdale as the Successor Receiver received the 5,375,000 shares of RMR, the corporation for which he also serves as the president, chief executive officer, and chairman, in exchange for Bamco's assets. The Successor Receiver subsequently distributed the shares of RMR and certain funds to the remaining Bamco Debenture holders. On March 25, 2013, the Trustee filed a *Motion Seeking Approval of Final Distribution and Dismissing Receivership* requesting that the court dismiss the Bamco receivership due to the fact that all assets of Bamco have been sold and distributed to the holders of the Senior Bamco Debentures. The court subsequently entered an *Order Granting Approval of Final Distribution* on March 29, 2013.

Bamco Private Placement Memoranda

35. The PPMs for the Senior Bamco Debenture offering and the Subordinate Bamco Debenture offering failed to disclose certain information regarding Bamco, Bamco's affiliates and control persons, and the Bamco Debentures, including, but not limited to, the following:

a. Bartlett Background –

i. Bartlett was registered with the Department as a broker-dealer agent in Arkansas with two separate securities firms from December 5, 1986, until June 1, 1988. Through a decision rendered on June 14, 1989, the NASD censured Bartlett, fined him \$15,000.00, and barred him from association with any NASD-

registered broker-dealer in any capacity. The sanctions were based on findings that Bartlett exercised discretionary power over three customer accounts, and purchased and sold securities without the prior written consent from the customers. NASD also found that Bartlett used high-pressure sales tactics and made exaggerated and misleading statements to customers to solicit their business. Additionally, Bartlett failed to respond to NASD's requests for information pursuant to the NASD Rules of Fair Practice.

ii. The following information about Bartlett was included in the PPMs for the Senior Bamco Debenture offering and the Subordinate Bamco Debenture offering:

Ernest Bartlett has been a self-employed investment banker and private investor in the oil and gas industry for over 5 years. He has engaged in investment banking services for private and publicly held companies for over 20 years. He has performed investment banking services for two publicly held companies in the oil and gas industry, Touchstone Resources USA, Inc. (otc:tsnu) and Endeavour International Corp. (amex:end), who have raised in excess of \$100 million of capital in the public market for oil and gas exploration and development. He has acted as advisor for numerous oil and gas projects in the private sector that have raised equity investment [sic] of over \$100 million in oil and gas projects in the private sector, and that have contributed to the discovery of in excess of 1 Trillion cubic feet of natural gas and equivalents.

iii. Bartlett's securities-industry background and adverse regulatory history were not disclosed to Bamco investors in the PPMs for the Senior Bamco Debenture offering or the Subordinate Bamco Debenture offering.

b. Appel Involvement and Background –

i. Appel has never been registered with the Department in any capacity but was registered with the NASD and other states' securities regulators as a broker-

dealer agent with five different broker-dealer firms from on or about August 1984 through December 1990. From on or about February 1985 through March 1990, Appel was registered as an agent with and served as the president and registered principal of the broker-dealer firm Bailey, Martin & Appel (“BMA”). In 1991, the NASD permanently barred Appel from associating with any NASD-registered broker-dealer and fined him \$125,000.00 resulting from Appel’s participation in a fraudulent scheme to manipulate the price of the stock of a publicly-traded company. BMA, acting through Appel, effected principal sales of equity securities, agency cross transactions, and municipal securities to public customers at unfair prices. BMA also failed to make certain disclosures on confirmations, sold unregistered shares of common stock to customers, and sold limited partnership interests on an “all or none” basis and caused funds to be disbursed from the escrow account before the contingency was met.

ii. Appel faced numerous other regulatory actions and customer complaints from his time as a registered broker-dealer agent. Appel’s most recent customer complaint from 1995 resulted in an NASD arbitration decision in December 1997 finding Appel jointly and severally liable to a former customer for \$44,500.00 plus interest and over \$12,600.00 in attorney’s fees for allegations including breach of fiduciary duty, breach of contract, fraud and deceit, negligent misrepresentation, breach of duty of reasonable care, respondeat superior, agency, and breach of duty to supervise.

iii. In *United States v. Howard M. Appel*, Case No. 1:04-cr-00505-JG (E.D.N.Y. filed May 26, 2004), Appel pleaded guilty to the felonies of conspiracy

to commit securities fraud and conspiracy to commit money laundering on September 21, 2004. On February 26, 2008, he was sentenced to one year and one day in prison and three years of supervised release. Appel was ordered to pay \$2,883,037.99 in restitution to approximately 68 individuals, which was scheduled to be paid at 20% of Appel's net monthly income to begin immediately after his release. Appel served his prison sentence from June 12, 2008, through April 24, 2009. The record of Appel's prosecution, conviction, and sentencing was sealed by the United States District Court for the Eastern District of New York until November 2008. However, Appel's conviction and the ultimate service of his prison sentence shortly after the beginning of the Subordinate Bamco Debenture offering were known to Bartlett and others involved in the Subordinate Bamco Debenture offering.

iv. On June 12, 2008, the exact date Appel entered prison, Appel emailed several individuals, including, but not limited to, Bartlett. Appel referenced and specified certain funds owed to Bamco at that time as a result of various transactions. Additionally, Appel encouraged individuals needing to reach him to either email him or coordinate with Bartlett, as he would be "tough to reach."

v. Pursuant to an invoice from Appel as president of RMS Advisors dated August 3, 2005, RMS Advisors received a wired payment of \$1,253,341.92 from the Trustee from the proceeds of the Senior Bamco Debenture offering. Pursuant to another invoice signed by Appel as president of DDH Resources dated August 3, 2005, DDH Resources received a payment of \$734,956.71 from the Trustee from the proceeds of the Senior Bamco Debentures. The separate

invoices listed the address for RMS Advisors and DDH Resources as Bamco's Main Office Address. Additionally, the PPMs for the Senior Bamco Debenture offering and the Subordinate Bamco Debenture offering disclosed that Bamco had a 30.94% ownership interest in PHT Gonzalez Partners, LP ("PHT Gonzalez"), a Delaware LP. Appel was the president of PHT Gonzalez. Certain bank statements show that Bamco made payments on Appel's credit cards and indicate various debits and credits to and from entities affiliated with Appel during the time period set forth herein. Appel also signed multiple Bamco-related contracts and documents on behalf of Bamco related parties and entities.

vi. In the PPM for the Senior Bamco Debenture offering under the heading "Related Parties," Bamco states that "[w]hile not an affiliate of Touchstone Resources USA, Inc. ["Touchstone"]) . . . , [Bamco] has overlapping interests with Touchstone. Touchstone is the operator of [Bamco's] PHT Vicksburg Project, and other projects, discussed [in the PPM]. Touchstone is a leading-edge oil and gas exploration company targeting high-potential assets." Under the heading "Joint Operating Agreements/Joint Ventures," the PPM for the Senior Bamco Debenture offering further discloses that "Touchstone and [Bamco] entered into a joint venture in April 2004 Touchstone is a participant in and is the operator of certain of [Bamco's] wells." Additional documents filed with the SEC regarding Cygnus Oil & Gas Corporation ("Cygnus"), a Delaware corporation formerly known as Touchstone, indicate that as of on or about July 3, 2006, Appel as president of HMA Advisors, Inc. ("HMA"), a Delaware corporation, was the beneficial owner of with voting and/or dispositive power

over 300,000 shares of Cygnus stock. HMA Advisors has also shared Bamco's Main Office Address.

vii. Bamco maintained a brokerage account at Crews solely for the purpose of purchasing Senior Debentures in the secondary market with its excess capital. Bamco's account profile and account forms at Crews completed on or about March 22, 2007, listed both Bartlett and Appel at Bamco's Main Office Address as the contacts for Bamco's account. Barnwell was listed as the agent at Crews responsible for Bamco's account. Appel was Crews' second point of contact for Bamco, in case Bartlett was unavailable at any time.

viii. Additionally, a June 2, 2005, letter in Crews' due diligence file from W.D. Von Gonten & Co. ("W.D. Von Gonten"), a Texas petroleum engineering firm, and addressed to Appel at Bamco Associates, LLC [sic], at Bamco's Main Office Address, indicates that Appel requested an estimate of Bamco's oil and gas reserves and revenues as of May 1, 2005. The findings of the W.D. Von Gonten reserve report prepared pursuant to Appel's request and a similar request also submitted by Bartlett were ultimately included in the PPM for the Senior Bamco Debenture offering, although Appel is not specifically identified in the PPM.

ix. Despite Appel's involvement with Bamco and involvement with and control of numerous entities affiliated with or related to Bamco, Appel's connection to Bamco and adverse legal and regulatory history were not disclosed in the PPMs for the Senior Bamco Debenture offering or the Subordinate Bamco Debenture offering.

c. Background of Stephen P. Harrington –

i. Stephen Patrick Harrington (CRD# 1075628) (“Stephen Harrington” or “Harrington”) is a resident of Pennsylvania.

ii. In the PPMs for the Senior Bamco Debenture offering and the Subordinate Bamco Debenture offering, Harrington is disclosed as a Principal Member of Bamco with control of Bamco, owning an approximate 5.2% interest in Bamco through his control of SPH Investments, Inc., a Pennsylvania corporation for which Harrington served as the president and which shares Bamco’s Main Office Address, which owned approximately 4.29%; and SPH Profit Sharing Plan f/b/o Harrington, which owned approximately 0.91%.

iii. Along with Appel, Harrington faced regulatory sanctions by the NASD in the early 1990s. There is a history of interrelated entities, securities offerings, and transactions between Bartlett, Appel, and Harrington. This information about Harrington was not disclosed in the PPMs for the Senior Bamco Debenture offering or the Subordinate Bamco Debenture offering.

d. Inconsistent Disclosure of Principal Members –

i. The PPMs for the Senior Bamco Debenture offering and the Subordinate Bamco Debenture offering included a description of Bamco’s Principal Members, which, as stated, controlled a majority of the company at the time the Bamco Debentures were sold. A total of ten Principal Members were listed with Bamco ownership levels of between 0.91% and 14.5%. For entities controlled by certain individuals, such as Ernest Bartlett’s control of FEQ Gas (2.03% owner) and FEQ

Investments (6.29% owner), the PPMs specifically disclose the name of the individuals with control.

ii. As stated above, Appel served as the general partner of 1025 Partners, and as the president of RMS Advisors, a Bamco related party. RMS Advisors served as the manager of RMS Gas and PHT Gas. Both 1025 Partners (10.04% owner) and RMS Gas (7.99% owner) are disclosed as Principal Members, yet Appel's control of these entities is not similarly disclosed when compared to the other Principal Members of Bamco. Additionally, 1025 Investments owned 1.99%, and PHT Gas owned a 5.71% interest in Bamco. These entities are not disclosed as Principal Members or mentioned at all in the PPMs for the Senior Bamco Debenture offering or the Subordinate Bamco Debenture offering, despite the fact that entities owning as much as 0.91% are disclosed, along with their control persons. Through Appel's control of these entities, Appel owned an approximate 27.29% interest in Bamco and was effectively the Principal Member controlling the largest percentage interest in Bamco, over 10% more than any other Principal Member.

iii. The inconsistencies in the PPMs for the Senior Bamco Debenture offering and the Subordinate Bamco Debenture offering regarding Bamco's Principal Members were acknowledged by Crews and brought to the attention of other parties involved in the Bamco Debenture offerings. However, no changes were made to the PPMs, and specifically, Appel's involvement was never disclosed.

e. Snyder Loan –

i. Jim C. Snyder (“Snyder”) is a resident of Seattle, Washington. Pursuant to a promissory note dated March 7, 2008, Snyder granted a bridge loan to Striker (“Striker Bridge Loan”) in the aggregate principal amount of \$5.5 million to pay certain debts to Freedom Pipeline, which was secured by a lien on the following property:

All of the membership interests in Freedom Pipeline, LLC, . . . owned by [Striker], currently consisting of a ninety percent (90%) ownership interest, and all attachments, increases, revision, or additions thereto, granted to [Striker] under the Second Amended Chapter 11 Plan of Reorganization of Freedom Pipeline, LLC as modified, dated October 17, 2007. (Emphasis added).

ii. On March 28, 2008, Snyder entered into a subordination of the Striker Bridge Loan in which, in consideration for payment of all existing indebtedness under the Striker Bridge Loan, Snyder subordinated his security interest in Freedom Pipeline. In the subordination agreement, Snyder also loaned Bamco, Freedom Pipeline, and Striker the additional sum of \$3 million for which, in part, Snyder received a subordinate lien on the assets of Bamco. On March 28, 2008, Bamco was to acquire 45% of Freedom Pipeline from Striker, which would subsequently be pledged to the Trustee as collateral for the Subordinate Bamco Debentures pursuant to the terms of the 2008 Trust Indenture.

iii. The PPM for the Subordinate Bamco Debenture offering stated as follows regarding the Striker debt:

From the proceeds of the Subordinate Debentures, [Bamco], directly or indirectly and in cooperation with Striker, will acquire an interest in Freedom Pipeline, which was originally owned by Reichmann Petroleum Corp. (“Reichmann”). Reichmann filed for bankruptcy on December 8, 2006, and has

continued to operate its business and manage its properties, assets and affairs as a debtor-in-possession.

On December 27, 2006, an involuntary chapter 7 bankruptcy was initiated against Freedom and on January 8, 2007, the bankruptcy court entered an Agreed Order for Relief. A settlement agreement was reached in October 2007 between Freedom, Striker, Texas Wyoming Drilling, Inc. and Energy Transfer Fuel, LP (“ETF”) resolving the various claims, objections and disputes asserted in connection with Freedom’s bankruptcy case. The bankruptcy court approved the Settlement by Order dated October 18, 2007. Pursuant to the October 18, 2007 Settlement Order, Freedom filed an amended plan of reorganization (“Freedom Plan”) *setting forth certain payments to Reichmann, including a \$5,000,000 promissory note in satisfaction of Reichmann’s claims.* The Freedom Plan was approved by the bankruptcy court on October 17, 2007.

Pursuant to the settlement, Reichmann received on October 30, 2007, a promissory note (the “Promissory Note”) from Striker in the original principal amount of \$5,000,000, accruing interest at a rate of nine percent (9%) per annum from the date of the Promissory Note. The Promissory Note had a ninety (90) day maturity date and is secured by the ninety percent (90%) of the stock of Freedom currently owned by Striker pursuant to the Freedom Plan with ten percent (10%) owned ETF

The Promissory Note was to originally mature on January 28, 2008. Striker requested and Reichmann agreed to a short extension of the Promissory Note which was to mature on March 9, 2008. *Striker paid this Promissory Note on March 8, 2008.* (Emphasis added).

iv. The delivery instructions in the closing transcripts for the Subordinate Bamco Debenture offering stated that the proceeds from the sale of the Subordinate Bamco Debentures were to be distributed as follows:

- 1) accrued interest in the amount of \$25,277.78 shall be deposited into the 2008 Subordinate Debenture Fund;
- 2) \$6,079,350.00 shall be deposited in the Freedom Pipeline Project Fund;

- 3) Upon approval from the Special Counsel, from the Freedom Pipeline Project Fund, *pay the Promissory Note payable to Mr. Jim C. Snyder in the amount of \$5,522,150 representing principal plus accrued interest;*
- 4) Upon payment of the Promissory Note, the Trustee shall transfer from the Freedom Pipeline Project Fund an amount of \$5,000 into the Costs of Issuance Account for payment of Bamco's counsel fee payable to Fox Rothschild LP; and
- 5) \$760,000 shall be deposited in the Cost of Issuance Account within the 2008 Subordinate Debenture Fund to pay the costs of issuance as set forth on Schedule A attached hereto; (Emphasis added).

v. On March 28, 2008, Snyder sent a statement to the Trustee for the amount due to pay the Striker Bridge Loan, which included the principal balance of \$5.5 million and the interest due through March 28, 2008, of \$22,150.00, for a total of \$5,522,150.00. Documents show that the Trustee wired Snyder a total of \$5,522,150.00 on March 28, 2008, to pay the Striker Bridge Loan.

vi. The PPM for the Subordinate Bamco Debenture offering provided to investors did not disclose that Striker was able to pay off its debt to Reichmann through the Striker Bridge Loan. Also, the PPM did not disclose that the bulk of the proceeds from the sale of the Subordinate Bamco Debentures were to be used to pay Snyder for the Striker Bridge Loan debt, in order for Bamco to acquire the 45% interest in Freedom Pipeline from Striker.

vii. Snyder was considered a "Class A" member of Bamco during the Bamco Debenture offerings, having invested approximately \$968,000.00 and owning an approximate 3.22% interest in Bamco. Additionally, Snyder loaned Bamco \$2 million pursuant to a 12% promissory note on or about August 2006. While the notes to Bamco's December 31, 2006, financial statements attached to the

PPM for the Subordinate Bamco Debenture offering disclose this promissory note under the heading “Notes Payable – Related Party,” no additional information is disclosed in regarding Snyder, his investments in Bamco, or the Striker Bridge Loan by Snyder.

f. Jedco Lien on Freedom Pipeline –

i. James E. Davison (“James Davison” or “Davison”) is a resident of Ruston, Louisiana. During the time period set forth herein, Davison served as the member of Jedco Properties, LLC (“Jedco”), a Louisiana LLC. Bart Barnwell and Davison are friends who were introduced by Ernest Bartlett in 2005. Additionally, Davison has been a client of Crews since 2005. Prior to and following the Subordinate Bamco Debenture offering, Barnwell and Davison discussed Bamco’s intent to purchase 45% of Freedom Pipeline from Striker with the proceeds of the Subordinate Bamco Debenture offering.

ii. Effective as of October 9, 2007, Jedco agreed to loan Freedom Pipeline \$7.8 million (“Jedco Debt”) pursuant to a 6% interest promissory note secured by the total of Freedom Pipeline’s assets at the time, including the pipeline which was to be acquired with the proceeds from the sale of the Subordinate Bamco Debentures. As stated in the promissory note, the total of the \$7.8 million was to be loaned to Freedom Pipeline in two advances – the first advance in the principal amount of \$6 million on October 9, 2007, and the second advance of \$1.8 million through several subsequent payments. The promissory note was signed by Mark Roberts as Freedom Pipeline’s president; by Bartlett for Bamco, as a member of Freedom Pipeline; and by Roy Patton for Energy Transfer Fuel, LP, a Delaware

LP, as a member of Freedom Pipeline. A deed of trust for the Jedco Debt was recorded in Johnson County, Texas, on January 27, 2009. A Uniform Commercial Code financing statement was also filed with Texas Secretary of State.

iii. The promissory note for the Jedco Debt stated as follows regarding Bamco:

Notwithstanding anything contained in this Note or any other Loan Documents . . . to the contrary, no portion of any principal amount of the indebtedness evidenced by this Note (including, but not limited to, the [two advances to Freedom Pipeline], *include any of the \$1,133,000 loan advanced by [Jedco] to Bamco Gas, LLC.* (Emphasis added).

Specifically regarding the \$1.133 million loan referenced in the promissory note for the Jedco Debt, pursuant to another promissory note dated December 10, 2008, Davison loaned an additional \$1.133 million directly to Bamco (“Bamco Loan”). The promissory note for the Bamco Loan stated as follows:

[James Davison] has extended a loan to [Bamco] in the principal amount of this Note, *to enable [Bamco] to pay the principal and accrued interest due and owing under certain debentures issued by [Bamco].* This Note evidences and sets forth the terms of [Bamco]’s obligation to repay said loan to [James Davison]. Among [Bamco]’s assets, [Bamco] owns and has the right to own and control a total of 90% of the membership interests in Freedom Pipeline . . . , with the remaining 10% of the membership interests in Freedom Pipeline owned by Energy Transfer Corp. [sic] [Bamco] *acknowledges that a certain loan in the principal amount of \$6,000,000 previously extended by [James Davison] or an affiliate thereof is secured by and convertible into a 45% interest in Freedom Pipeline.* (Emphasis added).

iv. The promissory note for the Bamco Loan was signed by Bartlett for Bamco. Additionally, Bartlett signed on behalf of PHT Whitewater, LLC (“PHT Whitewater”), a Delaware LLC; and FEQ Realty, LLC (“FEQ Realty”), a

Delaware LLC sharing Bamco's Main Office address, both of which are managed by FEQ Gas, which is managed by FEQ Investments, for which Bartlett serves as the president. PHT Whitewater and FEQ Realty agreed to unconditionally guarantee and act as sureties for the complete and timely payment and performance of the promissory note for the Bamco Loan. Bartlett, for FEQ Realty, also agreed to pledge and grant a second mortgage on FEQ Realty's leasehold interests in approximately 1,200 acres in Stone County, Arkansas, and all improvements thereon, as collateral security for FEQ Realty's guarantee, and further agreed to execute additional mortgages, instruments, and other documents as Davison required. Also signing for FEQ Gas, Bartlett pledged FEQ Gas's then-held 14.64% interest in Bamco as additional collateral for the issuance of the promissory note for the Bamco Loan. The Trustee's records show an incoming wire transfer of \$1.133 million from Davison to the Trustee on December 2, 2008.

v. A series of emails between several individuals including, but not limited to, Bart Barnwell, Paul Phillips, Stephen Harrington, and Ryan Lee, an individual affiliated with HMA Advisors for which Appel serves as president, from December 1 – 10, 2008, show the revision of and the ultimate execution of the promissory note for the Bamco Loan by Ernest Bartlett. In an email on December 10, 2008, Barnwell indicated he would contact Bartlett for his signatures on the promissory note for the Bamco Loan.

vi. On or about April 22, 2008, Bamco and Striker had entered into an Amended and Restated Purchase and Sales Agreement, which was to convey certain Bamco assets to Striker and which stated as follows:

[Striker] or its successor *Assure Energy, Inc. ("AEI")* shall assume and/or refinance [Bamco] bonds in the principal amount of approximately \$13.5 million payable to Crews & Associates, Inc., *and the obligation to James Davison in the amount of \$6 million plus interest currently secured by the assets of Freedom Pipeline.* (Emphasis added).

[Striker] shall cause AEI to issue to [Bamco] or its designees 5,947,249 shares of common stock of AEI, representing approximately 29.8% of the shares of AEI being issued to [Striker] and its affiliate in connection with the contribution of assets described in Section 1.04 [of this Amended and Restated Purchase and Sales Agreement].

vii. As early as April 30, 2008, Crews was in negotiations to act as the Placement Agent for an offering of approximately \$25 million in AEI debentures that were to be issued in conjunction with a proposed consolidation of entities including, but not limited to, Striker, Bamco, and Freedom Pipeline, with and into AEI. The AEI debenture project would have consisted of the refinancing of the Bamco Debentures and the financing of additional properties and facilities of AEI. There is no evidence that AEI issued debentures for the above-stated purpose or that Crews acted as the Placement Agent for AEI at any time.

viii. The PPM for the Subordinate Bamco Debenture offering did not disclose this proposed consolidation of Striker, Bamco, and Freedom Pipeline, or the potential refinancing of the Bamco Debentures that was to occur after the closing of the Subordinate Bamco Debenture offering. Additionally, the PPM for the Subordinate Bamco Debenture offering did not disclose that the refinancing of the Bamco Debentures would be used to repay James Davison for the Jedco Debt.

ix. In the Trustee's Eighth Notice dated September 21, 2011, the Trustee included the following statement provided by the Successor Receiver's counsel regarding Freedom Pipeline:

Freedom Pipeline has a secured creditor, Jedco Properties, LLC . . . who is owed approximately \$8 million The debt owed to Jedco is secured by Freedom's pipeline assets. There is a Promissory Note, recorded Deed of Trust, Assignment of Rents and Security Agreement, and filed UCC Statement. To the best of the Successor Receiver's knowledge, the Jedco secured debt has not been serviced for a couple of years. For certain, Freedom has not had the cash to service the debt since the Successor Receiver was appointed. Recently the Successor Receiver was contacted by Jedco and informed that Jedco had made a decision to initiate foreclosure proceedings.

Freedom's financial situation is as follows: Since the Successor Receiver's appointment [in May 2010], Freedom has been able to cash flow itself on a current operational basis. The problem is that freedom has a large "legacy debt" issue, consisting of both secured and unsecured debts that were left over from the Freedom Bankruptcy and/or accrued thereafter. These "legacy debts" are in addition to the Jedco secured debt

. . . .

Accordingly, Freedom owes various creditors "legacy debts" in an aggregate of no less than \$600,000 and which could be as much as nearly \$2 million. At this time, Freedom does not have the means to service the Jedco secured debt or satisfy the "legacy debts" and does not anticipate that it would have the financial ability to do so in the near future. . . . The Successor Receiver believes that at this time it is reasonable to assume that the value of Freedom's assets, at best, may be just about equal to the Jedco secured debt, but likely under.

Given Freedom's current financial condition as described above, the Successor Receiver believes, in his business judgment, that it would be reasonable to abandon Freedom and allow Jedco to proceed with the foreclosure. Further, the Successor Receiver does not intend to take any action to stop the foreclosure proceedings, once initiated. . . .

x. Additionally, in the receivership action against Bamco, the Successor Receiver stated as follows in his June 15, 2012, Receiver's Motion:

The Trustee informed the Receiver that, prior to the appointment of the Receiver, the Trustee was unaware of the existence of the Jedco Debt. The Trustee stated that in 2008, at the time of the issuance of the Subordinate Debentures, Bamco did not disclose the Jedco Debt. The Receiver is informed that upon learning of the Jedco Debt and the foreclosure proceeding from the Receiver, the Trustee provided notice to the holders of the Debentures of the newly disclosed information

On November 1, 2011, Texas Midstream [Acquisition Corp, LLC, an assignee of Jedco and holder of the Jedco Debt,] foreclosed on Freedom's assets. As a result of the foreclosure, Freedom no longer has any remaining assets of value and its operations have ceased. Accordingly, the Receivership Estate's interest in Freedom, consisting of an approximately 90% membership interest, is of no marketable value.

xi. On January 7, 2009, Barksdale, while still an agent at Crews, had forwarded an email from Stephen Harrington to individuals including, but not limited to, Bart Barnwell and Paul Phillips, with a subject line reading, "Loan Documents for \$7.8 Million Loan to Freedom." Barksdale stated that he had "attached the documents they want Ernest to sign." The original email to Harrington from a Texas attorney stated that "[a]t the request of Earnest [sic] Bartlett, attached are execution copies of the following documents" Nine documents were attached to the email for execution by Bartlett, including, but not limited to, the promissory note, deed of trust, and security agreement for the Jedco Debt, all effective on October 9, 2007. Further, the email to Harrington stated that "Mr. Bartlett is signing these documents this afternoon [January 6, 2009] and delivering them to me in trust pending Bamco's release of the signed documents. . . ."

xii. As stated in the PPM for the Subordinate Bamco Debenture offering, the proceeds from the sale of the Subordinate Bamco Debentures were to be used directly or indirectly to purchase 45% of Freedom Pipeline. Furthermore, the PPM describes Freedom Pipeline and the properties that the pipeline encompasses. However, the PPM for the Subordinate Bamco Debenture offering failed to disclose that Bamco, Crews, and other parties to the transaction were aware of the Jedco Debt, and that they would likewise be involved in negotiations to refinance the Bamco Debentures in the principal amount of approximately \$13.5 million payable to Crews and the obligation to Davison/Jedco in the amount of \$7.8 million secured by the assets of Freedom Pipeline.

g. Waiver by the Senior Bamco Debenture Holders –

i. Between the Senior Bamco Debenture offering and the Subordinate Bamco Debenture offering, Bamco violated a provision of the 2005 Trust Indenture regarding the dispensation of certain assets. Specifically, the 2005 Trust Indenture stated as follows regarding the dispensation of assets:

Sale of Assets. From and after the issuance of any of the Debentures and for so long as any of the Debentures are Outstanding, [Bamco] shall not sell, lease or otherwise dispose of or transfer assets, properties, rights or claims, including, without limitation, any Facilities, *in excess of One Hundred Thousand Dollars (\$100,000) in the aggregate in any twelve-month period*, or sell, lease or otherwise dispose of or transfer any of its assets, properties, rights or claims not in the ordinary course of business, unless such sale, lease or other disposition is at not less than fair market value and the proceeds thereof are deposited in the Revenue Fund and applied to the redemption of Debentures (Emphasis added).

ii. While reviewing Bamco's financial statements prior to the Subordinate Bamco Debenture offering, Crews and the Trustee discovered that Bamco had not

complied with the “Sale of Assets” provision of the 2005 Trust Indenture and was effectively in default due to Bamco’s failure to make required deposits of proceeds from the sale, lease, or other dispensation of its assets. Subsequently, as required by the 2005 Trust Indenture, Crews, the Trustee, and Crews’ outside counsel obtained the required waiver of the defaults from 25% of the Senior Bamco Debenture holders.

iii. On March 5, 2008, three Senior Bamco Debentures holders constituting the necessary 25% executed waivers of the Bamco default, less than a month before the closing of the Subordinate Bamco Debenture offering on March 28, 2008. The waivers stated as follows:

[S]ince January 1, 2006, [Bamco] has sold, leased or otherwise disposed of assets and received cash proceeds upon the sale, lease or other disposition thereof of \$6,302,563.00 with such amounts being received during 2007; and . . . since January 1, 2006, [Bamco] has, however, also acquired additional oil and gas interests at a cost of \$14,123,671 such that [Bamco’s] net book value of proved and unproved oil and gas properties totaled \$10,999,235 and \$5,234,571, respectively, as of September 30, 2007.

iv. While the PPM for the Senior Bamco Debenture offering included language regarding the requirements for the dispensation of assets by Bamco, the PPM for the Subordinate Bamco Debenture offering did not disclose Bamco’s inappropriate dispensation of assets and the subsequent waiver of Bamco’s default of the 2005 Trust Indenture by the Senior Bamco Debenture holders.

Due Diligence Investigation into Bamco

36. Crews and its agents, in coordination with Crews’ outside counsel and Bamco, conducted the due diligence investigation into Bamco and the Bamco Debentures; prepared,

commented on, and revised the PPMs for the Senior Bamco Debenture offering and the Subordinate Bamco Debenture offering; and sold all of the Bamco Debentures. Furthermore, Crews' agents formed Completion, which acted as the Servicing Agent for the Subordinate Bamco Debenture offering. This relationship afforded Crews additional access to information about Bamco, the Bamco Debentures, and Bamco's compliance with the Trust Indentures, and provided extra compensation to the agents involved in Completion.

37. Crews' due diligence responsibilities for the Bamco Debentures were heightened by the fact that Crews served as the Placement Agent for the Bamco Debentures issued by Bamco, an entity with a limited operating history, numerous related party transactions, and with individuals with a history of significant regulatory actions in positions of authority; assisted in preparing and revising the PPMs for the Bamco Debenture offerings; had extraordinary access to information about Bamco; sold all of the Bamco Debentures; and implied that it was an informed broker of the Bamco Debentures. A broker-dealer must understand the products that it sells and the potential risks and rewards of the products, which includes, but is not limited to, the duty to conduct a reasonable due diligence investigation into an issuer and an issuer's management. The fact that Crews sold the Bamco Debentures to accredited investors and QIBs did not alleviate Crews' responsibility to comply with certain regulatory requirements for the sale of private placement offerings.

38. The information that was not disclosed in the PPMs for the Senior Bamco Debenture offering and the Subordinate Bamco Debenture offering correlates to the mismanagement of Bamco and the ultimate failure of Bamco to make certain, timely payments to the Trustee. Additionally, a reasonable due diligence investigation by Crews into the Bamco Debentures would have uncovered the inconsistencies in the PPMs and misinformation provided

by Bamco and its control persons and, ultimately, provided directly to Bamco's investors. Instead, Crews overlooked certain red flags and adverse information about Bamco of which it was aware and failed to include this information in the PPMs for the Bamco Debenture offerings, which resulted in inaccurate PPMs being provided to its customers.

39. A reasonable due diligence investigation would have discovered the Jedco Debt, which ultimately led to the loss of all value for the Subordinate Bamco Debenture holders. Crews and Crews' outside counsel conducted lien searches to evaluate potential security interests on Bamco's assets and any assets to be acquired by Bamco. These searches did not uncover the Jedco Debt, since the deed of trust was not recorded until January 27, 2009. However, Crews did not provide documentation that Bamco was ever directly asked about its debts or specifically questioned regarding the existence of any liens or other security interests on its current or future assets. Further, it appears that Crews, its agents, and its outside counsel had knowledge of the Jedco Debt and failed to ensure that this information was disclosed to its investors.

40. Crews' due diligence file provided to the Staff contained very little due diligence documentation for the Bamco Debenture offerings. In advance of the Senior Bamco Debenture offering, on April 14, 2005, Crews and Crews' outside counsel sent a nine-page "Confidential Initial Due Diligence and Document Request List" ("Due Diligence Request") to counsel for Bamco at that time. However, the Due Diligence Request was never fulfilled, and Crews did not receive the bulk of the information it requested from Bamco and its control persons.

41. For example, the following information was specifically requested from Bamco regarding the management and control persons of Bamco:

Please provide a biographical sketch of each *key officer and personnel* of Bamco Gas . . . and a description of their position and value to Bamco Gas, including: Ernest Bartlett[;] Howard Appel . . . [; and the following] Principal Members (owners of 5% or more [of Bamco]): William Miller[;] FEQ Investments,

Inc.[] . . . 1025 Partners, LP[] PHT Gas, LLC [] FEQ Gas, LLC [] and] RMS Gas, LLC (Emphasis added).

Crews' due diligence file did not include the requested biographical sketches, and Crews was unable to provide officer and director questionnaires, résumés, or other evidence of investigations into the background of Bartlett, as president of Bamco's managing member; Appel; or other related persons, other than Bartlett's biography included in the PPMs for the Senior Bamco Debenture offering and the Subordinate Bamco Debenture offering. Additionally, despite Crews' awareness of Appel's involvement with Bamco and Bamco related parties or entities, Crews did not thoroughly investigate Appel, his legal and regulatory background, or the details of Appel's role in Bamco.

42. Crews did not send a similar Due Diligence Request in advance of the Subordinate Bamco Debenture offering in 2008. Furthermore, Crews did not conduct a reasonable investigation into Striker, Freedom Pipeline, or any related persons or entities, other than the information provided by Bamco, despite the extensive involvement of these entities in the Subordinate Bamco Debenture offering. Striker played a principal role in the Freedom Pipeline transaction and had been involved in prior transactions with Bamco, as well. As stated above, a reasonable investigation was likewise not conducted into any potential liens or encumbrances upon Freedom Pipeline, notwithstanding Crews' knowledge of opposing claims.

43. At the time of Senior Bamco Debenture offering in 2005, Bamco was a small, fairly new entity with an untested background. A more thorough due diligence investigation is required when securities are issued by smaller, recently-established entities. However, Crews and its agents relied exclusively on information provided by Bamco, its counsel, and its experts and failed to appropriately follow up on certain red flags in information provided, or in the deficiency of information provided, by Bamco for the Bamco Debenture offerings. Additionally,

Crews failed to properly document the due diligence investigation that was conducted, leaving gaps in the information and unanswered questions from Bamco. Likewise, Crews did not conduct a reasonable, follow-up due diligence investigation for the Subordinate Bamco Debenture offering, despite the fact that Bamco had defaulted on its obligations in the 2005 Trust Indenture for the Senior Bamco Debenture offering prior to the Subordinate Bamco Debenture offering. As a result, Crews failed to conduct a reasonable and independent due diligence investigation of Bamco and the Bamco Debentures prior to their offer and sale.

Bamco Debenture Settlement

44. As stated previously in this Order, Crews has thoroughly cooperated with the Staff throughout its investigation of Bamco and the Bamco Debenture offerings. Additionally, Crews has undertaken to resolve the losses experienced by its customers who purchased the Bamco Debentures.

45. Crews made a tender offer to the Bamco Debenture holders (“Tender Offer”) in an attempt to make the investors whole. As of the date of this Order, pursuant to the Tender Offer, Crews has bought 93.57% of the issued and outstanding Senior Bamco Debentures for cash at \$.70 on the dollar against the then-outstanding balance of the Senior Bamco Debentures. When added to the payments previously received by Bamco prior to the default, the Senior Bamco Debenture holders who accepted the Tender Offer have received, on average, approximately 114.01% of their original investment total. Likewise, Crews has bought 97.61% of the issued and outstanding Subordinate Bamco Debentures for cash at \$.4357 on the dollar against the then-outstanding balance of the Subordinate Bamco Debentures. When added to the previous payments by Bamco prior to default, the Subordinate Bamco Debenture holders who

accepted the Tender Offer have received, on average, approximately 100.01% of their original investment total.

APPLICABLE LAW

46. Broker-dealers have a “special relationship” with their customers and, as a result, implicitly represent to their customers that they have an “adequate and reasonable” basis for their recommendations of securities, which is based upon a reasonable investigation. *Hanly v. SEC*, 415 F.2d 589, 596-97 (2d. Cir. 1969). Furthermore, “[Broker-dealers] may not blindly rely upon the issuer for information concerning a company [when performing a due diligence investigation], although the degree of independent investigation which must be made by a [broker-]dealer will vary in each case.” *Id.* at 597; *see Everest Sec., Inc. v. S.E.C.*, 116 F.3d 1235, 1239 (8th Cir. 1997) (“[R]eliance on others does not excuse [a broker-dealer’s] and [agent’s] own lack of investigation.”). A more thorough investigation is required for “securities issued by smaller companies of recent origin.” *Id.* A broker-dealer’s duty to conduct a reasonable due diligence investigation is not alleviated when it sells securities exclusively to “sophisticated or knowledgeable” investors.

47. Each broker-dealer and agent shall observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business. The following conduct shall be considered grounds for denial, suspension, or revocation of a broker-dealer or agent registration, in addition to such other unethical practices within the meaning of Ark. Code Ann. § 23-42-308:

- a. Recommending to a customer the purchase, sale, or exchange of any security when a broker-dealer or agent does not 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 their other security holdings and as to their financial situation and needs, or encouraging a customer to invest beyond their immediate financial resources. Rule 308.01(d) of the Rules. Likewise, NASD Conduct Rule 2310 (Recommendations to Customers – Suitability), then in effect and since superseded by FINRA Conduct Rule 2111, sets forth equivalent suitability requirements for broker-dealers and their agents when recommending the purchase, sale, or exchange of securities to their customers.

- b. Failing to comply with any applicable provision of the conduct rules, any applicable fair practice or ethical standard, or any other applicable law or rule related to conducting business involving securities promulgated by the SEC or any self-regulatory organization. Rule 308.01(x) of the Rules.
- c. The unfair, misleading, or unethical practices set forth under Rule 308.01 of the Rules are not exclusive of other activities, such as non-disclosure or misstatement of material facts, which shall be considered grounds for suspension or revocation and the Commissioner may suspend or revoke a registration when necessary or appropriate in the public interest. Rule 308.01(y) of the Rules.

48. As reiterated in certain FINRA-guidance notices (as cited in this paragraph, “FINRA Notices”) to its broker-dealer members on the topics of due diligence and suitability, broker-dealers and their agents must conduct a “reasonable-basis” suitability analysis to determine whether an investment is suitable for at least some investors, and a “customer-specific” suitability analysis to determine whether an investment is suitable for a particular, individual customer to whom the broker-dealer will recommend it. A reasonable due diligence investigation is a fundamental component of a broker-dealer’s reasonable-basis suitability

analysis, as a broker-dealer must thoroughly understand the products it sells, including any potential risks and rewards of the investment. *See, e.g.,* FINRA Regulatory Notice 10-22, *Obligation of Broker-Dealers to Conduct Reasonable Investigations in Regulation D Offerings* (April 2010); NASD Notice to Members 05-18, *Private Placements of Tenants-in-Common Interests* (March 2005); NASD Notice to Members 03-71, *NASD Reminds Members of Obligations When Selling Non-Conventional Investments* (November 2003); NASD Notice to Members 03-07, *NASD Reminds Members of Obligations When Selling Hedge Funds* (February 2003).

49. Additionally, FINRA Notice 10-22 states that, in order to fulfill their suitability responsibilities, broker-dealers should conduct a reasonable due diligence investigation into the issuer and its management, the issuer's business prospects, the assets held by or to be acquired by the issuer, the use of the proceeds of the offering, and the claims being made by the issuer. Additionally, subsequent offerings may require additional due diligence. Broker-dealers who help prepare PPMs for private placement offerings are held to a higher reasonableness standard with regard to their due diligence investigations, and any potential gaps or omissions in investigations by assisting counsel or experts must be assumed by the broker-dealer.

50. NASD Conduct Rule 3010 (Supervision) describes the supervisory requirements of broker-dealers and requires that broker-dealers establish, maintain, and enforce a system, including corresponding written procedures, to supervise the activities of its agents and employees that is reasonably designed to achieve compliance with state and federal securities laws and regulations. This duty includes broker-dealers' adequate supervision of the due diligence investigations of securities they sell and all necessary suitability analyses prior to the recommendation of securities to customers.

51. The Commissioner may by order deny, suspend, make conditional or probationary, or revoke any registration if he finds that the order is in the public interest and the registrant has engaged in dishonest or unethical practices in the securities business or has failed reasonably to supervise the agents or employees of the broker-dealer. Ark. Code Ann. § 23-42-308(a)(1), (a)(2)(G) and (J).

52. Whenever it appears to the Commissioner, upon sufficient grounds or evidence satisfactory to the Commissioner, that any person has engaged or is about to engage in any act or practice constituting a violation of any provision of the Act, except the provisions of Ark. Code Ann. § 23-42-509, or any rule or order under the Act, he may summarily order the person to cease and desist from the act or practice. Ark. Code Ann. § 23-42-209(a)(1)(A).

53. The Commissioner may fine any broker-dealer or agent up to \$10,000.00 or an amount equal to the total amount of money received in connection with each separate violation. Ark. Code Ann. § 23-42-308(g)(1).

54. Nothing in Ark. Code Ann. § 23-42-308 shall prohibit or restrict the informal disposition of a proceeding or allegations which might give rise to a proceeding by settlement or consent. Ark. Code Ann. § 23-42-308(h).

55. The Commissioner may apply to the Pulaski County Circuit Court to temporarily or permanently enjoin an act or practice that violates the Act and to enforce compliance with the Act or any rule or order under the Act without issuing an order under Ark. Code Ann. § 23-42-209(a)(1) or (a)(2). Ark. Code Ann. § 23-42-209(a)(3)(B).

CONCLUSIONS OF LAW

56. Crews violated NASD Conduct Rule 2310 (Recommendations to Customers – Suitability), Ark. Code Ann. § 23-42-308(a)(2)(G), and Rules 308.01(d) and (x) of the Rules by

recommending its customers purchase the Bamco Debentures after Crews failed to conduct a reasonable due diligence investigation for the Senior Bamco Debenture offering or the Subordinate Bamco Debenture offering. Crews did not have an adequate and reasonable basis for believing that the recommendations of the Bamco Debentures were suitable for at least some customers of Crews. As a result, the Bamco Debentures were not suitable for Crews' customers under a reasonable-basis suitability analysis.

57. Crews violated Ark. Code Ann. § 23-42-308(a)(2)(G) and Rule 308.01(y) of the Rules when Crews failed to disclose certain information about Bamco, Bamco's control persons, and the Bamco Debentures, including, but not limited to, the inconsistent disclosure of Bamco's Principal Members, including Howard Appel; the Striker Bridge Loan; the Jedco Debt; and the waiver by the Senior Bamco Debenture Holders, which was not adequately and more thoroughly investigated and which was not included in the PPMs for the Bamco Debentures.

58. With respect to the Bamco Debenture offerings, Crews failed to enforce a supervisory system reasonably designed to enable Crews and its agents to achieve compliance with applicable securities laws, rules, and regulations. In addition, the violations discussed in paragraphs 56 and 57 resulted, in part, from Crews' supervisory failures. Crews' failure to reasonably supervise the Bamco Debenture offerings is in violation of NASD Conduct Rule 3010 (Supervision), Ark. Code Ann. § 23-42-308(a)(2)(G) and (J), and Rule 308.01(x) of the Rules.

59. Pursuant to Ark. Code Ann. § 23-42-209(a)(1)(A), Crews should be ordered to cease and desist from further violations of the Act and Rules, including, but not limited to, the violations of the Act and Rules detailed herein.

OPINION

60. This Order is in the public interest. The facts set out in paragraphs 1 through 45 support the violations of the Act and Rules set out in paragraphs 46 through 59.

ORDER

By agreement and with consent of the Staff, Crews, and Crews' authorized representatives, IT IS HEREBY ORDERED:

1. Crews shall cease and desist from further violations of Ark. Code Ann. § 23-42-308(a)(2)(G) and (J); and Rule 308.01(d), (x), and (y) of the Rules;

2. In recognition of Crews' efforts to repurchase the Bamco Debentures from its customers and its donation of \$150,000.00 to the North American Securities Administrators Association¹ ("NASAA") to advance the training and investor-protection programs offered by NASAA, there will be no fine;

3. Upon the Staff's request, for one calendar year from the date of this Order, Crews shall notify the Department in writing of any and all private placement offerings for which it acts as the Placement Agent and shall provide the following information to the Department:

a. A copy of the PPM for the offering and any and all additional disclosure materials provided to its customers;

b. A list of Crews' selling agents for the offering and their supervisors;

¹ Organized in 1919, NASAA is the oldest international organization dedicated to investor protection and serves as the voice of securities agencies responsible for grassroots investor protection and efficient capital formation. NASAA's membership consists of securities administrators in the 50 states, the District of Columbia, Canada, Mexico, Puerto Rico and the U.S. Virgin Islands.

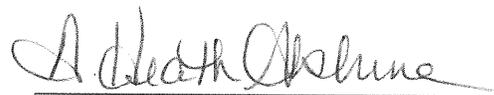
c. A copy of the full due diligence file for the offering, which shall include, but not be limited to, a list of the agents at Crews who conducted the due diligence investigation, including the agents responsible for presenting the offering to Crews for approval, and the supervisors for the due diligence investigation; and

d. Any and all additional information the Department may require after review of the above-mentioned materials provided by Crews; and

4. Prior to the entry of this Order, Crews revised its WSP in an effort to address regulatory notices issued by FINRA and the issues outlined in this Order regarding Crews' role in the Bamco Debenture offerings. Within 30 days from the date of this Order, Crews shall submit to the Department the name of an independent broker-dealer supervisory compliance expert ("Expert") accompanied by a curriculum vitae and such other information as the Department may request. Within 60 days of the approval of the Expert by the Department, the Expert shall submit to the Department an opinion that the portion of Crews' WSP then in effect which addresses private placement offerings is in a form which is consistent with industry standards and compliant with relevant FINRA conduct rules, the Act, and the Rules, accompanied by copies of the applicable portions of Crews' WSP. The Department shall be notified, in writing, of any and all of the Expert's recommendations to Crews, if any, and Crews' subsequent implementation of the recommendations.

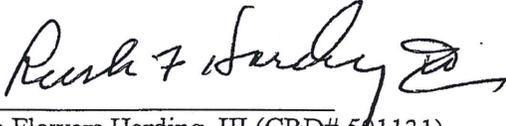
5. Any failure by Crews to adhere to this Order shall be considered a violation of this Order authorizing the Commissioner to apply to the Pulaski County Circuit Court to enforce compliance with this Order, pursuant to Ark. Code Ann. § 23-42-209(a)(3)(B).

WITNESS MY HAND AND SEAL on this 9th day of July, 2013.



A. Heath Abshure
Arkansas Securities Commissioner

Crews & Associates, Inc. hereby agrees to the entry of this Consent Order; consents to all terms, conditions, and orders contained therein; and waives any right to an appeal from this Order.



Rush Flowers Harding, III (CRD# 501131)
Chief Executive Officer
Crews & Associates, Inc.

7/05/13

Date

APPROVED AS TO FORM:

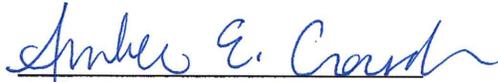


G. Michael Millar
Counsel for Crews & Associates, Inc.
Millar Jiles, LLP

7/9/13

Date

APPROVED AS TO FORM
AND CONTENT:



Amber E. Crouch
Staff Attorney
Arkansas Securities Department

July 9, 2013

Date