

BEFORE THE ARKANSAS SECURITIES COMMISSIONER

Case No. S-14-0068

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Order No. S-14-0068-14-OR02

ARKANSAS SECURITIES DEPT.

IN THE MATTER OF
TEXAS ENERGY MUTUAL, LLC, BOBBY GILLIAM,
STEVE PEREIRA and ANDY STITT

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 promulgated under the Act (Rules) 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 Texas Energy Mutual, LLC, (TEM), Bobby Gilliam, Steve Pereira and Andy Stitt in full settlement of all claims that could be brought against them by the Staff.

TEM, Gilliam, Pereira and Stitt admit the jurisdiction of the Act and the Arkansas Securities Commissioner (Commissioner), waive their rights to a formal hearing and, without admitting or denying the findings or Staff allegations made herein, consent to the entry of this order and agree to abide by its terms.

FINDINGS OF FACT

1. TEM is a Delaware limited liability company formed on April 3, 2013. Its principal office is located at 1701 West Northwest Highway, Suite 100, Grapevine, Texas 76031. TEM is the successor of a Texas limited liability company of the same name.
2. Gilliam is a resident of Hurst, Texas. At all times referred to herein, Gilliam was an employee

of TEM working at TEM's Grapevine, Texas, office offering TEM's securities on a commission basis.

3. Pereira is a resident of Arlington, Texas. At all times referred to herein, Pereira was an independent sales agent working for TEM, offering securities issued by TEM on a commission basis.
4. Stitt is a resident of Westmoreland, Jamaica. At all times referred to herein, Stitt was an independent sales agent working for TEM, offering securities issued by TEM on a commission basis.

OIL PRODUCTION PROGRAM 1

5. Gilliam contacted AR1, a resident of Arkansas, in the spring of 2013 and offered AR1 units in the Texas Energy Mutual Oil Production Program 1 (OPP-1), a fourteen-well drilling program which entailed the drilling, completion or recompletion of fourteen oil wells located in Nowata, Rogers and Okmulgee Counties, Oklahoma.
6. On April 5, 2013, AR1 purchased a 1/16 unit in these wells, representing a .208125% working interest and corresponding .16625% net revenue interest in the OPP-1 project. TEM paid Gilliam a commission for this purchase.
7. After the Staff began its investigation, TEM offered rescission of this investment to AR1, and he accepted the offer on May 21, 2014, receiving his investment plus 6% interest from the date of his investment.

MINERAL INTEREST LEASE PROGRAM

8. Sometime in late December 2013 or early January 2014, Pereira made an unsolicited telephone call to AR2, a resident of Arkansas, and solicited an investment in the Texas

Energy Mutual Mineral Interest Lease Program (MILP), which was described in an offering circular delivered to AR2 by a commercial delivery company several days later as a "multifaceted land, mineral lease and oil and gas mineral interest production investment program" that would include the "purchase of land and mineral interest leases, working interest[s] in producing wells, . . . purchase/development of geophysical / 3-D seismic data, purchase and leasing of oil and gas drilling and production equipment and other associated equipment." Pereira solicited investments in MILP for a three year period, during which time investors were promised monthly payments of or .8333% of their investments per month, which was said to equal to a 10% per annum return on their investments. At the end of the three year period, investors were also promised repayment of their principal investment, plus any net profits. Following his initial phone call to AR2 and the delivery of the offering circular and related documents, including subscription documents, Pereira called AR2 again on January 7, 2014, to discuss the documents and recommended an investment of \$100,000 in MILP. In an email to AR1 on the same day, Pereira explained the offer as follows:

The Texas Energy lease-bank investment program [MILP] is a great way to participate in the oil industry, without loss of capitol [*sic*] risk and diversify your investment risk. Earn 10% (guaranteed minimum) on your investment and receive monthly cash dividends of .833% of the investment, while your principle [*sic*] is 100% protected. I encourage all new participants to start at a \$100,000 and after 3 years you will have generated at minimum \$130,000 back on your investment.

9. AR2 did not invest in MILP. Had AR2 purchased an investment in MILP, TEM would have paid Pereira a commission.

THUNDERHEAD PROSPECT

10. During the same unsolicited telephone conversation with AR2 in late December 2013 or early

January 2014 in which he solicited an investment in MILP, Pereira solicited an investment in a five-well drilling program involving five oil wells in Okfuskee and Creek Counties, Oklahoma, known as the Thunderhead Prospect (Thunderhead). An offering circular and related documents, including participation documents, were sent to AR2 along with the documents concerning MILP several days later. According to the offering circular, the project involved five wells, two in Okfuskee County, Oklahoma, and three in Creek County, Oklahoma. Each unit of the project represented a 3.33% working interest and a corresponding 2.5% net revenue interest in the five wells and cost \$120,000. In the telephone conversation with AR2 on January 7, 2014, Pereira solicited an investment in Thunderhead which he summarized in the email to AR2 sent on the same day in which he also solicited an investment in MILP. Highlights of that passage are as follows:

. . . All we need is 100 to 150 barrels of oil at current oil prices for you to get \$7,500 to \$12,000 dollars [*sic*] a month. . . . These wells were crudely and inefficiently drilled in the 50's and 60's. Our experts agree that 80% to 90% of the actual oil in the ground was left behind! . . . The five wells we are offsetting together averaged over 1200 barrels of oil per day and made fellows over a million dollars on a \$120,000 investment. All we need is 100 barrels total for us to reach a year payout on our investment.

11. AR2 did not invest in Thunderhead. Had AR2 purchased an investment in Thunderhead, TEM would have paid Pereira a commission.
12. On December 9, 2013, Stitt, offered and sold a partial unit in Thunderhead to AR3, an Arkansas resident. AR3 had learned of Thunderhead and TEM through the internet. Stitt contacted AR3, made the offer of a unit in Thunderhead and led AR3 through filling out the various forms needed for investment in Thunderhead. For \$20,000 AR3 purchased a .55 % working interest with a corresponding .416% net revenue interest in Thunderhead. After the

Staff began its investigation, TEM offered AR3 rescission of this investment on May 7, 2014, but AR3 rejected the offer. TEM paid Stitt a commission for this purchase.

LACK OF REGISTRATION

13. A search of the records of the Arkansas Securities Department (Department) shows no registrations or proofs of exemption for the investment in MILP offered to AR2 or the working interests and corresponding net revenue interests in OPP-1 or Thunderhead offered and sold to AR1 and AR3 and offered to AR2. A search of the records of the Department also shows no notice filings in accordance with Ark. Code Ann. § 23-42-509 and Rule 509.01, Rules of the Arkansas Securities Commissioner, claiming that any of these securities are covered securities in accordance with federal law that would exempt them from the registration provisions of the Act.
14. A search of the records of the Department shows no registration for Gilliam, Pereira or Stitt as an agent of the issuer.

APPLICABLE LAW

15. Ark. Code Ann. § 23-42-501 provides that it is unlawful for any person to offer or sell any security in this state unless it is registered in accordance with the Act, exempt from registration under the Act or is a covered security pursuant to federal law.
16. Security is defined in pertinent part at Ark. Code Ann. § 23-42-102(17)(A)(xvi) as a certificate of interest or participation in an oil or gas lease or in payments out of production under such a lease.
17. Security is defined in pertinent part in the Act at Ark. Code Ann. § 23-42-102(17)(A)(xi) as an investment contract.

18. Ark. Code Ann. § 23-42-301(a) provides in pertinent part that it is unlawful for any person to transact business in this state as an agent of the issuer unless he is registered with the Arkansas Securities Department pursuant to the Act.
19. Agent is defined in pertinent part at Ark. Code Ann. § 23-42-102(1)(A) as an individual who represents an issuer in effecting or attempting to effect purchases or sales of securities.
20. Ark. Code Ann. § 23-42-102(10) defines issuer as any person who issues or proposes to issue any security. The term, person, is defined at Ark. Code Ann. § 23-42-102(13) to include various business entities, including limited liability companies.
21. Ark. Code Ann. § 23-42-301(b) provides in pertinent part that it is unlawful for an issuer to employ an unregistered agent.
22. Ark. Code Ann. § 23-42-103(a)(1)(A) provides that the Act applies to any offer to sell a security made in this state, and Ark. Code Ann. § 23-42-103(a)(3)(B) provides that an offer is made in this state when the offeror directs the offer to this state, regardless of whether either party is present in the state.

CONCLUSIONS OF LAW

23. The working interests and corresponding net revenue interests offered and sold to AR1 and AR3 and offered to AR2, as set out in ¶¶5 - 7 and 10 - 12, are securities as that term is defined at Ark. Code Ann. § 23-42-102(17)(A)(xvi).
24. The investment offered AR2 in MILP, as set out in ¶¶8 and 9, was a security known as an investment contract as defined in Ark. Code Ann. §23-42-102(17)(A)(xi) because it was comprised of the investment in the risk capital of a business venture, AR2 would do nothing to achieve the expected return on the investment, and the expectations of a return would be

based solely on the efforts of TEM.

25. TEM is the issuer of the securities identified in ¶¶5 - 12 pursuant to Ark. Code Ann. § 23-42-102(10).
26. Gilliam acted an unregistered agent of the issuer, TEM, when he offered and sold unregistered securities issued by TEM to AR1 for a commission, as set out in ¶¶5 - 7, and thereby violated Ark. Code Ann. § 23-42-301(a) and Ark. Code Ann. § 23-42-501.
27. Pereira acted an unregistered agent of the issuer, TEM, when he offered unregistered securities issued by TEM to AR2 for a commission, as set out in ¶¶8 - 11, and thereby violated Ark. Code Ann. § 23-42-301(a) and Ark. Code Ann. § 23-42-501.
28. Stitt acted an unregistered agent of the issuer, TEM, when he offered and sold unregistered securities issued by TEM to AR3 for a commission, as set out in ¶ 12, and thereby violated Ark. Code Ann. § 23-42-301(a) and Ark. Code Ann. § 23-42-501.
29. TEM offered and/or sold unregistered securities in the form of the working interests and corresponding net revenue interests in OPP-1 and Thunderhead to AR1, AR2 and AR3, as set out in ¶¶5 - 7 and 10 - 12, and an investment contract in the case of the investment in MILP offered to AR2, as set out in ¶¶8 and 9, all in violation of Ark. Code Ann. § 23-42-501.
30. By employing Gilliam, Pereira and Stitt to represent it in the offer and sale of securities it issued, TEM employed unregistered agents in violation of Ark. Code Ann. § 23-42-301(b)(1).

UNDERTAKING

In settlement of this matter TEM agrees with the Staff to:

1) Make a second rescission offer to AR3 of the amount invested plus 6% interest from the date of the investment and in connection therewith provide AR3 with a copy of this order and a copy of the order issued by the Financial and Consumer Services Tribunal of New Brunswick, Canada, on May 15, 2014, finding that TEM had offered unregistered securities through agents who were also unregistered, banning TEM from trading securities in New Brunswick and denying TEM all registration exemptions for three years.

OPINION

This order is in the public interest. The facts set out in ¶¶1 - 14 support the violations of the Act and Rules set out in ¶¶23 - 30.

ORDER

IT IS THEREFORE ORDERED that:

- 1) All respondents cease and desist from offering unregistered securities in violation of Ark. Code Ann. § 23-42-501;
- 2) Texas Energy Mutual cease and desist from employing unregistered agents to offer and sell securities it has issued in violation of Ark. Code Ann. § 23-42-301(b)(1); and
- 3) Bobby Gilliam, Steve Pereira and Andy Stitt cease and desist from acting as unregistered agents of the issuer in violation of Ark. Code Ann. § 23-42-301(a).

IT IS FURTHER ORDERED that, within thirty days of the date of this order:

- 1) Texas Energy Mutual, LLC, offer rescission to AR3 in accordance with the Undertaking

set out above, delivering to the Staff a copy of the rescission offer with attachments (copies of this order and the New Brunswick order) and proof of service to AR3;

- 2) Texas Energy Mutual, LLC, pay a fine of \$5,000;
- 3) Bobby Gilliam pay of fine of \$1,500;
- 4) Steve Pereira pay of fine of \$1,500; and
- 5) Andy Stitt pay a fine of \$1,500.

WITNESS MY HAND AND SEAL this 23^d day of December, 2014.



A. Heath Abshire
Arkansas Securities Commissioner

BEFORE THE ARKANSAS SECURITIES COMMISSIONER

Case No. S-14-0068

Order No. S-14-0068-14-OR02

IN THE MATTER OF
TEXAS ENERGY MUTUAL, LLC, ISO-1, BOBBY GILLIAM,
STEVE PEREIRA and ANDY STITT

CONSENT TO ENTRY OF CONSENT ORDER
BY TEXAS ENERGY MUTUAL, LLC

Texas Energy Mutual, LLC (TEM), a Delaware limited liability company acting by its managing member, Rodney Pope, hereby acknowledges that it has been served with a copy of this Consent Order reflecting its settlement of the matters set out in the Consent Order, has read the Consent Order, is aware of its rights to a hearing and appeal and has waived those rights. Pope acknowledges that TEM is consenting to the entry of this order voluntarily after consulting with counsel and that no improper threats, offers, promises or inducements of any kind have been made by any member of the Staff of the Arkansas Securities Department to induce TEM to consent to the entry of this order.

TEM admits the jurisdiction of the Arkansas Securities Commissioner and consents to the entry of the Consent Order by the Arkansas Securities Commissioner as settlement of the issues contained in the Consent Order.

TEXAS ENERGY MUTUAL, LLC

By:


Rodney Pope
Managing Member

12-17-14
Date

BEFORE THE ARKANSAS SECURITIES COMMISSIONER

Case No. S-14-0068

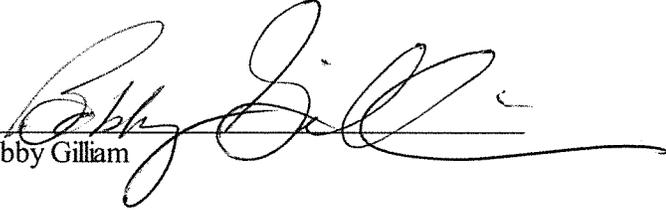
Order No. S-14-0068-14-OR02

IN THE MATTER OF
TEXAS ENERGY MUTUAL, LLC, ISO-1, BOBBY GILLIAM,
STEVE PEREIRA and ANDY STITT

CONSENT TO ENTRY OF CONSENT ORDER
BY BOBBY GILLIAM

Bobby Gilliam hereby acknowledges that he has been served with a copy of this Consent Order reflecting his settlement of the matters set out in the Consent Order, has read the Consent Order, is aware of his rights to a hearing and appeal and has waived those rights. He acknowledges that he is consenting to the entry of this order voluntarily and that no improper threats, offers, promises or inducements of any kind have been made by any member of the Staff of the Arkansas Securities Department to induce him to consent to the entry of this order.

Gilliam admits the jurisdiction of the Arkansas Securities Commissioner and consents to the entry of the Consent Order by the Arkansas Securities Commissioner as settlement of the issues contained in the Consent Order.


Bobby Gilliam

12-15-14
Date

BEFORE THE ARKANSAS SECURITIES COMMISSIONER

Case No. S-14-0068

Order No. S-14-0068-14-OR02

IN THE MATTER OF
TEXAS ENERGY MUTUAL, LLC, ISO-1, BOBBY GILLIAM,
STEVE PEREIRA and ANDY STITT

CONSENT TO ENTRY OF CONSENT ORDER
BY STEVE PEREIRA

Steve Pereira hereby acknowledges that he has been served with a copy of this Consent Order reflecting his settlement of the matters set out in the Consent Order, has read the Consent Order, is aware of his rights to a hearing and appeal and has waived those rights. He acknowledges that he is consenting to the entry of this order voluntarily and that no improper threats, offers, promises or inducements of any kind have been made by any member of the Staff of the Arkansas Securities Department to induce him to consent to the entry of this order.

Pereira admits the jurisdiction of the Arkansas Securities Commissioner and consents to the entry of the Consent Order by the Arkansas Securities Commissioner as settlement of the issues contained in the Consent Order.



Steve Pereira

12/11/14
Date

BEFORE THE ARKANSAS SECURITIES COMMISSIONER

Case No. S-14-0068

Order No. S-14-0068-14-OR02

IN THE MATTER OF
TEXAS ENERGY MUTUAL, LLC, ISO-1, BOBBY GILLIAM,
STEVE PEREIRA and ANDY STITT

CONSENT TO ENTRY OF CONSENT ORDER
BY ANDY STITT

Andy Stitt hereby acknowledges that he has been served with a copy of this Consent Order reflecting his settlement of the matters set out in the Consent Order, has read the Consent Order, is aware of his rights to a hearing and appeal and has waived those rights. He acknowledges that he is consenting to the entry of this order voluntarily and that no improper threats, offers, promises or inducements of any kind have been made by any member of the Staff of the Arkansas Securities Department to induce him to consent to the entry of this order.

Stitt admits the jurisdiction of the Arkansas Securities Commissioner and consents to the entry of the Consent Order by the Arkansas Securities Commissioner as settlement of the issues contained in the Consent Order.



Andy Stitt

12.13.14
Date