

1 **STATE OF WASHINGTON**
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**
3 **SECURITIES DIVISION**

4 IN THE MATTER OF DETERMINING
5 whether there has been a violation
6 of the Securities Act of Washington by:

7 North American Resource Group, Inc.;
8 Southeastern Energy, Inc.;
9 Falling Waters Prospect;
10 Southeastern Buck Mountain Prospect;
11 Southeastern Caney Creek Prospect;
12 Huddleston Annex Prospect;
13 Stephens Prospect; Gilreath Mill Prospect;
14 G. Alan Murrell; Thomas Emberton, Jr.;
15 Doug Smith,

16 Respondents.

Order Number S-05-113-06-SC01

STATEMENT OF CHARGES AND NOTICE
OF INTENT TO ISSUE AN ORDER TO
CEASE AND DESIST, IMPOSE FINES,
AND CHARGE COSTS

17 THE STATE OF WASHINGTON TO:

18 North American Resource Group, Inc.
19 Southeastern Energy, Inc.
20 Falling Waters Prospect
21 Southeastern Buck Mountain Prospect
22 Southeastern Caney Creek Prospect
23 Huddleston Annex Prospect
24 Stephens Prospect
Gilreath Mill Prospect
G. Alan Murrell
Thomas Emberton, Jr.
Doug Smith

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, North American Resource Group, Inc., Southeastern Energy, Inc., Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern Caney Creek Prospect, Huddleston Annex Prospect, Stephens Prospect, Gilreath Mill Prospect, G. Alan Murrell, Thomas Emberton, Jr. and Doug Smith have each violated the Securities Act of Washington and that their violations justify the entry of an

STATEMENT OF CHARGES AND NOTICE OF
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DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 order of the Securities Administrator against each to cease and desist from such violations pursuant to
2 RCW 21.20.390, imposing fines pursuant to RCW 21.20.395, and charging costs pursuant to RCW
3 21.20.390(5). The Securities Administrator finds as follows:

4
5 **TENTATIVE FINDINGS OF FACT**

6 Respondents

7 1. North American Resource Group, Inc. (“North American”), a Kentucky corporation, was
8 established on January 21, 2004 and is currently conducting business at 219 Reynolds Road, Glasgow,
9 Kentucky 42141 and was previously conducting business at 157 Reynolds Road, Glasgow, Kentucky
10 42141. North American is a development and management company that specializes in oil and gas
11 exploration in Tennessee.

12 2. Southeastern Energy, Inc. (“Southeastern Energy”), a Kentucky Corporation, was
13 established January 25, 1999 and is currently conducting business at 217 Reynolds Road, Glasgow,
14 Kentucky and was previously conducting business at 157 Reynolds Road, Glasgow, Kentucky 42141.
15 Southeastern is a development and management company that specializes in oil and gas exploration in
16 Tennessee.

17 3. Falling Waters Prospect (“Falling Waters”) is a partnership formed by North American
18 for the purpose of oil and gas development in Tennessee. North American Resource Group is the
19 managing general partner of Falling Waters.

20 4. Southeastern Buck Mountain Prospect (“Buck Mountain”) is a partnership formed by
21 North American for the purpose of oil and gas development in Tennessee. Southeastern Energy is the
22 managing general partner of Buck Mountain.

1 partnership interest offerings in, but not limited to, Falling Waters, Buck Mountain, Caney Creek,
2 Huddleston Annex, Stephens and/or Gilreath Mill. There were approximately eleven Washington
3 investors who invested in one or more of these partnership interest offerings between February 2004
4 and June 2005 whose investments total approximately \$226,500.

5 *Resident A*

6 13. In February 2004, Washington Resident A¹, a 56-year-old man, contacted North
7 American by telephone after seeing an investment offering on the North American website at
8 www.nargusa.com. Resident A spoke to an account representative at North American, whom offered
9 him a partnership interest in Falling Waters for \$28,000. After speaking to the account representative,
10 and receiving offering materials from North American, Resident A decided to purchase one-half of a
11 partnership interest in Falling Waters, a four-well-prospect.

12 14. Resident A sent a personal check in the amount of \$14,000 via Fed Ex to North American
13 for the purchase of a one-half interest in Falling Waters on February 23, 2004.

14 15. Resident A did not participate in the day-to-day operations or decision making of Falling
15 Waters, nor did Resident A have any experience with oil and gas development. Resident A lived in
16 Washington and the operations took place in Kentucky and Tennessee.

17 *Resident B*

18 16. On or about March 8, 2004, a North American and Southeastern Energy representative
19 offered an investment opportunity in an oil venture at a seminar in New Orleans, Louisiana.
20 Washington Resident B, a 73-year-old retiree, attended the seminar. The representative sold Resident
21

22
23 ¹ The names of the investors have been omitted to protect their privacy.

1 B partnership interests in Falling Waters, Caney Creek and Buck Mountain for approximately \$28,000
2 after Resident B received the offer at the seminar.

3 17. Resident B's role in the partnership interest was limited to the sharing of profits and
4 losses and he did not participate in the day-to-day operations or decision making of the partnerships.
5 Resident B did not have any experience with oil and gas development. Resident B relied on the
6 experience of North American and Southeastern Energy to determine the outcome of the oil ventures.

7 *Resident C*

8 18. In May or June 2004 Washington Resident C contacted North American by telephone
9 after learning about the investment offering from a friend. Resident C spoke to an account
10 representative who offered him an interest in a five-well-prospect.

11 19. On or about June 30, 2004, the account representative, on behalf of North American
12 mailed or caused to be mailed to Resident C offering materials related to an oil venture in Tennessee
13 called the Huddleston Annex Prospect.

14 20. After receiving the materials the account representative contacted Resident C to assist
15 him with completing the investor questionnaire. The account representative instructed Resident C to
16 put an incorrect net worth on the questionnaire so that Resident C would qualify as an accredited
17 investor for the purpose of meeting Regulation D Rule 506 requirements.

18 21. Prior to investing, Resident C inquired about the location of the oil wells and the
19 contractors involved with the project. North American refused to disclose the location of the wells.

20 22. On June 30, 2004, Resident C sent the form, along with a personal check for \$31,000 via
21 U.S. mail to North American for the purchase of an interest in the Huddleston Annex.

1 34. North American's Executive Statement projecting a possible 853% percent rate of
2 return within twelve months of investing in Huddleston Annex was misleading. North American failed
3 to provide a reasonable basis for its projections and failed to disclose the limitations on the projections.

4 35. North American's Executive Statement projecting a possible 1148% percent rate of
5 return within twelve months of investing in Gilreath Mill was misleading. North American failed to
6 provide a reasonable basis for its projections and failed to disclose the limitations on the projections.

7 36. North American's Program Highlights for Gilreath Mill projecting "Potential for large
8 returns on investment with long-term income from production" and "Geological information indicates
9 a potential for high-volume oil production" was misleading. North American failed to provide a
10 reasonable basis for its projections and failed to disclose the limitations on the projections.

11 37. North American's video in the offering materials for Gilreath Mill which featured
12 footage of oil wells pumping oil and Alan Murrell stating "oil is flowing 20-30 barrels an hour," was
13 misleading. North American failed to provide a reasonable basis for the statement as it pertained to
14 Gilreath Mill and failed to give a reasonable basis for the projected oil output of the prospect.

15 Registration Status

16 38. Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern Caney Creek
17 Prospect, Huddleston Annex Prospect, Stephens Prospect and Gilreath Mill Prospect are currently not
18 registered to sell their securities in the State of Washington and have not previously been so registered.

19 39. North American is not currently registered as a broker-dealer in the State of Washington
20 and has not previously been so registered.

21 40. Southeastern Energy is not currently registered as a broker-dealer in the State of
22 Washington and has not previously been so registered.

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4 Failure to Comply with Regulation D Rule 506

5 41. Southeastern claimed an exemption from registration of the Southeastern Buck Mountain
6 offering under Regulation D Rule 506 with a notice filing submitted to the Securities Administrator on
7 December 1, 2003.

8 42. Southeastern claimed an exemption from registration of the Southeastern Caney Creek
9 offering under Regulation D Rule 506 with a notice filing submitted to the Securities Administrator on
10 February 24, 2004.

11 43. North American claimed an exemption from registration of the Falling Waters offering under
12 Regulation D Rule 506 with a notice filing submitted to the Securities Administrator on March 1, 2004.

13 44. North American claimed an exemption from registration of the Huddleston Annex offering
14 under Regulation D Rule 506 with a notice filing submitted to the Securities Administrator on June 16,
15 2004.

16 45. North American claimed an exemption from registration of the Gilreath Mill offering under
17 Regulation D Rule 506 with a notice filing submitted to the Securities Administrator on June 7, 2005.

18 46. Regulation D Rule 506 prohibits the issuer or any person acting on behalf of the issuer to
19 offer or sell securities by any form of general solicitation. North American and its agents offered
20 partnership interests in Falling Waters, Huddleston Annex and Gilreath Mill using general solicitations by
21 making an offering on the North American website, making unsolicited telephone calls or making a
22 general offering at a seminar. Southeastern and its agents offered partnership interests in Southeastern

1 Caney Creek, Southeastern Buck Mountain using general solicitations by making a general offering at a
2 seminar.

3 47. Regulation D Rule 506 limits sales to no more than 35 non-accredited investors who must
4 have such knowledge and experience in financial and business matters that he is capable of evaluating the
5 merits and risks of the prospective investment. North American and its agents offered and/or sold
6 partnership interests in Huddleston Annex and Gilreath Mill to non-accredited investors who did not meet
7 the sophistication requirements of Rule 506.

8 Other Actions

9 48. On May 24, 2001, the State of Missouri, Office of Secretary of State, Securities
10 Division, issued an Order to Cease and Desist, Order No.CD-01-17, against Southeastern Energy and
11 G. Alan Murrell for offering and selling unregistered securities because of a failure to qualify for a
12 Regulation Form D exemption based upon Southeastern Energy's general solicitations.

13 49. On November 6, 2002, the Commonwealth of Kentucky, Department of Financial
14 Institutions, entered onto a settlement agreement with Southeastern Energy G. Alan Murrell and Doug
15 Smith, Administrative Action No. 02-PPC-0756, after issuing a temporary Cease and Desist Order for
16 failing to file reports with the Division on its Regulation D Section 506 offering.

17 50. In 2003, the State of Indiana issued a temporary cease and desist order against
18 Southeastern Energy.

19 51. In May 2003, the Pennsylvania Securities Commission issued a Summary Order to
20 Cease and Desist related to unregistered offers and sales of securities by Southeastern Energy,
21 Southeastern Energy Red-Hill Prospect LP, G. Alan Murrell and Doug Smith.

1 material facts necessary in order to make the statements made, in light of circumstances under which
2 they were made, not misleading.

3 **NOTICE OF INTENT TO ISSUE AN ORDER TO CEASE AND DESIST**

4 Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities
5 Administrator intends to order that Respondents, North American Resource Group, Inc., Southeastern
6 Energy, Inc., Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern Caney Creek
7 Prospect, Huddleston Annex Prospect, Stephens Prospect, Gilreath Mill Prospect, G. Alan Murrell,
8 Thomas Emberton, Jr. and Doug Smith and their agents and employees, shall each permanently cease and
9 desist from violations of RCW 21.20.140, RCW 21.20.040 and/or RCW 21.20.010.

10 **NOTICE OF INTENT TO IMPOSE FINES**

11 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of
12 Law, the Securities Administrator intends to order that:

- 13 a. Respondents North American Resource Group, Inc., Southeastern Energy, Inc.,
14 Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern Caney
15 Creek Prospect, Huddleston Annex Prospect, Stephens Prospect and Gilreath Mill
16 Prospect, shall be jointly and severally liable for and pay a fine of \$30,000;
- 17 b. Respondent G. Alan Murrell shall be liable for and pay a fine of \$10,000;
- 18 c. Respondent Thomas Emberton, Jr. shall be liable for and pay a fine of \$10,000.
- 19 d. Respondent Doug Smith shall be liable for and pay a fine of \$10,000.

20 **NOTICE OF INTENT TO CHARGE COSTS**

21 Pursuant to RCW 21.20.390(5), and based upon the based upon the Tentative Findings of Fact and
22 Conclusions of Law, the Securities Administrator intends to order that the Respondents North American

1 Resource Group, Inc., Southeastern Energy, Inc., Falling Waters Prospect, Southeastern Buck Mountain
2 Prospect, Southeastern Caney Creek Prospect, Huddleston Annex Prospect, Stephens Prospect, Gilreath
3 Mill Prospect, G. Alan Murrell, Thomas Emberton, Jr. and Doug Smith shall be liable for and pay the
4 Securities Division the costs, fees and other expenses incurred in the conduct of the administrative
5 investigation and hearing of this matter.

6 **AUTHORITY AND PROCEDURE**

7 This STATEMENT OF CHARGES AND NOTICE OF INTENT TO ISSUE AN ORDER TO
8 CEASE AND DESIST, IMPOSE FINES, AND CHARGE COSTS is entered pursuant to the provisions of
9 RCW 21.20.390 and RCW 21.20.395, and is subject to the provisions RCW 34.05. Each of the
10 Respondents may make a written request for hearing as set forth in the NOTICE OF OPPORTUNITY TO
11 DEFEND AND OPPORTUNITY FOR HEARING accompanying this Statement of Charges.

12 If a Respondent does not request a hearing, the Securities Administrator intends to adopt the above
13 Tentative Findings of Fact and Conclusions of Law as final, enter a permanent cease and desist order
14 against that Respondent, and impose the fine and/or charge costs, as sought in this Statement of Charges.

15 DATED AND ENTERED this 23rd day of May, 2006.

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17 _____
MICHAEL E. STEVENSON
Securities Administrator

18 Approved by:

Presented by:

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21 _____
Martin Cordell
Chief of Enforcement

22 _____
Angela R. Vogel
Financial Legal Examiner