

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-FO01

ENTRY OF FINDINGS OF FACT AND
CONCLUSIONS OF LAW AND FINAL
ORDER TO CEASE AND DESIST AND
IMPOSITION OF FINES

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

25 **STATEMENT OF CHARGES**

26 On May 23, 2006, the Securities Administrator of the State of Washington issued Statement of
27 Charges and Notice of Intent to Enter an Order to Cease and Desist number S-05-113-06-SC01,
28 hereinafter referred to as the "Statement of Charges" against North American Resource Group, Inc.,
29 Southeastern Energy, Inc., Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern

30 ENTRY OF FINDINGS OF FACT AND
31 CONCLUSIONS OF LAW AND FINAL ORDER
32 TO CEASE AND DESIST AND IMPOSE FINES

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

1 Caney Creek Prospect, Huddleston Annex Prospect, Stephens Prospect, Gilreath Mill Prospect, G. Alan
2 Murrell, Thomas Emberton, Jr. and Doug Smith.

3 The Statement of Charges, together with a Notice of Opportunity to Defend and Opportunity for
4 hearing, hereinafter referred to as the "Notice of Opportunity for Hearing" and an Application for
5 Adjudicative Hearing, hereinafter referred to as the "Application for Hearing", were served on North
6 American Resource Group, Inc., Southeastern Energy, Inc., Falling Waters Prospect, Southeastern Buck
7 Mountain Prospect, Southeastern Caney Creek Prospect, Huddleston Annex Prospect, Stephens Prospect,
8 Gilreath Mill Prospect, G. Alan Murrell, Thomas Emberton, Jr. and Doug Smith on May 30, 2006 via
9 certified mail. The Notice for Opportunity for Hearing advised North American Resource Group, Inc.,
10 Southeastern Energy, Inc., Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern
11 Caney Creek Prospect, Huddleston Annex Prospect, Stephens Prospect, Gilreath Mill Prospect, G. Alan
12 Murrell, Thomas Emberton, Jr. and Doug Smith that a written application for an administrative hearing
13 on the Statement of Charges must be received within twenty days from the date of receipt of the notice.
14 North American Resource Group, Inc., Southeastern Energy, Inc., Falling Waters Prospect, Southeastern
15 Buck Mountain Prospect, Southeastern Caney Creek Prospect, Huddleston Annex Prospect, Stephens
16 Prospect, Gilreath Mill Prospect, G. Alan Murrell, Thomas Emberton, Jr. and Doug Smith failed to
17 request an administrative hearing within twenty days of receipt of the Statement of Charges and Notice
18 of Opportunity for Hearing, either on the Application for Hearing provided or otherwise.

19 The Securities Administrator therefore will adopt as final the findings of fact and conclusions of
20 laws as set forth in the Statement of Charges.

21
22 The Securities Administrator makes the following findings of fact and conclusions of law:

1 **FINDINGS OF FACT**

2 Respondents

3 1. North American Resource Group, Inc. (“North American”), a Kentucky corporation, was
4 established on January 21, 2004 and is currently conducting business at 219 Reynolds Road, Glasgow,
5 Kentucky 42141 and was previously conducting business at 157 Reynolds Road, Glasgow, Kentucky
6 42141. North American is a development and management company that specializes in oil and gas
7 exploration in Tennessee.

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

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

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

19 5. Southeastern Caney Creek Prospect (“Caney Creek”) is a partnership formed by North
20 American for the purpose of oil and gas development in Tennessee. Southeastern Energy is the
21 managing general partner of Caney Creek.

1 investors who invested in one or more of these partnership interest offerings between February 2004
2 and June 2005 whose investments total approximately \$226,500.

3 *Resident A*

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

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

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

15 *Resident B*

16 16. On or about March 8, 2004, a North American and Southeastern Energy representative
17 offered an investment opportunity in an oil venture at a seminar in New Orleans, Louisiana.
18 Washington Resident B, a 73-year-old retiree, attended the seminar. The representative sold Resident
19 B partnership interests in Falling Waters, Caney Creek and Buck Mountain for approximately \$28,000
20 after Resident B received the offer at the seminar.

21
22
23 ¹ The names of the investors have been omitted to protect their privacy.

1 similar experience and was a retiree residing in Washington. Resident C was notified about the success
2 or failure of the oil prospects after they occurred and made or received payments based upon
3 representations by North American.

4 24. In September 2004, Resident C was contacted by the account representative with an
5 additional investment offering in three-well-prospect in Tennessee called Stephens. The only
6 documents Resident C received related to the Stephens offering were a five page geological report and
7 a purchase agreement.

8 25. On September 13, 2004, Resident C sent the purchase agreement and a check in the
9 amount of \$25,000 to North American via U.S. mail for the purchase of a three-and-one-half
10 partnership interests in Stephens.

11 26. The partnership interest in Stephens was limited to the sharing of profits and losses and
12 did not include participation in the day to day operations or decision making.

13 27. Resident C is not an accredited or sophisticated investor.

14 *Resident D*

15 28. On or about June 14, 2005, an account representative, on behalf of North American made
16 an unsolicited telephone call to Washington Resident D to offer securities in an oil venture in
17 Kentucky.

18 29. On June 14, 2005, the account representative, on behalf of North American, mailed or
19 caused to be mailed to Resident D offering materials related to an oil venture in Tennessee, called the
20 Gilreath Mill Prospect Partners.

21 30. According to the offering documents received by Resident D, North American was
22 offering a partnership interest in Gilreath Mill. The offering documents state, “ North American

1 Resource Group, Inc. will act as the Managing General Partner and manager of the Program,” and
2 “The control and management of the business and activities of the Partnership is vested in the
3 Managing General Partner with the Partners generally having no voice in, or right to participate in, the
4 management of the Partnership.”

5 31. On July 15, 2005, an account representative, on behalf of North American, made a
6 telephone call to Resident D. He identified himself as the Senior Project Manager of North American.
7 The account representative told Resident D that he was calling to follow-up with Resident D because
8 the original account representative who contacted him did not have much experience with the project.
9 He asked Resident D if he had any questions and then provided Resident D with his cell phone
10 number.

11 32. Resident D was not an accredited investor.

12 Misrepresentations and Omissions

13 33. North American failed to provide material information regarding the company and the
14 Stephens Prospect, including, but not limited to: a financial statement, use of proceeds, the company
15 history, and the background of the officers and general and specific risks involved with oil prospects.

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

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

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

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

6 44. North American claimed an exemption from registration of the Huddleston Annex offering
7 under Regulation D Rule 506 with a notice filing submitted to the Securities Administrator on June 16,
8 2004.

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

11 46. Regulation D Rule 506 prohibits the issuer or any person acting on behalf of the issuer to
12 offer or sell securities by any form of general solicitation. North American and its agents offered
13 partnership interests in Falling Waters, Huddleston Annex and Gilreath Mill using general solicitations by
14 making an offering on the North American website, making unsolicited telephone calls or making a
15 general offering at a seminar. Southeastern and its agents offered partnership interests in Southeastern
16 Caney Creek, Southeastern Buck Mountain using general solicitations by making a general offering at a
17 seminar.

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

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2 Other Actions

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

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

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

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

16 52. In 1997, Pennsylvania issued a Summary Order to Cease and Desist order against Doug
17 Smith, as an officer of Kentucky-Tennessee Oil and Gas, Inc., for failing to pre-file his offering
18 materials and for failure to comply with other provisions of the Securities Act of Pennsylvania.

19 Based upon the above Findings of Fact, the following Conclusions of Law are made:
20

21 **CONCLUSIONS OF LAW**

1 Prospect, Gilreath Mill Prospect, G. Alan Murrell, Thomas Emberton, Jr. and Doug Smith and their agents
2 and employees, shall each permanently cease and desist from violations of RCW 21.20.140, the section of
3 the Securities Act of Washington requiring registration.

4 It is further ORDERED that Respondents, North American Resource Group, Inc., Southeastern
5 Energy, Inc., Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern Caney Creek
6 Prospect, Huddleston Annex Prospect, Stephens Prospect, Gilreath Mill Prospect, G. Alan Murrell,
7 Thomas Emberton, Jr. and Doug Smith and their agents and employees, shall each permanently cease and
8 desist from violations of RCW 21.20.040, the broker-dealer and securities salesperson registration
9 section of the Securities Act.

10 It is further ORDERED that Respondents, North American Resource Group, Inc., Southeastern
11 Energy, Inc., Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern Caney Creek
12 Prospect, Huddleston Annex Prospect, Stephens Prospect, Gilreath Mill Prospect, G. Alan Murrell,
13 Thomas Emberton, Jr. and Doug Smith and their agents and employees, shall each permanently cease and
14 desist from violations of RCW 21.20.010, the anti-fraud section of the Securities Act.

15 It is further ORDERED that North American Resource Group, Inc., Southeastern Energy, Inc.,
16 Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern Caney Creek Prospect,
17 Huddleston Annex Prospect, Stephens Prospect and Gilreath Mill Prospect shall be jointly and severally
18 liable for and pay a fine of \$30,000.

19 It is further ORDERED that G. Alan Murrell shall be liable for and pay a fine of \$10,000.

20 It is further ORDERED Thomas Emberton, Jr. shall be liable for and pay a fine of \$10,000.

21 It is further ORDERED Doug Smith shall be liable for and pay a fine of \$10,000.

1
2 **AUTHORITY AND PROCEDURE**

3 This Final Order is entered pursuant to the provisions of RCW 21.20.390 and RCW 21.20.395, and
4 is subject to the provisions of Chapter 34.05 RCW. Respondents have the right to petition the Superior
5 Court for judicial review of this agency action under the provisions of Chapter 34.05 RCW. For the
6 requirements for filing a Petition for Judicial Review see RCW 34.050.510 and sections following.
7 Pursuant to RCW 21.20.395, a certified copy of this order may be filed in Superior Court. If so filed, the
8 clerk shall treat the order in the same manner as a Superior Court judgment as to the fine, and the fine may
9 be recorded, enforced, or satisfied in like manner.

10 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

11 DATED AND ENTERED this 27th day of June, 2006.

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14 _____
MICHAEL E. STEVENSON
Securities Administrator

15 Approved by:

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18 _____
Martin Cordell
Chief of Enforcement

Presented by:

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18 _____
Angela R. Vogel
Financial Legal Examiner