**THE UNITED STATES DISTRICT COURT**
**NORTHERN DISTRICT OF TEXAS**
**DALLAS DIVISION**

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|---|---|---|
| BILLITTERI v. SECURITIES AMERICA, INC., *et al.* (*Provident Royalties Litigation*) | : | 3:09-cv-01568-F AND RELATED CASES |
| THIS DOCUMENT RELATES TO: ALL ACTIONS | : | |

**SECOND AMENDED CLASS ACTION COMPLAINT**

## NATURE OF THE ACTION

1. Plaintiffs invested in a series of shale gas ventures sponsored by Provident Royalties, LLC between September 2006 and January 2009 (the "Provident Offerings"). Defendants Securities America, Inc., Capital Financial Services, Inc., National Securities Corporation, NEXT Financial Group, Inc. and QA3 Financial Corporation (the "Broker Defendants") were members of a nationwide network of broker-dealers who offered and sold the Provident Offerings. Defendants Ameriprise Financial, Inc., Capital Financial Holdings, Inc., National Holdings Corporation, NEXT Financial Holdings, Inc., QA3, LLC, and GunnAllen Holdings, Inc. (the "Control Person Defendants") are the respective corporate parents of the Broker Defendants and non-party broker-dealer GunnAllen Financial, Inc. (which filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code on April 26, 2010).

2. The Broker Defendants contracted with Provident Asset Management, LLC ("PAM"), an affiliate of Provident Royalties, to solicit investors in the Provident Offerings. The Broker Defendants agreed to sell each Provident Offering by means of a Private Placement Memorandum ("PPM") and other selling materials approved by PAM. The Broker Defendants required Plaintiffs to sign uniform subscription agreements stating that they did not rely on information inconsistent with the disclosures set forth in the PPMs in deciding whether to invest in a Provident Offering.

3. The PPMs represented that investors in the Provident Offerings could expect to receive highly attractive rates of return ranging between 14% and 18% on an annualized basis and that their principal would be fully redeemed within 2 to 4 years. Provident Royalties had no prior operating history, however, and none of the founders or managers of Provident Royalties had ever successfully operated an oil and gas venture.

4. Provident Royalties never published audited financial statements for itself or any of its shale ventures. The Provident securities were not publicly traded and were purportedly exempt from the registration requirements of the Securities Act of 1933 under SEC Rule 506 of Regulation D. Plaintiffs were thus dependent on the Broker Defendants to conduct an adequate investigation of the Provident Offerings.

5. Plaintiffs paid syndication management fees of 3% to 4% to PAM for managing the offerings. Plaintiffs also paid PAM an additional 1.5% "non-accountable" due diligence fee. Plaintiffs paid the Broker Defendants commissions ranging from 5.5% to 8% for selling the Provident Offerings. Plaintiffs also paid each of the Broker Defendants an additional 1% due diligence fee.

6. The Broker Defendants did not use the 1% due diligence fee they collected to conduct independent due diligence. The Broker Defendants instead relied for due diligence on an investigation conducted by Mick & Associates, P.C., a law firm hired by PAM and paid by Provident Royalties. Mick & Associates identified material adverse information in the due diligence reports it prepared for the Broker Defendants, who did not follow up on or notify Plaintiffs about such material adverse information.

7. The PPMs and brochures with similar information the Broker Defendants used to recommend and sell the Provident Offerings to Plaintiffs were false and misleading in various ways, including:

a. The PPMs said that investors would pay a 1% due diligence fee to the broker soliciting the investment but none of the Broker Defendants who solicited Plaintiffs' investments used the fee to conduct reasonable due diligence;

b. The Provident Offerings were presented as separate ventures when they were in fact run as a single enterprise, with assets and liabilities of later ventures commingled with those of earlier ventures;

c. Dividends were to be paid based on profitability and cash flow, but dividends were actually paid to participants through capital received from investors in later ventures, without regard to the paying venture's profitability or cash flow; and

d. Provident Royalties was controlled in part by Joseph Blimline, who was not identified in the PPMs for the Provident Offerings. Blimline had a documented history of sponsoring fraudulent oil and gas investment ventures.

8. Provident Royalties suspended all dividend payments to investors in the Provident Offerings in late January 2009. The Provident ventures had paid over $30 million in dividends to investors while collecting less than $16 million in production revenue. Provident Royalties could no longer raise enough money from new investors to make ongoing dividend payments and fund the redemptions of its 2006 and early 2007 offerings. By the time Provident Royalties suspended dividend payments, it owed investors at least $10 million, with an additional nearly $200 million coming due during the year.

9. The Securities and Exchange Commission and the Court-appointed Receiver and Chapter 11 Trustee for Provident Royalties and each of its investment vehicles have charged Provident Royalties with operating a Ponzi scheme.

10. The Broker Defendants collected nearly $20 million in commissions and at least $2.67 million in due diligence fees for selling the Provident Offerings.

11. On their own behalf and on behalf of a Class of investors, Plaintiffs sue the Broker Defendants for rescission or damages under Texas Securities Act Section 33(A)(2) for offering and selling the Provident Offerings by means of the materially untrue statements and omissions of material facts in the PPMs and brochures with similar information, and for breach of their fiduciary duties to Plaintiffs and Class members. Plaintiffs sue the Control Person Defendants for rescission or damages under Texas Securities Act Section 33(F)(1) as direct or indirect controllers of their broker subsidiaries who are jointly and severally liable with their subsidiaries.

## JURISDICTION AND VENUE

12. This Court has subject matter jurisdiction over this dispute under the Class Action Fairness Act of 2005, codified at 28 U.S.C. § 1332(d)(2). The amount in controversy in this action exceeds $5,000,000. The Class consists of more than 100 individuals and Plaintiffs and Defendants are citizens of different states.

13. Venue is proper in this District pursuant to 15 U.S.C. § 77v because substantial acts in furtherance of the alleged misconduct and/or its effects have occurred in this District, including the issuance of PPMs that contained untrue statements of material fact or omissions of material facts and the receipt of Plaintiffs' and Class members' investment funds.

## PARTIES

### PLAINTIFFS

14. Plaintiff **Joseph Billitteri**, a resident of Illinois, purchased preferred stock in Shale 12 pursuant to the PPM for that offering provided to him by Defendant Securities America, Inc., and was damaged. Billitteri purchased Provident securities in June 2008 from Paula Dorion-Gray, a representative of Securities America. As part of his purchase, Billitteri entered

into a subscription agreement governed by Texas law that was signed by Securities America and sent to PAM in Texas for processing.

15. Plaintiff **Karen L. Bopp, IRA,** a resident of Massachusetts, purchased preferred stock in Shale 10 pursuant to the PPM for that offering provided to her by Defendant NEXT Financial Group, and was damaged. Bopp purchased Provident securities in June 2008 from Anthony Disavino, a representative of NEXT. As part of her purchase, Bopp entered into a subscription agreement governed by Texas law that was signed by NEXT and sent to PAM in Texas for processing.

16. Plaintiff **Bussell Living Trust DTD 12/05/96,** a trust under the law of the state of Washington, purchased preferred stock in Shale 14 pursuant to the PPM for that offering provided to it by Defendant QA3 Financial Corporation, and was damaged. Bussell purchased Provident securities in August 2008 from Shayne Kuebler, a representative of QA3. As part of the purchase, Bussell entered into a subscription agreement governed by Texas law that was signed by QA3 and sent to PAM in Texas for processing.

17. Plaintiff **John Gilgallon**, a resident of Michigan, purchased preferred stock in Shale 5 pursuant to the PPM for that offering provided to him by GunnAllen Financial, Inc., and was damaged. Gilgallon purchased Provident securities in October 2007 from Louis Wright, a representative of GunnAllen. As part of his purchase, Gilgallon entered into a subscription agreement governed by Texas law that was signed by GunnAllen and sent to PAM in Texas for processing.

18. Plaintiff **Mary Merline**, a resident of Michigan, purchased preferred stock in Shale Royalties 17, Inc. pursuant to the PPM for that offering provided to her by GunnAllen, and was damaged. Merline purchased Provident securities in September 2008 from Louis Wright, a

representative of GunnAllen. As part of her purchase, Merline entered into a subscription agreement governed by Texas law that was signed by GunnAllen and sent to PAM in Texas for processing.

19. Plaintiff **James Merrill**, a resident of California, purchased preferred stock in Shale 10 and Shale 16 and purchased an interest in Provident Energy 2 pursuant to the PPMs for those offerings provided to him by Defendant National Securities Corporation, and was damaged. Merrill purchased stock in Shale 10 in June 2008 and stock in Shale 16 in July 2008 from Brian Folland, a representative of National Securities. Merrill purchased interests in Provident Energy 2 from National Securities in both June and July 2008. As part of his purchases, Merrill entered into subscription agreements governed by Texas law that were signed by National Securities and sent to PAM in Texas for processing.

20. Plaintiff **Sharon Kreindel Revocable Trust DTD 02/09/2005,** created pursuant to the law of the state of Ohio, purchased preferred stock in Shale 12 and Shale 20 pursuant to the PPMs for those offerings provided to it by Defendant Securities America, and was damaged. Kreindel purchased Shale 12 stock in July 2008 from Howard Slater, a representative of Securities America. Kreindel purchased Shale 20 stock from Rebecca Bar-Shain, also a representative of Securities America, in December 2008. As part of the purchases, Kreindel entered into subscription agreements governed by Texas law that were signed by Securities America and sent to PAM in Texas for processing.

21. Plaintiff **Donald Stott**, a resident of Idaho, purchased preferred stock in Shale 18 pursuant to the PPM for that offering and promotional brochures provided to him by Defendant Capital Financial Services, Inc., and was damaged. The promotional brochures contained information consistent with the information in the PPM for the offering, including the promised

high rates of return, identification of key management, and descriptions of the investment purpose and prior operating history. Stott purchased Provident securities in November and December 2008 from James Batten, a representative of Capital Financial. As part of his purchase, Stott entered into subscription agreements governed by Texas law that were signed by Capital Financial and sent to PAM in Texas for processing.

## DEFENDANTS

### The Broker Defendants

22. Defendant **Securities America, Inc.** is a registered broker-dealer with its principal offices in La Vista, Nebraska. Securities America conducts business in Texas and sold Provident securities to Texas residents.

23. Defendant **Capital Financial Services, Inc.** is a registered broker-dealer with its principal place of business in Minot, North Dakota. Capital Financial conducts business in Texas and sold Provident securities to Texas residents.

24. Defendant **National Securities Corporation** is a registered broker-dealer with its corporate headquarters in Seattle, Washington. National Securities conducts business in Texas and sold Provident securities to Texas residents.

25. Defendant **NEXT Financial Group** is a registered broker-dealer with its principal offices in Houston, Texas. NEXT conducts business in Texas and sold Provident securities to Texas residents.

26. Defendant **QA3 Financial Corporation** is a registered broker-dealer with its principal offices in Omaha, Nebraska. QA3 conducts business in Texas and sold Provident securities to Texas residents.

27. Capital Financial, National Securities, NEXT, QA3, and Securities America are

collectively referred to as the "Broker Defendants."

**The Control Person Defendants**

28. Defendant **Ameriprise Financial, Inc**. is headquartered in Minneapolis, Minnesota. Through its subsidiary Securities America and a network of financial advisors, Ameriprise offers financial planning, products and services to individual and institutional investors nationwide, including in Texas.

29. Defendant **Capital Financial Holdings, Inc**., formerly known as Integrity Mutual Funds, Inc., is headquartered in North Dakota. Through its subsidiary Capital Financial, Capital Holdings offers investment products and services nationwide, including in Texas.

30. Defendan**t National Holdings Corp**. is headquartered in New York. Through its subsidiary National Securities, the company offers independent brokerage, advisory and asset management services nationwide, including in Texas.

31. Defendant **NEXT Financial Holdings, Inc**. is headquartered in Texas. Through its subsidiary NEXT, NEXT Holdings provides financial services nationwide, including in Texas.

32. Defendant **QA3, LLC** is headquartered in Nebraska. Through its subsidiary QA3, the company provides financial services nationwide, including in Texas.

33. Defendant **GunnAllen Holdings, Inc.** is headquartered in Florida. Through its subsidiary, non-party GunnAllen Financial, Inc. (which filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code on April 26, 2010), the company provides financial services nationwide, including in Texas. But for the automatic stay of litigation under 11 U.S.C. § 362, GunnAllen would be named as a Broker Defendant in this complaint.

34. Ameriprise, Capital Holdings, National Holdings, NEXT Holdings, QA3, LLC

and GunnAllen Holdings are collectively referred to as the "Control Person Defendants."

## NON-PARTIES

### THE FOUNDERS OF THE PROVIDENT ENTITIES

35. **Joseph Blimline** served as a "Land and Trend Consultant" for Provident Royalties. Blimline was also a founder and manager of Provident Royalties and a control person of Provident Royalties and all of the Provident entities. Blimline resides in Dallas, Texas.

36. **Brendan W. Coughlin** was a founder and manager of Provident Royalties and a control person of Provident Royalties and all of the Provident entities. Coughlin owned an equity interest in Provident Royalties. He was also a principal of PAM and a director and executive officer of each of the Provident Rule 506 Entities. Coughlin resides in Dallas, Texas.

37. **Henry Harrison** was a founder and manager of Provident Royalties and a control person of Provident Royalties and all of the Provident entities. Harrison owned an equity interest in Provident Royalties. He was also a principal of PAM and a director and executive officer of each of the Provident Rule 506 Entities. Harrison resides in Dallas, Texas.

38. **Paul R. Melbye** was a founder and manager of Provident Royalties and a control person of Provident Royalties and all of the Provident entities. Melbye owned an equity interest in Provident Royalties. He was also a director and executive officer of each of the Provident Rule 506 Entities. Melbye resides in Dallas, Texas.

### THE PROVIDENT ENTITIES

39. **Provident Royalties, LLC** was a Delaware limited liability company with its principal office in Dallas, Texas. The majority of the interests in Provident Royalties (94.5%) were held by two companies: WPCO, LLC, an affiliate of Melbye; and HBBC Enterprise, LP, an affiliate of Coughlin and Harrison.

40. **Provident Asset Management, LLC (PAM)** was a Delaware limited liability company with its principal office in Dallas, Texas. When Coughlin and Harrison purchased PAM in 2005, it was a registered broker-dealer named AmTex Associates, LLC. They renamed the company in July 2007. PAM was the managing dealer for all of the Provident securities and shared an office with Provident Royalties. PAM approved all investments and collected all investor funds.

41. **Shale Royalties, Inc.** was a Delaware corporation that raised $30,000 from one investor in July 2006. Its officers were Blimline, Melbye and Darin David.

42. **Shale Royalties, LP** was a Delaware limited partnership that raised approximately $590,000 from nine investors, beginning in July 2006. Its officers were Blimline, Melbye and Darin David.

43. The **Provident Rule 506 Entities** were a series of corporations and partnerships through which Provident Royalties raised funds from investors. Provident Royalties was the beneficial owner of all of the Provident Rule 506 Entities, which were headquartered in the Provident offices in Dallas, Texas. Melbye, Coughlin and Harrison were identified as the directors and executive officers of each of the Provident Rule 506 Entities.

a. **Shale Royalties II, Inc.** was a Delaware corporation that raised approximately $9.75 million from 177 investors, beginning in September 2006.

b. **Shale Royalties 3, LLC** was a Texas limited liability company that raised approximately $20 million from 339 investors, beginning in January 2007.

c. **Shale Royalties 4, Inc.** was a Delaware corporation that raised approximately $27 million from 487 investors, beginning in March 2007.

d. **Provident Energy I, LP** was a Texas limited partnership that raised approximately $6.82 million from 131 investors, beginning in March 2007. The partnership agreement is governed by Texas law.

e. **Provident Resources I, LP** was a Texas limited partnership that raised approximately $9.18 million from 214 investors, beginning in February 2007. Provident Resources was a customized program offered only to investors of Okoboji Financial Services.

f. **Shale Royalties 5, Inc.** was a Delaware corporation that raised approximately $29.91 million from 499 investors, beginning in August 2007.

g. **Shale Royalties 6, Inc.** was a Delaware corporation that raised approximately $27.46 million from 493 investors, beginning in November 2007.

h. **Provident Energy 2, LP** was a Texas limited partnership that raised approximately $25.91 million from 498 investors, beginning in November 2007. The partnership agreement is governed by Texas law.

i. **Shale Royalties 7, Inc.** was a Delaware corporation that raised approximately $31.37 million from 494 investors, beginning in December 2007.

j. **Shale Royalties 8, Inc.** was a Delaware corporation that raised approximately $31.81 million from 497 investors, beginning in December 2007.

k. **Shale Royalties 9, Inc**. was a Delaware corporation that raised approximately $33.21 million from 499 investors, beginning in February 2008.

l. **Shale Royalties 10, Inc**. was a Delaware corporation that raised approximately $29.10 million from 496 investors, beginning in February 2008.

m. **Shale Royalties 12, Inc.** was a Delaware corporation that raised approximately $34.69 million from 488 investors, beginning in May 2008.

n. **Shale Royalties 14, Inc.** was a Delaware corporation that raised approximately $31.13 million from 446 investors, beginning in July 2008.

o. **Shale Royalties 15, Inc.** was a Delaware corporation that raised approximately $27.52 million from 458 investors, beginning in July 2008.

p. **Shale Royalties 16, Inc.** was a Delaware corporation that raised approximately $31.29 million from 466 investors, beginning in July 2008.

q. **Shale Royalties 17, Inc.** was a Delaware corporation that raised approximately $30.50 million from 492 investors, beginning in July 2008.

r. **Shale Royalties 18, Inc.** was a Delaware corporation that raised approximately $24.43 million from 306 investors, beginning in October 2008.

s. **Shale Royalties 19, Inc.** was a Delaware corporation that raised approximately $12.23 million from 194 investors, beginning in October 2008.

t. **Shale Royalties 20, Inc.** was a Delaware corporation that raised approximately $6.89 million from 91 investors, beginning in October 2008.

u. **Provident Energy 3, LP** was a Texas limited partnership that raised approximately $120,000 from 4 investors, beginning in December 2008. The partnership agreement is governed by Texas law.

44. Plaintiffs have not named the Provident entities or their principals as defendants due to the July 2, 2009 Order Granting Temporary Restraining Order, Appointing Receiver, Freezing Assets, Staying Litigation, Prohibiting the Destruction of Documents and Accelerating Discovery.

## THE PROVIDENT OFFERINGS

45. The **Provident Offerings** are Shale II, Shale 3, Shale 4, Provident Energy 1, Shale 5, Shale 6, Provident Energy 2, Shale 7, Shale 8, Shale 9, Shale 10, Shale 12, Shale 14, Shale 15, Shale 16, Shale 17, Shale 18, Shale 19, Shale 20 and Provident Energy 3. The stock and partnership interests offered by these entities are referred to as the **Provident securities**.

## COUNT I
## §33(A)(2) OF THE TEXAS SECURITIES ACT
## AGAINST THE BROKER DEFENDANTS

46. Plaintiffs repeat and reallege the allegations contained in the foregoing paragraphs as if fully set forth herein.

### THE BROKER DEFENDANTS WERE SELLERS OF THE PROVIDENT SECURITIES

47. Beginning in September 2006, Provident Royalties began to offer securities through the Provident Rule 506 Entities. PAM, as managing dealer, organized a syndicate of broker-dealers across the country to sell the offerings.

48. The offerings were sold as investments in the oil and gas business and consisted of preferred stock or partnership interests priced at $5,000. The stock offerings provided for annual dividend payments of 14-18%, with full redemption of the purchase price after 24, 36 or 48 months. The Provident Energy partnership offerings provided that investors would receive 95% of net cash flow until payout (the point in time when investors have been paid in distributions an amount equal to their net capital contributions), after which they would receive 50% of net cash flow.

49. The offerings provided a sales commission to broker-dealers ranging from 5.5% to 8% of investor funds, plus an additional 1% due diligence fee.

50. Each Broker Defendant executed a Selected Dealer Agreement for each Provident Offering it sold. Each Broker Defendant agreed that it would not "give any information or … make any representations other than as contained in the Memorandum or other documents pre-approved by the Managing Dealer." The Selected Dealer Agreements further required the Broker Defendants to offer and sell the Provident Securities "in conformity with the terms" of the PPM or "only in accordance with the terms and procedures set forth in this Agreement, the Offering Memorandum and any supplemental materials supplied by the Managing Dealer…." The Selected Dealer Agreements also required each Broker Defendant to deliver a copy of the PPM to any potential investor before the investor submitted a written offer to invest. Representative examples of the Selected Dealer Agreements, in forms substantially similar to those executed by each Broker Defendant in connection with its sales of the Provident Offerings, are attached to this complaint as Exhibits A and B.

51. The Broker Defendants were offerors and sellers within the meaning of the Texas Securities Act because they actively solicited the sale of and sold the Provident Offerings to

Plaintiffs and the Class.

52. The Broker Defendants received fees, including commissions and due diligence fees, for their sales of Provident securities to investors. In selling the Provident Offerings, the Broker Defendants were motivated at least in part by a desire to serve their own financial interests.

53. In accordance with the Selected Dealer Agreements, the Broker Defendants were required to make uniform representations to Plaintiffs and Class members in soliciting their investments in the Provident Offerings. The Broker Defendants made these uniform representations by recommending that each Plaintiff and Class member invest in one or more of the Provident Offerings, and by delivering or causing to be delivered to each Plaintiff and Class member a copy of the PPM or similar offering materials inducing Plaintiffs and Class members to invest in the offerings. The Broker Defendants solicited Plaintiffs' and Class members' investments with the understanding that they would receive the commissions and fees promised by Provident Royalties and PAM, and such commissions and fees were in fact paid to the Broker Defendants in connection with each investment they sold in the Provident Offerings.

54. The Broker Defendants required Plaintiffs and Class members to sign uniform subscription agreements stating that they did not rely on information inconsistent with the disclosures set forth in the PPMs in deciding whether to invest in a Provident Offering. The Broker Defendants also signed the subscription agreement, attesting that, among other things, "the subscriber and the Selected Dealer had a substantive pre-existing relationship prior to the commencement of the Offering."

**Securities America's Sales of Provident Securities**

55. Securities America offered and sold several of the Provident Offerings. Securities America signed a Selected Dealer Agreement for each offering, agreeing to offer and sell the Provident securities by making only the statements contained in the PPMs and brochures with similar information that were approved by PAM. Each of the Selected Dealer Agreements that Securities America signed contained a Texas choice-of-law provision.

56. Securities America recommended investment in the Provident Offerings to Plaintiffs Kreindel and Billitteri and other Class members who purchased Provident securities from Securities America.

57. Securities America acted in a fiduciary capacity to Plaintiffs Kreindel and Billitteri and other Class members who purchased Provident securities from Securities America.

58. The following chart sets forth each Provident Offering that Securities America sold and, for each offering, the date Securities America executed the Selected Dealer Agreement, the date ranges of investors' purchases, and the total amount of sales:

| Offering | Amount Sold by Securities America Per Securities America Records | Date Selected Dealer Agreement Executed | Date Range of Investor Purchases Per Securities America Records |
|---|---|---|---|
| Shale 6 | $595,000 | December 3, 2007 | December 10, 2007 – January 17, 2008 |
| Shale 7 | $2,390,000 | January 28, 2008 | February 1, 2008 – May 23, 2008 |
| Shale 9 | $4,740,000 | April 2, 2008 | April 18, 2008 – August 12, 2008 |
| Provident Energy 2 | $1,555,000 | May 7, 2008 | April 18, 2008 – August 20, 2008 |

| Offering | Amount Sold by Securities America Per Securities America Records | Date Selected Dealer Agreement Executed | Date Range of Investor Purchases Per Securities America Records |
|---|---|---|---|
| Shale 12 | $12,538,500 | May 30, 2008 | June 11, 2008 – August 12, 2008 |
| Shale 15 | $19,510,000 | July 25, 2008 | July 31, 2008 – December 24, 2008 |
| Shale 20 | $6,360,000 | November 21, 2008 | November 26, 2008 – January 22, 2009 |
| **TOTAL** | **$47,688,500** | | December 10, 2007 – January 2, 2009 |

59. Securities America collected at least $3.48 million in sales commissions.

60. Securities America collected at least $476,885 in due diligence fees.

**Capital Financial's Sales of Provident Securities**

61. Capital Financial offered and sold several of the Provident Offerings. Capital Financial signed a Selected Dealer Agreement for each offering, agreeing to offer and sell the Provident securities by making only the statements contained in the PPMs and brochures with similar information that were approved by PAM. Each of the Selected Dealer Agreements that Capital Financial signed contained a Texas choice-of-law provision.

62. Capital Financial recommended investment in the Provident Offerings to Plaintiff Stott and other Class members who purchased Provident securities from Capital Financial.

63. Capital Financial acted in a fiduciary capacity to Plaintiff Stott and other Class members who purchased Provident securities from Capital Financial.

64. The following chart sets forth each Provident Offering that Capital Financial sold and, for each offering, the date Capital Financial executed the Selected Dealer Agreement, the date ranges of investors' purchases, and the total amount of sales:

| **Offering** | **Amount Sold by Capital Financial Per Capital Financial Records** | **Date Selected Dealer Agreement Executed** | **Date Range of Investor Purchases Per Capital Financial Records** |
|---|---|---|---|
| Shale 2 | $3,350,000 | September 30, 2006 | October 20, 2006 – February 12, 2007 |
| Shale 3 | $7,370,000 | January 19, 2007 | February 16, 2007 – October 1, 2007 |
| Provident Energy 1 | $1,580,000 | March 7, 2007 | April 27, 2007 – October 4, 2007 |
| Shale 4 | $4,450,000 | May 24, 2007 | June 9, 2007 – October 22, 2007 |
| Shale 5 | $6,760,000 | September 10, 2007 | October 1, 2007 – December 27, 2007 |
| Shale 6 | $5,005,000 | November 19, 2007 | December 10, 2007 – May 29, 2008 |
| Provident Energy 2 | $3,940,000 | November 28, 2007 | December 12, 2007 – November 21, 2008 |
| Shale 7 | $5,020,000 | January 14, 2008 | February 4, 2008 – June 12, 2008 |
| Shale 9 | $5,950,000 | March 19, 2008 | April 10, 2008 – June 25, 2008 |
| Shale 12 | $3,105,000 | May 21, 2008 | June 5, 2008 – August 14, 2008 |
| Shale 14 | $8,010,000 | July 28, 2008 | July 31, 2008 – November 14, 2008 |

| Offering | Amount Sold by Capital Financial Per Capital Financial Records | Date Selected Dealer Agreement Executed | Date Range of Investor Purchases Per Capital Financial Records |
|---|---|---|---|
| Shale 17 | $3,010,000 | August 28, 2008 | September 12, 2008–November 28, 2008 |
| Shale 18 | $7,725,000 | October 10, 2008 | November 7, 2008 – January 28, 2009 |
| **TOTAL** | **$65,275,000** | | **October 1, 2007 – January 28, 2009** |

65. Capital Financial collected at least $5.14 million in sales commissions.

66. Capital Financial collected at least $652,750 in due diligence fees.

**National Securities' Sales of Provident Securities**

67. National Securities offered and sold several of the Provident Offerings. National Securities signed a Selected Dealer Agreement for each offering, agreeing to offer and sell the Provident securities by making only the statements contained in the PPMs and brochures with similar information that were approved by PAM. Each of the Selected Dealer Agreements that National Securities signed contained a Texas choice-of-law provision.

68. National Securities recommended investment in the Provident Offerings to Plaintiff Merrill and other Class members who purchased Provident securities from National Securities.

69. National Securities acted in a fiduciary capacity to Plaintiff Merrill and other Class members who purchased Provident securities from National Securities.

70. The following chart sets forth each Provident Offering National Securities sold and, for each offering, the date National Securities executed the Selected Dealer Agreement, the date ranges of investors' purchases, and the total amount of sales:

| **Offering** | **Amount Sold by National Securities Per National Securities Records** | **Date Selected Dealer Agreement Executed** | **Date Range of Investor Purchases Per National Securities Records** |
|---|---|---|---|
| Shale 5 | $415,000 | September 24, 2007 | October 11, 2007 – November 26, 2007 |
| Shale 6 | $1,630,000 | November 19, 2007 | November 12, 2007 – January 22, 2008 |
| Shale 8 | $1,185,000 | January 18, 2008 | February 1, 2008 – April 29, 2008 |
| Provident Energy 2 | $700,000 | February 7, 2008 | March 10, 2008 – July 23, 2008 |
| Shale 10 | $475,000 | April 18, 2008 | May 1, 2008 – July 23, 2008 |
| Shale 16 | $1,770,000 | July 21, 2008 | July 23, 2008 – September 18, 2008 |
| Shale 17 | $125,000 | August 20, 2008 | September 9, 2008 – September 22, 2008 |
| Shale 19 | $150,000 | October 2, 2008 | November 12, 2008 – January 15, 2009 |
| **TOTAL** | **$6,450,000** | | **October 11, 2007 – January 15, 2009** |

71. National Securities collected at least $450,950 in sales commissions.

72. National Securities collected at least $64,500 in due diligence fees.

**NEXT's Sales of Provident Securities**

73. NEXT offered and sold several of the Provident Offerings. NEXT signed a Selected Dealer Agreement for each offering, agreeing to offer and sell the Provident securities by making only the statements contained in the PPMs and brochures with similar information that were approved by PAM. Each of the Selected Dealer Agreements that NEXT signed contained a Texas choice-of-law provision.

74. NEXT recommended investment in the Provident Offering to Plaintiff Bopp and other Class members who purchased Provident securities from NEXT.

75. NEXT acted in a fiduciary capacity to Plaintiff Bopp and other Class members who purchased Provident securities from NEXT.

76. The following chart sets forth each Provident offering NEXT sold and, for each offering, the date NEXT executed the Selected Dealer Agreement, the date ranges of investors' purchases, and the total amount of sales:

| **Offering** | **Amount Sold by NEXT Per NEXT Records** | **Date Selected Dealer Agreement Executed** | **Date Range of Investor Purchases Per NEXT Records** |
|---|---|---|---|
| Shale 5 | $870,000 | September 28, 2007 | November 1, 2007 – December 7, 2007 |
| Shale 6 | $1,745,000 | November 19, 2007 | November 26, 2007 – January 24, 2008 |
| Shale 8 | $5,320,000 | January 17, 2008 | January 30, 2008 – July 3, 2008 |
| Provident Energy 2 | $3,365,000 | February 27, 2008 | March 31, 2008 – December 4, 2008 |
| Shale 10 | $10,595,000 | April 18, 2008 | May 5, 2008 - September 26, 2008 |

| Offering | Amount Sold by NEXT Per NEXT Records | Date Selected Dealer Agreement Executed | Date Range of Investor Purchases Per NEXT Records |
|---|---|---|---|
| Shale 16 | $10,665,000 | July 22, 2008 | July 28, 2008 - December 24, 2008 |
| Shale 17 | $5,535,000 | August 21, 2008 | September 2, 2008 - October 30, 2008 |
| Shale 19 | $5,125,000 | November 3, 2008 | December 2, 2008 - January 16, 2009 |
| **TOTAL** | **$43,220,000** | | **November 1, 2007 – January 16, 2009** |

77. NEXT collected at least $2.65 million in sales commissions.

78. NEXT collected at least $432,200 in due diligence fees.

**QA3's Sales of Provident Securities**

79. QA3 offered and sold several of the Provident Offerings. QA3 signed a Selected Dealer Agreement for each offering, agreeing to offer and sell the Provident securities by making only the statements contained in the PPMs and brochures with similar information that were approved by PAM. Each of the Selected Dealer Agreements that QA3 signed contained a Texas choice-of-law provision.

80. QA3 recommended the investment in the Provident Offerings to Plaintiff Bussell and other Class members who purchased Provident securities from QA3.

81. QA3 acted in a fiduciary capacity to Plaintiff Bussell and other Class members who purchased Provident securities from QA3.

82. The following chart sets forth each Provident Offering QA3 sold and, for each offering, the date QA3 executed the Selected Dealer Agreement, the date ranges of investors' purchases, and the total amount of sales:

| **Offering** | **Amount Sold by QA3 Per QA3 Records** | **Date Selected Dealer Agreement Executed** | **Date Range of Investor Purchases Per QA3 Records** |
|---|---|---|---|
| Shale 3 | $405,000 | March 12, 2007 | May 17, 2007 – October 23, 2007 |
| Shale 4 | $9,365,000 | March 15, 2007 | May 10, 2007 – October 23, 2007 |
| Provident Energy 1 | $2,053,000 | May 10, 2007 | May 10, 2007 – December 3, 2007 |
| Shale 5 | $5,025,000 | September 13, 2007 | September 28, 2007 – December 7, 2007 |
| Shale 6 | $4,920,000 | November 20, 2007 | December 6, 2007 – February 19, 2008 |
| Provident Energy 2 | $5,245,000 | December 10, 2007 | December 12, 2007 – September 25, 2008 |
| Shale 7 | $12,218,000 | January 18, 2008 | January 31, 2008 – April 23, 2008 |
| Shale 9 | $12,040,000 | April 1, 2008 | April 10, 2008 – August 29, 2008 |
| Shale 12 | $8,255,000 | June 2, 2008 | June 4, 2008 – December 24, 2008 |
| Shale 14 | $14,018,000 | July 28, 2008 | August 1, 2008 – January 8, 2009 |
| Shale 18 | $8,100,000 | November 19, 2008 | November 21, 2008 – January 16, 2009 |

| Offering | Amount Sold by QA3 Per QA3 Records | Date Selected Dealer Agreement Executed | Date Range of Investor Purchases Per QA3 Records |
|---|---|---|---|
| **TOTAL** | **$81,644,000** | | May 17, 2007 – January 16, 2009 |

83. QA3 also sold approximately 30 shares of preferred stock in the Shale 8 offering.

84. QA3 collected more than $6.20 million in sales commissions.

85. QA3 collected at least $816,440 in due diligence fees.

**Non-Party GunnAllen Financial's Sales of Provident Securities**

86. GunnAllen offered and sold several of the Provident Offerings. GunnAllen signed Selected Dealer Agreements for the offerings, agreeing to offer and sell the Provident securities by making only the statements contained in the PPMs and brochures with similar information that were approved by PAM. Each of the Selected Dealer Agreements that GunnAllen signed contained a Texas choice-of-law provision.

87. GunnAllen recommended investment in the Provident Offerings to Plaintiffs Gilgallon and Merline and other Class members who purchased Provident securities from GunnAllen.

88. GunnAllen acted in a fiduciary capacity to Plaintiffs Gilgallon and Merline and other Class members who purchased Provident securities from GunnAllen.

89. The following chart sets forth each Provident Offering that GunnAllen sold and the date GunnAllen executed the Selected Dealer Agreement for each offering:

| Offering | Date Selected Agreement Executed |
|---|---|
| Provident Energy 1 | June 12, 2007 |

| Offering | Date Selected Agreement Executed |
|---|---|
| Shale 4 | June 12, 2007 |
| Shale 5 | August 30, 2007 |
| Shale 6 | November 26, 2007 |
| Provident Energy 2 | January 4, 2008 |
| Shale 8 | January 12, 2008 |
| Shale 10 | April 30, 2008 |
| Shale 14 | unknown |
| Shale 16 | July 23, 2008 |
| Shale 17 | August 26, 2008 |
| Shale 19 | October 23, 2008 |

90. GunnAllen sold at least $22,255,000 of Provident securities.

91. GunnAllen collected at least $1.34 million in sales commissions.

92. GunnAllen collected at least $222,550 in due diligence fees.

**THE BROKER DEFENDANTS SOLD PROVIDENT SECURITIES BY MEANS OF MATERIALLY UNTRUE STATEMENTS AND OMISSIONS OF FACT**

93. The Broker Defendants violated the Texas Securities Act, Section 33(A)(2) in that, in soliciting Plaintiffs' investments, as detailed herein, each of the Broker Defendants made untrue statements of material fact and omitted to state material facts necessary to make statements made, in light of the circumstances under which they were made, not misleading. These false and omitted statements were contained in the PPMs for the Provident Offerings and brochures with similar information and were the only representations that the Broker Defendants were contractually allowed to make, pursuant to the Selected Dealer Agreements, in offering the

Provident securities to investors. The charts attached as Exhibits C and D show the locations of the false or misleading statements in the PPM for each Provident Offering, and are incorporated herein as though fully set forth.

94. The PPM for each Provident Offering other than the Provident Energy partnership offerings stated that the broker-dealer would be paid a 1% "due diligence fee" on the amount of subscription proceeds received from the broker-dealer. The statement was misleading because the Broker Defendants did not spend the 1% due diligence fee to conduct an independent due diligence investigation, and did not conduct such an investigation with regard to any Provident Offering. The PPMs for Provident Energy 1, Provident Energy 2 and Provident Energy 3 stated that the broker-dealer would be paid a 9% commission on the amount of subscription proceeds received from the broker-dealer. Similarly, the Broker Defendants did not use 1% of the 9% sales commission to comply with their due diligence obligations before offering and selling security interests in Provident Energy 1, Provident Energy 2 and Provident Energy 3. Instead, the Broker Defendants relied on Mick & Associates, a law firm hired by PAM and paid by Provident Royalties, to conduct any due diligence investigation of the Provident Offerings.

95. The PPM for each of the Provident Offerings included a statement that the venture had "no prior operating history, no significant assets and no current cash flow," or a substantially similar statement. Each of the PPMs stated that investor funds would be deposited into an account (either an escrow account or bank account) belonging to and become the property of the Provident Rule 506 Entity created for the offering, and that 83%, 85% or 86% of investor funds would be used for oil and gas investments for the benefit of investors in that particular offering. These representations were false and misleading because the Provident Offerings were operated as a single enterprise, with the proceeds of one offering used to

contribute to the purchase of assets and payment of liabilities incurred by earlier offerings. The assets and liabilities of each venture were not segregated for the benefit of investors in that offering, but were instead commingled with those acquired on behalf of investors in earlier and later offerings, such that the fortunes of an investor in any Provident Offering were intertwined with those of investors in earlier offerings and any later offerings Provident might conduct.

96. The PPM for each of the stock offerings included a statement that payment of dividends or distributions would be made "subject to the profitability and cash flow" of the Provident Rule 506 Entity created for the offering, or a substantially similar statement. Each stock offering PPM also included a statement that "[t]he Properties and Oil and Gas Investments are anticipated to produce returns to the Corporation that are greater than the dividends likely to be paid on the Preferred Stock," or a substantially similar statement. The PPMs for Provident Energy 1 and Provident Energy 2 stated that "[t]he managing partner will, in its discretion, after providing for the satisfaction of the current debts and obligations of the Partnership, make distributions to Investor Partners, at least quarterly, out of the Partnership net cash flow." These representations were false and misleading because Provident Royalties and its management paid dividends and distributions to investors in any particular venture from the proceeds of any offering, including later offerings or with borrowed money, without regard to the profitability or cash flow of the venture in question and without disclosing the source of such dividend payments. For example:

a. In October 2007, $2.2 million was transferred from a Shale 5 bank account to a Shale 4 bank account, and a portion of those funds was used to pay dividends to Shale 4 investors.

b. In or around June 2008, certain Provident Rule 506 Entities did not have

sufficient cash to make dividend payments to investors. Funds were transferred from two of the entities' accounts into the Provident Royalties general operating account and then into the accounts of the entities that had to pay dividends to investors. Similar transfers were made in July, August, September, October and December of 2008. Although the Provident Royalties accounting department characterized these transfers as "loans," the transfers were undocumented, there were no terms attached, and there were no procedures in place to ensure repayment.

c. In December 2008, Provident Royalties placed $22,640,000 of newly-raised funds from investors into accounts for Shale 17, Shale 18, Shale 19 and Shale 20. Approximately 50% of those funds—$11,250,000—was used to fund dividend and distribution payments to prior investors and pay general expenses of Provident Royalties.

d. From January 1 through January 22, 2009, the last day new investor funds were accepted, Provident Royalties received approximately $8.5 million from new investors. During that period, Provident Royalties used at least $4 million to pay dividends and distributions to investors in other Provident Rule 506 Entities, including the following: Shale II ($1,370,000); Shale 3 ($252,000); Shale 4 ($202,000); Shale 5 ($198,000); Shale 6 ($200,000); Shale 8 ($314,000); Shale 9 ($330,000); Shale 10 ($316,000); Shale 12 ($303,000); Shale 14 ($239,000); Shale 15 ($118,000); Shale 16 ($139,000); and Shale 17 ($12,000).

97. The PPM for each Provident Offering included as its Exhibit C a "prior activities" table of prior programs sponsored by Provident Royalties. For each prior program, the table showed the aggregate funds invested in property and the amount of "distributions of revenues" to investors. The charts were false and misleading in that none of Provident's prior ventures had performed profitably and dividends were paid to participants in prior programs without regard to the profitability or cash flow of any particular program.

98. The PPM for each Provident Offering identified certain individuals as the "management" of the Provident Rule 506 Entity created for that offering. These statements in the PPMs were false and misleading because they omitted Blimline. The PPMs did not disclose that:

a. Blimline served as a founder, promoter, control person and executive of Provident Royalties and all of the Provident entities.

b. Blimline had no formal training or experience in the oil and gas industry, had no geological education or background, and had never successfully invested in oil and gas properties.

c. Blimline was at all times a primary participant in determining how to deploy the proceeds of the Provident Offerings, including selecting the oil and gas assets to be acquired with investors' funds.

d. Blimline also maintained an ownership interest in Provident Royalties and otherwise had the power to direct and influence the management and business policies of Provident Royalties, including the acquisition of oil and gas properties with funds raised through the Provident Rule 506 Entities.

e. Blimline had a history of unsuccessful oil and gas ventures. On July 21, 2006, Blimline was ordered by the State of Michigan, Department of Labor and Economic Growth, Office of Financial and Insurance Services to cease and desist securities violations related to oil and gas investments and to pay civil penalties. Blimline operated a series of oil and gas investment ventures out of Michigan that filed for bankruptcy on or about March 12, 2007.

f. Blimline used the Provident Rule 506 Entities to make loans to himself and his affiliated entities, and to purchase assets from his other oil and gas ventures, including the assets from the Michigan bankruptcy estate, at prices substantially greater than the fair market value of the properties.

g. Blimline and his affiliated entities directly or indirectly received at least $85 million in Provident Offering proceeds.

**THE BROKER DEFENDANTS' FAILURE TO INVESTIGATE**

99. The Provident Offerings were sold as exempt from the registration requirements of securities under Rule 506 of Regulation D of the federal securities laws, and were ostensibly sold only to sophisticated investors who met the "accredited investor" net worth requirements.

100. The Broker Defendants are required under federal and state laws and regulations of the Financial Industry Regulatory Authority (FINRA) to conduct a due diligence investigation into each private placement offering they offer and sell to investors. The Broker Defendants are required to investigate the issuer and the issuer's representations about the offering so that they understand the nature of the investment and its risks, and to follow up on any adverse information and any information that could reasonably be considered a "red flag." The Broker

Defendants are required to disclose to their customers any essential information the Broker Defendants do not have about the investment and any risks related to the lack of information.

101. The Broker Defendants did not spend the 1% due diligence fee they collected from Plaintiffs and Class members to conduct an independent due diligence investigation into the Provident Offerings. The Broker Defendants instead relied on due diligence reports prepared by Mick & Associates, an outside law firm hired by PAM.

102. Mick & Associates was retained by PAM and paid by Provident Royalties to prepare a due diligence report for each Provident Offering. Provident Royalties paid Mick & Associates a fixed fee of $12,500 to $17,500 per report, which included the issuance of the report to ten broker-dealers selected by PAM. Provident Royalties paid Mick & Associates $750 or $1,000 for each additional broker-dealer PAM selected to receive the report.

103. Mick & Associates represented the interests of the broker-dealers who received its reports. Each Broker Defendant received a report from Mick & Associates for each Provident Offering it sold. On behalf of the Broker Defendants, Mick & Associates participated in the drafting of the PPMs by negotiating with Provident Royalties for changes to the PPMs. For example:

a. On March 7, 2007, Mick & Associates sent counsel for Provident Royalties a redline of the PPM for Shale 4 containing "suggested mark-ups" related to the payment and tax treatment of dividends. The final PPM included all of the "suggested mark-ups" with some minor, non-substantive changes to the wording.

b. On November 12, 2007, following a request from and discussion with Mick & Associates, Provident Royalties revised the PPM for Provident Energy 2 to include a limitation that required any debt incurred by the partnership to be arranged on a non-recourse basis.

c. In December 2007, Mick & Associates drafted inserts to the PPM for Shale 7 that described an agreement between Sinclair Oil & Gas Company and certain of the earlier Provident Rule 506 Entities, potential conflicts arising from the agreement, and how investors might benefit from the agreement even though Shale 7 was not a party. The final PPM included the insert with some modifications that were negotiated between Mick & Associates and counsel for Provident Royalties.

104. Mick & Associates identified certain information that the Broker Defendants failed to follow up on or otherwise act upon.

105. Mick & Associates and the Broker Defendants knew or should have known that the PPMs did not fully disclose the extent of intercompany transfers among the Provident Rule 506 Entities and with affiliates of Provident Royalties management.

a. In December 2006, Mick & Associates identified a potential conflict in the acquisition by Shale II of leases and minerals from Winter Park, a company owned by Blimline and Melbye, for a 26% overall profit. Mick & Associates reported in August 2007 that Shale 5 would likely acquire additional assets from Winter Park and other Provident-affiliated entities, but that Melbye had said that the majority of assets would be acquired from unaffiliated parties.

b. Mick & Associates pointed out in the reports for Shale 5, Shale 6, Shale 7, Shale 8, Shale 9, Shale 10 and Shale 12 that Provident Royalties lacked procedures for managing the conflicts of interest inherent in its practice of buying properties from persons or entities affiliated with Provident management.

c. In the March 2007 report for Shale 4, Mick & Associates also noted the potential conflict arising from Provident Royalties allocating assets and investment opportunities among the Provident Rule 506 Entities.

d. Mick & Associates also raised concerns about transactions between the Provident Rule 506 Entities, including their frequency, criteria for the transactions, and accounting of the transactions, as early as the August 2007 Shale 5 report. Mick & Associates recommended that Provident establish written procedures and guidelines for transactions among the Provident Rule 506 Entities and explain them to investors in the PPMs. Mick & Associates reiterated this request in the reports for Shale 6, Shale 7, Shale 8, Shale 9, Shale 10 and Shale 12.

e. In the July 2008 Shale 14 report, Mick & Associates said that Provident Royalties had established a list of criteria for engaging in affiliated transactions, but pointed out that the criteria did not clarify the circumstances under which affiliated entities could advance money to one another or expressly state that the money raised in one program could not be advanced to another program for distributions to investors. By then, the Provident Rule 506 Entities collectively reported about $40 million of affiliated account receivables, an increase from $25 million on March 30, 2008 and $10 million at the end of 2007.

f. Mick & Associates repeatedly reported the lack of transparency in the documentation of transactions among the Provident Rule 506 Entities, stating that the unaudited financial statements Provident Royalties provided to Mick & Associates did not clearly show the assets and liabilities of each entity.

106. Mick & Associates and the Broker Defendants knew or should have known that Provident Royalties was causing dividends to be paid to investors in the Provident Rule 506 Entities without regard to the profitability or cash flow of those entities.

a. Neither Mick & Associates nor any of the Broker Defendants ever requested, received or reviewed any records or supporting data showing that Provident Royalties had acquired royalty interests capable of producing returns of up to 18% per year plus full redemption of the purchase price in 2 to 4 years, or that Provident Royalties had actually received payments on any such royalty interests in an amount commensurate with the dividend payments the Provident Rule 506 Entities were making on an ongoing basis.

b. Neither Mick & Associates nor any of the Broker Defendants ever requested, received or reviewed any records or supporting data showing that Provident Royalties had sold any properties acquired on behalf of any of the Provident Rule 506 Entities to an unaffiliated third party for a gain, such that any Provident Rule 506 Entity might have been capable of paying dividends from gains on sale of properties sold to such third parties.

c. Review of Provident's financial records would have shown the intercompany transfers made to pay investor dividends, such as the October 2007 transfer from a Shale 5 bank account to pay dividends to Shale 4 investors.

d. The December 2007 unaudited consolidated balance sheet Mick & Associates reviewed in preparing its March 2008 report for Shale 9 showed that the Provident Rule 506 Entities were collectively reporting "a modest net operating loss." Mick & Associates reviewed subsequent unaudited consolidated balance

sheets showing significant increases in the collective net operating loss. Mick & Associates reviewed an unaudited balance sheet dated March 31, 2008 in preparing the May 2008 Shale 12 report, which showed a collective net operating loss of $6.8 million. By the July 2008 Shale 14 report, Mick reported that the collective net operating loss had reached $8 million, according to an unaudited balance sheet dated May 31, 2008.

107. Mick & Associates and the Broker Defendants knew or should have known that the Provident entities were operated as a single enterprise.

a. The offerings were virtually identical in their terms, had the same investment purpose and took place continuously from September 2006 to early 2009.

b. Provident Royalties limited each offering to 500 investors and total investment amounts ranging from $25 to $50 million. As an offering approached either limit, Provident Royalties immediately initiated the next offering. In effect, each offering was a continuation of prior offerings that were approaching over-subscription or were already over-subscribed.

c. Many of the offerings overlapped. Provident Royalties sometimes commenced multiple offerings on or around the same date and to be sold at the same time by different broker-dealers. For example, the offerings for Shale 14, Shale 15, Shale 16 and Shale 17 all commenced in July 2008. QA3 and Capital Financial sold Shale 14, Securities America sold Shale 15, NEXT and National Securities sold Shale 16, and Capital Financial sold Shale 17.

d. The offerings constituted one single integrated offering pursuant to Rule 502 of Regulation D, 17 C.F.R. § 230.501-508. The offerings were part of a single plan

of financing, with a single goal of investing in oil and gas properties, involved the issuance of the same classes of securities, were made during overlapping periods of time, involved the same type of consideration received, and had similar rates of return.

e. Mick & Associates used the same report for each offering, merely replacing the name of the offering and adding any new information since the prior offering. The reports for the simultaneous offerings were identical except for the name of the offering.

108. Mick & Associates and the Broker Defendants knew or should have known about Blimline's role in the Provident entities and his history in the oil and gas business.

a. On August 3, 2006, Mick & Associates signed an engagement letter to perform due diligence reviews of the July 2006 offerings, Shale Royalties, LP and Shale Royalties, Inc. The PPMs for these offerings identified Blimline as CEO and a director. Mick stated in later due diligence reports that investors in the Shale Royalties, LP and Shale Royalties, Inc. offerings had received both a return of invested capital and an annualized return of between 11% and 30%.

b. Mick & Associates was advised on August 4, 2006 that Blimline would need to approve the letter agreement engaging Mick & Associates to provide due diligence reports on the Provident Offerings.

c. Until September 2008, Blimline occupied a large corner office in the Provident offices and participated openly in the operation of the Provident entities.

d. From 2006 through 2008, Blimline appeared prominently in Provident Royalties promotional presentations, including PowerPoint presentations provided to the

Broker Defendants in 2007 and 2008 that identified Blimline as a "Land and Trend Consultant."

e. Provident lease logs showed numerous instances in which Provident entities entered into leases with Blimline or companies affiliated with Blimline. Such instances include:

i. Shale II acquired 13 leases for approximately $2.4 million from J2 Investments, LLC on the following dates: November 28, 2006 and January 10, 16, 23 and 24, 2007. Blimline founded J2 Investments in mid-2005.

ii. Shale 4 paid approximately $8 million to acquire 24 leases from J2 Investments on the following dates in 2007: March 29; May 24; June 8 and 12; July 17, 18 and 20; August 10 and 30; September 6, 7, 13, 18, 21, 25 and 27; October 2, 25 and 30; November 28; and December 7, 17 and 18.

iii. In August 2007, Shale 4 acquired seven different leases from Blimline for nearly $800,000 on the following dates: August 1 ($114,368 and $153,021); August 8 ($128.922); August 23 ($18.307); August 31 ($59,086, $212,309 and $73,154).

iv. On October 24, 2007, Shale 4 acquired 13 leases from RJW Energy, LLC for $1.72 million. Blimline and Melbye were both principals of RJW Energy.

v. Shale 5 paid $930,000 to acquire two leases from J2 Investments on October 22, 2007.

vi. Unlike entries on the logs for non-Blimline entities, the Blimline-related entries typically lacked information about the net acreage of the lease and other similar details.

f. In June 2008, Mick & Associates received drafts of the PPMs for Shale 14 and Shale 15 that identified Blimline as a member of Provident's management. Blimline was omitted from the final versions of the PPMs.

g. Blimline's history of failed oil and gas businesses was a matter of public record. The July 2006 Michigan cease and desist order and the March 2007 bankruptcy of several of Blimline's companies could have been located by the type of records searches that Mick conducted for Melbye, Coughlin, Harrison and other key personnel of Provident Royalties. A review of the publicly-available bankruptcy records, for example, would have revealed that in late 2007, Shale 5 agreed to pay $45 million to purchase oil and gas assets from the bankruptcy estate of some of Blimline's other oil and gas companies, known as the "Jordan River" ventures.

109. In addition, the Broker Defendants and Mick & Associates knew or should have known from investigation of the Provident entities' financial information and accounting practices that the entities engaged in numerous transactions with Blimline and his affiliated companies that did not benefit Provident, including:

a. Between 2006 and 2008, Provident Royalties paid Blimline a salary and consulting fees of approximately $500,000, among the largest salaries paid to any employee, including Melbye, the principal in charge of operations for Provident Royalties.

b. Investor funds in multiple Provident Rule 506 Entities were used to make

$22 million in payments for the oil and gas assets Shale 5 agreed to buy from Blimline's bankrupt Jordan River ventures. The assets had a value at the time of $3 million to $5 million.

c. Beginning in December 2007, Blimline obtained more than $20 million in loans from Provident entities. These loans were supposedly short term and were for no stated purpose. Blimline purported to repay some of the loans using the proceeds of later loans from Provident entities.

d. In August 2008, Blimline arranged for incoming investor funds to be used to purchase properties from one of his earlier oil and gas ventures, Truluck Enterprises LLC, paying $1.6 million for properties worth $50,000.

e. Provident Royalties advanced funds to Blimline for the purchase of a number of ranches in Oklahoma. Despite being paid for the properties in their entirety, Blimline transferred only the mineral interests to the Provident entities and retained the surface interests for his own companies.

f. Blimline was routinely able to obtain funds from the Provident entities by merely supplying a "purchase order." Acting on Blimline's instructions, the Provident Royalties accounting department would transfer funds to Blimline or Blimline-controlled entities with little, if any, documentation of the purpose for the transfers or verification that the assets purchased were ever delivered to any Provident entity.

g. Blimline often received duplicate payments from Provident Royalties for the same property and rarely returned the duplicate payments.

h. Blimline and his affiliated entities directly or indirectly received at least

$85 million in Provident Offering proceeds.

110. Information available to each Broker Defendant further demonstrates that the Broker Defendants knew or should have known the PPMs and brochures were false and misleading. Representatives of each of the Broker Defendants visited the Provident offices for sales presentations and Provident Royalties paid their travel expenses. Blimline routinely participated in the broker-dealer presentations and in conference calls with broker-dealers, including the Broker Defendants. The presentations and conference calls the Broker Defendants participated in include:

a. On October 31, 2007, Jay Idt and other members of Securities America's due diligence committee participated in a telephone conference about the Provident Offerings. Blimline was one of the presenters for the telephone conference.

b. Sales representatives of Securities America, including Scott Schoettlin, Azim Nakhooda, Brad Schlang, Scott Swander and Randy Schneider, visited the Provident offices in the summer and fall of 2008.

c. Capital Financial sales representatives Pamela McClenny, Dayton Ault and Robert LaBonte, attended presentations in the Provident offices in the late spring and summer of 2008. Capital Financial sales representatives Larry Bakken, Jim Brinkman, and Michael Eathorne visited the Provident offices in October 2008. Capital Financial representatives Kevin Mickan and John Turrell visited the Provident offices in December 2008.

d. Several representatives of National Securities, including Michael Strasser, Steve Jones, Ken Bolton, Derek Lopez, Ferdinand Dosono and Louis Rodgers, visited the Provident offices in November 2007.

e. Sales representatives of NEXT, including Dawson White and James Franklin, attended a presentation at the Provident offices in June 2008.

f. QA3 sales representative Paul Sweas visited the Provident offices in July 2007 and December 2007. In addition, QA3 sales representatives Jeff Nesseth, John Redfearn and Ron Lundy visited the Provident offices in November 2007. QA3 sales representatives Jason Swiercek, Tony Devassy, Robert Sweas and Richard Borba visited the Provident offices in February, April, October and December of 2008, respectively.

g. GunnAllen sales representatives Louis Wright and Frank Bluestein visited the Provident offices in September 2007.

**THE BROKER DEFENDANTS ARE LIABLE TO PLAINTIFFS AND CLASS MEMBERS**

111. The Broker Defendants are liable to Plaintiffs and the Class under Section 33(A)(2) of the Texas Securities Act for rescission or damages that Plaintiffs and the Class suffered in connection with their purchases of Provident securities.

112. Plaintiffs and Class members have suffered damages in an amount to be proven at trial.

113. Plaintiffs, individually and on behalf of all Class members, hereby tender to Defendants those Provident securities that Plaintiffs and Class members continue to own, in return for the consideration paid for those Provident securities together with interest thereon. Class members who have sold their Provident securities demand damages.

**COUNT II**
**§ 33(F)(1) OF THE TEXAS SECURITIES ACT**
**AGAINST THE CONTROL PERSON DEFENDANTS AS CONTROL PERSONS**

114. Plaintiffs repeat and reallege the allegations contained in the foregoing paragraphs

as if fully set forth herein.

115. The Control Person Defendants are jointly and severally liable, under Section 33(F)(1) of the Texas Securities Act, to Plaintiff and the other Class members for damages they suffered in connection with their purchases of Provident securities.

116. The Control Person Defendants directly and/or indirectly controlled the Broker Defendants (and non-party GunnAllen) within the meaning of Section 33(F)(1) of the Texas Securities Act as alleged herein. Each Control Person Defendant exercised control over the management, policies and operations of its subsidiary broker-dealer and had the power to control the specific transactions and/or activities upon which Count I is predicated.

117. Each Control Person Defendant had the ability to prevent its subsidiary broker-dealer from acting as a seller of Provident securities. In particular, each Control Person Defendant had direct and supervisory involvement in and/or knowledge of the day-to-day operations of its subsidiary and therefore had the power to control or influence, and exercised the power to control or influence, the transactions giving rise to the securities violations alleged herein.

**Ameriprise**

118. Ameriprise wholly owns and directs the management and policies of Securities America Financial Corporation, which in turn wholly owns Securities America and directs the management or policies of Securities America.

119. Securities America's Annual Audited Reports for 2006, 2007, 2008 and 2009 identify it as a "wholly-owned subsidiary of Securities America Financial Company, Inc. (SAFC), which is wholly owned by Ameriprise Financial, Inc…."

120. Securities America has reported to FINRA that Ameriprise wholly owns and

directs the management or policies of Securities America Financial Corporation, which in turn owns 75% or more of Securities America and directs the management or policies of Securities America.

121. Ameriprise and Securities America share certain common management, including Ameriprise's CFO and Executive Vice President, Walter S. Berman, who also serves as a director of Securities America.

122. Ameriprise, through its indirect ownership, had direct and supervisory involvement in and/or knowledge of the day-to-day operations of Securities America and therefore had the power to control or influence, and exercised the power to control or influence, the transactions giving rise to the securities violations alleged herein.

**Capital Holdings**

123. On its website, Capital Holdings states that Capital Financial is a "wholly owned" subsidiary of Capital Holdings. Capital Financial's Annual Audited Report for 2009 identifies Capital Financial as a "wholly-owned subsidiary of Capital Financial Holdings, Inc." Capital Financial's Annual Audited Reports for 2006, 2007 and 2008 identify Capital Financial as a "wholly-owned subsidiary of Integrity Mutual Funds, Inc.," the former name of Capital Holdings. Capital Holding's Annual Audited Report for 2009 states that Capital Holdings "derives 100% of its income from its sole subsidiary, Capital Financial Services, Inc."

124. Capital Holdings and Capital Financial share the same address and phone number.

125. Capital Holdings and Capital Financial share certain common management, including Bradley P. Wells (President, CEO and CFO of Capital Holdings and Director and Treasurer of Capital Financial); Jacqueline L. Case (Vice President and Corporate Secretary of Capital Holdings and Vice President and Secretary of Capital Financial); and Vance C.

Castleman (a director of both Capital Holdings and Capital Financial).

126. Capital Financial has reported to FINRA that Capital Holdings owns 75% or more of Capital Financial and directs Capital Financial's management or policies. In a 2009 application for broker-dealer registration with FINRA, Capital Financial listed Capital Holdings as an "owner" and a "control person" of Capital Financial and also identified Wells as a "control person" of Capital Financial.

127. In September 2006, Provident Royalties sought authorization from Wells when entering into an agreement with Capital Financial to sell one of the early Provident offerings.

128. Capital Holdings had direct and supervisory involvement in and/or knowledge of the day-to-day operations of Capital Financial and therefore had the power to control or influence, and exercised the power to control or influence, the transactions giving rise to the securities violations alleged herein.

**National Holdings**

129. National Securities' Annual Audited Reports for 2006, 2007, 2008 and 2009 identify it as a "wholly owned subsidiary of National Holdings Corporation."

130. National Securities has reported to FINRA that National Holdings owns 75% or more of National Securities and directs National Securities' management or policies.

131. National Holdings and National Securities share the same address and phone number.

132. National Holdings and National Securities share certain common management, including Mark Goldwasser, who serves as the CEO of both National Holdings and National Securities. Goldwasser was apprised of developments relating to Provident Securities starting in October 2007 or earlier and received communications directly from PAM.

133. National Holdings had direct and supervisory involvement in and/or knowledge of the day-to-day operations of National Securities and therefore had the power to control or influence, and exercised the power to control or influence, the transactions giving rise to the securities violations alleged herein.

**NEXT Holdings**

134. NEXT's Annual Audited Reports for 2006, 2007, 2008 and 2009 identify NEXT as a "wholly-owned subsidiary of NEXT Financial Holdings, Inc."

135. NEXT has reported to FINRA that NEXT Holdings owns 75% or more of NEXT and directs NEXT's management or policies.

136. NEXT Holdings and NEXT share the same address and phone number.

137. NEXT Holdings and NEXT share certain common management, including Gordon D'Angelo (Chairman and CEO of NEXT Holdings and Chairman and CEO of NEXT), and three individuals—Norm Grant, David Holtz and Arthur Farr—who serve as a director for both NEXT Holdings and NEXT.

138. D'Angelo, Grant, Holtz and Farr all attended a September 2008 conference in Laguna Niguel, California that was sponsored by Provident Royalties.

139. Holtz and Farr both personally solicited investments in the Provident Offerings. Holtz sold Provident securities to NEXT investors, including on the following dates in 2008: April 16, April 30, May 30, July 2 and July 8. Farr sold Provident securities to several NEXT investors, including on the following dates in 2008: July 8, and October 2, 8, 13, 14, 15 and 22. Holtz and Farr also interacted directly with Provident Royalties personnel, including in August and October of 2008, respectively.

140. NEXT Holdings had direct and supervisory involvement in and/or knowledge of

the day-to-day operations of NEXT and therefore had the power to control or influence, and exercised the power to control or influence, the transactions giving rise to the securities violations alleged herein.

**QA3, LLC**

141. QA3's Annual Audited Reports for 2006, 2007, 2008 and 2009 identify it as a "wholly owned subsidiary of QA3, LLC."

142. QA3 has reported to FINRA that QA3 LLC owns 75% or more of QA3 and directs QA3's management or policies.

143. QA3, LLC and QA3 share the same address and phone number.

144. QA3, LLC and QA3 share certain common management, including Stephen K. Wild (CEO and Chairman of QA3, LLC and Chairman, President and Director of QA3); Teri Shepherd (Executive Vice President and COO of QA3, LLC and Vice President and CFO of QA3); Thomas Zielinski (Vice President and Compliance Officer of QA3, LLC and Vice President, Compliance Officer and Director of QA3); Heather Jansen (Vice President of Strategic Development and Treasurer of QA3, LLC and Vice President, Treasurer and Director of QA3); and Dan Tobin (Vice President, Operations of QA3, LLC and Vice President, Operations and Director of QA3).

145. In addition, Gregory Bolton, head of the Legal and Due Diligence Department for QA3, is also Vice President, General Counsel and Secretary of both QA3, LLC and QA3.

146. QA3's due diligence committee reports directly to QA3 LLC CEO Wild, and Wild supervises all department heads, including Bolton.

147. In July 2009, Wild signed a letter notifying investors about the Provident bankruptcy proceedings.

148. QA3, LLC had direct and supervisory involvement in and/or knowledge of the day-to-day operations of QA3 and therefore had the power to control or influence, and exercised the power to control or influence, the transactions giving rise to the securities violations alleged herein.

**GunnAllen Holdings**

149. GunnAllen's Annual Audited Reports for 2006, 2007, and 2008 identify it as a "wholly-owned subsidiary of GunnAllen Holdings, Inc."

150. Until April 2009, GunnAllen Holdings and GunnAllen shared the same address and phone number in Tampa, Florida and shared the same Chief Executive Officer, Gordon Loetz.

151. GunnAllen Holdings had direct and supervisory involvement in and/or knowledge of the day-to-day operations of GunnAllen and therefore had the power to control or influence, and exercised the power to control or influence, the transactions giving rise to the securities violations alleged herein.

**COUNT III**
**BREACH OF FIDUCIARY DUTY**
**AGAINST THE BROKER DEFENDANTS**

152. Plaintiffs repeat and reallege the allegations contained in the foregoing paragraphs as if fully set forth herein.

153. The Broker Defendants acted in a fiduciary capacity to the Plaintiffs and Class members who purchased Provident securities from them. By reason of, among other things, the Broker Defendants' representations and their role and responsibilities with respect to the Provident Offerings, the Broker Defendants owed fiduciary duties to Plaintiffs and the Class with respect to the management and protection of the Class's funds invested in the offerings.

154. The Broker Defendants were under a fiduciary duty to deal fairly with Plaintiffs and the Class and to communicate promptly to them all material facts that they knew or should have known with respect to the true nature of the investments in the Provident entities.

155. As set forth in ¶¶ 93-98, the PPMs contained untrue statements of material fact and omitted other material facts necessary to make the statements in the PPMs not misleading. Among other things, the PPMs failed to disclose the commingling of the funds invested in other Provident Rule 506 Entities, the failure to invest all of the proceeds as represented in the PPMs and that the funds received from one offering were used to pay dividends to investors in prior offerings.

156. In breach of their fiduciary duties, the Broker Defendants failed to conduct reasonable due diligence of the Provident entities, and failed to disclose that the PPMs had misrepresented or omitted material facts as set forth in ¶¶ 93-98, and failed to conduct proper due diligence in conformance with their fiduciary duties.

157. As a result of the Broker Defendants' misconduct, Plaintiffs and the Class have suffered damages.

## CLASS ACTION ALLEGATIONS

158. Plaintiffs bring this action pursuant to Rules 23(a) and 23(b)(3) of the Federal Rules of Civil Procedure.

159. This class action is filed on behalf of a Class of all investors who purchased Provident securities from the Broker Defendants in the following offerings: Shale II, Shale 3, Shale 4, Provident Energy 1, Shale 5, Shale 6, Provident Energy 2, Shale 7, Shale 8, Shale 9, Shale 10, Shale 12, Shale 14, Shale 15, Shale 16, Shale 17, Shale 18, Shale 19, Shale 20 and Provident Energy 3.

160. Excluded from the Class are the Defendants, any entity that is a parent or subsidiary of, or is controlled by any Defendant, and the officers, directors, affiliates, legal representatives, predecessors, successors and assigns of any Defendant. The Provident entities are also excluded from the Class, along with any entity that is a parent or subsidiary of, or is controlled by, any Provident entity, and the officers, directors, affiliates, legal representatives, predecessors, successors and assigns of any Provident entity.

161. The Class satisfies the requirements of Rule 23(a) and 23(b)(3) of the Federal Rules of Civil Procedure including numerosity, typicality, adequacy, commonality, predominance and superiority.

162. Numerosity. The members of the Class are so numerous that joinder of all members would be impracticable. The number of Class members is estimated to be in the thousands. The names and addresses of Class members can be ascertained from the books and records of Provident Royalties and Defendants. Notice can be provided to Class members by first-class mail, using techniques and a form of notice similar to those customarily used in class actions.

163. Typicality. Plaintiffs' claims are typical of the claims of the other Class members because they arise from and are based on the same untrue statements of material fact or omissions of material facts made by Defendants in the PPMs. Plaintiffs do not have any interests antagonistic to, or in conflict with, the Class.

164. Adequacy. Plaintiffs will fairly and adequately represent and protect the interests of the Class members. Plaintiffs have retained competent counsel experienced in class actions and securities.

165. Commonality and Predominance. Common questions of law and fact exist as to

all Class members and predominate over any questions affecting solely individual Class members. Among the questions of law and fact common to the Class are:

a. Whether Defendants are liable under the Texas Securities Act as alleged herein;

b. Whether Defendants breached their fiduciary duties as alleged herein; and

c. The extent of injuries sustained by the Class and the appropriate measure of damages.

166. Superiority. A class action is superior to other available methods for the fair and efficient adjudication of this controversy. Since the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for the Class members to seek redress for the wrongful conduct alleged. Plaintiffs know of no difficulty that will be encountered in the management of this litigation that would preclude its maintenance as a class action.

## PRAYER FOR RELIEF

**WHEREFORE,** Plaintiffs pray for relief and judgment, as follows:

A. Determining that this action is a proper class action, certifying Plaintiffs as representatives of the Class under Rule 23 of the Federal Rules of Civil Procedure and Plaintiffs' counsel as counsel for the Class;

B. Awarding Plaintiffs and Class members rescission or damages against all Defendants;

C. Awarding Plaintiffs and Class members compensatory damages against all Defendants, for all damages sustained as a result of Defendants' wrongful conduct in an amount to be proven at trial;

D. Awarding Plaintiffs and Class members pre- and post-judgment interest;

E. Awarding Plaintiffs and Class members their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

G. Granting such other and further relief as the Court may deem just and proper.

**JURY TRIAL DEMANDED**

Plaintiffs hereby demand a trial by jury.

Dated: September 9, 2010

**GIRARD GIBBS LLP**

By: /s/ Daniel C. Girard

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*Plaintiffs' Counsel*

# EXHIBIT A

# PROVIDENT ASSET MANAGEMENT, LLC

16660 N. Dallas Parkway, Suite 2200
Dallas, Texas 75248
(214) 580-5810 (Office)
(214) 580-5809 (Facsimile)



Dated 3-2 2008

To: Securities America

Address: 12325 Port Grace Blvd
La Vista, NE 68128

Re: Selected Dealer Agreement between Provident Asset Management, LLC ("Managing Dealer") and the undersigned dealer ("You")

Dear Jeff DST:

As you know, Shale Royalties 9, Inc. (the "Corporation"), a Delaware business corporation with its principal offices in Dallas, Texas, is conducting an offering (the "Offering") of its Preferred Stock Series A and Preferred Stock Series B ("Preferred Stock"). The Offering is for a maximum of $35,000,000 [which may be increased to $ 40,250,000], consisting of 7,000 shares of the Preferred Stock, offered at a price of $5,000 per share. The securities will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), and will be issued in reliance upon a private offering exemption provided under Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

This agreement shall govern only this Offering of Preferred Stock. All of the terms and conditions of this Agreement shall be binding upon You and the Managing Dealer unless we both consent to other terms in writing. The Managing Dealer has agreed to use its best efforts to sell Preferred Stock in the Offering pursuant to the terms set forth in the Confidential Private Placement Memorandum (the "Memorandum") dated February 20, 2008, subject to the terms of a Managing Dealer Agreement. Capitalized terms shall have the meaning defined in the Memorandum.

You understand and agree that the Managing Dealer and the Corporation will rely upon the representations and warranties you make in this agreement. You understand and agree that the Managing Dealer will rely upon information you provide, and your determinations, as to the suitability of the investment for a particular investor, the accredited investor status of a particular investor, compliance with anti-money laundering and similar requirements and other similar matters.

1. The Offering. The Preferred Stock shall be offered to accredited investors only on a best efforts, no minimum basis, at a price of $5,000 per share of Preferred Stock (the "Subscription Price"), with a minimum purchase of five shares, or $25,000, in accordance with the terms of the Offering set forth in the Memorandum. The Managing Dealer has full authority to take such action as it may deem advisable in respect of all matters pertaining to the Offering of the Preferred Stock.

2. Offering by Selected Dealers. The Managing Dealer is making part of the Preferred Stock available for sale on a "best efforts" basis through certain dealers (the "Selected Dealers") which are members of Financial Industry Regulatory Authority, Inc. ("FINRA") at the Subscription Price, subject to the terms and conditions herein and in the Memorandum, and subject to modification and termination of the Offering without notice. Sales of Preferred Stock by You pursuant to such Offering shall be effective only when evidenced by written acceptance from the Corporation and shall be on the terms and conditions set forth herein. In selling Preferred Stock, You shall not make or rely upon any statement whatsoever, written or oral, other than statements contained herein, in the Memorandum, and any other materials previously approved by the Managing Dealer.

If You desire to apply to act as a Selected Dealer and sell any of the Preferred Stock, please sign and return to the Managing Dealer the enclosed copy of this letter, even though You may have advised the Managing Dealer thereof previously by telephone or telegraph. Your application should be sent to Mr. Brendan Coughlin, President, Provident Asset Management, LLC, 16660 N. Dallas Parkway, Suite 2200, Dallas, Texas 75248. The Managing Dealer shall use its reasonable best efforts to fill any subscriptions You may submit. The Managing Dealer reserves the right to reject any or all subscriptions in whole or in part, to make allotments, and to close the Offering at any time and without prior notice to You.

3. Compensation to Selected Dealers. If You act as a Selected Dealer, You will be compensated based on the aggregate Subscription Price for all Subscription Agreements procured by You and accepted by the Corporation, as follows:

DUE DILIGENCE FEE:

| | |
|---|---|
| Non-Accountable | 1% of aggregate Subscription Prices |

SALES COMMISSION:

| | |
|---|---|
| Retail Commission (Preferred Stock Series A) | 8% of aggregate Subscription Prices |
| Retail Commission (Preferred Stock Series B) | 6% of aggregate Subscription Prices |

The Corporation may, in its sole discretion and upon Your request, accept subscriptions net of all or part of the sales commission (equivalent to a net asset value subscription for an investment company) for subscriptions by and for the benefit of Your registered representatives or their immediate family members, i.e. parents, spouses and children or grandchildren of the registered representatives. ***Any net subscription must be designated as such on the subscription agreement prior to submission.*** The Corporation will pay You the non-accountable due diligence fee, but will not pay the retail commission for such net subscriptions. For example, a net subscription for the Preferred Stock Series A would be settled with $4,600 for a $5,000 investment, and a net subscription for the Preferred Stock Series B would be settled with $4,700 for a $5,000 investment. In both cases, You will be paid a non-accountable due diligence fee of $500.

4. Payment of Selected Dealer Compensation. The due diligence fee and sales commission payable to You hereunder shall be paid within 10 business days after the Managing Dealer has received payment from the Corporation of compensation due it pursuant to the terms of the Managing Dealer Agreement for such subscription. No compensation will be payable with respect to any subscriptions which are rejected by the Corporation or the Managing Dealer or rescinded or terminated by the offeree pursuant to the terms of the respective Subscription Agreements, or in the event the Corporation terminates the Offering or makes a rescission offer for any reason whatsoever. You shall not be entitled to any compensation in connection with the Offering other than the compensation set out in Section 3. You shall bear all of your own expenses in connection with soliciting offers to purchase the Preferred Stock.

5. Conduct of Offering. Preferred Stock sold by You must be offered in conformity with the terms of the Offering set forth in the Memorandum. On becoming a Selected Dealer and in offering and selling the Preferred Stock, You agree to comply with all applicable requirements of the Securities Act, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Rules of FINRA, and the securities and dealer registration laws of each state or jurisdiction in which You offer or sell the Preferred Stock.

Upon the acceptance of your application, You shall be informed as to the states in which the Managing Dealer has been advised that the Preferred Stock has been qualified for sale under the respective securities or blue sky laws of such states; however, the Managing Dealer assumes no obligation or responsibility as to the right of any Selected Dealer to sell the Preferred Stock in any state or as to any sale made therein.

6. Representations, Warranties and Agreements of Managing Dealer. The Managing Dealer hereby represents and warrants to, and agrees with You that:

(a) The Managing Dealer has complied and will comply, in all material respects, subject to your compliance with the terms of this Agreement, with all applicable rules, regulations and other requirements of the U. S. Securities and Exchange Commission ("SEC"), the Securities Act, the Exchange Act, and all other applicable federal and state securities laws in connection with all offers and sales of the Preferred Stock.

(b) To the best of the Managing Dealer's knowledge, the Memorandum does not, and any supplemental materials provided in connection therewith will not, contain any untrue statement of any material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they are made, not misleading.

(c) The Managing Dealer will use good faith efforts to identify any sales materials that should not be provided to potential investors with the words "broker-dealer use only" clearly presented on all pages of any such materials.

7. Representations, Warranties and Agreements of Selected Dealer. Selected Dealer represents and warrants to, and agrees with, the Managing Dealer that:

(a) Selected Dealer is a member in good standing, and during the term of this Agreement will remain a member in good standing, with FINRA, and is, and at all times during

the term of this Agreement will remain, registered as a broker-dealer with the SEC and in all of the jurisdictions in which Selected Dealer solicits offers for or makes sales of the Preferred Stock.

(b) In the solicitation of offers for the Preferred Stock, Selected Dealer and its representatives will comply with all applicable rules, regulations and other requirements of the SEC, FINRA, the Securities Act, the Exchange Act, and all other applicable federal and state securities or other laws, to the best of their knowledge, after due inquiry and investigation and to the extent within their direct control. Neither the Selected Dealer, nor any of its partners, members, managers, directors or officers, nor any of the registered representatives soliciting subscriptions under this Agreement, is subject to a statutory disqualification, as defined in Section 3(a)(39) of the Exchange Act.

(c) The Managing Dealer shall have full authority to take such actions as it may deem advisable with respect to all matters pertaining to the Offering. The Managing Dealer shall be under no liability to Selected Dealer except for lack of good faith and for obligations expressly undertaken by it in this Agreement. Nothing contained in this Subsection (c) is intended to operate as, and the provisions of this Subsection (c) shall not constitute, a waiver by Selected Dealer of compliance with any provision of the Securities Act, the Exchange Act, other applicable federal securities laws, applicable state securities laws, the rules and regulations thereunder, and applicable rules and regulations of FINRA.

(d) Neither Selected Dealer nor any of its representatives shall take any action in conflict with, or omit to take any action the omission of which would cause Selected Dealer to be in conflict with, the conditions and requirements of the Securities Act, Regulation D (or other applicable rule), or applicable state securities or blue sky laws as described in the Offering Memorandum which would make exemptions unavailable with respect to the Offering and the sale of the Preferred Stock. Neither Selected Dealer nor any of its representatives shall offer or sell Preferred Stock by means of any form of general advertising or solicitation, including, but not limited to, the following (1) any advertisement, article, notice or other communication published in any newspaper, magazine or similar medium or broadcast over televisions, radio, the internet, a website or otherwise; and (2) any seminar or meeting whose attendees have been invited by any general solicitation or general advertising. Neither Selected Dealer nor its representatives shall conduct or participate in any meeting in which the Offering is discussed unless such meeting is expressly approved by the Managing Dealer in advance and is attended exclusively by the Selected Dealer's representatives or those of the Managing Dealer and qualified offerees (together with any counsel or other adviser of the offeree) meeting the requirements referred to herein.

(e) Selected Dealer and its representatives shall offer Preferred Stock only in accordance with the terms and procedures set forth in this Agreement, the Offering Memorandum and any supplemental materials supplied by the Managing Dealer or the Corporation. Selected Dealer is not authorized to, and agrees not to, give any

information or to make any representations other than as contained in the Memorandum or other documents pre-approved by the Managing Dealer, or to act as agent or sub-agent for the Managing Dealer other than as permitted under this Agreement.

(f) The Managing Dealer will provide Selected Dealer with such number of copies of the Memorandum and such number of copies of amendments and supplements thereto, as it may reasonably request. Selected Dealer shall deliver to each offeree, prior to any submission of a written offer to buy any Preferred Stock, a copy of the Memorandum, and will keep record of to whom, by what manner and on what date it delivered each such copy and shall furnish such record to the Managing Dealer promptly upon request. At the conclusion of the Offering, all unused copies of the Memorandum and any supplement materials thereto, except for file copies, shall be returned to the Corporation.

(g) The Memorandum shall not be presented, and no offers will be made, to any person unless: (1) Selected Dealer or its representatives have a pre-existing relationship with such person prior to Selected Dealer's knowledge of this Offering and the signing of this Agreement; and (2) Selected Dealer believes, and has reasonable grounds for believing, that such person is an accredited investor (as such term is defined in Rule 501 of Regulation D of the Securities Act) and is acquiring Preferred Stock for his own account or for the account of other persons and not for the purpose of resale.

(h) Neither Selected Dealer nor any of its representatives shall deliver to any offeree any written documents pertaining to the Corporation or the Preferred Stock, other than the Memorandum or any supplemental materials specifically designated as sales information that are supplied to Selected Dealer by the Corporation. Without intending to limit the generality of the foregoing, neither Selected Dealer nor any of its representatives shall deliver to any offeree any material pertaining to the Offering which has been furnished as "broker-dealer information only." Neither the Selected Dealer nor any of its representatives is authorized to make any representation or furnish any information with respect to the Corporation, the Preferred Stock, or the Offering, other than the representations and information set forth in the Memorandum or in supplemental materials furnished by the Corporation and identified specifically for such use. If the Selected Dealer or any of its representatives obtain knowledge that any unauthorized representation has been made, Selected Dealer shall promptly inform the Corporation and the Managing Dealer of such occurrence.

(i) Selected Dealer certifies that it has implemented an anti-money laundering program that is in compliance with the requirements of the USA PATRIOT act, including an appropriate customer identification program. Selected Dealer agrees that it will verify the identity of each customer submitting a subscription agreement, in accordance with the requirements of 31 CFR 103.122(b), and further agrees that Managing Dealer may rely on such verification. Until this Agreement is terminated, Selected Dealer shall continue to maintain and comply with the customer

identification program of Selected Dealer, and shall comply with the requirements of the USA PATRIOT Act of 2001, including FINRA Rule 3011, and other rules and regulations promulgated under such act. Selected Dealer shall conduct a search of the OFAC Specially Designated Nationals and Blocked Persons List, and any other list of known or suspected terrorists or terrorist organizations issued by any U. S. federal government agency, regarding each subscriber for the Preferred Stock, and agrees that the submission of a subscription agreement shall constitute a representation to the Managing Dealer that such subscriber does not appear on any such list. Selected Dealer shall conduct any other searches and inquiries required or advisable to establish the identity of the beneficial owner of each subscription, and to detect or prevent money laundering, and agrees that Managing Dealer may rely on Selected Dealer to establish the identity of the beneficial owner of each subscription and to take other measures to detect or prevent money laundering regarding such subscription. Selling Dealer shall either (i) obtain and provide to Managing Dealer a copy of the passport or driver's license of each subscriber or person executing the Subscription Agreement on behalf of an entity; (ii) obtain and provide to Managing Dealer a description of any document that was relied on by Selected Dealer to verify a customer's identity, including the type of document, any identification number contained in the document, the place or jurisdiction of issuance, and, if any, the date of issuance and expiration date; or (iii) until termination of this Agreement, certify in writing annually to Managing Dealer that Selected Dealer is subject to the anti-money laundering requirements of the USA PATRIOT Act and has implemented its customer identification program. Selected Dealer shall use reasonable efforts to obtain and provide any additional information about a potential subscriber requested by Managing Dealer.

8. Payment and Delivery. Payment for Preferred Stock purchased through You shall be made by the subscriber of the Preferred Stock in the amount of the Subscription Price of the Preferred Stock subscribed for, delivered by:

(1) a check or cashier's check payable to the order of "Shale Royalties 9, Inc."; or

(2) wire transfer into the escrow account for the Corporation (wiring instructions will be delivered upon request); or

(3) executed instructions for account-to-account transfers where the funds to be invested are held in the custody of retirement fund managers or trustees.

Each subscription must be accompanied by a fully completed and executed Purchaser Suitability Questionnaire and by a fully completed and executed Subscription Agreement.

9. Relationship of Selected Dealers and the Managing Dealer. Nothing herein shall constitute the Selected Dealers as an association, unincorporated business, or other separate entity or joint venturers or partners with the Managing Dealer, or with each other, but You shall be liable for the Managing Dealer's share of any tax, liability, or expense based on any claim to the contrary. The Managing Dealer shall not be under any liability to You, except for obligations expressly assumed by the Managing Dealer in this Agreement; however, no obligations on the Managing Dealer's part shall be implied or inferred herefrom. Each party represents to the other than (a) it is duly organized

and validly existing under the laws of its jurisdiction of formation; (b) it is duly qualified to do business and to offer and sell securities in each other jurisdiction where the nature of its business requires; (c) this Agreement has been duly authorized and executed, and will be a valid and binding agreement of the party; and (d) the performance of this Agreement and the offer and sale of the Preferred Stock will not result in a breach or violation of any order, rule or regulation applicable to it or by which it is bound.

10. Notices. All communications from You to the Managing Dealer shall be addressed to Mr. Brendan Coughlin, 16660 N. Dallas Parkway, Suite 2200, Dallas, Texas 75248. Any notice from the Managing Dealer to You shall be delivered or mailed to You at the address in this Agreement.

11. Termination. The appointment of You as a Selected Dealer under this Agreement shall terminate upon the earlier to occur of either the sale of all Preferred Stock or the termination date set forth in the Memorandum and may be terminated by the Managing Dealer at any time. Such termination shall not affect your right to receive the Selected Dealers compensation with respect to the Subscription Agreements that are procured by You and accepted by the Corporation prior to termination of the appointment. The representations, warranties and agreements of the parties in this Agreement shall survive termination of the appointment as Selected Dealer.

12. Indemnification and Contribution. All claims for indemnification shall be subject to the arbitration agreement set out below.

a) You hereby indemnify and hold harmless the Managing Dealer and the Corporation and each of their agents, employees, attorneys, officers, managers, and directors against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation and counsel fees) caused by (i) any breach by You of the representations, warranties or covenants by You contained in or made pursuant to this Agreement, (ii) the failure by You to give, deliver or send a copy of the Memorandum as appropriate to any person to whom the Preferred Stock is offered or sold or to offer or sell the Preferred Stock in accordance with the provisions of and applicable rules, regulations and published administrative interpretations under Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D, and the securities or blue sky laws of any jurisdiction in which the Preferred Stock is offered or sold by or through You, (iii) any unauthorized representations made by You or (iv) any unauthorized conduct which adversely affects the availability of exemption from registration under the Securities Act of 1933 or the rules and regulations thereunder or any provisions of the securities laws of any jurisdiction.

b) The Corporation hereby indemnifies and holds harmless You, your agents, employees, attorneys, officers, and directors, against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation and counsel fees) caused by (i) any breach by the Corporation of the representations, warranties or covenants by the Corporation contained in or made pursuant to this Agreement or the Managing Dealer Agreement, (ii) any untrue statement of a material fact contained in the Memorandum or in any amendment or supplement thereto or (iii) any omission to state in the Memorandum any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading; provided, however, that the Corporation shall not be responsible for, nor does the Corporation intend to indemnify or hold harmless You or your controlling persons against any losses, claims, damages, liabilities or expenses arising out of or resulting from the offer or sale of the

Preferred Stock to any person who was not given, delivered or sent a copy of the Memorandum as appropriate, or the failure by You to offer and sell the Preferred Stock in accordance with the provisions of and applicable rules, regulations and published administrative interpretations under Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D and the securities or blue sky laws of any jurisdiction in which the Preferred Stock is offered or sold by or through You.

c) Promptly after receipt by an indemnified party under this Section 12 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 12, notify the indemnifying party in writing of the commencement thereof, but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this Section 12. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate in and, to the extent that it may wish, jointly with any other indemnifying party, similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party, under joint control thereof over the defense in conjunction with the indemnified party and after notice from the indemnifying party to such indemnified party, of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section 12 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation and the indemnified party may, but shall not be obligated to, participate in the defense at its own expense with its own counsel.

13. Counterparts; Facsimile Signatures. This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The Parties agree that facsimile signatures of this Agreement shall be deemed a valid and binding execution of this Agreement.

14. Governing Law. This Agreement shall be deemed to be a contract made under the laws of the State of Texas and for all purposes shall be governed by and construed in accordance with the laws of said state. The parties agree that any dispute, claim, or any other legal proceedings in relation to this Agreement shall be brought only in the state and federal courts located in the State of Texas and not in any other jurisdiction, and shall be subject to the arbitration provisions of this Agreement.

15. Arbitration of Disputes. IN THE EVENT THAT A DISPUTE ARISES BETWEEN YOU AND THE CORPORATION OR THE MANAGING DEALER OR OTHER SELECTED DEALERS, OR ANY OF THEIR LEGAL REPRESENTATIVES, AGENTS OR EMPLOYEES, SAID DISPUTE ARISING IN CONNECTION WITH OR AS A RESULT OF THIS AGREEMENT, OR THE OFFER OR SALE OF PREFERRED STOCK, THE PARTIES HEREBY EXPRESSLY AGREE THAT SAID DISPUTE SHALL BE RESOLVED THROUGH ARBITRATION RATHER THAN LITIGATION. THE AGGRIEVED PARTY AGREES TO SUBMIT THE DISPUTE TO EITHER THE AMERICAN ARBITRATION ASSOCIATION OR FINRA FOR RESOLUTION WITHIN FIVE (5) DAYS AFTER RECEIVING A WRITTEN REQUEST FROM THE OTHER, OR ANY OF THE AFORESAID REPRESENTATIVES, AGENTS OR EMPLOYEES, TO DO SO. IF THE AGGRIEVED PARTY FAILS TO SUBMIT THE DISPUTE TO ARBITRATION WITHIN THE SPECIFIED PERIOD, THEN THE REQUESTING PARTY MAY DESIGNATE WHICH ASSOCIATION SHALL ARBITRATE THE

DISPUTE AND MAY FILE ANY PAPERS NECESSARY TO COMMENCE ARBITRATION. THE PARTIES FURTHER AGREE THAT ANY HEARING SCHEDULED AFTER AN ARBITRATION PROCEEDING IS INITIATED BY THE OTHER, OR ANY OF THE AFOREMENTIONED PARTIES, SHALL TAKE PLACE IN DALLAS, TEXAS.

THE PARTIES UNDERSTAND THAT:

a) ARBITRATION IS FINAL AND BINDING ON THE PARTIES;

b) THE PARTIES ARE WAIVING THEIR RIGHT TO SEEK REMEDIES IN COURT, INCLUDING THE RIGHT TO JURY TRIAL;

c) PRE-ARBITRATION DISCOVERY IS GENERALLY MORE LIMITED THAN AND DIFFERENT FROM COURT PROCEEDINGS;

d) THE ARBITRATORS' AWARD IS NOT REQUIRED TO INCLUDE FACTUAL FINDINGS OR LEGAL REASONING AND ANY PARTY'S RIGHT TO APPEAL OR TO SEEK MODIFICATION OF RULINGS BY THE ARBITRATORS IS STRICTLY LIMITED; AND

e) THE PANEL OF ARBITRATORS WILL TYPICALLY INCLUDE A MINORITY OF ARBITRATORS WHO WERE OR ARE AFFILIATED WITH THE SECURITIES INDUSTRY.

16. Confidentiality and Non-Circumvention. The parties agree that the business of both is conducted throughout the United States and that the location of the offices of either shall not be a determinate factor in protecting the business of either. Managing Dealer will obtain the names, addresses and other personal identifying or financial information regarding customers of Selected Dealer who submit subscriptions (Customer Information). Managing Dealer agrees that such Customer Information is not the property of the Managing Dealer. Managing Dealer will not, and will not permit its affiliates to, use any of such Customer Information to offer, solicit or accept investments or to perform any investment advisory services, securities brokerage services or similar financial intermediation services. Selected Dealer may obtain the names, addresses and other personal identifying or financial information regarding customers of Managing Dealer or other selected dealers in the course of performing under this Agreement or assisting its customers in the management of the investment, and agrees that it will not, and will not permit its affiliates to, use any of such information to offer, solicit or accept investments or to perform any investment advisory services, securities brokerage services or similar financial intermediation services. The parties acknowledge and agree that the issuer, which may be an affiliate of the Managing Dealer, shall in all cases have the right to communicate directly with its equity holders regarding their investment in the issuer.

17. Professional Fees. In the event either party hereto shall commence legal proceedings against the other to enforce the terms hereof, or to declare rights hereunder, as the result of a breach of any covenant or condition of this Agreement, the prevailing party in any such proceeding shall be entitled to recover from the losing party its costs of arbitration, including reasonable attorneys' fees, accountants' fees, and experts' fees.

Very truly yours,

Provident Asset Management, LLC

By: Brendan Coughlin

Mr. Brendan Coughlin
Its President

Confirmed and accepted as of the date first above written.

SELECTED DEALER:

Securities America

(Name)

By:

Contact Person: Jay Idt

Address: 12325 Port Grace Blvd. LaVista, NE 68128

Phone: 402-399-9111 x4200 Facsimile: 402-399-2045

E-Mail Address: jidt@saionline.com

# EXHIBIT B

03-27-07P03:00 RCVD

# AMTEX ASSOCIATES, LLC

**16660 N. Dallas Parkway, Suite 2200**
**Dallas, Texas 75248**
**(214) 580-5810 (Office)**
**(214) 580-5809 (Facsimile)**

**Dated** March 12 **2007**

To: OAS Financial Corp

Address: One Belmont Plaza
4th Floor
Omaha, NE 68154

Re: Selected Dealer Agreement between AmTex Associates, LLC ("Managing Dealer") and the undersigned dealer ("You")

Dear Mr. Bolton:

As you know, Shale Royalties 3 LLC ("Shale Royalties"), a Texas limited liability company with its principal offices in Dallas, Texas, is conducting an offering ("Offering") of its Class A Membership Interests ("Membership Interest"). The Offering is for a maximum of $20,000,000, which may be increased to up to $22,000,000 by the Company without notice, consisting of 4,000 units of the Membership Interest, offered at a price of $5,000 per unit.

This agreement shall govern only this Offering of Membership Interest. All of the terms and conditions of this Agreement shall be binding upon You and the Managing Dealer unless we both consent to other terms in writing. The Managing Dealer has agreed to use its best efforts to sell Membership Interests in the Offering pursuant to the terms set forth in the Confidential Private Placement Memorandum (the "Memorandum") dated January 15, 2007, (the "Offering"), subject to the terms of a Managing Dealer Agreement. Capitalized terms shall have the meaning defined in the Memorandum.

1. The Offering. The Membership Interest shall be offered to accredited investors only on a best efforts, no minimum basis, at a price of $5,000 per unit of Membership Interest (the "Subscription Price"), with a minimum purchase of five units, or $25,000, in accordance with the terms of the Offering set forth in the Memorandum. The Managing Dealer has full authority to take such action as it may deem advisable in respect of all matters pertaining to the Offering of the Membership Interests.

2. Offering by Selected Dealers. The Managing Dealer is offering part of the Membership Interests for sale through certain dealers (the "Selected Dealers") which are members of NASD, at the Subscription Price, subject to the terms and conditions herein and in the Memorandum, and subject to modification and cancellation of the Offering without notice. Sales of Membership

Interests by You pursuant to such Offering shall be effective only when evidenced by written acceptance from the Company and shall be on the terms and conditions set forth herein. In selling Membership Interests, you shall not make or rely upon any statement whatsoever, written or oral, other than statements contained herein, in the Memorandum, and any other materials previously approved by the Managing Dealer.

If You desire to apply to act as a Selected Dealer and sell any of the Membership Interest, please sign and return to the Managing Dealer the enclosed copy of this letter, even though you may have advised the Managing Dealer thereof previously by telephone or telegraph. Your application should be sent to Mr. Brendan Coughlin, President, AmTex Associates, LLC, 16660 N. Dallas Parkway, Suite 2200, Dallas, Texas 75248.The Managing Dealer shall use its reasonable best efforts to fill any subscriptions You may submit. The Managing Dealer reserves the right to reject all subscriptions in whole or in part, to make allotments, and to close the Offering at any time and without prior notice to you.

3. Compensation to Selected Dealers. If You act as a Selected Dealer, You will be compensated based on the aggregate Subscription Price for all Subscription Agreements procured by You and accepted by the Company, as follows:

DUE DILIGENCE FEE:

| | |
|---|---|
| Non-Accountable | 1% of aggregate Subscription Prices |

SALES COMMISSION:

| | |
|---|---|
| Retail Commission | 8% of aggregate Subscription Prices |

4. Conduct of Offering. On becoming a Selected Dealer and in offering and selling the Membership Interests, You agree to comply with all applicable requirements of the Securities Act of 1933, as amended (the "Act"), the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Rules of the NASD, and the securities and dealer registration laws of each state or jurisdiction in which You offer or sell the Membership Interests. As a Selected Dealer, You shall be supplied with such quantities of the Memorandum as, from time to time, You may reasonably request.

Upon the acceptance of your application, You shall be informed as to the states in which the Managing Dealer has been advised that the Membership Interests have been qualified for sale under the respective securities or blue sky laws of such states; however, the Managing Dealer assumes no obligation or responsibility as to the right of any Selected Dealer to sell the Membership Interests in any state or as to any sale made therein.

5. Offering by Selected Dealers. Membership Interests sold by You must be offered in conformity with the terms of the Offering set forth in the Memorandum.

6. Payment and Delivery. Payment for Membership Interests purchased through You shall be made by the subscriber of each Membership Interests in the amount of the Subscription Price of the Membership Interest subscribed for, delivered by:

(1) a check or cashier's check payable to the order of "Shale Royalties 3 LLC"; or

(2) wire transfer into the account to be created for the Company (wiring instructions will be delivered upon request); or

(3) executed instructions for account-to-account transfers where the funds to be invested are held in the custody of retirement fund managers or trustees.

Each subscription must be accompanied by a fully completed and executed Purchaser Suitability Questionnaire and by a fully completed and executed Subscription Agreement.

7. Payment of Selected Dealer Compensation. The due diligence fee and sales commission payable to You hereunder shall be paid for funds in good standing by the 10th and 25th of each month after the Managing Dealer has received payment from the Company of compensation due it pursuant to the terms of the Managing Dealer Agreement, which payments shall occur as soon as practical after a Subscription Agreement is accepted and the related Membership Interest issued

8. Relationship of Selected Dealers and the Managing Dealer. You represent that You are a member in good standing of the NASD. You are not authorized to, and You agree not to, give any information or to make any representations other than as contained in the Memorandum or pre-approved by the Managing Dealer, or to act as agent or sub-agent for the Managing Dealer. Nothing herein shall constitute the Selected Dealers as an association, unincorporated business, or other separate entity or joint venturers or partners with the Managing Dealer, or with each other, but You shall be liable for the Managing Dealer's share of any tax, liability, or expense based on any claim to the contrary. The Managing Dealer shall not be under any liability to You, except for obligations expressly assumed by the Managing Dealer in this Agreement; however, no obligations on the Managing Dealer's part shall be implied or inferred herefrom.

10. Notices. All communications from You to the Managing Dealer shall be addressed to Mr. Brendan Coughlin, AmTex Associates, LLC, 16660 N. Dallas Parkway, Suite 2200, Dallas, Texas 75248. Any notice from the Managing Dealer to You shall be delivered or mailed to You at the address in this Agreement.

11. Termination. This Agreement shall terminate upon the earlier to occur of either the sale of all Membership Interests or the Termination Date set forth in the Memorandum and may be terminated by the Managing Dealer at any time. Such termination shall not affect your right to receive the Selected Dealers compensation with respect to the Subscription Agreements that are procured by You and accepted by the Company.

12. Indemnification and Contribution. All claims for indemnification shall be subject to the arbitration agreement set out below.

a) You hereby indemnify and hold harmless the Managing Dealer and the Company and each of their agents, employees, attorneys, officers, managers, and directors against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation and counsel fees) caused by (i) any breach by You of the representations, warranties or covenants by You contained in or made pursuant to this Agreement, (ii) the failure by You to give, deliver or send a copy of the Memorandum as appropriate to any person to whom the Membership Interest is offered or sold or to offer or sell the Membership Interest in accordance with the provisions of and applicable rules, regulations and published administrative interpretations under Section 4(2) of the

Securities Act of 1933 and Rule 506 of Regulation D, and the securities or blue sky laws of any jurisdiction in which the Membership Interest is offered or sold by or through You, (iii) any unauthorized representations made by You or (iv) any unauthorized conduct which adversely affects the availability of exemption from registration under the Securities Act of 1933 or the rules and regulations thereunder or any provisions of the securities laws of any jurisdiction.

b) The Company hereby indemnifies and holds harmless You, your agents, employees, attorneys, officers, and directors, against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation and counsel fees) caused by (i) any breach by the Company of the representations, warranties or covenants by the Company contained in or made pursuant to this Agreement or the Managing Dealer Agreement, (ii) any untrue statement of a material fact contained in the Memorandum or in any amendment or supplement thereto or (iii) any omission to state in the Memorandum any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading; provided, however, that the Company shall not be responsible for, nor does the Company intend to indemnify or hold harmless You or your controlling persons against any losses, claims, damages, liabilities or expenses arising out of or resulting from the offer or sale of the Membership Interest to any person who was not given, delivered or sent a copy of the Memorandum as appropriate, or the failure by You to offer and sell the Membership Interest in accordance with the provisions of the Memorandum, the Act, the Exchange Act, and applicable rules, regulations and published administrative interpretations under Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D and the securities or blue sky laws of any jurisdiction in which the Membership Interest is offered or sold by or through You.

c) Promptly after receipt by an indemnified party under this Section 12 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 12, notify the indemnifying party in writing of the commencement thereof, but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this Section 12. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate in and, to the extent that it may wish, jointly with any other indemnifying party, similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party, under joint control thereof over the defense in conjunction with the indemnified party and after notice from the indemnifying party to such indemnified party, of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section 12 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation and the indemnified party may, but shall not be obligated to, participate in the defense at its own expense with its own counsel.

13. Counterparts; Facsimile Signatures. This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The parties agree that facsimile signatures of this Agreement shall be deemed a valid and binding execution of this Agreement.

14. Jurisdiction. Any dispute, claim, or any other legal proceedings in relation to this Agreement shall be heard in the State of Texas and by binding arbitration only.

14. Arbitration of Disputes. IN THE EVENT THAT A DISPUTE ARISES BETWEEN YOU AND THE COMPANY OR THE MANAGING DEALER OR OTHER SELECTED DEALERS, OR ANY OF THEIR LEGAL REPRESENTATIVES, AGENTS OR EMPLOYEES, SAID DISPUTE ARISING IN CONNECTION WITH OR AS A RESULT OF THIS AGREEMENT, OR THE OFFER OR SALE OF MEMBERSHIP INTERESTS, THE PARTIES HEREBY EXPRESSLY AGREE THAT SAID DISPUTE SHALL BE RESOLVED THROUGH ARBITRATION RATHER THAN LITIGATION. THE AGGRIEVED PARTY AGREES TO SUBMIT THE DISPUTE TO EITHER THE AMERICAN ARBITRATION ASSOCIATION OR NASD FOR RESOLUTION WITHIN FIVE (5) DAYS AFTER RECEIVING A WRITTEN REQUEST FROM THE OTHER, OR ANY OF THE AFORESAID REPRESENTATIVES, AGENTS OR EMPLOYEES, TO DO SO. IF THE AGGRIEVED PARTY FAILS TO SUBMIT THE DISPUTE TO ARBITRATION WITHIN THE SPECIFIED PERIOD, THEN THE REQUESTING PARTY MAY DESIGNATE WHICH ASSOCIATION SHALL ARBITRATE THE DISPUTE AND MAY FILE ANY PAPERS NECESSARY TO COMMENCE ARBITRATION. THE PARTIES FURTHER AGREE THAT ANY HEARING SCHEDULED AFTER AN ARBITRATION PROCEEDING IS INITIATED BY THE OTHER, OR ANY OF THE AFOREMENTIONED PARTIES, SHALL TAKE PLACE IN DALLAS, DALLAS COUNTY, TEXAS.

THE PARTIES UNDERSTAND THAT:

a) ARBITRATION IS FINAL AND BINDING ON THE PARTIES;

b) THE PARTIES ARE WAIVING THEIR RIGHT TO SEEK REMEDIES IN COURT, INCLUDING THE RIGHT TO JURY TRIAL;

c) PRE-ARBITRATION DISCOVERY IS GENERALLY MORE LIMITED THAN AND DIFFERENT FROM COURT PROCEEDINGS;

d) THE ARBITRATORS' AWARD IS NOT REQUIRED TO INCLUDE FACTUAL FINDINGS OR LEGAL REASONING AND ANY PARTY'S RIGHT TO APPEAL OR TO SEEK MODIFICATION OF RULINGS BY THE ARBITRATORS IS STRICTLY LIMITED; AND

e) THE PANEL OF ARBITRATORS WILL TYPICALLY INCLUDE A MINORITY OF ARBITRATORS WHO WERE OR ARE AFFILIATED WITH THE SECURITIES INDUSTRY.

15. Governing Law. This Agreement shall be deemed to be a contract made under the laws of the State of Texas and for all purposes shall be governed by and construed in accordance with the laws of said State.

16. Professional Fees. In the event either party hereto shall commence legal proceedings against the other to enforce the terms hereof, or to declare rights hereunder, as the result of a breach of any covenant or condition of this Agreement, the prevailing party in any such proceeding shall be entitled to recover from the losing party its costs of arbitration, including reasonable attorneys' fees, accountants' fees, and experts' fees.

Very truly yours,

AmTex Associates, LLC

By: Brendan Coughlin

Mr. Brendan Coughlin
Its Manager

Confirmed and accepted as of the date first above written.

SELECTED DEALER:

QA3 Financial Corp.
(Dealer Name)

By: Greg Bolton - General Counsel

Address: One Valmont Plaza, 4th Fl
Omaha, NE 68154

Phone: 402-964-3817

Facsimile: 402-964-3713

E-Mail: gbolton@qa3.com

# EXHIBIT C

**Exhibit C**

**Untrue and Misleading Statements of Material Fact in PPMs for Stock Offerings**

| **Offering PPM** | **Broker-dealers are paid a 1% "due diligence fee." (¶ 94)** | **The entity has "no prior operating history, no significant assets and no current cash flow" (¶ 95)** | **Investor funds are deposited into escrow or bank account for and become the property of the Rule 506 Entity. (¶ 95)** | **85% or 86% of investor funds to be used for oil and gas investments. (¶ 95)** | **Payment of dividends is "subject to the profitability and cash flow" of the entity. (¶ 96)** | **"The Properties and Oil and Gas Investments are anticipated to produce returns to the Corporation that are greater than the dividends likely to be paid on the Preferred Stock." (¶ 96)** | **Identification of the entity's management. (¶ 98)** |
|---|---|---|---|---|---|---|---|
| **Shale Royalties II, Inc.** | Pages 12, 15 | Pages 1, 6, 18 | Page 12 (bank account) | Page 15 (85%) | Page 6 ("The Corporation may not generate sufficient cash flow or projects to make dividend payments or redeem the Preferred Stock.") | Page 8 ("While the Corporation believes that the Corporation will have adequate cash flow to make timely payments on the Preferred Stock, there can be no assurance that the Corporation will have sufficient cash flow or other resources to make timely payments of dividends on, and the Redemption Price of, the Preferred Stock.") | Pages 6-7 |

| **Offering PPM** | **Broker-dealers are paid a 1% "due diligence fee." (¶ 94)** | **The entity has "no prior operating history, no significant assets and no current cash flow" (¶ 95)** | **Investor funds are deposited into escrow or bank account for and become the property of the Rule 506 Entity. (¶ 95)** | **85% or 86% of investor funds to be used for oil and gas investments. (¶ 95)** | **Payment of dividends is "subject to the profitability and cash flow" of the entity. (¶ 96)** | **"The Properties and Oil and Gas Investments are anticipated to produce returns to the Corporation that are greater than the dividends likely to be paid on the Preferred Stock." (¶ 96)** | **Identification of the entity's management. (¶ 98)** |
|---|---|---|---|---|---|---|---|
| **Shale Royalties 3, LLC** | Pages 14, 17 | Pages 1, 7, 25 | Page 14 (bank account) | Page 17 (85%) | Page 7 ("The Company may not generate sufficient cash flow or projects to make distribution payments or redeem the Class A Units.") | Page 23 ("The Properties and Oil and Gas Investments are anticipated to produce returns to the Company that are greater than the distributions likely to be paid on the Class A Units.") | Pages 7-9 |
| **Shale Royalties 4, Inc.** | Pages 14, 17 | Pages 1, 8 | Pages 15, 17 (bank account) | Page 17 (85%) | Page 7 ("The Corporation may not generate sufficient cash flow or projects to make dividend payments or redeem the Preferred Stock.") | Page 20 | Pages 8-9 |
| **Shale Royalties 5, Inc.** | Pages 13, 16 | Pages 1, 7, 21 | Pages 2, 14 (escrow) | Pages 16-17 (85%) | Page 1 | Page 20 | Pages 7-8 |

| **Offering PPM** | **Broker-dealers are paid a 1% "due diligence fee." (¶ 94)** | **The entity has "no prior operating history, no significant assets and no current cash flow" (¶ 95)** | **Investor funds are deposited into escrow or bank account for and become the property of the Rule 506 Entity. (¶ 95)** | **85% or 86% of investor funds to be used for oil and gas investments. (¶ 95)** | **Payment of dividends is "subject to the profitability and cash flow" of the entity. (¶ 96)** | **"The Properties and Oil and Gas Investments are anticipated to produce returns to the Corporation that are greater than the dividends likely to be paid on the Preferred Stock." (¶ 96)** | **Identification of the entity's management. (¶ 98)** |
|---|---|---|---|---|---|---|---|
| **Shale Royalties 6, Inc.** | Pages 14, 17 | Pages 1, 8, 22 | Pages 2, 15 (escrow) | Page 17 (85%) | Page 1 | Page 20 | Pages 8-9 |
| **Shale Royalties 7, Inc.** | Pages 16, 20 | Pages 1, 9, 25 | Pages 2, 17 (escrow) | Page 20 (86%) | Page 1 | Page 24 | Pages 9-11 |
| **Shale Royalties 8, Inc.** | Pages 16, 20 | Pages 1, 9, 26 | Pages 2, 17 (escrow) | Page 20 (86%) | Page 1 | Page 24 | Pages 9-11 |
| **Shale Royalties 9, Inc.** | Pages 16, 20 | Pages 1, 9, 25 | Pages 2, 17 (escrow) | Page 20 (86%) | Page 1 | Page 24 | Pages 9-11 |
| **Shale Royalties 10, Inc.** | Pages 16, 20 | Pages 1, 9, 25 | Pages 2, 17 (escrow) | Page 20 (86%) | Page 1 | Page 24 | Pages 9-11 |
| **Shale Royalties 12, Inc.** | Pages 15, 18 | Pages 1, 8, 23 | Pages 16, 17 (bank account) | Page 18 (86%) | Page 1 | Page 22 | 9-10 |
| **Shale Royalties 14, Inc.** | Pages 16, 18 | Pages 1, 9, 24 | Pages 16, 18 (bank account) | Page 18 (86%) | Page 1 | Page 22 | Pages 9-10 |

| **Offering PPM** | **Broker-dealers are paid a 1% "due diligence fee." (¶ 94)** | **The entity has "no prior operating history, no significant assets and no current cash flow" (¶ 95)** | **Investor funds are deposited into escrow or bank account for and become the property of the Rule 506 Entity. (¶ 95)** | **85% or 86% of investor funds to be used for oil and gas investments. (¶ 95)** | **Payment of dividends is "subject to the profitability and cash flow" of the entity. (¶ 96)** | **"The Properties and Oil and Gas Investments are anticipated to produce returns to the Corporation that are greater than the dividends likely to be paid on the Preferred Stock." (¶ 96)** | **Identification of the entity's management. (¶ 98)** |
|---|---|---|---|---|---|---|---|
| **Shale Royalties 15, Inc.** | Pages 16, 19 | Pages 1, 9, 24 | Pages 16, 18 (bank account) | Page 18 (86%) | Page 1 | Page 23 | Pages 9-11 |
| **Shale Royalties 16, Inc.** | Pages 16, 19 | Pages 1, 9, 24 | Pages 16, 18 (bank account) | Page 18 (86%) | Page 1 | Page 22 | Pages 9-11 |
| **Shale Royalties 17, Inc.** | Pages 16, 19 | Pages 1, 9, 24 | Pages 16, 18 (bank account) | Page 18 (86%) | Page 1 | Page 22 | Pages 9-11 |
| **Shale Royalties 18, Inc.** | Pages 16, 19 | Pages 1, 9, 25 | Pages 17, 19 (bank account) | Page 19 (86%) | Page 1 | Page 23 | Pages 9-10 |
| **Shale Royalties 19, Inc.** | Pages 16, 19 | Pages 1, 9, 25 | Pages 17, 19 (bank account) | Page 19 (86%) | Page 1 | Page 23 | Pages 10-11 |
| **Shale Royalties 20, Inc.** | Pages 16, 19 | Pages 1, 9, 25 | Pages 17, 19 (bank account) | Page 19 (86%) | Page 1 | Page 23 | Pages 10-11 |

# EXHIBIT D

**Exhibit D**

**Untrue and Misleading Statements of Material Fact in PPMs for Partnership Offerings**

| **Partnership Offering PPM** | **Broker-dealers are paid a 9% sales commission. (¶ 94)** | **"The Partnership is recently formed and has no significant operating history, assets or current cash flow." (¶ 95)** | **Investor funds are deposited into a bank account for and become the property of the Rule 506 Entity. (¶ 95)** | **83% or 85% of investor funds to be used for oil and gas investments. (¶ 95)** | **"The managing partner will, in its discretion, after providing for the satisfaction of the current debts and obligations of the Partnership, make distributions to Investor Partners, at least quarterly, out of the Partnership net cash flow." (¶ 96)** | **Identification of the partnership's management. (¶ 98)** |
|---|---|---|---|---|---|---|
| **Provident Energy 1, LP** | Pages 6, 14, 16, 20 | Page 47 ("no prior activities, no significant assets and no current cash flow") | Pages 1, 6, 14 | Pages 7, 20 (83%) | Page 45 | Pages 21-22 |
| **Provident Energy 2, LP** | Pages 6, 15, 17, 21 | Page 26 | Pages 1, 6, 15 | Pages 7, 21 (85%) | Page 47 | Pages 23-24 |
| **Provident Energy 3, LP** | Pages 5, 14, 15, 18 | Page 22 | Pages 1, 5, 14 | Pages 6, 18 (85%) | Page 44 ("The Managing Partner intends to review the accounts of the Partnership on a quarterly basis and determine whether cash distributions are appropriate and the amount to be distributed, if any.") | Pages 19-21 |

**CERTIFICATE OF SERVICE**

On September 9, 2010, I electronically submitted the foregoing document with the clerk of court for the U.S. District Court, Northern District of Texas, using the electronic case filing system of the court. I hereby certify that I have served all counsel and/or pro se parties of record electronically or by another manner authorized by Federal rule of Civil Procedure 5 (b)(2).

By: /s/ *Daniel C. Girard*
Daniel C. Girard