



STATE OF MISSOURI
OFFICE OF SECRETARY OF STATE

IN THE MATTER OF:)
)
BRIAN HUDNALL, and JBH CONSULTING)
GROUP LLC,)
) Case No. AP-18-02
 Respondents.)

CONSENT ORDER

1. The Enforcement Section of the Missouri Securities Division of the Office of Secretary of State (“Enforcement Section”), through Enforcement Counsel Derek Green, has alleged that Brian Hudnall, (“Hudnall”) and JBH Consulting Group LLC (“JBH”), collectively “Respondents”, violated Sections 409.3-301, 409.4-402(a), 409.4-402(d), and 409.5-501, RSMo. (2016)¹ by: (a) offering or selling unregistered, non-exempt securities; (b) transacting business as an unregistered agent; (c) employing or associating with an unregistered agent; and (d) omitting to state material facts or engaging in an act, practice, or course of business that would operate as fraud or deceit upon another person in connection with the offer or sale of a security. These violations constitute grounds to issue an order pursuant to Section 409.6-604.
2. Respondents and the Enforcement Section desire to settle the allegations and the matters raised by the Enforcement Section relating to the Respondents’ alleged violations of Sections 409.3-301, 409.4-402(a), 409.4-402(d), and 409.5-501.

CONSENT TO JURISDICTION

3. Respondents and the Enforcement Section stipulate and agree that the Missouri Commissioner of Securities (“Commissioner”) has jurisdiction over the Respondents and these matters pursuant to the Missouri Securities Act of 2003, Chapter 409, *et seq.*
4. Respondents and the Enforcement Section stipulate and agree that the Commissioner has authority to enter this Order pursuant to Section 409.6-604(h), which provides:

“The commissioner is authorized to issue administrative consent orders in the settlement of any proceeding in the public interest under this act.”

¹ Unless otherwise noted, all statutory references are to the 2016 Revised Statutes of Missouri.

WAIVER AND EXCEPTION

5. Respondents waive Respondents' right to a hearing with respect to this matter.
6. Respondents waive any right that Respondents may have to seek judicial review or otherwise challenge or contest the terms and conditions of this Order. Respondents specifically forever release and hold harmless the Missouri Office of Secretary of State, Secretary of State, Commissioner, and their respective representatives and agents from any and all liability and claims arising out of, pertaining to, or relating to this matter.
7. Respondents stipulate and agree with the Enforcement Section that, should the facts contained herein prove to be false or incomplete in a material way, the Enforcement Section reserves the right to pursue any and all legal or administrative remedies at its disposal.

CONSENT TO COMMISSIONER'S ORDER

8. Respondents and the Enforcement Section stipulate and agree to the issuance of this Consent Order without further proceedings in this matter, agreeing to be fully bound by the terms and conditions specified herein.
9. Respondents agree not to take any action or to make or permit to be made any public statement creating the impression that this Order is without factual basis. Nothing in this paragraph affects Respondents' (a) testimonial obligations; (b) right to take legal or factual positions in connection with litigation, arbitration, or other legal proceeding in which the Commissioner is not a party; or (c) right to make public statements that are factual.
10. Respondents agree that Respondents are not the prevailing parties in this action since the parties have reached a good faith settlement.
11. Respondents neither admit nor deny the allegations made by the Enforcement Section, but consent to the Commissioner's Findings of Fact, Conclusions of Law, and Order as set forth below solely for the purposes of resolving this proceeding and any proceeding that may be brought to enforce the terms of this Consent Order.

COMMISSIONER'S FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER

I. FINDINGS OF FACT

12. Hudnall, age 40, is a resident of Kansas City, Missouri. Hudnall is, and was at all times relevant to the events described herein, the owner, managing member, and Chief Executive Officer ("CEO") of JBH. A check of the Central Registration Depository ("CRD") shows Hudnall has never been registered as an investment adviser, investment adviser representative, broker-dealer, or agent in the state of Missouri.

13. JBH is a Missouri limited liability company formed on June 7, 2007, whose registered agent is Hudnall and has an address of 888 Haines Drive, Suite 114, Liberty, Missouri 64068. JBH primarily engages in the business of exploration, production from, and operation of oil and gas wells.
14. On February 27, 2012, the Enforcement Section received a written complaint from a 74 year-old Missouri resident who had been solicited multiple times via telephone to invest with JBH in fractional shares of oil well revenues.
15. From September 2008 until at least November 2014, Hudnall and JBH offered and sold securities in at least 20 joint ventures, created for the purpose of acquiring interests in oil and gas wells that were drilled and operated by third parties in Kansas and Texas. JBH served as the managing venturer for all the joint ventures.
16. From October 2008 through November 2014, there were at least 97 investors who invested a total of more than \$15 million with Hudnall and JBH in one or more of the joint ventures. Of these total investors, six were Missouri residents, whose investments totaled more than \$119,000.
17. Hudnall and JBH offered and sold “Units” in their oil and gas “joint ventures” using telephone solicitations and written offering materials. The majority of the offering materials were similar and included a Confidential Information Memorandum (“CIM”). For each new offering, Hudnall typically altered the description or number of wells, the total offering amount, the percentage of the working interests the alleged “joint venture” intended to obtain, the percentage interest offered to investors, and other similar details.
18. The CIMs contained false and misleading statements about the actual use of investor funds, the actual amount of drilling and completion costs, the actual amount of working interest retained by JBH, and the actual amount of commissions and/or management fees collected by Hudnall and/or JBH employees, among other things.
19. Respondents failed to disclose to investors that commissions would be paid to employees based on their investments. In some ventures, Hudnall utilized as much as 40% of the funds received from investors to pay JBH management fees and a few other employees a commission.
20. In reviewing one joint venture involving Missouri investors, Joint Venture XV (“JV XV”), a bank account was found in the name of JV XV that was opened at Community America Credit Union in March 2013. From March 2013 through June 2014, investor funds in excess of \$1.1 million were deposited into the JV XV’s account and more than \$1 million of that total was transferred to JBH’s regular business account.
21. From JBH’s regular business account, checks were then written to Hudnall and other employees from the proceeds of the investment funds from JV XV for a total of more than \$420,000.

22. On or about January 27, 2017, the U.S. Securities and Exchange Commission (“SEC”) filed a complaint against Hudnall and JBH in United States District Court in the Western District of Missouri.² In the complaint, the SEC alleged Hudnall and JBH violated multiple sections of the Securities Exchange Act of 1934, and the Securities Act of 1933 by making false and misleading statements to potential investors and failing to register any of the securities offerings or purported “joint ventures” with the SEC. In addition, none of the individuals working for JBH, including Hudnall, were licensed or associated with registered brokers.
23. The SEC complaint alleged among other things, that to attract and retain investors, JBH and Hudnall made numerous materially false and misleading statements and omissions in the offering documents and other written communication they sent to prospective and existing investors, including:
 - a. falsely representing that the title to “joint venture” assets would be held by the “joint ventures”;
 - b. misrepresenting the costs of the offering and how JBH and Hudnall would use investor funds;
 - c. hiding substantial (30-50%) markups that JBH and Hudnall charged to investors;
 - d. understating the amount of working interest in the wells JBH and Hudnall retained for themselves; and
 - e. failing to disclose discounts and other favorable side deals made with certain investors, some of whom were Hudnall’s friends and relatives.
24. On or about January 27, 2017, Hudnall consented to a final judgment with the SEC.³ As part of that final judgment, Hudnall is:
 - a. permanently restrained and enjoined from violating, directly or indirectly, Section 10(b) of the Exchange Act, Rule 10b-5 promulgated thereunder, Section 17(a) of the Securities Act, Section 5 of the Securities Act, and Section 15(a)(1) of the Exchange Act; and
 - b. liable for disgorgement of \$3,282,092.61, together with prejudgment interest thereon of \$373,735.78, and a civil penalty of \$160,000.

² *U.S. Securities and Exchange Commission v. Brian S. Hudnall*, No. 4:17-CV-00059-REL (W.D. Mo. Jan. 27, 2017).

³ *Id.*

25. On or about January 27, 2017, JBH consented to a final judgment with the SEC.⁴ As part of that final judgment, JBH is:
- a. permanently restrained and enjoined from violating, directly or indirectly, Section 10(b) of the Exchange Act, Rule 10b-5 promulgated thereunder, Section 17(a) of the Securities Act, and Section 5 of the Securities Act; and
 - b. liable for disgorgement of \$7,419,719.31, together with prejudgment interest thereon of \$844,892.41, and a civil penalty of \$160,000.

II. CONCLUSIONS OF LAW

26. The Commissioner finds Respondents offered and/or sold unregistered, non-exempt securities in the state of Missouri in violation of 409.3-301; acted as an unregistered agent by transacting business in the state of Missouri in violation of 409.4-402(a); employed or associated with an unregistered agent in violation of Section 409.4-402(d); and omitted to state material facts or engaged in an act, practice, or course of business that would operate as fraud or deceit upon another person in connection with the offer or sale of a security in violation of 409.5-501, and that this conduct constitutes grounds to issue an order pursuant to Section 409.6-604.
27. The Commissioner, after consideration of the stipulations set forth above and on the consent of Respondents and the Enforcement Section, finds and concludes that the Commissioner has jurisdiction over Respondents and this matter and that the following Order is in the public interest, necessary for the protection of public investors and consistent with the purposes intended by Chapter 409.

III. ORDER

NOW, THEREFORE, it is hereby Ordered that:

28. Respondents, their agents, employees and servants, and all other persons participating in the above-described violations with knowledge of this order are permanently enjoined and restrained from engaging in violations of Sections 409.3-301, 409.4-402 (a), (d), and 409.5-501.
29. Respondents, their agents, employees and servants, and all other persons participating in the above-described violations with knowledge of this order are permanently enjoined and restrained from offering or selling any securities in the state of Missouri unless those securities are registered with the Securities Division of the Office of the Secretary of State, or Respondents notify the Division, in writing, of their intent to offer or sell securities in the state of Missouri in reliance on any exemption from registration, or Respondents notify the Division, in writing, of their intent to offer or sell federal covered securities in the state of Missouri. This notice will be sent to the Division at least 15 days before any offers or

⁴ *Id.*

sales of these securities are made in this state for 10 years. After 10 years, the notice will be sent on or before any offers or sales of these securities are made in this state.

- a. The notice will be addressed to the Securities Division at 600 West Main Street, Jefferson City, Missouri 65101 and will include: (1) an address and phone number of the issuer's place of business; (2) a description of the security; (3) the offering price; (4) the number of shares or units being offered; (5) the exemption(s) being relied upon; and (6) copies of any advertising materials used in connection with the offer or sale of said security.
30. Respondents are hereby **BARRED**, effectively immediately, from registration as an investment adviser, investment adviser representative, broker-dealer, or agent in the state of Missouri.
 31. Respondents shall pay \$15,000 to the Missouri Secretary of State's Investor Education and Protection Fund. Of that amount, \$12,000 shall be suspended for five years. These payments shall be sent within 30 days of the effective date of this Consent Order to the Securities Division at 600 West Main Street, Jefferson City, Missouri 65101, and shall be payable to the Missouri Secretary of State's Investor Education and Protection Fund. The Division will send the money to the Missouri Secretary of State's Investor Education and Protection Fund.
 - a. All suspended payments and unpaid portions of amounts ordered above shall become due immediately upon a finding, after notice and opportunity for a hearing, by the Commissioner or a court of competent jurisdiction that Respondents have violated this Consent Order or the Missouri Securities Act. Such immediately due payments shall be in addition to all other penalties then available under the law.
 - b. After five years from the effective date of this Consent Order, provided Respondents complied with all terms of this Consent Order, all suspended payments referenced in paragraph 31 above are waived.
 32. Respondents shall pay \$1,000 as the cost of this investigation. This amount shall be sent within 30 days of the effective date of this Consent Order to the Securities Division at 600 West Main Street, Jefferson City, Missouri 65101, and shall be payable to the Missouri Secretary of State's Investor Education and Protection Fund. The Division will send the money to the Missouri Secretary of State's Investor Education and Protection Fund.
 33. Respondents shall pay its own costs and attorneys' fees with respect to this matter.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY,
MISSOURI THIS 6th DAY OF April, 2018.



JOHN R. ASHCROFT
SECRETARY OF STATE

David M. Minnick
DAVID M. MINNICK
COMMISSIONER OF SECURITIES

Consented to by:

THE ENFORCEMENT SECTION OF THE
MISSOURI SECURITIES DIVISION

Derek Green
Derek Green
Enforcement Counsel
Counsel for Petitioner

Brian Hudnall
Brian Hudnall
Respondent

Approved as to Form:

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