UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 64219 / April 6, 2011

INVESTMENT COMPANY ACT OF 1940
Release No. 29625 / April 6, 2011

ADMINISTRATIVE PROCEEDING
File No. 3-14325

In the Matter of **Jeffrey A. Lindsey,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTIONS 15(b) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTION 9(b) OF THE INVESTMENT COMPANY ACT OF 1940, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") and Section 9(b) of the Investment Company Act of 1940 ("Investment Company Act") against Jeffrey A. Lindsey ("Respondent" or "Lindsey").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, and Section 9(b) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

These proceedings arise out of Capital Financial Services, Inc.'s failure to perform reasonable due diligence on numerous private placement offerings prior to recommending them to customers where the offerings turned out to be a classic Ponzi scheme and offering fraud.

Respondent

1. Respondent was a senior vice president and due diligence officer at Capital Financial Services, Inc. ("Capital Financial"), a broker-dealer registered with the Commission, until June 15, 2010. From May 1, 2002 through June 15, 2010, Respondent was also a registered representative associated with Capital Financial. Respondent, 47 years old, is a resident of Libertyville, Illinois.

Other Relevant Entities

2. Capital Financial is a wholly owned subsidiary of Capital Financial Holdings, Inc., and has been registered with the Commission and a member of the NASD (now FINRA) since 1980. Capital Financial operates as a general securities broker-dealer and is headquartered in Minot, North Dakota. Capital Financial has a network of approximately 273 offices housing over 332 registered representatives. The majority of Capital Financial's revenue is generated from the sale of mutual funds, variable insurance products, and private placements.

3. Provident Royalties, LLC ("Provident") was a Delaware limited liability company with its principal offices in Dallas, Texas. Provident purportedly invested in oil and gas extraction interests through a group of 23 affiliated entities (collectively the "Provident Rule 506 Entities"). Provident is a beneficial owner in each of the Provident Rule 506 Entities. On June 22, 2009, Provident and 26 affiliated entities filed a voluntary petition for Chapter 11 bankruptcy in the United States Bankruptcy Court for the Northern District of Texas. Provident is currently in receivership.

4. Provident Asset Management, LLC ("PAM") was a Delaware limited liability company which was registered with the Commission as a broker-dealer since March 9, 2004. PAM was the managing broker-dealer for the Provident offerings and exclusively sold the

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Provident Rule 506 Entity offerings. Capital Financial entered into a selling agreement with PAM for each Provident offering in which Capital Financial participated as a selling broker-dealer. FINRA expelled PAM from membership on March 18, 2010. PAM is currently in receivership.

5. Provident Rule 506 Entities ("Provident offerings") were a series of companies which have effected private placements claiming exemption from registration of the offered securities under Rule 506 of Regulation D. The offerings sold by Capital Financial included the following companies: Provident Energy 1, LP; Provident Energy 2, LP; Provident Energy 3, LP; Shale Royalties II, Inc.; Shale Royalties 3, LLC; Shale Royalties 4, Inc.; Shale Royalties 5, Inc.; Shale Royalties 6, Inc.; Shale Royalties 7, Inc.; Shale Royalties 9, Inc.; Shale Royalties 12, Inc.; Shale Royalties 14, Inc.; Shale Royalties 17, Inc.; Shale Royalties 18, Inc. The entities are headquartered in Provident's offices in Dallas, Texas. All the Provident Entities are controlled by a court-appointed receiver.

Background

6. From at least September 2006 through January 2009, Capital Financial marketed, recommended to investors, and sold Provident preferred stock and limited partnership interests in a series of 14 private placements. The Provident offerings each claimed an exemption from registration of its offering pursuant to Rule 506 of Regulation D of the federal securities laws. The Provident offerings designated as Shale Royalties, Inc., numbered II through 18, offered two series of non-convertible redeemable cumulative preferred stock, while the offerings designated as Provident Energy, LP, numbered 1 through 3, offered limited partnership interests. The promised return on the Provident offerings was between 15%-18% per year depending on the term.

7. Provident Royalties' purported business plan included the acquisition of a combination of producing and non-producing sub-surface oil and gas mineral interests, working interests and real property located within the United States. According to the Provident offerings' Private Placement Memoranda ("PPM"), selling broker-dealers were paid commissions ranging from 5% to 9%. The sales commission varied by the offering, and by share class, with the longer term, Class A share class, paying a larger sales commission. Each PPM, with the exception of Provident Energy 1 and Provident Energy 3, disclosed that the selling broker-dealer would be paid a 1% due diligence fee in addition to the sales commission.

8. Although a portion of the proceeds of the Provident offerings were used for the acquisition and development of oil and gas activities, millions of dollars of investor funds were transferred from the later Provident offerings' bank accounts to the Provident Royalties' operating account and then used for undisclosed and, often, undocumented loans to earlier Provident offerings. The loan proceeds were then used to pay dividends and returns of capital to investors in earlier Provident offerings in a classic Ponzi scheme.

9. Lindsey participated in Capital Financial's due diligence process. Lindsey was responsible for reviewing the Provident new offerings and had the authority to approve the Provident offerings for Capital Financial to recommend to its customers. Lindsey received

assistance conducting due diligence from Brian Boppre ("Boppre"), initially Chief Operating Officer and later President (November of 2008) at Capital Financial.

10. Capital Financial was first introduced to Provident during the summer of 2006 by Darren Gibson ("Gibson"), a Provident wholesaler employed by PAM. Gibson provided Lindsey with a Provident PPM and other offering materials. Lindsey had no direct experience or background in the oil and gas industry.

11. On August 24, 2006, PAM paid Lindsey's expenses to conduct an on-site "due diligence" visit to Provident's Dallas offices. While at Provident, Lindsey met with Provident's principals, Gibson, various Provident land men, and a Provident geologist. The meeting consisted of a presentation of Provident's business plan, followed by a question and answer session. Lindsey also took a tour of the Provident offices. Lindsey did not receive any financial statement information or review any of the books or records of Provident during his visit.

12. On September 20, 2006, Capital Financial signed its first selling agreement with PAM for Shale Royalties, II ("Shale II"). Lindsey and Boppre approved Shale II based on the offering materials received from PAM, Lindsey's on-site visit, and the knowledge that other broker-dealers were selling the Provident offerings. Lindsey visited Provident twice during the selling period and eventually approved fourteen Provident offerings for Capital Financial to recommend and sell to its customers.

13. Capital Financial never independently investigated any of the information in the offering materials provided by Provident. Capital Financial also never received audited or even unaudited financial statements for any of the Provident offerings. The only financial information Capital Financial received regarding Provident was an unaudited consolidated balance sheet review. However, even the unaudited consolidated balance sheet reviews were not included in the materials Capital Financial received until Shale Royalties 9. Capital Financial received this limited financial information after it approved the sale and recommendation to investors of the Provident offerings covered in those reports.

14. As each Provident offering became fully subscribed, Capital Financial signed selling agreements with PAM for later Provident offerings. In total, Capital Financial recommended and sold fourteen different Provident offerings between September 2006 and January 26, 2009 when Provident suspended sales. Lindsey and Boppre approved each Provident offering for sale by Capital Financial registered representatives to recommend and sell to Capital Financial customers.

15. Capital Financial registered representatives placed approximately 1,087 Provident trades for roughly $63,000,000. Capital Financial was typically paid an 8% sales commission plus a 1% due diligence fee on the amount of subscription proceeds. This resulted in Capital Financial receiving over $5,000,000 in sales commissions, and over $600,000 in due diligence fees on the Provident offerings.

16. Capital Financial's due diligence process for each successive Provident offering was similar to the process for Shale II. For each new Provident offering, Capital Financial received a due diligence packet from PAM. The packet typically contained: a lead broker-dealer bio, certificate of insurance, PPM, certificate of incorporation, corporate bylaws, prior activities, escrow agreement, investor subscription agreement, managing broker-dealer agreement, soliciting broker-dealer agreement, Form D, news articles, general industry geology reports regarding U.S. shale plays, sample mineral deed, and contact information. Lindsey visited Provident's offices twice in the sales period but did not visit Provident before approving each successive Provident offering. Capital Financial did not receive information from any other source before approving any Provident offering.

17. To assist with promoting the Provident offerings, PAM retained the third-party due diligence law firm Mick & Associates, PC ("Mick") to draft a third-party due diligence report ("Mick report") on each Provident offering. Provident paid all fees for the due diligence reports. Upon request, Mick reports were provided at no cost to Capital Financial.

18. Capital Financial's due diligence process did not require a Mick report or any other third-party due diligence prior to approving a Provident offering even though neither Lindsey nor Boppre had experience in the oil and gas industry. Capital Financial only requested Mick reports on eight of the fourteen offerings it sold, and all eight of those Mick reports were received by Capital Financial only after it had already approved and started recommending and selling the offering.

19. The PPM's for all of the Provident offerings disclosed that the selling broker-dealer would receive a due diligence fee of 1%. However, Capital Financial did not disclose to investors that it did not spend the 1% due diligence fee conducting due diligence. Although it received over $600,000 for due diligence fees on the fourteen Provident offerings, Capital Financial incurred no direct due diligence expenses. At no time did Capital Financial hire independent counsel, an accounting firm, contact third parties regarding Provident's business, or hire consultants to review the Provident offerings.

20. Along with failing to conduct any due diligence with respect to the Provident offerings, prior to recommending them to investors, Capital Financial also did not act upon issues raised by Mick. The Mick reports beginning with Shale Royalties 9 issued in March 2008 raised concerns about Provident. The Shale Royalties 9 report highlighted Provident's lack of audited financial statements, and raised questions regarding conflicts of interest. The Mick report noted that the earlier Provident offerings were collectively reporting a net operating loss and the limited financial information lacked transparency.

21. Capital Financial did not question issues brought up in the Mick reports with either Provident or Mick. After receiving the Shale 9 Mick report, Capital Financial recommended and sold an additional $32,000,000 of the Provident offerings. Capital Financial received and purportedly reviewed Mick reports for Shale Royalties 12 and Shale Royalties 18. Both reports raised the same issues, only emphasizing those concerns by bolding or underlining the type. Although the Mick reports raised concerns about the Provident offerings, Capital Financial did not

provide its registered representatives with copies of these reports unless the representative requested the reports and Capital Financial did not take steps to address whether this information was disclosed to customers.

22. Capital Financial's due diligence responsibility was heightened by the fact that Provident was a relatively new company, Provident's management had limited experience in the oil and gas industry, Provident did not produce audited or unaudited financial statements, and before Capital Financial entered into a sales agreement for the first time with Provident, Provident had only effected two prior offerings, both beginning in July 2006 involving a combined total of ten investors. Provident paid a high dividend, and was a risky investment as was stated in the PPM.

23. Capital Financial did not disclose to customers that although it was collecting a due diligence fee, it was not conducting any outside due diligence.

24. Lindsey knew that the Provident offering materials stated that selling broker-dealers would receive a 1% due diligence fee. This disclosure to investors suggested that Capital Financial conducted independent due diligence in approving the Provident offerings as appropriate to recommend and sell to Capital Financial customers. However, Capital Financial did not perform any independent due diligence.

25. Lindsey knew Capital Financial did not perform independent due diligence before approving Provident for sale. Lindsey knew they were relying exclusively on Provident for doing their due diligence. Customers were not told that although Capital Financial was paid over $630,000 in due diligence fees, it conducted no independent due diligence.

26. Lindsey acted at least with severe recklessness. The duty to investigate was heightened by the fact that Provident was a relatively new company operated by individuals with little experience in the field of oil and gas, lacked audited financial statements, and promised high returns. Lindsey approved Provident offerings without obtaining third-party Mick reports in advance of approval, and did not act on issues brought to their attention through the few Mick reports received.

27. As a result of the conduct described above, Lindsey willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase, or sale of securities.

Undertakings

Respondent Lindsey undertakes to:

28. Provide to the Commission, within 30 days after the end of the two-year bar period described below, an affidavit that he has complied fully with the sanctions described in Section IV below.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Lindsey's Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act and Section 9(b) of the Investment Company Act it is hereby ORDERED that**:**

A. Respondent Lindsey cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

B. Respondent Lindsey be, and hereby is barred from association with any broker, dealer, investment adviser, municipal securities dealer, or transfer agent, and is prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter, and barred from participating in any offering of a penny stock, including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock, with the right to apply for reentry after two (2) years to the appropriate self-regulatory organization, or if there is none, to the Commission.

C. Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement: (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

D. Respondent shall pay a civil money penalty in the amount of $25,000 to the United States Treasury. Payment shall be made in the following installments: $5,000 within 10 days of the entry of this Order, and three payments of $5,000 every 90 days thereafter with one final fourth payment of $5,000 to be made on the one-year anniversary of the entry of this Order. If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of the civil penalties, plus any additional interest accrued pursuant to 31 U.S.C. 3717, shall be due and payable immediately, without further application. Payments shall be: (A) made by wire transfer, United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Alexandria, VA 22312-0003; and (D) submitted under cover letter that identifies Jeffrey A. Lindsey as a Respondent in these proceedings, the file number of

these proceedings, a copy of which cover letter and wire transfer, money order or check shall be sent to Karen L. Martinez, Division of Enforcement, Securities and Exchange Commission, 15 W. South Temple, Suite 1800, Salt Lake City, UT 84101.

E. Respondent shall comply with the undertakings enumerated in paragraph 28 above.

By the Commission.

Elizabeth M. Murphy
Secretary

Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of the Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, and Section 9(b) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order") on the Respondent and his legal agent.

The attached Order has been sent to the following parties and other persons entitled to notice:

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