

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF FINANCE
OF THE STATE OF IDAHO**

In the matter of:

HOMEBOUND RESOURCES, LLC;

Docket No. 2020-7-05-B

AGREEMENT AND ORDER

The State of Idaho, Department of Finance, acting through its Securities Bureau ("Department") has instituted an investigation into the conduct of Homebound Resources, LLC ("Respondent"). Pursuant to said investigation, it appears that violations of the *Idaho Uniform Securities Act (2004)* ("Act"), *Idaho Code § 30-14-101 et seq.* have occurred by Homebound Resources, LLC, ("Respondent"). The Department and Respondent have agreed to resolve this matter without a public hearing or adjudication of this matter. Therefore, the Director of the Department of Finance ("Director") deems it appropriate and in the public interest that this Agreement and Order ("Order") be entered and the Respondent consents to the entry of this Order.

RESPONDENT

1. **Homebound Resources, LLC** ("Homebound") was registered in Texas in March 2014 and is owned by Home Bound Financial Group, LP (95%) and Constantine Capital, LLC (5%). Homebound's addresses include 1303 W. Walnut Hill Lane, Suite 305, Irving, Texas and 6321 Campus Circle Drive, Irving, Texas.
2. Homebound has never been registered as an investment advisor firm nor as a broker-dealer firm.

RELATED PARTIES

3. **Home Bound Financial Group, LP** ("HBFG") was initially registered as a limited liability company in Texas in October 2008, founded by brothers Stefan and Leonard Toth. The business entity type changed to a limited partnership in April 2010 and is currently managed by general partner, HomeBound, Inc., and limited partners, Love 2 Live, LP, and 2X5 Enterprises Limited

Partnership. HBFG is the parent company of Homebound Resources, LLC, PetroRock Mineral Holdings, LLC, and Mercury Operating, LLC.

4. **HomeBound, Inc.** (“HB”) was incorporated in Texas in February 2010 and was owned by Stefan Toth (50%) and Teddy Etheredge (50%). Teddy Etheredge was bought out in December 2019.
5. **Stefan Tiberiu Toth, Jr.** (“Toth”) is a resident of Frisco, Texas. Toth is the owner of HB, Chief Executive Officer (“CEO”) of PetroRock Mineral Holdings, LLC, co-founder and CEO of Homebound, principal of Mercury Operating, LLC, and President of HomeBound Developments. Toth has never been registered to sell securities or provide investment advice. Toth is affiliated with at least 12 businesses registered in Texas.
6. **Teddy Dale Etheredge** (“Etheredge”) is a resident of Keller, Texas. Etheredge is the Vice President of HBFG, Chief Operating Officer (“COO”) of PetroRock Mineral Holdings, LLC, co-founder and COO of Homebound, and President and COO of Mercury Operating, LLC. Etheredge has never been registered to sell securities or provide investment advice. Etheredge is affiliated with at least 9 businesses registered in Texas including, but not limited to, The 2x5, LLC (which is managed by 2x5 Enterprises Limited Partnership) and HB.
7. **PetroRock Mineral Holdings, LLC** (“PetroRock”) was registered in Texas in March 2014 and was originally owned by HBFG (99%) and HB (1%). Pursuant to an amendment in 2015, PetroRock’s sole member and manager was designated as HBFG. Beginning in 2018, PetroRock was owned by HBFG (95%) and Constantine Capital (5%) until 2022 when the Dallas County District Court filed for PetroRock to be wound down by a third party. PetroRock is the parent company of (collectively “financial subsidiaries”):
 - a. Choice Energy Holdings – I, LLC;
 - b. PRMH Lenders Fund, LLC;
 - c. PRMH Lenders Fund II, LLC; and
 - d. PRMH Lenders Fund III, LLC.
8. **Constantine Capital, LLC** (“Constantine”) was registered in Texas in September 2017 and is owned by Pablo Cortez.
9. **Pablo Saul Cortez** (“Cortez”) is a resident of Arlington, Texas. Cortez is the owner of Constantine, Employee Value Proposition of PetroRock Mineral Holdings, LLC, and Executive

Vice President of Homebound. Cortez was registered as a broker-dealer representative with the state of Texas and registered with the Financial Industry Regulatory Authority ("FINRA") in 2010 (Central Registration Depository ("CRD") number of 5753636). As of 2010, Cortez was no longer registered to sell securities and has never been registered to provide investment advice.

10. **Mercury Operating, LLC** ("Mercury") was registered in Texas in March 2014 and is owned by HCFG. Mercury is the manager of the wells and is responsible for the development, management, and operation of the wells. Additionally, Mercury handles equipment maintenance and facility management as well as field reporting and environmental responsibilities but does not own oil/gas or "well" assets.

BACKGROUND

ISSUANCE OF SECURITIES BY HOMEBOUND RESOURCES, LLC

11. Homebound is involved in oil and gas projects in Texas and Louisiana and was formed for the purpose of reviewing drilling prospects. Homebound engages in the exploration, development, promotion, and production of the oil and gas prospects.
12. Homebound contracted with PetroRock to purchase 56% of the working interest in the wells connected to Homebound's two projects discussed below. This working interest is shared between the investors of the specific project, Homebound, and Mercury. The remaining 44% of the working interest of the well leases remains with PetroRock.
13. Homebound acquires funds through the issuance of securities in the form of investment contracts to finance their projects: Currie Pfluger Prospect ("CP Prospect") and Cherokee Woodbine II Prospect ("CW II Prospect") (collectively "Prospects"). An investment of \$49,000 would provide an investor with 1 unit (i.e., a 1% working interest).
14. Both of Homebound's projects were direct participation packages of three wells located in Texas. The CP Prospect had two wells in Harrison County and one well in Concho County. The CW II Prospect had three wells in Cherokee County.
15. In exchange for their investment funds, investors received an interest in the specified Prospect. These interests constitute investment contracts and are considered securities under the Act.

Representations to investors indicated they would receive monthly cash flows of the net operating revenues for as long as the wells, connected to the specific Prospect, produced positive revenue. Investor funds would be used for the acquisition and development of new drills for each Prospect, drilling and testing costs, and completion and equipment costs associated with the wells. Additional funds would be required from investors if actual costs exceeded estimated costs.

16. Homebound's offering documents claimed that the securities would be offered and sold, for both Prospects, through its officers and employees, who were not to receive transaction-based compensation. In addition, the securities related to the CP Prospect would be sold through registered investment advisors and/or broker-dealers who would receive commissions of 0.5% - 4% of the investment proceeds.
17. In October 2015, Homebound, through LL, offered and sold securities to Idaho resident JH. JH provided Homebound with investment funds of \$22,500 for the CW II Prospect. JH also provided Homebound with additional investment funds of \$22,500 for the CP Prospect in December 2015. To date, JH remains an investor with a total of \$45,000 invested.
18. Homebound filed under Regulation D, Rule 506(b) with the SEC, in 2014, claiming an exemption from registration under the Securities Act of 1933. The filing was for "Homebound Resources, LLC" and did not indicate to which security the exemption pertained.
19. Homebound did not register the CP and CW Prospects securities with the Department nor claim an exemption under the Act.

FINDINGS OF VIOLATIONS

FAILURE TO FILE A REGISTRATION STATEMENT

20. Pursuant to Idaho Code § 30-14-301, it is unlawful for a person to offer or sell a security in this state unless:
 - a. The security is a federal covered security;
 - b. The security, transaction or offer is exempted from registration under sections 30-14-201 through 30-14-203, Idaho Code; or
 - c. The security is registered under this chapter.

21. Homebound's CP and CW Prospects were not registered with the Department prior to the first sale, nor did they qualify as exempt transactions, in violation of Idaho Code § 30-14-301.

OFFER AND SALE OF SECURITIES BY UNREGISTERED AGENTS

22. Idaho Code § 30-14-102(2) defines an "agent" as an individual, other than a broker-dealer, who represents a broker-dealer in effecting or attempting to effect purchases or sales of securities or who represents an issuer in effecting or attempting to effect purchases or sales of the issuer's securities.

23. Pursuant to Idaho Code § 30-14-402, it is unlawful for an individual to transact business in this state as an agent unless the individual is registered under this chapter as an agent or is exempt from registration as an agent under subsection (b) of this section.

24. Pursuant to Idaho Code § 30-14-402(d) it is unlawful for an issuer engaged in offering, selling, or purchasing securities in this state, to employ or associate with an agent who transacts business in this state on behalf of broker-dealers or issuers unless the agent is registered under subsection (a) of this section or is exempt from registration under subsection (b) of this section.

25. LL, agent of issuer for Homebound, assisted in the offer and sale of investment contracts to Idaho residents. LL was not registered to sell securities, nor did she qualify for a registration exemption at the time the securities were sold, in violation of Idaho Code § 30-14-402. The Respondent employed or associated with and utilized this unregistered agent to offer and sell Homebound's securities, in violation of § 30-14-402(d).

FRAUD

26. Pursuant to Idaho Code § 30-14-501, it is unlawful for any person, in connection with the offer, sale, or purchase of a security, directly or indirectly: (2) To make an untrue statement of material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

27. Respondent made the following omission of a material fact:

- a. Failure to disclose that the issuer agent was not registered to sell the securities being offered as required by the Act.

28. Respondent violated Idaho Code § 30-14-501(2) by omitting material facts in connection with the sale of a security.

ACKNOWLEDGEMENTS AND REMEDIES

29. The parties agree to entry of this Agreement and Order in lieu of other proceedings.

30. Respondent neither admits nor denies the Complainant's findings of violations set forth in this Order.

31. Respondent waives its right to notice and opportunity for hearing on this matter provided by Idaho Code § 30-14-604 and under the contested case provisions of the Idaho Administrative Procedures Act Title 67, Chapter 52, Idaho Code. Respondent further waives its right to seek judicial review of this order. The terms contained in this Order herein constitute the entire agreement between the Department and Respondent.

32. Respondent agrees to pay a civil penalty in the amount of four thousand dollars (\$4,000) for violations of the Act, pursuant to Idaho Code § 30-14-604(d). Said civil penalty is to be paid not later than thirty (30) days from the date the Director executes this Order. Payment shall be made to the "Idaho Department of Finance."

33. Respondent agrees that it will verify, and retain supporting documents, that agents and broker-dealers who solicit, offer, or sell securities in, into, or from Idaho are registered to sell securities in Idaho.

34. In conjunction with this Order, Respondent agrees to fully cooperate with the Department in any further related investigation or enforcement action against the agents and broker-dealers that solicited, offered, or sold the securities noted in this Order.

35. Respondent agrees to not now, nor in the future, offer or sell securities in, into, or from Idaho without complying with the requirements of the Act and its rules.

36. Respondent agrees to not claim the availability of, use, or offer or sell securities under any exemptions under the Act without giving written notice to the Director. Said written notice, as determined by the Director, shall be provided at least 10 (ten) days in advance of the proposed activities in Idaho.

37. In the event that the Respondent commits future violations of the Act or fails to adhere to the terms of this Order, Respondent acknowledges that the Department can incorporate the allegations giving rise to this Order in any future proceeding.

AGREED TO and ACKNOWLEDGED

Dated: 10/11/22



HOMEBOUND RESOURCES, LLC (Signature)

By: STEFAN TOTH MANAGER HomeBound LLC
Printed Name and Title MANAGER HomeBound Resources, LLC

IT IS SO ORDERED

DATED this 17th day of October, 2022.



STATE OF IDAHO
DEPARTMENT OF FINANCE



PATRICIA R. PERKINS, Director
Idaho Department of Finance