

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**INVESTMENT ADVISERS ACT OF 1940**  
**Release No. 4743 / August 14, 2017**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-18109**

**In the Matter of**

**COACHMAN ENERGY  
PARTNERS LLC AND  
RANDALL D. KENWORTHY,**

**Respondents.**

**ORDER INSTITUTING ADMINISTRATIVE  
AND CEASE-AND-DESIST PROCEEDINGS  
PURSUANT TO SECTIONS 203(e), 203(f),  
AND 203(k) OF THE INVESTMENT  
ADVISERS 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 203(e), 203(f), and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against Coachman Energy Partners LLC (“Coachman”) and Randall D. Kenworthy (“Kenworthy”) (collectively, “Respondents”).

**II.**

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”), 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 them and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 203(e), 203(f), and 203(k) of the Investment Advisers 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 Respondents' Offers, the Commission finds that:

#### **Summary**

1. These proceedings arise from misconduct by Coachman, an investment adviser registered with the Commission, and Kenworthy, the chief executive officer and manager of Coachman, in connection with providing advisory services to four private oil and gas funds. From 2011 through 2014, Coachman failed to adequately disclose its methodology for calculating the management fees and management-related expenses it charged to the funds. As a result of its inadequate disclosures, Coachman overcharged the funds approximately \$1.1 million in management fees and \$449,000 in management-related expenses. Kenworthy caused Coachman's inadequate disclosures regarding its fee and expense calculations in the private funds' operative documents and Coachman's Forms ADV filed with the Commission. In addition, Coachman, through Kenworthy, caused one of the funds to enter into a transaction with an affiliated entity without properly disclosing or obtaining investor consent to the conflicts of interest associated therewith.

#### **Respondents**

2. Coachman, a Delaware limited liability company, is an investment adviser located in Denver, Colorado. From March 2014 through the present, Coachman has been registered as an investment adviser with the Commission. In its June 2016 Form ADV filed with the Commission, Coachman reported approximately \$63.4 million in assets under management.

3. Kenworthy, age 56, is a resident of Greenwood Village, Colorado. From Coachman's inception in 2011 through the present, Kenworthy has been the sole owner, chief executive officer, and managing member of Coachman.

#### **Other Relevant Entities**

4. Coachman Energy Land II LLC ("CEL II"), a Colorado limited liability company formed in 2011, is a private oil and gas fund for which Coachman serves as the investment adviser. Coachman Energy Managing General Partners LLC ("CEMGP"), a Delaware limited liability company that is wholly owned by Coachman, serves as the manager to CEL II. As of December 31, 2015, CEL II had 31 investors and assets valued at approximately \$5 million.

5. Bakken Income Fund LLC ("BIF"), a Colorado limited liability company formed in 2011, is a private oil and gas fund for which Coachman serves as the investment adviser. CEMGP serves as the manager to BIF. As of December 31, 2015, BIF had 314 investors and assets valued at approximately \$5.6 million.

6. Bakken Drilling Fund III LP ("BDF III"), a Colorado limited partnership formed in 2011, is a private oil and gas fund for which Coachman serves as the investment adviser. CEMGP

serves as the manager to BDF III. As of December 31, 2015, BDF III had 538 investors and assets valued at approximately \$8.1 million.

7. Bakken Drilling Fund IV LP (“BDF IV”), a Colorado limited partnership formed in 2013, is a private oil and gas fund for which Coachman serves as the investment adviser. CEMGP serves as the manager to BDF IV. As of December 31, 2015, BDF IV, together with its feeder fund, had 735 investors and assets valued at approximately \$18 million.

### **Facts**

#### **Coachman and Kenworthy Failed to Adequately Disclose Coachman’s Management Fees and Reimbursable Management Expenses**

8. Coachman provides investment advisory services to private oil and gas funds, including CEL II, BIF, BDF III, and BDF IV (the “Funds”). Between 2011 and 2014, Coachman, through CEMGP, charged each Fund an annual management fee consisting of 2 to 2.5% of the aggregate capital contributions made to the Fund as of the final day of the year. Notwithstanding this methodology, the offering materials and operative documents for the Funds, as well as the Forms ADV filed by Coachman in January 2014, October 2014, February 2015, and July 2015, each of which was reviewed and approved by Kenworthy, failed to properly disclose that management fees would be based on year-end capital contributions. Instead, these materials appeared to disclose that Coachman charged management fees and expenses based upon the average amount of capital contributions under management during the course of the year.

9. As a result of charging the Funds management fees based on year-end rather than the average amount of capital contributions under management during the course of the year, Coachman, through Kenworthy, overcharged the Funds \$1,128,916.

10. From 2013 through 2014, Coachman also charged two of the Funds, BDF III and BDF IV, management expenses based on 1.5% of the aggregate capital contributions made to each of these Funds as of the final day of the year. Notwithstanding this methodology, the offering materials and operative documents for the BDF III and BDF IV Funds, all of which were reviewed and approved by Kenworthy, failed to adequately disclose that those Funds would be required to reimburse Coachman for management expenses by as much as 1.5% of year-end capital contributions. Instead, these materials appeared to disclose that Coachman charged management expense reimbursements based upon the average amount of capital contributions under management during the course of the year.

11. As a result of charging the BDF III and BDF IV Funds management expenses based on year-end rather than the average amount of capital contributions under management during the course of the year, Coachman, through Kenworthy, overcharged BDF III and BDF IV a total of \$449,294.

**Coachman, Through Kenworthy, Caused BDF IV to Enter into a Transaction With an Affiliated Entity Without Adequately Disclosing or Obtaining Investor Consent to the Associated Conflicts of Interest**

12. On June 5, 2014, Coachman, through Kenworthy, caused BDF IV to enter into an asset purchase agreement whereby BDF IV purchased certain oil and gas leases and related assets, together with an account receivable (the “Account Receivable”), from a related fund (the “Selling Fund”) previously managed by Kenworthy (the “Steelhead Transaction”). At the time of the Steelhead Transaction, the Selling Fund was managed by a company in which Kenworthy was a fifty percent owner (the “Manager”).

13. Prior to the Steelhead Transaction, Kenworthy and Coachman were aware of information that called into question the collectability and resulting valuation of the Account Receivable. For example, approximately one year before authorizing the Steelhead Transaction, Kenworthy was included in emails reflecting that the third party had no intention of paying the receivable. Also, at the time of the Steelhead Transaction, the Account Receivable was more than a year and a half old, and the Selling Fund had taken no steps to collect it.

14. At the time of the Steelhead Transaction, Coachman and Kenworthy failed to adequately disclose to BDF IV’s investors conflicts of interest associated with the transaction, including that: (i) Kenworthy had previously managed the Selling Fund and had a fifty percent ownership interest in the Selling Fund’s Manager; (ii) the cash portion of the purchase price for the Steelhead Transaction would be used to pay the Manager’s debts; and (iii) the questionable collectability of the Account Receivable could cause BDF IV to overpay for that asset.

15. As a result of its failure to properly disclose and obtain investor consent to the conflicts associated with the Steelhead Transaction, Coachman, through Kenworthy, caused BDF IV to overpay for the Account Receivable by approximately \$510,000.

**Violations**

16. As a result of the conduct described above, Coachman willfully violated Section 206(2) of the Advisers Act, and Kenworthy willfully aided and abetted and caused Coachman’s violation of Section 206(2) of the Advisers Act, which prohibits an investment adviser from engaging in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client.

17. As a result of the conduct described above, Coachman willfully violated Section 207 of the Advisers Act, and Kenworthy willfully aided and abetted and caused Coachman’s violation of Section 207 of the Advisers Act, which makes it unlawful for any person willfully to make any untrue statement of a material fact in any registration application or report filed with the Commission or willfully to omit to state in any such application or report any material fact which is required to be stated therein.

## Respondents' Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondents and cooperation afforded the Commission staff.

### IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondents' Offers.

Accordingly, pursuant to Sections 203(e), 203(f), and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondents Coachman and Kenworthy cease and desist from committing or causing any violations and any future violations of Sections 206(2) and 207 of the Advisers Act.

B. Respondents Coachman and Kenworthy are censured.

C. Respondent Coachman shall pay disgorgement, prejudgment interest, and a civil penalty as follows:

1. Disgorgement and Prejudgment Interest.

- a. Coachman shall pay disgorgement of \$2,088,087, plus prejudgment interest of \$165,559, for a total of \$2,253,646, such amount to be offset by \$1,362,139 in management fees and expenses owed by the Funds to Coachman through February 28, 2017 (the "Offset Amount"), resulting in a net payment of \$891,507. As a result of the Offset Amount, Coachman shall provide a credit of \$1,362,139 to the Funds for outstanding management fees and expenses as follows: (1) a credit of \$104,323 to be applied against management fees owed by CEL II; (2) a credit of \$276,262 to be applied against management fees owed by BIF; (3) a credit of \$619,245 to be applied against management fees owed by BDF III and a credit of \$4,569 to be applied against management expenses owed by BDF III; and (4) a credit of \$223,588 to be applied against management fees owed by BDF IV and a credit of \$134,152 to be applied against management expenses owed by BDF IV. The Offset Amount will be credited, dollar-for-dollar, toward the satisfaction of Coachman's disgorgement and prejudgment interest obligations.
- b. Payment of the net amount of \$891,507 (the "Distribution Fund") shall be made to BDF IV in the following installments:
  - \$150,000 within ten calendar days of the entry of this Order;
  - \$123,584 within six months of the entry of this Order;

- \$123,584 within one year of the entry of this Order;
  - \$123,584 within eighteen months of the entry of this Order;
  - \$123,585 within two years of the entry of this Order;
  - \$123,585 within thirty months of the entry of this Order; and
  - \$123,585 within three years of the entry of this Order.
- c. Any payment that Coachman makes to BDF IV, the only fund for which the allocable share of disgorgement and prejudgment interest exceeds the offset amounts set forth above, and that is reflected by evidence acceptable to the Commission staff, will be credited, dollar-for-dollar, toward the satisfaction of Coachman’s disgorgement and prejudgment interest obligations.
- d. The three-year payment plan provided for herein is based on Respondent Coachman’s sworn representations in Coachman’s Statement of Financial Information dated March 2, 2017, and amended April 19, 2017, and other documents submitted to the Commission. The Division of Enforcement (“Division”) may, at any time following the entry of this Order, petition the Commission to: (1) reopen this matter to consider whether Respondents provided accurate and complete financial information at the time such representations were made; and (2) seek an order directing immediate payment of any outstanding disgorgement and prejudgment interest. No other issue shall be considered in connection with this petition other than whether the financial information provided by Respondents was fraudulent, misleading, inaccurate, or incomplete in any material respect. Respondents may not, by way of defense to any such petition: (1) contest the findings in this Order; (2) assert that payment of disgorgement and interest should not be ordered; (3) contest the amount of disgorgement and interest to be ordered; or (4) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.
2. Civil Penalty. Coachman shall pay a civil money penalty of \$50,000 to the United States Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Section 21F(g)(3) of the Securities Exchange Act of 1934 (“Exchange Act”). Payment shall be made within ten calendar days of the entry of this Order.
3. If any payment of disgorgement and prejudgment interest is not made by the date the payment is required by this Order, the entire outstanding balance of disgorgement and prejudgment interest, plus any additional interest accrued pursuant to SEC Rule of Practice 600, shall be due and payable immediately to the Commission, without further application; if timely payment of the civil penalties is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. \

4. Payment to the Commission must be made in one of the following ways:
  - a. Coachman may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
  - b. Coachman may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
  - c. Coachman may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

5. Payments by check or money order must be accompanied by a cover letter identifying Coachman Energy Partners LLC as a Respondent in these proceedings and the file number of these proceedings. A copy of the cover letter and check or money order must be sent to Kurt L. Gottschall, Associate Regional Director, Denver Regional Office, U.S. Securities and Exchange Commission, Byron G. Rogers Federal Building, 1961 Stout Street, Suite 1700, Denver, CO 80294.

D. Respondent Kenworthy shall pay a civil money penalty as follows:

Civil Penalty. Kenworthy shall pay a civil money penalty of \$50,000 to the United States Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Section 21F(g)(3) of the Exchange Act. Payment shall be made within ten calendar days of the entry of this Order.

If timely payment of the civil penalty is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment to the Commission must be made in one of the following ways:

- (1) Kenworthy may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

- (2) Kenworthy may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Kenworthy may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Randall D. Kenworthy as a Respondent in these proceedings and identifying the file number of these proceedings. A copy of the cover letter and check or money order must be sent to: Kurt L. Gottschall, Associate Regional Director, U.S. Securities and Exchange Commission, Byron G. Rogers Federal Building, 1961 Stout Street, Suite 1700, Denver, CO 80294.

E. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against a Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

F. Coachman shall be responsible for any and all tax compliance responsibilities associated with the Distribution Fund and may retain any professional services as necessary. The costs and expenses of any such professional services shall be borne by Respondent Coachman and shall not be paid out of the Distribution Fund.

G. Within forty-five (45) days after Coachman completes the disbursement of the Distribution Fund, Coachman shall submit to the Commission staff a final accounting and certification in a form acceptable to the staff of the disposition of those amounts. The final accounting and certification shall include, but not be limited to: (1) the total amount paid to the Funds; (2) the total amount credited to each Fund for management fees and expenses pursuant to Section C.1.a.; (3) the date of each payment; (4) the check number or other identifier of money transferred; (5) the amount of any returned payment and the date received; (6) the total amount of



remaining funds not distributed, if any, to be forwarded to the Commission in accordance with paragraph I; and (7) an affirmation that Coachman has made payments to BDF IV identified in Section C.1. above in accordance with this Order. Coachman shall submit the final accounting and certification, together with proof and supporting documentation, in a form acceptable to the Commission staff, under a cover letter that identifies Coachman as a Respondent and the file number of these proceedings to Susan S. Pecaro, Senior Counsel, SEC Division of Enforcement, Office of Distributions, 100 F Street, NE, Washington, DC, 20549-5876. Coachman shall cooperate with any additional requests by the Commission staff for information in connection with the accounting and certification.

H. After Coachman has submitted the final accounting to the Commission staff, the staff shall submit the final accounting to the Commission for approval and shall request Commission approval to send any undistributed amount to the United States Treasury.

I. The Distribution Fund will be eligible for termination after all of the following have occurred: (1) the final fund accounting has been submitted to and approved by the Commission; (2) all taxes, fees and expenses, if any, have been paid; and (3) all remaining funds have been paid to the Commission for transfer to the United States Treasury.

J. The Commission staff may extend any of the procedural dates set forth in Sections C, D, and G for good cause shown.

## V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondents, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondents under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondents of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields  
Secretary