

prospective investors on the merits of the offering without being registered as a broker-dealer or associated with a registered broker-dealer. Additionally, Gordon and TCEC's other sales representatives made false and misleading statements about TCEC's track record of profitability, the success and background of TCEC's geologists, and the viability of TCEC's oil-and-gas projects.

3. Gordon drafted, reviewed, and edited TCEC's offering materials, including project brochures and Confidential Information Memoranda ("CIMs"). Gordon and TCEC provided these materials to prospective investors. The materials contained materially false and misleading representations about: (i) TCEC's experience in the oil-and-gas industry; (ii) the advice and success rate of TCEC's geologists; (iii) the potential oil reserves on TCEC's prospects; (iv) the potential return on investments on TCEC's projects; (v) the manner in which TCEC would offer its JV interests; and (vi) the manner in which TCEC would use funds raised from investors. Furthermore, in offering materials for two projects, Gordon altered a geologist's structure map to make the projects look more desirable. TCEC and Gordon misappropriated and misused at least \$2.66 million of the funds they raised from investors, while investors lost all of the money they invested.

4. By reason of these activities and the conduct described in more detail below, Defendants TCEC and Gordon have violated and, unless enjoined, will continue to violate the registration and antifraud provisions of the federal securities laws, specifically Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933 ("Securities Act") and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder. Similarly, Defendant Gordon has violated and, unless enjoined, will continue to violate the broker

registration requirements of the federal securities laws, specifically Section 15(a) of the Exchange Act.

5. In the interest of protecting the public from any further fraudulent activity and harm, the Commission brings this action against the Defendants and seeks permanent injunctive relief, disgorgement of ill-gotten gains resulting from Defendants' violations of the federal securities laws, accrued prejudgment interest on those ill-gotten gains, and civil monetary penalties.

II. JURISDICTION AND VENUE

6. Defendants offered and sold securities in the forms of units of purported joint venture ("JV") interests to investors and prospective investors. The JV interests are investment contracts and therefore securities under Section 2(a)(1) of the Securities Act [15 U.S.C. §77b] and Section 3(a)(10) of the Exchange Act [15 U.S.C. §78c]. As such, the Court has jurisdiction over this action pursuant to Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)] and Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78(aa)].

7. Venue is proper because a substantial part of the events and omissions giving rise to the claims alleged herein occurred within the Northern District of Texas, Dallas Division. TCEC maintained its headquarters and principal place of business in Dallas, Texas, and Gordon resides in Dallas, Texas.

III. DEFENDANTS

8. **Texas Coastal Energy Company, LLC** is a Texas limited liability company formed in 2011 and headquartered in Dallas, Texas. TCEC is not registered with the

Commission. From the time Gordon co-founded TCEC in 2011, he used it to conduct oil-and-gas-related securities offerings.

9. **Jefferey A. Gordon**, age 37, currently resides in Dallas, Texas. Gordon is the co-owner, Chief Executive Officer, and control person of TCEC.

IV. STATEMENT OF FACTS

A. TCEC's Business Operations

10. TCEC's business model involved raising capital for the purpose of financing the drilling and completion of oil-and-gas prospects, in hopes of profiting from the subsequent production from those prospects. TCEC did not sell its own securities to raise this capital. Rather, TCEC created a JV for each offering and raised capital from investors through the sale of "turnkey" JV interests in the specific JVs. Investors made a lump sum investment in an offering associated with a given oil-and-gas prospect, which would cover the estimated costs for drilling and completing a well. TCEC then bore the risk of any cost overruns. TCEC served as Managing Venturer for each JV it created, and Gordon personally handled many of the management responsibilities for the JVs.

11. TCEC purportedly granted each JV certain mineral rights it already owned in the prospects. Individual investors acquired an interest in the JV by virtue of purchasing the JV's securities, denominated in individual units. TCEC purported to use the capital raised from investors to drill, test, and complete various wells. Thereafter, TCEC and its investors were to share in production revenue generated by these wells.

12. TCEC purchased the leasing rights for two properties: (1) the Schlegel Field in Rush County, Kansas (the "Schlegel Prospect") from Kansas Petroleum Resources, LLC

(“KPR”) in 2011; and (2) the North Page Prospect (“NPP”) in Schleicher County, Texas from Patrick Fairchild (“Fairchild”) in 2013.

13. TCEC conducted the following offerings in connection with the Schlegel Field and the NPP between February 2013 and November 2014:

- TCEC Schlegel #6 JV (“SCH6”);
- TCEC Schlegel #7 JV (“SCH7”);
- Texas Coastal Energy West Texas #1 JV (“WT1”); and
- Texas Coastal Energy West Texas #2 JV (“WT2”)

(collectively referred to as the “Subject Offerings”).

14. Rod Andersen (“Andersen”) of KPR served as TCEC’s geologist for SCH6 and SCH7, and Fairchild served as TCEC’s geologist for WT1. TCEC had no geologist for WT2. Both Andersen and Fairchild prepared written geological summaries or overviews for the Schlegel Field and NPP, respectively, and provided those to Gordon and TCEC.

B. TCEC Sales Process and JV Agreements

15. To market and sell the JV interests, TCEC maintained boiler rooms of sales employees in Dallas, New Orleans, and Los Angeles. TCEC marketed the JV interests for all of the Subject Offerings through unsolicited cold calls to thousands of potential investors whose contact information they obtained from lead lists. TCEC did not limit its sale of interests to investors with experience in, or knowledge of, the oil-and-gas industry. In fact, several investors had no prior experience at all investing in oil and gas projects. Throughout the process, Gordon and TCEC offered and sold JV interests in the Subject Offerings using the means or instruments of interstate commerce, including but not limited to telephones, the internet, commercial

couriers, wires, and the mails. No valid registration was ever filed or was in effect in connection with the Defendants' offer and sale of the JV interests.

16. Gordon gave TCEC's sales staff details about the offerings, which they used in their phone calls to solicit investors. Additionally, Gordon personally solicited investors by phone to purchase JV interests in the Subject Offerings, advising prospective investors on the merits of the investments. While performing these activities, Gordon was not registered as a broker-dealer with the Commission or affiliated with a broker-dealer registered with the Commission.

17. When prospective investors expressed interest in a TCEC project, TCEC sent them written materials, which generally included a project brochure, a CIM, a JV Agreement ("JVA"), and an application agreement (together the "Offering Materials"). Gordon drafted, edited, reviewed, and approved the Offering Materials. One of TCEC's sales representatives then scheduled a closing call with prospective investors.

18. Investors in the Subject Offerings executed a JVA that effectively stripped them of all management powers. The JVAs explicitly appointed TCEC as the Managing Venturer for each respective JV and vested TCEC with exclusive authority to take the following actions on behalf of the JVs: (i) investigate and evaluate investment opportunities; (ii) retain or act as an operator; (iii) execute agreements that would bind the JV; (iv) take and hold title to property on behalf of the JV; (v) utilize JV funds to protect and preserve any prospect well; and (iv) sign for, or bind, the JV with respect to its operations.

19. Further, because of the way TCEC structured the Subject Offerings, investors had no power to manage the affairs of each JV's projects. Investors in the Subject Offerings lacked knowledge of the identity of and contact information for other investors, and therefore would

have been unable to exercise their limited power as joint venturers to replace TCEC as the Managing Venturer of the JVs, if they chose to do so.

20. TCEC also comingled the funds from all of the Subject Offerings into bank accounts owned and controlled by Gordon. Accordingly, if the investors in a particular JV voted to remove TCEC as the Managing Venturer, they would have had no control over that JV's cash assets.

21. TCEC ultimately raised more than \$8 million from at least 80 investors from at least 28 states for the Subject Offerings. Yet, Gordon, who controlled TCEC's bank accounts, caused TCEC to spend less than \$1.2 million drilling the wells for the SCH6, SCH7, and WT1 projects. TCEC did not drill any wells for the WT2 project.

C. TCEC's Written Material Misrepresentations to Investors

22. The Offering Materials that TCEC and Gordon circulated to investors contained numerous misrepresentations about: (i) TCEC's experience in the oil-and-gas industry; (ii) the advice and success rate of its geologists; (iii) the potential oil reserves on the Schlegel Field and the NPP; (iv) the potential return on investments for TCEC's projects; (v) the manner in which TCEC would offer its JV interests; and (vi) the manner in which TCEC would use funds raised from investors.

23. For example, all of the CIMs for the Subject Offerings included the representation that "[n]o general solicitation...shall be employed in the offering of the [JV] units[.]" This representation was false because, as detailed above, TCEC engaged in widespread general solicitation when selling JV interests for the Subject Offerings.

24. The brochures for all of the Subject Offerings represented that TCEC's "human capital" included 200 years of drilling and exploration experience. In reality, TCEC's executives and employees had nowhere close to 200 years of experience in the oil-and-gas industry.

25. The SCH6 and SCH7 brochures both represented that: (i) the Schlegel Field had projected cumulative reserves of 500,000 to three million barrels of oils; (ii) the wells for the respective projects had production potential of 100 to 200 barrels of oil per day (“BOPD”); and (iii) the respective wells would potentially provide investors a return of 300% to 500%. However, the geological analysis provided to TCEC and Gordon for the Schlegel Field predicted that the Schlegel Field had potential reserves of a maximum of 450,000 barrels of oil and that initial production from the SCH6 and SCH7 wells would be approximately 50 BOPD. Additionally, TCEC and Gordon knew that Anderson, the geologist, did not anticipate a 300% to 500% return for either the SCH6 or the SCH7 well.

26. The SCH6 and SCH7 brochures also misrepresented Anderson’s history and success as a geologist. Both brochures stated that Anderson: (i) generated, evaluated, marketed, drilled, completed, and/or managed more than 500 oil-and-gas wells; (ii) drilled and developed five million barrels of oil and more than one-half trillion cubic feet of gas; and (iii) had a 93% geological success rate in Rush County, Kansas. None of these statements was true, and Gordon and TCEC knew that Anderson never relayed any such information to Gordon or any else at TCEC.

27. The WT2 CIM represented that TCEC would pay that JV’s share of the costs to drill and test one well bore for the WT2 well and pay all organizational costs pertaining thereto, all for an aggregate fixed price to the JV of up to \$1,727,100. TCEC and Gordon, however, never intended to, and never did, procure or pay for any services relating to the drilling and testing of any wells for the WT2 project.

28. The WT2 brochure represented that: (i) the WT2 well would have a production potential of 100 to 200 BOPD and 100,000-plus barrels of oil cumulatively; and (ii) Fairchild

helped TCEC pinpoint its current prospects in West Texas based on highly attractive features, such as productive offset wells, multiple “pay zones,” and the potential to profit from both substantial oil and natural gas deposits. In reality, the WT2 well did not have this production potential. Additionally, Fairchild was not retained as a geologist for the WT2 offering and did not help TCEC pick the location for the WT2. In fact, Fairchild thought it would be a waste of funds to drill the WT2 well.

29. At the time TCEC and Gordon disseminated the offering materials for the Subject Offerings to investors, they knew, or at least were severely reckless in not knowing, that the forgoing representations were false and misleading.

D. TCEC’s and Gordon’s Verbal Misrepresentations to Investors

30. TCEC and Gordon also made several material misrepresentations about TCEC’s operations and performance in telephonic communications with investors between February 2013 and November 2014. TCEC’s salespeople, using information provided by Gordon, told potential investors that TCEC’s most recent project was returning \$4,000 to \$5,000 per month on a \$50,000 investment. In reality, none of TCEC’s projects provided this amount of return on a \$50,000 investment.

31. Gordon also personally told potential investors that Fairchild: (1) had accumulated \$125 million worth of oil-and-gas leases; (2) owned 400 oil wells; (3) had drilled and been responsible for more than 1,000 wells, 400 of which were still producing oil and gas; and (4) had a hit rate of 90%. None of these statements was true, and Fairchild never relayed any such information to Gordon or anyone at TCEC.

E. TCEC's and Gordon's Misuse of Offering Proceeds

32. The WT1 and WT2 CIMs both represented that TCEC would use the money raised to pay for drilling, testing, and completion services on the subject wells. The CIMs further represented that TCEC would be limited in the funds it received from the JV. Specifically, TCEC represented that it would only receive a small administrative services fee reimbursement each month (a maximum of \$1,000). Otherwise, TCEC would only receive money after prospects were completed, with that amount to be the difference between the money raised and the amount spent on drilling, testing, and completion services.

33. TCEC and Gordon raised more than \$4 million to drill the wells associated with WT1 and WT2. However, TCEC failed to pay for all the services it procured to drill the WT1 well and never drilled the WT2 well. Instead, TCEC and Gordon used the money raised for these two projects in ways that were inconsistent with TCEC's representations in the CIMs. At a minimum, TCEC and Gordon misappropriated and misused at least \$2.66 million in investor funds raised for WT1 and WT2.

34. Furthermore, even though TCEC spent less than \$1.2 million in expenses relating to drilling, testing, and completing the SCH6, SCH7, and WT1 wells, Gordon, contrary to TCEC's representations, distributed more than \$1.9 million of investor funds to himself during this time period, thereby obtaining money or property by means of untrue statements or omissions of material fact.

35. By comparison, although the WT1 produced some production revenue, the total lease operating expenses associated with WT1 were more than the revenue earned on the project. Consequently, investors did not receive any return on their investment. Investors in WT2 (along with the SCH6 and SCH7) received no return on their investment.

F. Defendants' Scheme to Defraud Investors

36. TCEC and Gordon engaged in a variety of deceptive practices to create the impression that their prospects were more promising than they actually were. For example, they incorporated Fairchild's NPP Structure Map in the WT1 and WT2 brochures. To make the WT1 and WT2 offerings look more attractive, TCEC and Gordon removed six dry holes that Fairchild had indicated on the map. The WT1 and WT2 brochures also included decline curves that visually depicted the production rates for these wells. These decline curves, however, were inaccurate and gave the false impression that investors would recoup their investment capital 4.5 times quicker than what TCEC and Gordon knew Fairchild anticipated.

37. TCEC also hosted live presentations in Texas and California where it pitched investors on the opportunities to invest in the Subject Offerings. During these presentations, Gordon served as TCEC's primary spokesman and misrepresented TCEC's background and experience in the oil-and-gas industry to potential investors.

38. TCEC's sales representatives also sent emails to potential investors containing the false CIMs and false claims about the Subject Offerings.

39. All of these practices by TCEC and Gordon were done intentionally with the principal purpose of creating a false appearance to deceive potential investors.

V.
FIRST CLAIM FOR RELIEF

Offers and Sales of Unregistered Securities
Violations of Securities Act Sections 5(a) and 5(c)
[15 U.S.C. §§ 77e(a) and 77e(c)]

40. The Commission repeats and re-alleges Paragraphs 1-39 above, as if fully set forth herein.

41. By engaging in the conduct described herein, Defendants TCEC and Gordon, directly or indirectly, singly or in concert with others, (i) made use of means or instruments of transportation or communication in interstate commerce or of the mails to sell, through the use or medium of a prospectus or otherwise, securities as to which no registration statement was in effect; (ii) for the purpose of sale or delivery after sale, carried or caused to be carried through the mails or in interstate commerce, by means or instruments of transportation, securities as to which no registration statement was in effect; or (iii) made use of means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell or offer to buy, through the use or medium of a prospectus or otherwise, securities as to which no registration statement had been filed.

42. No valid registration statement was filed or was in effect with the Commission in connection with Defendants' offer or sale of securities.

43. There were no applicable exemptions from registration, and Defendants TCEC and Gordon therefore violated, and unless enjoined, will continue to violate Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

VI.
SECOND CLAIM FOR RELIEF

**Violations of the Antifraud Provisions of the Securities Act
Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)]**

44. The Commission repeats and re-alleges Paragraphs 1 through 39 above, as if fully set forth herein.

45. By engaging in the conduct described herein, Defendants TCEC and Gordon directly or indirectly, in the offer or sale of securities and by the use of means or instruments of transportation or communication in interstate commerce or by use of the mails: a) employed a

device, scheme, or artifice to defraud; b) obtained money or property by means of untrue statements of material fact or omissions to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or c) engaged in a transaction, practice, or course of business which operated or would operate as a fraud or deceit upon purchasers of securities.

46. With regard to their violations of Section 17(a)(1) of the Securities Act, Defendants TCEC and Gordon acted intentionally, knowingly, or with severe recklessness. With regard to their violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act, Defendants acted at least negligently.

47. By engaging in this conduct, Defendants TCEC and Gordon violated, and unless enjoined, will continue to violate Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

VII.
THIRD CLAIM FOR RELIEF

**Violations of the Antifraud Provisions of the Exchange Act
Section 10(b) [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5]**

48. The Commission repeats and re-alleges Paragraphs 1 through 39 above, as if fully set forth herein.

49. By engaging in the conduct described herein, Defendants TCEC and Gordon directly or indirectly, singly or in concert with others, by the use of means or instrumentalities of interstate commerce, or of the mails, or of facilities of a national securities exchange, in connection with the purchase or sale of a security, knowingly or with severe recklessness: a) employed a device, scheme, and artifice to defraud; b) made untrue statements of material fact or omitted 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; or c) engaged in an act, practice, or course of business which operated or would operate as a fraud or deceit upon any person.

50. Defendants TCEC and Gordon engaged in such conduct intentionally, knowingly, or with severe recklessness.

51. By engaging in this conduct, Defendants TCEC and Gordon violated, and unless enjoined, will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5 thereunder [17C.F.R. §§240.10b-5].

VIII.
FOURTH CLAIM FOR RELIEF

**Violation of the Broker-Dealer Registration Provisions of the Exchange Act
Section 15(a) [15 U.S.C. § 78o(a)]**

[Against Defendant Gordon]

52. The Commission repeats and re-alleges Paragraphs 1 through 39 above, as if fully set forth herein.

53. Defendant Gordon, by use of the mails or means or instrumentalities of interstate commerce, effected transactions in, or induced or attempted to induce the purchase or sale of, securities without being registered with the Commission as a broker or dealer or as an associated person of a registered broker or dealer.

54. By engaging in this conduct, Defendant Gordon violated, and unless enjoined, will continue to violate Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)].

PRAYER FOR RELIEF

For these reasons, the Commission respectfully requests that this Court enter a final judgment:

- a. Permanently enjoining Defendants TCEC and Gordon from violating Sections 5(a), 5(c), and 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder;
- b. Permanently enjoining Gordon from violating Section 15(a) of the Exchange Act;
- c. Permanently enjoining TCEC, directly or indirectly, from participating in the issuance, purchase, offer, or sale of any securities, including, but not limited to, through any entity owned or controlled by it;
- d. Permanently enjoining Gordon, directly or indirectly, from participating in the issuance, purchase, offer, or sale of any oil-and-gas-related securities, including, but not limited to, through any entity owned or controlled by him; provided, however, that such injunction shall not prevent Gordon from purchasing or selling oil-and-gas-related securities for his own personal account;
- e. Ordering Defendants TCEC and Gordon to disgorge ill-gotten funds and benefits obtained, or to which they were not otherwise entitled, as a result of the violations alleged herein, plus prejudgment interest thereon;
- f. Ordering Defendants TCEC and Gordon to each pay a civil penalty under Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)];
- g. Granting such additional relief as the Court deems just, appropriate, and equitable.

Respectfully submitted,

DATED: June 19, 2018.

/s/ Janie L. Frank

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