

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF FLORIDA

CASE NO.:

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

7S OIL & GAS, LLC

and

WILLIAM ALEXANDER SEWELL,

Defendants.

COMPLAINT

Plaintiff Securities and Exchange Commission alleges and states as follows:

**I. INTRODUCTION**

1. The Commission brings this action to enjoin 7S Oil & Gas, LLC (“7S”) and William Alexander Sewell (“Sewell”) (collectively, “Defendants”) from further violations of the anti-fraud and registration provisions of the federal securities laws.

2. From approximately November 2014 until July 2016, 7S and its principal Sewell raised almost \$7 million from at least 70 investors nationwide through a series of unregistered, fraudulent offerings of securities. The securities were in the form of joint venture “units” in eight Texas-based oil and gas development projects managed by 7S and Sewell (collectively, the “7S JVs”).

3. 7S solicited investors primarily through a network of independent sales agents located throughout the country who would “cold call” potential investors. They also solicited past investors in a prior oil and gas investment. The purported purpose of the 7S offerings was to fund oil and gas development projects that 7S and Sewell were to oversee.

4. 7S, through Sewell, made misrepresentations in offering materials distributed to investors and prospective investors regarding the use of investor proceeds, including misrepresenting commission payments and omitting to disclose that commissions plus overrides totaling as high as 35% were being paid to the sales agents. In addition, in furtherance of the scheme, 7S and Sewell distributed sham “royalty payments” to some investors.

5. By engaging in this conduct, Defendants violated Sections 5(a) and 5(c) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77e(a) and 77e(c)]; Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)]; and Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5]. Unless restrained and enjoined, Defendants are reasonably likely to continue to violate the federal securities laws.

6. The Commission also seeks disgorgement of all ill-gotten gains, including prejudgment interest thereon; an order directing the Defendants to pay civil money penalties; and any other relief that may be necessary and appropriate.

## **II. DEFENDANTS**

7. 7S is a Texas limited liability corporation established in June 2014 with its principal place of business in Midland, Texas. 7S and its securities have never been registered with the Commission in any capacity.

8. Sewell, age 44, resides in Midland, Texas. During the relevant time period, Sewell was president and chief executive officer of 7S.

### **III. JURISDICTION AND VENUE**

9. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d), and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b), 77t(d), and 77v(a)] and Sections 21(d) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d) and 78aa].

10. This Court has personal jurisdiction over the Defendants, and venue is proper in the Southern District of Florida, because, among other things, 7S paid sales agents residing and working in the Southern District of Florida to market the 7S JVs' securities to investors in the Southern District of Florida and elsewhere, and the Defendants' acts and transactions constituting violations of the Securities Act and Exchange Act occurred in the Southern District of Florida. Moreover, at least three 7S JV investors resided in the District.

### **IV. FACTUAL BACKGROUND**

#### **A. Unregistered Securities Offerings**

11. From about November 2014 until July 2016, 7S raised almost \$7 million from at least 70 investors nationwide through a series of unregistered transactions. The securities were in the form of "units" in eight (8) oil and gas related joint venture projects, all located in Texas, for which 7S served as the "managing venturer." The 7S JVs were offered as "turnkey" oil and gas development projects. Investors' fortunes were interwoven with and dependent on the ability of 7S and Sewell to generate profits from the oil and gas projects.

12. 7S and Sewell were in charge of managing each of the 7S JVs, including determining which wells to drill on the sites, operating the wells, and making day-to-day decisions on behalf of the 7S JVs. The 7S offering documents expressly delegated management of the day-to-day operations to 7S, including the power to acquire oil and gas interests, hire drilling operators and contractors, and run and operate the project wells.

13. The price of a unit in the 7S JVs ranged from \$43,750 to \$350,000, with some investors purchasing interests in amounts as small as  $\frac{1}{4}$  of a unit. The purchase of a unit entitled investors to a pro rata share of the working interest of the particular 7S JV, which meant that an investor would purportedly receive a share of the project's revenues after deductions for operating expenses and royalty payments. The following table lists the names, dates, and amounts raised for each of the offerings:

Offering	Offering Period	Unit Price	Number of Units Offered	Number of Units Sold	Approximate Amount Raised
High Gravity 2 Well JV, LLC	11/2014 - 5/2015	\$87,680	32	26	\$1,321,231
High Gravity 2 Well JV #2, LLC	5/2015 - 8/2015	\$87,680	32	28	\$1,198,293
High Gravity Well JV #3, LLC	7/2015 - 1/2016	\$87,680	32	13	\$435,511
Habanero Field JV V	8/2015 - 1/2016	\$217,125	32	13	\$1,644,512
Yates JV #1	8/2015 - 3/2016	\$134,850	32	4	\$315,978
Dream Team JV	9/2015 - 1/2016	\$350,000	5	3	\$1,050,000
Habanero #6 JV	2/2016 - 3/2016	\$127,500	16	1	\$127,500
Superbowl JV #1	3/2016 - 7/2016	\$43,750	36	14	\$865,625
<b>Total</b>				<b>102</b>	<b>\$6,958,650</b>

14. 7S solicited investors primarily through an independent network of sales agents located throughout the country who would "cold call" potential investors using lead lists. They also solicited past investors in a prior oil and gas investment. Sewell also had direct communications with some prospective investors regarding the investment opportunity. For example, on occasion, the sales agent would get Sewell on the phone to help close the deal. In most instances, 7S paid the sales agents a 20% to 35% commission on sales, which came out of the investor's principal investment. Sewell made commission payments to the agents shortly

after investor funds were deposited. In addition to the sales agents, 7S offered its securities through its website, which provided general information about the investment opportunities.

15. After the initial phone contact with potential investors, sales agents would typically direct prospects to 7S's website. Investors who expressed an interest in the investment opportunity were issued a password in order to access certain password-protected parts of the website for information specific to the project the investor was interested in, including the PPM for the particular project. In a few instances, potential investors received hardcopy PPMs through the mail either from 7S or the sales agent.

16. To help market the investment opportunity, 7S also posted several videos on "YouTube" featuring Sewell talking about the investment, some of which could be accessed through a link on 7S's website. For example, 7S posted a YouTube video of Sewell discussing the investment, during which he claimed that "for sure you will get some type of return because there's no such thing as a dry hole." Another video depicted oil gushing out of a well with Sewell commenting that "you got black gold coming out of that well." In yet another video, several 7S office staffers can be seen working at their desks while Sewell explains that they are busy preparing "royalty checks," which would be sent out to investors the next morning.

17. Once a prospective investor was persuaded to invest in a 7S JV, the investor was required to fill out and sign certain documentation, including an application, a "Joint Venture Agreement," an "Operating Agreement," and an investor questionnaire regarding the investor's financial experience, income, and net worth, all of which were to be executed and returned to 7S along with the investor's funds. In at least two instances, investors told sales agents that they were not qualified to invest with 7S because their net worth was below \$1 million. Nevertheless, the agents instructed the investors to check the box stating they were qualified to make the

investment. After sending in their money and the signed documentation, investors typically received a welcome letter from 7S and a “Record of Ownership” reflecting the investment in the particular joint venture.

18. After investing with 7S, investors would receive periodic updates about the oil well projects from the company either through voice recorded calls or emails. Periodically, investors were also allowed to access the password protected portions of 7S’s website to obtain updated information specific to their project.

19. Investor funds were deposited in a bank account in the name of the applicable project, but in some instances funds would be transferred to 7S’s main operating account or another one of its accounts and commingled with other sources of funds not related to the 7S offerings.

20. Sewell had one of 7S’s sales agents help him draft each of the PPMs using the 7S offering materials as templates. The sales agent drafted each of the PPMs under Sewell’s instructions and using information Sewell provided to him. The PPMs were all signed by Sewell alone and he authorized their use. The offerings were not registered with the Commission, and there were no valid exemptions from registration available.

**B. False Statements and Omissions Regarding the Use of Investor Funds**

21. 7S and Sewell made false and misleading statements to investors and potential investors regarding the use of investor funds. The offering materials for five of the 7S JVs (High Gravity 2 Well JV, LLC; High Gravity 2 Well JV 2, LLC; High Gravity Well JV #3, LLC; Habanero Field JV V; and Yates JV#1) described the intended use of investor proceeds. For instance, the materials included a table titled “Estimated Expenditures of Venture Funds” that outlined expenses as follows:

- Joint Venture Organizational, Administrative & Marketing Expense (10%)

- Turnkey Oil and/or Gas Wellbore Drilling and Workover Expense (85%)
- Turnkey Working Capital Reserve (5%)

The PPMs defined organizational costs to include marketing costs, commissions and salaries. Based upon this table, the commission amounts that 7S paid out to the sales agents for finding investors would be included in the first category of items and should total no more than 10%.

22. Of the total amount raised from investors in these five offerings, 7S spent at least 37% on organizational, administrative and marketing expenses, far exceeding what was stated in the offering materials. Of these expenses, payments to sales agents represented approximately 27% of the amount raised from investors.

23. Likewise, although the offering documents claimed that 85% of the investor funds would be spent on the oil and gas well operations, the amount that went towards expenses related to oil and gas well operations totaled, at most, only about 57% of the offerings' proceeds.

24. Moreover, 7S and Sewell misused investor proceeds from these five offerings to pay for personal expenses. Specifically, Sewell paid personal expenses totaling more than \$90,000, including tuition for his children and entertainment expenses, amongst others. These expenditures reduced the amount 7S allocated to its drilling operations, thus diminishing the likelihood that these ventures would be successful.

25. The offering materials for one other 7S JV (Superbowl JV #1) did not contain a breakdown specifying how proceeds would be used. Rather, in those materials, the table titled "Estimated Expenditures of Venture Funds," simply stated that all "Organization Costs" and the "Managing Venturer's Management Fee" will be included in the "Turnkey Price" (total amount offered). The materials for this offering, however, failed to mention the exorbitant commissions that would be paid out to the sales agents. Specifically, records show that 7S paid its sales agents an average commission of 20% out of the investor proceeds from that offering.

26. Finally, records show that 7S and Sewell commingled investor funds from seven of the 7S JVs (all but Yates JV #1). Specifically, monies from the various joint venture project accounts were routinely transferred into 7S's general operating account, and were then used to pay for expenses related to other projects. This commingling of investor funds contradicts the representations made in the 7S JVs's offering materials, which stated that "all funds of the Joint Venture shall be deposited in a separate bank account or accounts in the name of the Joint Venture," and explicitly prohibited the lending of joint venture funds to any of the other 7S joint ventures.

**C. Use of Sham Royalty Checks to Further the Scheme**

27. 7S and Sewell also distributed "royalty" payments to some investors. Specifically, 7S paid out checks totaling about \$44,000 to investors in four of the JVs (High Gravity 2 Well JV; High Gravity 2 Well JV #2; High Gravity Well JV #3; and Yates JV #1). Included along with each payment to investors was a letter from 7S detailing how the returns were calculated. These payments and the accompanying letters led investors to believe they were making a return on their investment based on revenues generated from the sale of oil extracted from the wells. In reality, 7S never sold the allegedly produced oil to any third party in order to make these payments. Rather, the money for these payments instead came from comingled investor funds and funds Sewell had from other businesses he owned and operated.



**V. CLAIMS FOR RELIEF**

**COUNT I**

**Violations of Sections 5(a) and 5(c) of the Securities Act**

28. The Commission repeats and realleges paragraphs 1 through 27 of its Complaint.

29. No registration statement was filed or in effect with the Commission pursuant to the Securities Act with respect to the securities issued by 7S described in this Complaint and no exemption from registration existed with respect to these securities.

30. From approximately November 2014 until July 2016, 7S and Sewell directly and indirectly:

- (a) made use of any means or instruments of transportation or communication in interstate commerce or of the mails to sell securities, through the use or medium of a prospectus or otherwise;
- (b) carried or caused to be carried securities through the mails or in interstate commerce, by any means or instruments of transportation, for the purpose of sale or delivery after sale; or
- (c) made use of any 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 any prospectus or otherwise any security,

without a registration statement having been filed or being in effect with the Commission as to such securities.

31. By reason of the foregoing 7S and Sewell violated and, unless enjoined, are reasonably likely to continue to violate Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

**COUNT II**

**Fraud in Violation of Section 17(a)(1) of the Securities Act**

32. The Commission repeats and realleges paragraphs 1 through 27 of its Complaint.

33. From approximately November 2014 until July 2016, 7S and Sewell, in the offer or sale of securities by use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, knowingly or recklessly employed devices, schemes or artifices to defraud.

34. By reason of the foregoing, 7S and Sewell violated, and, unless enjoined, are reasonably likely to continue to violate, Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

**COUNT III**

**Fraud in Violation of Section 17(a)(2) of the Securities Act**

35. The Commission repeats and realleges paragraphs 1 through 27 of its Complaint.

36. From approximately November 2014 until July 2016, 7S and Sewell, in the offer or sale of securities by use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly negligently obtained money or property by means of untrue statements of material facts and omissions to state material facts necessary to make the statements made, in the light of the circumstances under which they were made, not misleading.

37. By reason of the foregoing, 7S and Sewell violated and, unless enjoined, are reasonably likely to continue to violate, Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)].

**COUNT IV**

**Fraud in Violation of Section 17(a)(3) of the Securities Act**

38. The Commission repeats and realleges paragraphs 1 through 27 of its Complaint.

39. From approximately November 2014 until July 2016, 7S and Sewell, in the offer or sale of securities by use of any means or instruments of transportation or communication in interstate commerce and by the use of the mails, directly or indirectly negligently engaged in transactions, practices and courses of business which have operated, are now operating or will operate as a fraud or deceit upon the purchasers.

40. By reason of the foregoing, 7S and Sewell violated, and, unless enjoined, are reasonably likely to continue to violate, Section 17(a)(3) of the Securities Act [15 U.S.C. § 77q(a)(3)].

**COUNT V**

**Fraud in Violation of Section 10(b) and Rule 10b-5(a) of the Exchange Act**

41. The Commission repeats and realleges paragraphs 1 through 27 of its Complaint.

42. From approximately November 2014 until July 2016, 7S and Sewell, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails, knowingly or recklessly employed devices, schemes or artifices to defraud in connection with the purchase or sale of securities.

43. By reason of the foregoing, 7S and Sewell violated, and, unless enjoined, are reasonably likely to continue to violate Section 10(b) and Rule 10b-5(a) of the Exchange Act [15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5(a)].

**COUNT VI**

**Fraud in Violation of Section 10(b) and Rule 10b-5(b) of the Exchange Act**

44. The Commission repeats and realleges Paragraphs 1 through 27 of its Complaint.

45. From approximately November 2014 until July 2016, 7S and Sewell, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails, knowingly or recklessly made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, in connection with the purchase or sale of securities.

46. By reason of the foregoing, 7S and Sewell violated, and, unless enjoined, are reasonably likely to continue to violate, Section 10(b) and Rule 10b-5(b) of the Exchange Act [15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5(b)].

**COUNT VII**

**Fraud in Violation of Section 10(b) and Rule 10b-5(c) of the Exchange Act**

47. The Commission repeats and realleges Paragraphs 1 through 27 of its Complaint.

48. From approximately November 2014 until July 2016, 7S and Sewell, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails, knowingly or recklessly engaged in acts, practices and courses of business which have operated, are now operating or will operate as a fraud or deceit upon any person in connection with the purchase or sale of any security.

49. By reason of the foregoing, 7S and Sewell directly and indirectly violated, and, unless enjoined, are reasonably likely to continue to violate, Section 10(b) and Rule 10b-5(c) of the Exchange Act [15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5(c)].

**VI. RELIEF REQUESTED**

**WHEREFORE**, the Commission respectfully requests the Court find the Defendants committed the violations alleged and:

**A.**

**Permanent Injunction**

Issue a Permanent Injunction, restraining and enjoining 7S and Sewell, their agents, servants, employees, attorneys, and representatives, and all persons in active concert or participation with them, and each of them, from violating Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)]; Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)]; and Section 10(b) and Rule 10b-5 of the Exchange Act [15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5].

**B.**

**Disgorgement**

Issue an Order directing 7S and Sewell to disgorge all ill-gotten gains, including prejudgment interest, resulting from the acts and/or courses of conduct alleged in this Complaint.

**C.**

**Civil Penalty**

Issue an Order directing 7S and Sewell to pay a civil money penalty pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)].

**D.**

**Further Relief**

Grant such other and further relief as may be necessary and appropriate.

E.


**Retention of Jurisdiction**

Further, the Commission respectfully requests the Court retain jurisdiction over this action in order to implement and carry out the terms of all orders and decrees that it may enter, or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court.

Dated: August 1, 2017

Respectfully submitted,

By:



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