

1 **STATE OF WASHINGTON**
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**
3 **SECURITIES DIVISION**

4 IN THE MATTER OF DETERMINING) Order No.: S-13-1182-13-CO01
5 whether there has been a violation of the)
6 Securities Act of Washington by:)
7)
8) CONSENT ORDER
9 Pangean Energy, LLC; Bart Sweazea; Ray Valdez,)
10)
11 Respondents.)

12 **INTRODUCTION**

13 On July 2, 2013, the Securities Administrator of the state of Washington issued Statement of Charges and
14 Notice of Intent to Enter Order to Cease and Desist, to Impose Fines and to Charge Costs, Order Number S-13-1182-
15 13-SC01, against Respondents Pangean Energy, LLC; Bart Sweazea; and Ray Valdez. Pursuant to the Securities Act
16 of Washington, RCW 21.20, the Securities Division of the Department of Financial Institutions (Securities Division)
17 and the Respondents, Pangean Energy, LLC; Bart Sweazea; and Ray Valdez, do hereby enter into this CONSENT
18 ORDER in settlement of the matters alleged herein. Respondents Pangean Energy, LLC; Bart Sweazea; and Ray
19 Valdez neither admit nor deny the Findings of Fact and Conclusions of Law as stated below.

20 **FINDINGS OF FACT**

21 Respondents

- 22 1. Pangean Energy, LLC is a Texas limited liability company formed in July 2011. Its principal place of
23 business is in Bedford, Texas, and it is in the business of oil and gas exploration and development.
24 2. Bart Sweazea (Sweazea) is a resident of Texas, and he is the President, CEO, and sole member of Pangean
25 Energy, LLC (Pangean).
26 3. Ray Valdez (Valdez) is believed to be a resident of Texas and the Vice President of Pangean Energy, LLC.

27 Related Entity

- 28 4. Maxim Resources Corporation (Maxim) is an inactive Texas corporation that was formed in July 2000 and
29 dissolved in 2003. Its principal place of business was in Terrell, Texas, and it was in the business of oil and gas
30 exploration and development. Sweazea was the President and CEO of Maxim.

31 Nature of the Offering

- 32 5. In late 2012 Pangean began cold-calling potential investors, offering them a working interest in a drilling
33 prospect in the Bakken Shale Field, Divide County, North Dakota. To this end, Pangean called people in several

1 states, including at least nine Washington State residents. None of the Washington residents had a pre-existing
2 relationship with Pangean or Sweazea.

3 6. Of these nine Washington residents, at least one expressed interest in the investment. This Washington
4 resident (Resident) was not an accredited investor at the time of the call, and he had not invested in oil and gas before.
5 Initially, Valdez contacted Resident about the investment. Later, Resident spoke with Sweazea about the investment
6 and Sweazea's experience in oil and gas exploration.

7 7. Valdez told Resident that Pangean was fracking in the Bakken Shale, which Resident knew to be a new hot
8 spot in North Dakota. Valdez told Resident that Pangean already held a lease that gave it the right to drill in North
9 Dakota, and that Pangean hoped to begin drilling in June 2013. Valdez told Resident that investors could expect
10 repayment of their initial investment to start that September or October. Pangean would make monthly payments to
11 investors, and the amount of the payment would depend on the success of the drilling operation and the size of the
12 working interest held by the investor. Resident was also told that his investment would buy him a partnership in an
13 LLC specific to the prospect, and that it would result in tax benefits. Pangean told Resident the investment was high
14 risk and high return, but that the company was drilling in a rich area.

15 8. Valdez offered Resident a 1% working interest for an initial payment of \$50,000. Resident could not afford
16 this level of investment, and Valdez explained that Pangean could sell a fraction of a working interest. The smallest
17 fraction Pangean could sell was 1/8%. This investment would mean an initial payment of \$6,250 and later payments
18 totaling \$10,000, which would be invoiced as Pangean drilled over the summer. Resident understood that this \$16,250
19 would be the extent of his investment unless he decided to invest in another well.

20 9. Valdez offered to send Resident a brochure if he was interested in the investment and Resident agreed.
21 Pangean sent Resident a brochure and a blank Participation Agreement for the Divide #1 Prospect (Participation
22 Agreement). Pangean did not send Resident any other written materials about the investment.

23 10. In the brochure, Pangean described the Bakken Shale as "a 'CAN'T MISS' OIL FIELD." It further stated that
24 "Bakken Shale play has a 99.5% success rate," and that "Blanket Reservoir means NO DRY HOLES." Pangean
25 asserted that wells have an expected life of 18-24 years in the Bakken Shale, and that new "fracs" yield 3,000 barrels
of oil per day. It further illustrated possible returns on investment, including a possible return of 1,557%. In describing
the tax benefits of investing, Pangean explained that "generous tax shelter benefits exist, typically 90% to 100%
deductible in year 1." It also stated that income depletion allowances are "guaranteed by the IRS for a minimum of
15% to 24%." In the Participation Agreement, Pangean incorporated by reference the prospect's oil, gas and mineral
leases and the operating agreement. Pangean did not provide Resident with the leases or the operating agreement.

11. After reviewing the brochure and Participation Agreement, and after speaking with Valdez and Sweazea
multiple times, Resident decided to invest with Pangean. Resident was encouraged by the returns on investment in the
brochure, and he was impressed by Sweazea's knowledge and experience in the oil and gas field.

12. On March 16, 2013, Resident mailed Pangean the completed Participation Agreement for a 1/8% working interest and a check for \$6,250.

13. On March 18, 2013, Pangean received a subpoena for documents issued by the Securities Division. When Resident contacted Valdez a short time later to inquire about his investment, he was told that Pangean was holding his check because he was the first Washington State investor. Approximately one month later, Pangean returned Resident's check to him.

Other Actions

14. In February 1999, Bart Sweazea was the subject of a Pennsylvania Securities Commission Summary Order to Cease and Desist. The Commission determined that Sweazea had cold-called at least one Pennsylvania resident and offered to sell the resident a fractional undivided working interest in a Texas drilling project. Sweazea was ordered to cease and desist from the offering or selling of unregistered securities in the state, and from otherwise violating the Pennsylvania Securities Act.

15. In December 2003, Bart Sweazea filed for Chapter 7 bankruptcy in the United States Bankruptcy Court of the Northern District of Texas as an individual. At the same time, he filed for Chapter 7 bankruptcy on behalf of Maxim, listing assets of \$0 and more than \$590,000 of unsecured claims held by oil and gas investors.

16. In April 2005, Bart Sweazea was the subject of an Order of Sanctions by the Kansas State Office of the Securities Commissioner for events that occurred while he was the President of Maxim. The Commissioner determined that a representative of Maxim had offered and sold working interests in a variety of drilling prospects in Oklahoma and Texas to a Kansas resident. Sweazea requested additional funds from the Kansas investor and transferred the investor's working interest from one Maxim drilling prospect to another. Sweazea was ordered to cease and desist from offering and selling unregistered securities in the state, from otherwise violating the Kansas Securities Act, and ordered to pay a \$5,000 fine.

Misrepresentations and Omissions

17. Respondents failed to provide information material to the Participation Agreement when they did not provide Resident with the oil, gas and mineral leases or the operating agreement.

18. Respondents failed to disclose material information related to the Bakken Shale assertions, returns on investment, and tax benefits illustrated in their brochure. They did not provide a reasonable basis for the Bakken Shale assertions or the returns on investment, and they did not disclose assumptions upon which the claims were made. They did not disclose which laws the tax benefit claims relied upon. And they did not disclose a number of risks related to the tax benefit claims, including but not limited to the uncertainty of depletion allowances, penalties for failure to register as a tax shelter, increased possibility of a tax audit, and possible alternative minimum tax liability.

19. Respondents failed to provide material information regarding the company, including but not limited to financial statements, operational history, and financial condition.

1 20. Respondents failed to disclose general and specific risks of investing in oil and gas, including but not limited
2 to possible operational and environmental hazards, conflicts of interest, changes in marketability of the product, and
3 delay in receipt of income. Additionally, Respondents misrepresented to Resident that \$16,250 would be the extent of
4 his investment with Pangean when they failed to disclose his possible liability for costs beyond the amount of
5 investment.

6 21. Respondents failed to disclose that Bart Sweazea had been the subject of two administrative orders for the
7 offer or sale of unregistered securities in two different states.

8 22. Respondents failed to disclose that Bart Sweazea had filed for bankruptcy individually and on behalf of a
9 company engaged in oil and gas exploration.

10 Registration Status

11 23. Respondent Pangean Energy, LLC is not currently registered to offer or sell securities in the state of
12 Washington, and it has not previously been so registered.

13 24. Respondent Bart Sweazea is not currently registered as a securities salesperson or broker-dealer in the state of
14 Washington, and he has not previously been so registered.

15 25. Respondent Ray Valdez is not currently registered as a securities salesperson or broker-dealer in the state of
16 Washington, and he has not previously been so registered.

17 Based upon the above Findings of Fact, the following Conclusions of Law are made:

18 **CONCLUSIONS OF LAW**

19 **I.**

20 The offer or sale of the working interest as described above constitutes the offer or sale of a security as
21 defined by RCW 21.20.005(14) and RCW 21.20.005(17).

22 **II.**

23 The offer or sale of said securities was in violation of RCW 21.20.140 because no registration for such an
24 offer or sale is on file with the Securities Administrator, state of Washington.

25 **III.**

The offer or sale of said securities was in violation of RCW 21.20.040 because Bart Sweazea and Ray Valdez
are not registered salespersons or broker-dealers in the state of Washington.

IV.

The offer or sale of said securities was in violation of RCW 21.20.010 because, as set forth in the Findings of
Fact, Respondents made untrue statements of material fact or omitted to state material facts necessary to make the
statements made, in light of the circumstances under which they were made, not misleading.

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CONSENT ORDER

Based upon the foregoing and finding it in the public interest:

IT IS AGREED AND ORDERED that the Respondents, Pangean Energy, LLC; Bart Sweazea; and Ray Valdez, their agents, and their employees each shall cease and desist from violating RCW 21.20.140, the securities registration section of the Securities Act of Washington.

IT IS FURTHER AGREED AND ORDERED that Respondents Bart Sweazea and Ray Valdez, their agents, and their employees each shall cease and desist from violating RCW 21.20.040, the salesperson and broker-dealer registration section of the Securities Act of Washington.

IT IS FURTHER AGREED AND ORDERED that the Respondents, Pangean Energy, LLC; Bart Sweazea; and Ray Valdez, their agents, and their employees each shall cease and desist from violating RCW 21.20.010, the anti-fraud section of the Securities Act of Washington.

IT IS FURTHER AGREED AND ORDERED that Pangean Energy, LLC; Bart Sweazea; and Ray Valdez shall be jointly and severally liable for and shall pay a fine of \$10,000.

IT IS FURTHER AGREED AND ORDERED that Pangean Energy, LLC; Bart Sweazea; and Ray Valdez shall be jointly and severally liable for and shall pay investigative costs of \$2,000.

IT IS FURTHER AGREED AND ORDERED that the payment of the fine and costs described above shall be made as follows: Respondents shall pay \$3,000 on or before the entry of this Consent Order. Respondents shall then pay the remaining \$9,000 in monthly payments of \$3,000, resulting in full payment of the fine and costs within 90 days of the entry of this Consent Order.

IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Consent Order.

IT IS FURTHER AGREED that the Respondents, Pangean Energy, LLC; Bart Sweazea; and Ray Valdez, entered into this Consent Order freely and voluntarily and with a full understanding of its terms and significance.

IT IS FURTHER AGREED that in consideration of the foregoing, Respondents Pangean Energy, LLC; Bart Sweazea; and Ray Valdez each waive their right to a hearing and to judicial review of this matter pursuant to RCW 21.20.440 and Chapter 34.05 RCW.

WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

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Approved by:

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