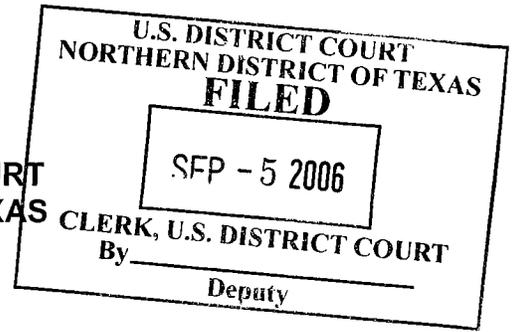


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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION



SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

vs.

PETROSITE ASSETS, INC.,
MASSET, INC.,
IVAN DEARAUJO, and
WESLEY A. HARBISON, JR.

Defendants.

COMPLAINT
Civil Action No.

3-06CV1611-N

Plaintiff Securities and Exchange Commission alleges the following:

SUMMARY

1. This case involves an oil and gas fraud through which the Defendants raised approximately \$2.2 million by victimizing at least 70 investors. The Defendants then continued to prey upon many of the same victims by selling them stock in a near-worthless jewelry business.

2. From August 2002 through at least July 2005, PetroSite Assets, Inc., under Ivan Dearaujo's direction, offered and sold securities in the form of "participation interests" in the production revenue from oil and gas wells in six separate projects. Additionally, from June through December 2005, Dearaujo raised \$250,000 from the offer and sale of preferred stock of Masset Inc., Dearaujo's purported retail jewelry business. Defendant Wesley Harbison, a director and salesman for both PetroSite and Masset, operated as an unregistered broker in offering and selling the securities issued by both companies.

3. In selling the securities of these companies, the Defendants made numerous false statements and failed to disclose important facts to investors. Moreover, Dearaujo indiscriminately commingled PetroSite and Masset's funds and diverted a significant portion for his personal use.

JURISDICTION AND VENUE

4. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77u(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Defendants have, directly and indirectly, made use of the means or instrumentalities of interstate commerce and/or the mails in connection with the transactions described in this Complaint.

5. Venue lies in this Court pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77u(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78aa], because certain of the acts and transactions described herein took place in the Northern District of Texas.

DEFENDANTS

6. **PetroSite Assets, Inc.**, a Nevada corporation, maintains its principal place of business in Irvine, California. Since 2002, its sole business has been the offer and sale of oil and gas participation interests.

7. **Masset, Inc.**, a California corporation, maintains its principal place of business at PetroSite's corporate address in Irvine, California. Masset purports to be a jewelry manufacturer and retailer, although its operations are minimal due to mismanagement and the company's inability to generate revenue. Masset's corporate

charter has been suspended since September 1, 2004, for Masset's failure to pay its franchise taxes.

8. **Ivan Dearaujo**, age 45 and a citizen of Brazil, is the president and a director of PetroSite and the president and a director of Masset. Since approximately 1990, Dearaujo has intermittently operated manufacturing and retail jewelry businesses under various names, most recently Masset. In addition, during the 1990s, he worked as a telemarketer for a California oil and gas company before starting PetroSite. From January 11 through May 10, 2006, Dearaujo was incarcerated in California. Nonetheless, he continued to direct PetroSite and Masset's operations from jail. On May 11, 2006, Dearaujo was arrested for immigration violations, and he is currently being held without bond. Dearaujo is not registered with the Commission in any capacity.

9. **Wesley A. Harbison, Jr.**, age 54, is a resident of La Pine, Oregon, and a director of both PetroSite and Masset. Harbison offered and sold PetroSite participation interests and Masset preferred stock. In return, Harbison received over \$50,000 in "referral fees." From 1999 through 2001, Harbison held Series 22 and Series 63 securities licenses and worked as a registered representative for two broker-dealers in Dallas, principally marketing oil and gas interests. Harbison has a criminal history that includes two felony convictions.

ALLEGATIONS

THE PETROSITE OFFERINGS

10. Between August 2002 and April 2005, PetroSite offered and sold interests in six oil and gas projects, raising a total of nearly \$2.2 million from at least 70 investors

located throughout the United States. In many instances, Dearaujo and Harbison jointly persuaded investors to purchase PetroSite-issued securities.

11. Prior to his activities with PetroSite and Masset, Harbison was an oil and gas telemarketer. He retained the names and contact information of former and prospective clients and used that information to solicit investors for PetroSite and Masset. Harbison received over \$50,000 in compensation from PetroSite and Masset.

12. PetroSite's offering materials for each of the six projects, prepared by Dearaujo, describe the investment as participation interests in the production revenue from currently producing oil and gas wells located in four states, including Texas. The offering materials listed each of the wells by name, along with PetroSite's purported ownership interest, e.g., 2.5 percent working interest or a 1.25 percent net revenue interest. For each well, PetroSite's offering materials included estimated production information, expressed either in barrels of oil, million cubic feet of gas or dollars.

13. PetroSite's offerings are summarized as follows:

- **Blanca Project** included interests in seven producing oil and gas wells. From August 2002 through approximately August 2004, PetroSite sold nearly \$886,000 of its interests to 31 investors.
- **2004-I Project** included interests in five producing oil and gas wells. PetroSite offered and sold all \$350,000 (100 percent) of its interests to one investor in March 2004.
- **2004-II Project** included interests in five producing oil and gas wells. Between March and December 2004, PetroSite offered \$350,000 of interests in the project and sold over \$300,000 (84 percent) of its interests to 10 investors.
- **2004-III Project** included working and revenue interests from 20 producing oil and gas wells, as well as two drilling prospects. From April through December 2004, PetroSite offered \$325,000 of its interests and sold over \$310,000 (95 percent) to 17 investors.

- **2004-IV Project** included the same interests as the 2004-III project (20 producing oil and gas wells and two drilling prospects). Between July 2004 and July 2005, PetroSite offered \$385,000 of its interests and sold over \$325,000 (84 percent) to 16 investors.
- **2005-I Project** included the interests from nine oil and gas wells; PetroSite never purchased interests in these wells. In April 2005, PetroSite sold \$35,000 of its purported interests to one investor. The investor subsequently exchanged his PetroSite interest for Masset preferred stock.

MATERIAL MISREPRESENTATIONS AND OMISSIONS

Ownership of the Oil and Gas Production Revenue

14. The offering materials failed to disclose that PetroSite did not own any interests in the listed wells at the time of each offering. In fact, PetroSite was relying on the funds it raised from investors to purchase the interests. PetroSite, however, purchased only a fraction of the interests because Defendants squandered and misappropriated the majority of investor funds.

15. In each project, PetroSite raised sufficient funds to purchase all of the interests PetroSite had represented to investors that it owned. Instead of doing so, however, Dearaujo paid the sellers for a significantly smaller percentage of the wells' production revenue. For example, in the Blanca project, PetroSite raised approximately \$886,000 from investors, contracted to purchase the interests from the sellers for \$785,000, but paid only \$371,400 (or 47 percent). For the other projects, PetroSite paid the sellers for only 38 percent to 43 percent of the amounts it had claimed it owned. Even though PetroSite did not fulfill its payment obligations, the sellers nonetheless agreed to pay PetroSite a *pro rata* share of production revenue, based on the amounts PetroSite did pay.

16. The above-described underpayment caused the investors to receive a much smaller share of the interests in the wells than had been represented. This deception resulted in drastically reduced production revenues for investors. Neither Dearaujo nor Harbison disclosed to investors that PetroSite paid for only a portion of the claimed interests, or the fact that the investors would receive reduced monthly production revenue as a result of this practice.

Misleading Return on Investment

17. Dearaujo and Harbison orally promised several investors annual returns of 25 to 40 percent on their investment, far above the estimated production revenues contained in PetroSite's offering materials. They told at least one investor that the production revenue would return 100 percent of his investment principal within the first year. Dearaujo and Harbison had no reasonable basis for these predictions. Moreover, since PetroSite purchased only a fraction of the interests the company claimed it had purchased, Dearaujo and Harbison knew, or were reckless in not knowing, that such returns were not realistic.

Use of Investors' Funds

18. A significant percentage of the investors' principal was used in a manner inconsistent with the representations contained in PetroSite's offering materials. Of the \$2.2 million raised, only \$793,900 was used to purchase oil and gas interests. Approximately \$500,000 of the offering proceeds was used to pay other PetroSite business expenses, such as rent, salaries, insurance and utilities. Dearaujo misappropriated much of the rest. For example, he diverted at least \$200,000 to

Masset and used at least \$150,000 to pay personal expenses, including bail bond costs and payments to his estranged wife.

19. Further, the Defendants omitted to disclose to investors that a significant portion of their invested funds were to be paid to Harbison, a company director, for his role in the investment offering.

20. In connection with the projects offered and sold by PetroSite, the company agreed that it would distribute revenues from the oil and gas wells to investors on a monthly basis. Contrary to this promise, Defendants stole and misused a substantial portion of this revenue. This misappropriation further reduced the monthly payments to investors. Indeed, beginning in August 2005, PetroSite stopped distributing any revenue to its investors, even though PetroSite was continuing to receive monthly production checks from the wells.

THE MASSET OFFERINGS

21. In or about June 2005, Masset, through Dearaujo and Harbison, began offering and selling Masset preferred stock to PetroSite's investors. Between June and December 2005, Masset raised approximately \$250,000 from at least eight of PetroSite's investors, three of whom converted their PetroSite interests to Masset preferred stock and purchased additional Masset preferred shares for cash.

22. The Defendants sold the Masset stock through false and misleading statements. For example, Dearaujo falsely claimed that Masset was a "better deal" than PetroSite, because PetroSite was had not been receiving the oil revenue it was owed. This statement was false; PetroSite had received its monthly production payments on a regular basis.

23. Harbison represented that Masset was a “rock solid” company whose stock value would increase “100 percent over the next 12 months.” There was no reasonable basis for these representations, since Masset’s jewelry business had virtually no operations.

24. The Defendants also failed to disclose material facts about Masset, including the fact that as of September 1, 2004, Masset’s corporate charter had been suspended by the California Franchise Tax Board. The suspension prohibited Masset from conducting any business, including issuing stock. Additionally, the Defendants failed to disclose that a civil lawsuit had been filed against Masset and Dearaujo, alleging, among other things, violations of state and federal securities laws.

25. Finally, Masset’s offering documents represented that the offering proceeds would be used to conduct a jewelry manufacturing and retail business. Contrary to this representation, Dearaujo diverted \$70,000 for his personal use.

FIRST CLAIM
Antifraud Violations of Section 17(a) of the Securities Act

26. Paragraphs 1 through 25 are realleged and incorporated by reference.

27. The Defendants, directly or indirectly, singly or with others, in the offer or sale of securities, have: (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices and courses of business which operate as a fraud or deceit upon purchasers, prospective purchasers, and other persons.

28. The Defendants knowingly or recklessly engaged in the conduct described in this claim.

29. By reason of the foregoing, the Defendants violated, and unless enjoined, will continue to violate Section 17(a) of the Securities Act [15 U.S.C. § 77q].

SECOND CLAIM
Antifraud Violations of Section 10(b) of the Exchange Act and Rule 10b-5

30. Paragraphs 1 through 25 are realleged and incorporated by reference.

31. The Defendants, directly or indirectly, singly or with others, in connection with the purchase or sale of securities, have: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices and courses of business which operate as a fraud and deceit upon purchasers, prospective purchasers and other persons.

32. The Defendants engaged in the conduct described in this claim knowingly or with severe recklessness.

33. By reason of the foregoing, the Defendants violated, and unless enjoined, will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

THIRD CLAIM
Violations of Section 15(a)(1) of the Exchange Act
(Defendant Harbison)

34. Plaintiff Commission repeats and realleges paragraphs 1 through 25 of this Complaint and incorporated herein by reference as if set forth *verbatim*.

35. At the times alleged in this Complaint, Defendant Harbison has been in the business of effecting transactions in securities for the accounts of others.

36. Defendant Harbison made use of the mails and of the means and instrumentalities of interstate commerce to effect transactions in and to induce or attempt to induce the purchase of securities.

37. At the times alleged in this Complaint, Defendant Harbison was not registered with the Commission as a broker or dealer, as required by section 15(b) of the Exchange Act [15 U.S.C. § 78o(b)].

38. By reason of the foregoing, Defendant Harbison has violated and, unless enjoined, will continue to violate section 15(a)(1) of the Exchange Act [15 U.S.C. § 78o(a)(1)].

PRAYER FOR RELIEF

Plaintiff respectfully requests that this Court:

I.

Enjoin Defendants from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q], and Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rules 10b-5 thereunder [17 C.F.R. § 240.10b-5]; additionally, enjoin Harbison from violating Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)(1)]; and order incidental relief, including orders appointing a temporary receiver over the assets of Dearaujo, PetroSite and

Masset, directing the submission of an accounting and prohibiting the destruction of documents.

II.

Order Defendants to disgorge an amount equal to the funds and benefits they obtained illegally as a result of the violations alleged herein, plus prejudgment interest on that amount.

III.

Order civil penalties against Defendants Dearaujo and Harbison 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)], for the violations alleged herein.

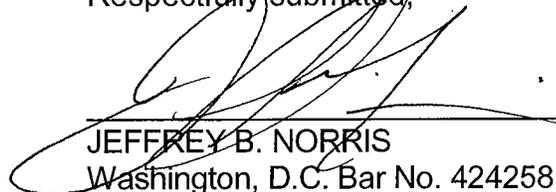
IV.

Bar Defendants Dearaujo and Harbison from participating in an offering of penny stock, including engaging in activities with a broker, dealer, or issuer for purposes of issuing, trading, or inducing or attempting to induce the purchase or sale of any penny stock, pursuant to Section 20(g) of the Securities Act [15 U.S.C. § 77(w)], and Section 21(d)(6) of the Exchange Act [15 U.S.C. § 78u(d)(6)], for the violations alleged herein.

V.

Grant such further relief as this Court may deem just and proper.

Respectfully submitted,



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