

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

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

**STRIKER PETROLEUM, LLC
MARK S. ROBERTS, and
CHRISTOPHER E. PIPPIN**

Defendants

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**COMPLAINT
Case No.:**

Plaintiff Securities and Exchange Commission alleges:

SUMMARY

1. From September 2006 to September 2008, Striker Petroleum, LLC, Mark S. Roberts and Christopher E. Pippin raised \$57 million from investors nationwide through the sale of debentures collateralized by oil and gas properties. The debenture offering materials included material misrepresentations and omissions concerning Striker’s earnings and asset valuations, use of investor proceeds and the existence of a third party independent trustee for the debenture collateral.

2. The Defendants maintain ownership or control of assets acquired, directly or indirectly, with investor funds. Striker recently transferred most of its assets to another company, Llano Consolidated Resources, LLC, in exchange for shares of Llano stock, which could make these assets more difficult to secure for the investors. In addition, Llano claims that the agreement it entered into with Striker gives it ownership of the oil and gas properties currently collateralizing the debentures, but Striker claims to have previously assigned these

properties to a former debenture trustee. Therefore, there appear to be multiple claimants to the debenture collateral.

3. By engaging in the conduct described in this Complaint, Defendants Striker, Roberts and Pippin directly or indirectly, singly or in concert, have engaged, and unless enjoined and restrained, will again engage in transactions acts, practices, and courses of business that constitute violations of Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)], and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)], and Rule 10b-5 [17 C.F.R. § 240.10b-5].

4. The Commission, in the interest of protecting the public, brings this action against Defendants, seeking permanent injunctive relief, disgorgement of all illicit profits and benefits Defendants have received plus accrued prejudgment interest and civil monetary penalties. The Commission also seeks an asset freeze over Defendant Striker's assets as well as the appointment of a receiver to take possession and control of Defendant Striker for the protection of investors.

JURISDICTION AND VENUE

5. The investments offered and sold by the Defendants are "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].

6. The Commission brings this action under Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)], and Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], to enjoin Defendants from future violations of the federal securities laws.

7. This Court has jurisdiction over this action, and venue is proper, under Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], and Section 27 of the Exchange Act [15 U.S.C. § 78aa].

8. Defendants, directly or indirectly, made use of the means or instruments of transportation and communication, and the means or instrumentalities of interstate commerce, or of the mails, in connection with the transactions, acts, practices and courses of business alleged herein. Certain of the transactions, acts, practices and courses of business alleged herein took place in the Northern District of Texas.

DEFENDANTS

9. Mark S. Roberts ("Roberts"), 58, of Frisco, Texas is the president, a director and, according to public records, the sole owner of Striker Petroleum, LLC. Although he is involved in all aspects of the company, Roberts concentrates on the company's oil and gas operations.

10. Christopher E. Pippin ("Pippin"), 35, of Frisco, Texas, is vice president and a director of Striker Petroleum, LLC. Although he is involved in all aspects of the company, Pippin concentrates on the company's securities offering operations.

11. Striker Petroleum, LLC ("Striker"), formed in June 2004, is a Texas limited liability company controlled by Roberts and Pippin. Striker acquired oil and gas properties and attempted to increase production by drilling new wells or reworking existing wells. Striker is the issuer of the Striker debentures and the managing member of certain limited liability companies involved in prior securities offerings, which are known as the Legacy offerings. Striker has never registered a class of securities under the Exchange Act, nor has it ever registered a securities offering under the Securities Act or with any state.

BACKGROUND

Striker's Legacy Oil and Gas Offerings

12. From July 2005 to September 2006, prior to the debenture offerings, Striker conducted three tax advantaged oil and gas offerings (“the Legacy offerings”), selling over \$60 million of undivided working interests in producing oil and gas properties. Striker sold the Legacy investments through a nationwide network of registered broker dealers utilizing Private Placement Memorandums (“PPMs”) and brochures created by Striker.

13. Although the first Legacy offering initially achieved the projected returns, oil and gas production soon fell off. The two later offerings never achieved their projected returns and their production also declined in the months following their initial offering dates. In December 2006, Reichmann Petroleum Corporation (“RPC”), the operator for most of the Legacy properties, was forced into bankruptcy, disrupting oil and gas production from these properties. Because of this disruption, by early 2007 Striker was making only negligible return payments to the Legacy investors.

14. Striker searched for ways to increase the Legacy returns. Beginning in February 2007, Striker began offering the Legacy investors the option of receiving a fixed 12% annual return, instead of the varying return from actual production from the properties. By May 2007, almost all Legacy investors had chosen the fixed return option.

15. Striker was not able to pay the 12% fixed returns from the Legacy oil and gas production and its own oil and gas operations. Consequently, it had to rely on funds raised through the debenture offerings to sustain the fixed return payments.

Striker's Debenture Offerings

16. In mid-2006, at the suggestion of a registered representative of one of the brokers involved in the Legacy offerings, Roberts and Pippin decided to raise capital by offering debentures that would be collateralized by oil and gas properties. Striker conducted these offerings to generate cash for its operations.

17. From September 2006 and through September 2008, Striker offered and sold five series of debentures, raising \$57 million from approximately 540 investors nationwide:

Series	Initial Offering Date	Closing Date	Amount Raised
Series A	September 18, 2006	November 13, 2006	\$10.6 million
Series B	October 23, 2006	January 26, 2007	\$11.5 million
Series B-2	January 19, 2007	August 24, 2007	\$12.5 million
Series B-3	May 19, 2007	November 9, 2007	\$10 million
Series B-4	October 29, 2007	September 8, 2008	\$12.5 million

18. Striker offered the debentures through some of the same brokers involved in the Legacy Property offerings. Each debenture offering was accompanied by a detailed PPM containing descriptions of the offering, the company's business plan and associated risks. As detailed below, however, the PPMs misrepresented and omitted material facts about the uses of offering proceeds, Striker's earnings and the value of its assets and the existence of an independent third party trustee.

Striker's Use of Offering Proceeds

19. A reasonable investor reading Striker's disclosures for the debenture offerings would have concluded that the company planned to use offering proceeds primarily to acquire, develop and operate oil and gas properties and for working capital. The PPMs for the Series A and B offerings represented that Striker would use offering proceeds:

- to acquire, develop and maintain oil and gas properties;
- to pay various costs associated with the collateral; and
- for general working capital.

20. The Series B-2 PPM was more specific, stating that 35% of proceeds would be used to acquire collateral, 30% for drilling wells, and 20% for completing wells. Only 15%, or \$1.9 million, was to be used for other purposes. The Series B-3 and B-4 PPMs, on the other hand, were less detailed, indicating only that net proceeds would be used for working capital, including acquiring, developing and maintaining properties and paying various costs associated with the collateral.

21. In reality, substantial amounts of debenture proceeds were used for purposes other than those presented in the PPMs. For instance, shortly before RPC's involuntary bankruptcy, Striker sent RPC approximately \$13 million of the \$22.1 million (nearly 60%) ultimately raised in the Series A and B offerings. \$11.8 million of these funds covered Authorizations for Expenditures ("AFE's") for future drilling expenses on Striker properties, and \$1.2 million was described as an additional investment in RPC stock. These funds were put at risk by the RPC bankruptcy and tied up in the proceedings for over twenty months, and the exact amount eventually recovered by Striker, if any, is unclear. Later debenture purchasers were not informed of this.

22. The Series B-2 offering proceeds also were not used as represented. The Series B-2 PPM provided that Striker would acquire certain listed properties, which would then secure payment of the Series B-2 debentures. Striker entered into a purchase agreement with the Seller of the listed properties and paid approximately \$4.2 million under the agreement. However, Striker did not receive recorded assignments for the properties until May 2008. This was not disclosed to either Series B-2 investors or investors in later debenture series.

23. At least some of the proceeds from the Series B-2 through B-4 offerings were used to make \$5 million in fixed return payments to Legacy investors and interest payments to prior debenture holders. Debenture investors were never told that offering proceeds would be used in part to pay the returns to prior Striker investors.

Striker's Financial Statements

24. Each Striker debenture PPM contained unaudited financial statements, prepared by an outside accountant, including a balance sheet and income statement. Striker stated on the cover page to the financial statements that it believed the financial statements to be accurate, but cautioned that they were unaudited and might not comply with generally accepted accounting principles ("GAAP").

25. These warnings, however, do not excuse Striker's overstatement of its assets and earnings in the financial statements. With respect to assets, Striker valued its supposed rights to drill wells on the Legacy properties proved undeveloped ("PUD") sites at \$34 million in the Series B-2 and B-3 PPM financial statements, and increased the value to more than \$95 million in the Series B-4 PPM financial statement. In truth, Striker should not have included these amounts as assets on its financial statements because it had merely contracted with the Legacy LLCs to participate in the drilling of any additional wells on the PUD sites in exchange for 85% of the working interests held by the LLCs in each successful well. Striker did not own any mineral interest until a well was successfully completed – it only had a contractual right to participate in the drilling of any PUD wells.

As a result the inclusion of these PUD valuations, Striker inflated its assets by at least:

- \$47.6 million, or 413%, in the Series A and Series B debenture PPMs;
- \$34.7 million, or 205%, in the Series B-2 and Series B-3 debenture PPMs: and

- \$95.8 million, or 313%, in the Series B-4 PPM.

26. The financial statements also mischaracterized and/or materially overvalued other Striker assets as well. For example, the financial statements in the Series B-2 and B-3 PPMs – which postdated RPC's December 2006 bankruptcy – valued Striker's investment in RPC stock at \$4.7 million and its advances to RPC for AFE future drilling activities at \$11.8 million, their original cash values. However when these PPMs were disseminated, RPC was still in bankruptcy and Striker did not account properly for the impairment to the value of these assets caused by the bankruptcy. These financial statements also valued Striker's equity investment in a pipeline company, that had also filed bankruptcy in December 2006, at its unimpaired cash price of \$5 million. Together, these assets constituted 34% of the total assets reported in the Series B-2 and B-3 PPMs.

27. Later, in the Series B-4 PPM, Striker increased the value of its pipeline company investment to \$7.4, without considering the impairment to the asset value caused by the pipeline company's continued bankruptcy.

28. Striker's reported revenue and net income were similarly misleading. Most significantly, Striker included as "investment income" the funds it had raised through the Legacy offerings. The Series A and B PPMs, for example, included an income statement for the eight months ended August 31, 2006, which reported "total income" of approximately \$40 million, of which \$39 million was identified only as "investment income." The purported "investment income," however, was in fact the amount Striker had raised through the Legacy offerings during the year. This was explained nowhere in the PPMs. Thus, Striker's income statement was materially misleading. An accurate income statement would have presented investors a far different picture of Striker's operations and prospects.

29. The Series B-2 and B-3 offerings also inflated revenues by including the amounts raised from the Legacy offerings, thereby obscuring the fact that Striker was losing money on an operating basis. Finally, the Series B-4 PPM income statement for the nine months ended September 30, 2007 failed to record as an expense the amounts due under the Fixed Return Program, resulting in an overstatement of income by at least \$2 million. As a result, Striker reported net income \$327,000 rather than a substantial loss.

30. Striker also included outdated financial statements for the Series B-3 PPM, which began May 19, 2007. Striker only provided financial statements for the eleven months ended November 30, 2006 in this PPM—a date prior to the RPC and pipeline company bankruptcy filings. The November 2006 financial statements reflected a \$2.3 million profit, whereas Striker's internal financial statements for March 2007 (the quarter just preceding issuance of the Series B3 PPM) showed a \$3.4 million loss.

Lack of an Independent Third Party Trustee

31. The PPMs for each debenture series represented that the debentures would be collateralized by oil and gas properties. The debenture holders' only recourse for the debenture principal in case of default was against the collateral. The debenture PPMs claimed that Striker would appoint an "independent third party trustee" to hold legal title to the collateral for the benefit of the debenture holders. The trustee would have various powers, the most important of which was the right to engage in a non-judicial foreclosure of the collateral in case of default by Striker.

32. Contrary to the representations in the PPMs, the trustee for the debenture collateral was not an independent third party. Instead, Striker appointed its general counsel as debenture trustee. The purported trustee was general counsel when the Series A, Series B and

Series B-2 offerings commenced and, therefore, was neither "independent" nor a "third party." In February 2007, the trustee resigned as general counsel, but continued to perform legal work for Striker and served as the "independent third party trustee" for the B-3 and B-4 offerings. While he was now arguably a third party, he was hardly independent during these latter offerings.

33. Soon after Striker failed to make the debenture payments in December 2008, the trustee resigned. The trustee stated that he never considered himself a true "trustee" for the debenture holders, as he had no fiduciary duty or actual control and possession of the collateral.

34. In summary, as a result of among other things, the losses from the RPC bankruptcy; Striker's inability to acquire and successfully develop additional oil and gas properties; and the low production from the Legacy properties, necessitating Striker's use of debenture proceeds to pay the Legacy fixed returns and debenture interest payments, Striker could no longer meet many of its financial obligations. Consequently, just four months after completing the \$12.5 million Series B-4 offering, Striker defaulted on its obligation to pay the interest due to the debenture holders.

FIRST CLAIM
AS TO ALL DEFENDANTS

Violations of Section 17(a) of the Securities Act

35. Plaintiff Commission repeats and incorporates paragraphs 1 through 34 of this Complaint by reference.

36. The Defendants, directly or indirectly, singly or in concert with others, in connection with the offer or sale of securities, by use of the means and instrumentalities of interstate commerce and by use of the mails 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.

37. As a part of and in furtherance of their scheme, the Defendants, directly and indirectly, prepared, disseminated or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations, which contained untrue statements of material facts and misrepresentations of material facts, and which 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, including, but not limited to, those set forth in Paragraphs 1 through 34 above.

38. With respect to violations of Sections 17(a)(2) and (3) of the Securities Act, the Defendants were negligent in their actions regarding the representations and omissions alleged herein. With respect to violations of Section 17(a)(1) of the Securities Act, the Defendants made the above-referenced misrepresentations and omissions knowingly or with severe recklessness regarding the truth.

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

SECOND CLAIM
AS TO ALL DEFENDANTS

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

40. Plaintiff Commission repeats and incorporates paragraphs 1 through 34 of this Complaint by reference.

41. The Defendants, directly or indirectly, singly or in concert with others, in connection with the purchase or sale of securities, by use of the means and instrumentalities of interstate commerce and by use of the mails 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 (e) engaged in acts, practices and courses of business which operate as a fraud and deceit upon purchasers, prospective purchasers and other persons.

42. As a part of and in furtherance of their scheme, the Defendants, directly and indirectly, prepared, disseminated or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations, which contained untrue statements of material facts and misrepresentations of material facts, and which 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, including, but not limited to, those set forth in Paragraphs 1 through 34 above.

43. The Defendants made the above-referenced misrepresentations and omissions knowingly or with severe recklessness regarding the truth. 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].

RELIEF REQUESTED

For these reasons, Plaintiff respectfully requests that this Court:

I.

Enjoin Defendants from violating Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder.

II.

Enter an Order freezing the assets of Defendant Striker and directing that all financial or depository institutions comply with the Court's Order.

III.

Order the appointment of a receiver for Defendant Striker, for the benefit of Striker investors, to marshal, conserve, protect and hold funds and assets obtained by Striker and its agents, co-conspirators and others involved in this scheme, wherever such assets may be found, or, with the approval of the Court, dispose of any wasting asset in accordance with the application and proposed order provided herewith.

IV.

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

Dated December 3, 2009

s/Toby M. Galloway

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