

**UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF OKLAHOMA**

SECURITIES AND EXCHANGE COMMISSION:

Plaintiff,

vs.

**DEEP ROCK OIL COMPANY and
DAVID W. TAYLOR**

Defendants.

COMPLAINT

Civil Action No.

Plaintiff Securities and Exchange Commission alleges as follows:

SUMMARY

1. This case concerns a fraudulent, unregistered offering of securities involving a natural gas drilling program, that raised millions of dollars from investors nationwide. Defendant David W. Taylor orchestrated the scheme, through his company, defendant Deep Rock Oil Company.

JURISDICTION AND VENUE

2. 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.

3. 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 Western District of Oklahoma.

DEFENDANTS

4. Deep Rock Oil Company is an Oklahoma corporation with its principal place of business in Norman, Oklahoma. Deep Rock is owned and controlled by defendant Taylor.

5. David W. Taylor a resident of Norman, Oklahoma, controlled Deep Rock's operations during all periods relevant to this Complaint.

RELATED ENTITIES

6. Greasy Creek Multi-Well Joint Ventures I and II ("Venture I" and "Venture II," collectively, the "Joint Ventures") are joint ventures formed by Deep Rock and Taylor to engage in the business of natural gas drilling and production in the Greasy Creek field in Oklahoma. During the periods relevant to this case, Deep Rock was the managing venturer of both entities.

THE FRAUDULENT SCHEME

The Offerings

7. Deep Rock conducted two separate securities offerings from mid-2002 to 2004, raising at least \$2.5 million from nearly 100 investors throughout the country. The company purported to offer a total of 75 units in each Joint Venture. However, the company had no actual limit on either the number of investors that it attempted to secure for each Joint Venture or the amount of funds that it attempted to raise.

8. Each unit sold purportedly represented an undivided working interest in natural gas leases that the ventures would develop in the Greasy Creek field. There was no set price for a Unit or fraction of a Unit, but full Units sold for as much as \$35,000.

9. Investors were required to sign a joint venture agreement (“JVA”) upon investing. The agreement identified Deep Rock as manager of the venture and gave it (and, by extension, Taylor) exclusive power over the venture’s “affairs, property, business, and operations.”

10. Taylor told prospective investors that Deep Rock would use investor money to drill the first three wells (of 20 total) to be owned by each venture. Once the initial wells began producing, their revenues were to fund the drilling of the remaining wells. Taylor then promised Venture I investors that they would then reap returns of varying magnitudes from these wells’ production, which Taylor claimed would be a prolific 250 mcf (short for “thousands of cubic feet,” a standard natural gas measurement) of natural gas per well, per day. Taylor and Deep Rock communicated a variety of ambitious profit estimates to investors; one brochure estimated a yearly income of \$76,944 from the purchase of one Unit in Venture II. As described below, these numbers were based on unrealistic production projections and never panned out.

11. Taylor made almost identical representations to prospective investors in Venture II, many of whom already were invested in Venture I. Venture II was also to consist of 20 wells, which were to produce comparably to the Venture I wells. The only significant addition to Taylor’s marketing of Venture II was his reference to the supposedly overwhelming success of Venture I. Among other things, Taylor used glowing periodic “operating” reports from Venture I to convince investors of Venture II’s

prospects, and his offering materials for Venture II touted the success of Venture I as further proof of the investment's attractiveness.

12. Taylor told investors in both ventures that the estimated time for completing all 20 wells was 25 months, and assured investors that Deep Rock had secured the requisite leases to drill the contemplated wells.

13. Taylor solicited investors personally and retained sales agents in three states to assist him. Taylor provided the agents with copies of documents to share with potential investors, including private placement memoranda ("PPM's"), the JVAs, subscription agreements, and various marketing materials describing the company and the oil and gas industry.

14. In late 2004, the Joint Ventures were placed in bankruptcy.

False and Misleading Statements and Omissions of Material Facts

15. In connection with the offer and sale of the oil and gas investment described above, Defendants made the following material false and misleading misstatements and omissions, among others:

- a. Taylor and Deep Rock falsely represented a 100 percent drilling success rate in the Greasy Creek field;
- b. Taylor and Deep Rock made projected production estimates and projected investment returns that were highly speculative and had no reasonable basis in fact; and
- c. Taylor and Deep Rock falsely described the nature of an investment in the ventures to be a "low risk," "no lose" proposition, characterizing the ventures' chance of failure as "extremely remote."

16. Furthermore, to entice Venture I investors to invest in the Venture II program, Defendants provided them periodic "operating reports" that contained false information concerning the status of drilling operations in the Venture I program. These operating reports grossly overstated Venture I's actual operations and gave investors a false picture of Deep Rock's success and abilities, and of the profitability of investing in the Ventures.

17. Defendants failed to disclose to investors that Deep Rock's production forecasts represented initial production figures only, and that these figures would drop significantly within the first year of production.

18. Defendants failed to disclose to investors that Deep Rock had not secured sufficient leases to drill the promised oil wells and did not have the resources to acquire them.

19. Defendants failed to disclose to investors that funds provided by investors in each of the ventures were being commingled, contrary to the terms of the JVAs, and that proceeds from production in Venture I were being used to support drilling activities in Venture II.

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

20. Plaintiff repeats and incorporates paragraphs 1 through 19 of this Complaint by reference as if set forth *verbatim*.

21. Defendants, directly or indirectly, singly or in concert with others, in 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.

22. As a part of and in furtherance of their scheme, 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 19, above.

23. With respect to violations of Sections 17(a)(2) and (3) of the Securities Act, 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, Defendants made the above-referenced misrepresentations and omissions knowingly or with severe recklessness regarding the truth.

24. By reason of the foregoing, 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
Violations of Section 10(b) of the Exchange Act and Rule 10b-5

25. Plaintiff repeats and incorporates paragraphs 1 through 19 of this Complaint by reference as if set forth *verbatim*.

26. 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 (c) engaged in acts, practices and courses of business which operate as a fraud and deceit upon purchasers, prospective purchasers and other persons.

27. As a part of and in furtherance of their scheme, 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 19, above.

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

29. By reason of the foregoing, Defendants have 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 5(a) and 5(c) of the Securities Act

30. Plaintiff repeats and incorporates paragraphs 1 through 19 of this Complaint by reference as if set forth *verbatim*.

31. Defendants, directly or indirectly, singly and in concert with others, have been offering to sell, selling and delivering after sale, certain securities, and have been, directly and indirectly: (a) making use of the means and instruments of transportation and communication in interstate commerce and of the mails to sell securities, through the use of written contracts, offering documents and otherwise; (b) carrying and causing to be carried through the mails and in interstate commerce by the means and instruments of transportation, such securities for the purpose of sale and for delivery after sale; and (c) making use of the means or instruments of transportation and communication in interstate commerce and of the mails to offer to sell such securities.

32. As described in paragraphs 1 through 19, interests in Ventures I and II were offered and sold to the public through a general solicitation of investors. No registration statements were ever filed with the Commission or otherwise in effect with respect to these securities.

33. By reason of the foregoing, Defendants have 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)].

RELIEF REQUESTED

34. Plaintiff requests that this Court:
- (a). Permanently enjoin Defendants from violating Sections 5(a), 5(c), and 17(a) of the Securities Act and Section 10(b) of the Exchange Act, and Exchange Act Rule 10b-5, thereunder.
 - (b). Oder such further relief as this Court may deem just and proper.

Dated: June 29, 2006

Respectfully submitted,



STEPHEN J. KOROTASH
Oklahoma Bar No. 5102

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