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

SECURITIES AND EXCHANGE COMMISSION,	§	
	§	
Plaintiff,	§	
	§	
v.	§	
	§	
GEORGE WESLEY HARRIS,	§	
STEPHEN CHRISTOPHER PLUNKETT, and	§	
WILLIAM CARSON ARNOLD	§	
GIANT OPERATING, LLC,	§	
	§	**Case No.: 3:09-CV-1809-B**
	§	
Defendants, and	§	
	§	
	§	
GIANT PETROLEUM, INC., and	§	
DSSC OPERATING LLC,	§	
	§	
Relief Defendants,	§	
Solely for the Purposes of	§	
Equitable Relief.	§	
	§	

AMENDED COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission"), for its Complaint against Defendants George Wesley Harris ("Harris"), Stephen Christopher Plunkett ("Plunkett"), William Carson Arnold ("Arnold"), and Giant Operating, LLC ("Giant Operating") (collectively, "Defendants") and against Relief Defendants Giant Petroleum, Inc. ("Giant Petroleum") and DSSC Operating LLC ("DSSC") (collectively "Relief Defendants"), alleges as follows:

Summary

1. From at least September 2007 through at least September 17, 2009, Giant Operating, by and through Harris, Plunkett, and Arnold, engaged in at least five oil-and-gas securities offerings. Together, these offerings constituted a fraudulent scheme, in which Harris,

Plunkett, and Arnold participated, to enrich themselves at the expense of defrauded investors. Through the fraudulent offerings, which were not registered with the Commission as required under the law, Giant Operating raised at least $16.6 million from at least 150 investors throughout the United States. Harris, Plunkett, and Arnold misappropriated and misapplied most of the offering proceeds, secretly paying themselves millions of dollars directly and through private companies they controlled, including Relief Defendants Giant Petroleum and DSSC. To entice investors into the scheme, Harris, Plunkett, and Arnold disseminated Giant Operating offering materials, which contained misleading statements regarding, among other things, the use of offering proceeds, estimated investment returns, and purportedly lucrative contracts with third parties.

2. By reason of the foregoing, the Defendants Harris, Arnold, and Giant Operating violated Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77e(a), 77e(c), and 77q(a)] and Sections 10(b) and 15(a)(1) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78j(b) and 78o(a)(1)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder; and Defendant Plunkett violated Section17(a) of the Securities Act [15 U.S.C. § 77q(a)] and Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder. In the interest of protecting the public from any further violations of the federal securities laws, the Commission brings this action against the Defendants, seeking permanent injunctive relief, accountings, disgorgement plus prejudgment interest, civil money penalties, and all other equitable and ancillary relief deemed necessary by the Court. Against the Relief Defendants, the Commission brings this action seeking disgorgement and all other equitable or ancillary relief deemed necessary by the Court to prevent their unjust enrichment or retention of assets to which they have no legitimate claim.

Jurisdiction and Venue

3. 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)], seeking to restrain and enjoin permanently the Defendants from engaging in the acts, practices, and courses of business alleged herein.

4. This Court has jurisdiction over this action under Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa].

5. The Defendants, directly and indirectly, made use of the mails and of the means and instrumentalities of interstate commerce in connection with the transactions, acts, practices, and courses of business described in this Complaint.

6. Venue is proper because transactions, acts, practices, and courses of business described below occurred within the jurisdiction of the Northern District of Texas.

Parties

7. Plaintiff Commission is an agency of the United States of America charged with enforcing the federal securities laws.

8. Defendant Harris, 37 years old, resides in Mansfield, Texas.

9. Defendant Plunkett, 33 years old, resides in Grand Prairie Texas.

10. Defendant Arnold, 47 years old, resides in Dallas, Texas.

11. Defendant Giant Operating is a Texas limited liability company with its principal place of business in Irving, Texas.

12. Relief Defendant Giant Petroleum is a Texas corporation with its principal place of business in Irving, Texas.

13. Relief Defendant DSSC is a Texas limited liability company with its principal place of business in Irving, Texas.

Statement of Facts

The Giant Operating Securities Offerings

14. From at least September 2007 through at least September 17, 2009, Giant Operating, by and through Harris, Plunkett, and Arnold, has offered and sold securities in the form of interests in five oil-and-gas drilling programs—Giant Ranch 7, Giant Matagorda, Giant New Mexico 10, Giant Energy USA, and Giant New Mexico 4. Defendant Giant Operating, by and through Harris, Plunkett, and Arnold, served as sponsor and manager for each program, which purportedly drilled or reworked wells in Texas and New Mexico. In the five offerings combined, Giant Operating sought approximately $23 million from investors. To date, Giant Operating has raised at least $16.6 million in the five programs from approximately 150 investors located throughout the United States.

15. To facilitate the offerings, which were not registered with the Commission, Harris, Plunkett, and Arnold hired and maintained a sales staff of approximately 15 members in Giant Operating's office. The Defendants used the sales staff to make unsolicited sales calls by telephone to prospective investors throughout the United States. Harris, Plunkett, and Arnold identified prospective investors by purchasing lead lists from other companies. For each sale, Giant Operating paid a 14% commission to its sales staff.

16. With the oversight of Plunkett and Harris, Arnold managed the sales staff and, in Harris's absence, managed Giant Operating's office. Arnold also supervised Giant Operating's recordkeeping and its communications with investors. He also served as the liaison between the company and its securities attorney.

Misleading Statements Regarding Investment Returns

17. In furtherance of the fraudulent scheme, Harris and Arnold directed the Giant Operating sales staff to send prospective investors written offering materials. These offering materials, which Arnold drafted and Harris signed, included misleading statements. For example, the offering materials for at least some programs included a glossy brochure and a private-placement memorandum ("PPM"). Each glossy brochure contained color pictures of oilrigs and maps and, in the case of the Giant New Mexico 4 program, included an "investment calculator." The investment calculator contained a "conservative" estimate that the investor would receive a 100% return on the investment "within 12 months." The brochure for Giant New Mexico 10 contained a "Lease Pro Forma," predicting a "100% Return on Investment" in as few as six months. The Giant Matagorda brochure contained a "Financial Estimates" chart showing that a $65,000 investment would realize "annual revenue earnings" ranging from $24,000 to $96,000.

18. These statements regarding investment returns were false and misleading. The Defendants simply concocted the bogus estimates to entice investors into the scheme. Indeed, the estimates had no reasonable basis, considering, among other things, that the Defendants misappropriated and misapplied vast sums of the offering proceeds, as explained below. Moreover, Giant Operating had never operated a profitable oil-and-gas program, a fact known to the Defendants during the program offerings. The Defendants did not disclose to investors Giant Operating's history of negative performance.

Misleading Statements Regarding Giant Operating's Management

19. The offering materials for all five programs said that Giant Operating was organized in September 2006 and that Harris "has been President of Giant since its inception."

This statement was false. In reality, Plunkett formed Giant Operating on September 21, 2006. Plunkett was Giant Operating's sole owner and "managing member" from inception though approximately January 2008. Plunkett also served as Giant Operating's president from its inception through November 2007, when he designated Harris as Giant Operating's president.

20. In addition, Plunkett formed Relief Defendant Giant Petroleum in December 2006 and was its sole shareholder, director, and president until about January 31, 2008. Giant Petroleum and Giant Operating had the same address. From at least December 2006 through at least March 2007, Giant Petroleum offered investments in oil-and-gas drilling programs called the Lykes Ranch Prospect Joint Venture ("Lykes Ranch") and the River Ranch Joint Venture ("River Ranch"). Collectively, the two offerings sought to raise approximately $8.5 million. During these offerings, Harris served as Giant Petroleum's chief operations officer and reported directly to Plunkett. To facilitate the Lykes Ranch and River Ranch offerings, Plunkett employed a sales staff to solicit investors by telephone and to distribute a PPM for each program. The Lykes Ranch and River Ranch PPMs bore many things in common with the subsequent Giant Operating PPMs.

21. In April 2007, Plunkett was indicted on felony extortion charges by a federal grand jury in this Court. Following his indictment, Plunkett designated Harris as Giant Operating's president because Plunkett was concerned that potential investors would be less likely to invest in the company's drilling programs if the company's president was under indictment. After Plunkett made Harris president, Plunkett still owned Giant Operating and still controlled it, along with Harris and Arnold, a fact the Defendants concealed from investors in furtherance of the scheme.

Plunkett Sold Giant Operating to Harris in a Sham Transaction

22. On January 22, 2008, Plunkett was convicted on felony computer-fraud charges in this Court. On or about January 31, 2008, Plunkett sold Giant Operating and Giant Petroleum to Harris. Plunkett sold the companies to Harris to prevent potential investors from discovering that the companies were operated by a person who had been convicted of felony fraud. Plunkett was concerned that, if investors discovered his conviction, it would stifle investment in the oil-and-gas programs, from which he received proceeds.

23. To preserve Plunkett's revenue stream from the oil-and-gas programs, Plunkett and Harris signed a purchase agreement that obligated Harris to pay Plunkett $5.125 million for Giant Operating, paying $225,000 in cash and the rest in monthly installments of approximately $102,000 for approximately four years. When they entered the sales agreement, Plunkett and Harris knew that Harris had neither the assets nor the income to pay Plunkett the purchase price. Plunkett simply directed Harris to pay the purchase price using funds raised from investors in the Giant Operating oil-and-gas programs. In fact, Plunkett simply took approximately $125,000 from Giant Operating in partial payment of Harris's $225,000 down payment, directing Harris to pay the rest from offering proceeds.

24. This purchase agreement was merely a sham designed to give the appearance that the recently convicted Plunkett was no longer associated with Giant Operating. The $5.125 million purchase price was not the subject of any independent appraisal and reflected a gross overvaluation of the company, which had little or no value. In fact, Giant Operating's liabilities far exceeded its assets, and it had never been profitable. After the sale to Harris, Plunkett continued to control Giant Operating along with Harris and Arnold, a fact the Defendants concealed from investors in furtherance of the scheme.

Misapplication and Misappropriation of Offering Proceeds

25. The PPM for each program specified the amount sought in the offering and, with the exception of the Giant Matagorda PPM, how the offering proceeds would be spent. The Giant Ranch 7 PPM indicated that 14.58% of the offering proceeds would go to Giant Operating for management fees and costs and that the rest would go toward drilling-related costs. According to the PPM for the three remaining programs, 80% of the offering proceeds would be spent on operational costs, such as drilling, testing, and completion. The remaining 20% would be spent on management fees and costs, such as legal, organizational, accounting, printing, and consulting fees, along with salaries, bonuses, and overhead. Further, the PPM for each program described investors as "Joint Venturers" and specified that Giant Operating served as the program's "Joint Venture Manager." Finally, each PPM stated:

> The Joint Venture Manager is accountable to the Joint Venturers as a fiduciary and consequently must exercise the utmost good faith and integrity in the handling of Joint Venture affairs. The Joint Venture Manager must provide Joint Venturers (or their representatives) with timely and full information concerning matters affecting the business of the Joint Venture, including its formation and liquidation.

26. An analysis of Giant Operating's financial records demonstrates that the Defendants misapplied and misappropriated offering proceeds, utterly disregarding the representations that they would limit spending to certain percentages in specified categories. From September 2007 through September 2009, Giant Operating received approximately $17.18 million in total deposits; at a minimum, approximately $16.67 million—97%—came from investors. Approximately $522,000 came from other sources, including approximately $144, 000, which Giant Operating classified as oil revenue. Approximately $436,000 had been on deposit at the beginning of the period, derived mainly from earlier investor deposits.

27. Of the approximately $17.62 million in total funds available to Giant Operating

during the period September 2007 through September 2009, Harris, Plunkett, and Arnold collectively received, at a minimum, $4.20 million, representing approximately 24%. Of this amount, Harris and his company DSSC received approximately $2.37 million; Plunkett received approximately $1.44 million, directly and through a company he owned and controlled called Arnett Energy Capital, LLC; and Arnold received approximately $385,000. Giant Operating spent approximately $5.83 million of the total funds available—approximately 33%—on drilling, testing, and completing wells. Giant Operating spent approximately $7.27 million of the total funds available—approximately 41%—on other costs, including approximately $3.05 million paid in commissions to the Giant Operating sales staff. At the end of the period, Giant Operating's accounts collectively showed a balance of approximately $315,000. Altogether, over 41% of the total funds went to Harris, Plunkett, and Arnold and to the sales staff they employed in the scheme.

28. In furtherance of the scheme, the Defendants deposited millions of dollars from investors into accounts held by Relief Defendant Giant Petroleum, a company owned by Plunkett until January 31, 2008, after which it was owned by Harris. Giant Petroleum gave Giant Operating nothing in exchange for the funds it received. The Defendants also deposited millions of investor dollars into accounts held by Relief Defendant DSSC, a company owned by Harris. DSSC likewise gave Giant Operating nothing in exchange for the funds it received.

29. Contrary to the PPM fiduciary-duty disclosure, the Defendants did not provide investors timely and full information concerning the use of investment proceeds, including the amounts paid to Harris, Plunkett, and Arnold. Indeed, the fiduciary-duty representation was itself a misleading statement, designed to entice investors with false promises of good faith, integrity, and timely and full information. In keeping with the scheme, however, the Defendants

had no intention of exercising good faith or integrity or of providing investors timely and full information concerning matters affecting the business of the Joint Venture.

The Most Recent Fraudulent Offering

30. From at least July 1, 2009, through at least September 17, 2009, Giant Operating, acting by and through Harris, Plunkett, and Arnold, offered oil-and-gas securities in Giant New Mexico 4, which purported to have three oil-and-gas wells and one saltwater-disposal well located in New Mexico. The offering materials, dated July 1, 2009, included a glossy brochure and PPM and provided that Giant Operating sought to raise $4.5 million through the sale of 50 units priced at $90,000 per unit. The cover page of the offering materials contained, among other things, the following representations:

- Steady revenue stream from Salt Water Disposal System well
- Estimated 10% to 50% return annually from the saltwater-disposal well

31. The glossy-brochure portion of the offering materials highlighted the saltwater-disposal-well component of the investment. The brochure contained claims that revenue from the saltwater-disposal well was "virtually guaranteed" and that Giant Operating could "easily" reach a 10% annual return because Giant Operating was securing contracts with two other companies to process 3,000 barrels of saltwater per day. These statements were false because Giant Operating neither had saltwater-processing contracts with the two companies nor was Giant Operating securing such contracts.

FIRST CLAIM

Violations of Section 5(a) and 5(c) of the Securities Act

32. Plaintiff Commission re-alleges and incorporates paragraphs 1 through 31 of this Complaint by reference as if set forth *verbatim*.

33. Defendants Harris, Arnold, and Giant Operating, 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.

34. As described in paragraphs 1 through 31, the securities described herein have been offered and sold to the public. No registration statements were ever filed with the Commission or otherwise in effect with respect to these securities.

35. By reason of the foregoing, the Defendants Harris, Arnold, and Giant Operating 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)].

SECOND CLAIM

Violations of Section 17(a) of the Securities Act

36. Plaintiff Commission re-alleges and incorporates paragraphs 1 through 31 of this Complaint by reference as if set forth *verbatim*.

37. 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) obtained money or property by means of untrue statements of a material fact and omitted to state a material fact

necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in transactions, practices, and courses of business which operate or would operate as a fraud and deceit upon the purchasers.

38. As a part of and in furtherance of his 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 31, above.

39. 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.

40. 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)].

THIRD CLAIM

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

41. Plaintiff Commission re-alleges and incorporates paragraphs 1 through 31 of this Complaint by reference as if set forth *verbatim*.

42. 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 a material fact and omitted to state a material fact 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 or would operate as a fraud and deceit upon purchasers, prospective purchasers, and any other persons.

43. As a part of and in furtherance of his 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 31 above.

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

45. By reason of the foregoing, 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].

FOURTH CLAIM

Violations of Section 15(a)(1) of the Exchange Act

46. Plaintiff Commission re-alleges and incorporates paragraphs 1 through 31 of this Complaint by reference as if set forth *verbatim*.

47. Defendants Harris, Arnold, and Giant Operating, by engaging in the conduct described above, directly or indirectly made use of the mails or means or instrumentalities of interstate commerce to effect transactions in, or to induce or attempt to induce, the purchase or sale of securities, without being registered as a broker or dealer, or being associated with a registered broker or dealer in accordance with Section 15(a) (1) of the Exchange Act [15 U.S.C. § 78o(a) (1)].

48. Accordingly, Defendants were brokers within the definition of that term in Section 3(a)(4) of the Exchange Act which defines "broker" as any person "engaged in the business of effecting transactions in securities for the account of others." Defendants were never so registered and, acted as brokers which included: (1) solicitation of investors to purchase securities; (2) involvement in negotiations between the issuer and the investor; and (3) receipt of transaction-related compensation.

49. By reason of the foregoing, Defendants Harris, Arnold, and Giant Operating violated and, unless enjoined, will continue to violate Section 15(a) (1) of the Exchange Act [15 U.S.C. § 78o(a) (1)].

RELIEF REQUESTED

WHEREFORE, Plaintiff respectfully requests that this Court:

I.

Permanently enjoin Defendants Harris, Arnold, and Giant Operating from violating Sections 5(a), 5(c), and 17(a) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), and 77q(a)] and Sections 10(b) and 15(a)(1) of the Exchange [15 U.S.C. §§ 78j(b) and 78o(a)(1)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder; and permanently enjoin Defendant Plunkett from violating Section17(a) of the Securities Act [15 U.S.C. § 77q(a)] and Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder.

II.

Order the Defendants and Relief Defendants to disgorge an amount equal to the funds and benefits obtained illegally, or to which they are otherwise not entitled, as a result of the violations alleged, plus prejudgment interest on that amount.

III.

Order the Defendants to pay civil monetary penalties in an amount determined appropriate by the Court 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.

Order each Defendant and Relief Defendant to provide a sworn accounting, providing a detailed account of the receipt and disposition of all proceeds from the offering described in Paragraphs 1 through 31, above.

V.

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

Respectfully submitted,

DATED: February 18, 2010

s/Timothy S. McCole
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