



actual cost to drill the wells was more than \$1 million less than the offering documents represented.

2. The Commission, in the interest of protecting the public from any further violations of the federal securities laws, brings this action against Defendants seeking permanent injunctive relief, disgorgement, prejudgment interest, and civil penalties.

### **JURISDICTION**

3. The Commission brings this action pursuant to the authority conferred upon it by 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.

4. This Court has jurisdiction over this action pursuant to 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] and Title 28 U.S.C. § 1331. Defendants, directly and indirectly, made use of the mails and of the means and instrumentalities of interstate commerce in connection with the acts, practices and courses of business described in this Complaint.

5. Venue lies in this Court pursuant to 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] because certain of the acts and transactions described herein took place in the Northern District of Texas.

### **DEFENDANTS**

6. Rey Salomon, Jr., age 32, a resident of Garland, Texas, is the principal of EHD.

7. Ellen H Development LLC is a Texas limited liability company with its principal place of business in Dallas, Texas. It has never registered an offering of securities under the Securities Act or a class of securities under the Exchange Act.

**STATEMENT OF FACTS**

8. From March through September 2007, EHD and Salomon sold fractional interests in EHD's Harper-Knight Drilling Program (the "Program").

9. According to a private placement memorandum dated January 19, 2007, prepared by Salomon (the "PPM"), the purpose of the Program was to raise approximately \$4.5 million to drill, complete, and equip two oil and gas wells in Denton County, Texas.

10. The PPM informed potential investors that the offering was not registered with the Commission and claimed that the Program was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D thereunder.

11. The PPM contained misrepresentations and omissions of material facts relating to: (i) the use of Program funds; (ii) investors' obligations for EHD's debts; and (iii) the amount of money needed to drill, complete, and equip the two wells. Specifically, the PPM represented that "100%" of investor funds would be used to drill, complete, and equip two oil and gas wells and that any expenses paid would be "in connection with" the Program.

12. The PPM stated that investor funds would "not be subject to the debts of [EHD] or any affiliate."

13. The PPM stated that the turnkey contract price to drill, complete, and equip the wells was \$4,460,400—the entire sum EHD sought to raise through the offering.

14. Contrary to the express terms of the PPM, Salomon used approximately \$180,000 of investor money for his personal benefit, including his salary, mortgage, utility bills, and various other personal expenses. Salomon used an additional \$40,000 to pay off a loan owed by EHD and Salomon. Finally, EHD entered into an agreement with an oil and gas operator to drill,

complete, and equip the wells for approximately \$3,270,000—roughly \$1.2 million less than the amount represented in the PPM. The PPM failed to disclose that EHD and Salomon intended to keep the difference between the alleged turnkey price of \$4,460,400 and the actual cost to drill, complete, and equip the wells.

15. During the relevant period, EHD and Salomon raised \$903,195 from 22 investors located in 14 different states. On September 6, 2007, following the Commission's initial inquiry, EHD and Salomon voluntarily ceased offering or selling the Program, requested that its oil and gas operator return all monies paid by EHD, and terminated all operations associated with the Program. EHD and Salomon voluntarily returned \$602,935—all remaining investor funds—to their counsel's client trust account.

## **CLAIMS**

### **First Claim**

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

16. Plaintiff repeats and incorporates paragraphs 1 through 15 of this Complaint by reference as if set forth *verbatim*.

17. 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: (a) have employed devices, schemes and artifices to defraud; (b) have made untrue statements of material facts and have 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) have engaged in acts, practices and courses of business which operate as a fraud and deceit upon purchasers, prospective purchasers and other persons.

18. Defendants made these misrepresentations and omissions knowingly or with severe recklessness.

19. 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 [17 C.F.R. § 240.10b-5] thereunder.

### **Second 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 connection with the offer or sale of securities, by use of the means and instrumentalities of interstate commerce and by use of the mails: (a) have employed devices, schemes and artifices to defraud; (b) have made untrue statements of material facts and have 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) have 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 to defraud, Defendants, directly and indirectly, prepared, filed, executed, signed, disseminated, used and issued public statements 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 above.

23. Defendants made these misrepresentations and omissions knowingly, with severe recklessness, or negligently.

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)].

### **Third Claim**

#### **Violations of Sections 5(a) and 5(c) of the Securities Act**

25. Plaintiff repeats and incorporates paragraphs 1 through 24 of this Complaint by reference as if set forth *verbatim*.

26. 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.

27. No registration statements were ever filed with the Commission with respect to the Program and the Program was not otherwise exempt from registration.

28. By reason of the foregoing, Defendants 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)].

#### **Fourth Claim**

##### **Violations of Section 15(a) of the Exchange Act**

29. Plaintiff repeats and incorporates paragraphs 1 through 28 of this Complaint by reference as if set forth *verbatim*.

30. Salomon was in the business of effecting transactions in securities for the accounts of others.

31. Salomon 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.

32. Salomon was not registered with the Commission as a broker or dealer.

33. By reason of the foregoing, Salomon violated and, unless enjoined, will continue to violate Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)].

#### **PRAYER FOR RELIEF**

The Commission requests that this Court enter a judgment:

- (i) permanently enjoining Salomon and EHD from violating, directly or indirectly, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 5(a), 5(c), and 17(a) of the Securities Act;
- (ii) permanently enjoining Salomon from violating, directly or indirectly, Section 15(a) of the Exchange Act;
- (iii) ordering Salomon and EHD to pay, jointly and severally, disgorgement plus prejudgment interest;
- (iv) ordering Salomon and EHD to pay civil penalties; and

(v) granting such other relief as this Court may deem just or appropriate.

DATED: September 25, 2008

Respectfully submitted,



---

Jason Rose  
Texas Bar No. 24007946  
U.S. SECURITIES & EXCHANGE  
COMMISSION  
801 Cherry St., 19th Floor  
Fort Worth, Texas 76102  
Office: (817) 978-1408  
Fax: (817) 978-2700

ATTORNEY FOR PLAINTIFF