

ORIGINAL

NEW APPLICATION



0000139018

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

Arizona Corporation Commission

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

In the matter of:

CHRISTOPHER DEAN DEDMON
CRD#3015575 and KIMBERLY DEDMON,
husband and wife,

ROBERT R. COTTRELL (a.k.a. "ROB
COTTRELL"),

SDC MONTANA CONSULTING, LLC
(a.k.a., d.b.a., a.b.n. "SDC MONTANA" and
"SDC MONTANA OIL & GAS
EXPLORATION"), an Arizona limited
liability company,

RSC ADVENTURES LLC, an Arizona
limited liability company,

Respondents.

DOCKET NO. S-03479A-12-0360

NOTICE OF OPPORTUNITY FOR HEARING
REGARDING PROPOSED ORDER TO
CEASE AND DESIST, ORDER FOR
RESTITUTION, ORDER FOR
ADMINISTRATIVE PENALTIES AND
ORDER FOR OTHER AFFIRMATIVE
ACTION

NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING

EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER

The Securities Division ("Division") of the Arizona Corporation Commission ("Commission")
alleges that respondents CHRISTOPHER DEAN DEDMON CRD#3015575, ROBERT R.
COTTRELL (a.k.a. "ROB COTTRELL"), SDC MONTANA CONSULTING, LLC (a.k.a., d.b.a.,
a.b.n. "SDC MONTANA" and "SDC MONTANA OIL & GAS EXPLORATION"), and RSC
ADVENTURES, LLC, have engaged in acts, practices, and transactions that constitute violations of
the Securities Act of Arizona, A.R.S. § 44-1801 et seq. ("Securities Act").

1 The Division further alleges that Respondent CHRISTOPHER DEAN DEDMON
2 (“DEDMON”) directly or indirectly controlled Respondent SDC MONTANA CONSULTING,
3 LLC (“SDC”) within the meaning of A.R.S. § 44-1999; DEDMON is jointly and severally liable
4 with, and to the same extent as SDC, for the SDC’s violations of the anti-fraud provisions of the
5 Securities Act.

6 **I.**

7 **JURISDICTION**

8 1. The Commission has jurisdiction over this matter pursuant to Article XV of the
9 Arizona Constitution and the Securities Act.

10 **II.**

11 **RESPONDENTS**

12 2. At all relevant times, Respondent DEDMON has been a married man and an
13 Arizona resident.

14 3. At all relevant times, DEDMON has been offering and selling limited liability
15 company (“LLC”) membership interests issued by Respondent SDC (a.k.a., d.b.a., a.b.n. “SDC
16 MONTANA” and “SDC MONTANA OIL & GAS EXPLORATION”) within or from Arizona as
17 its member, managing general partner and investment salesman.

18 4. At all relevant times, DEDMON has not been registered by the Commission as a
19 securities salesman or dealer.

20 5. At all relevant times, Respondent ROBERT R. COTTRELL (a.k.a. “ROB
21 COTTRELL”) (“COTTRELL”) was an Arizona resident.

22 6. At all relevant times, COTTRELL has been offering and selling LLC membership
23 interests issued by SDC: (a) in his individual capacity; (b) on behalf of SDC as its member, partner
24 and investment salesman; and (c) on behalf of Respondent RSC ADVENTURES, LLC (“RSCA”)
25 as its managing member and investment salesman.
26

1 16. As generally explained on the “Home” page of Respondents’ website at
2 www.sdcmontana.com (“Website”):

3 SDC Montana is an oil and gas firm based in Plentywood, MT that assists in the
4 acquisition, development, and exploration of oil and natural gas in the Bakken [oil
shale] rock formation [located, in part, within Montana]...

5 Currently, SDC Montana has operations across Roosevelt, Sheridan and Daniels
6 counties of Montana covering over 175,000 acres of prospect land and continues to
grow in size.

7 17. Respondents’ Website includes several color photos of oil and gas wells. The
8 “Current Projects” page of the Website further includes maps regarding Respondents’ Montana
9 oil and gas claims and/or Business operations.

10 18. Prior to February 2012, the Website included an “Investors” page that: (a) stated
11 that “Investors Information” [sic] is “Coming Soon;” and (b) included two telephone numbers
12 and an email address that potential investors could use to request additional information from
13 Respondents (the “Investor Page”).

14 19. At all relevant times, potential Arizona investors could also request additional
15 information from Respondents by completing a form on the “Contact Us” page of Respondents’
16 Website.

17 **B. The LLC Membership Interests and Summary of Offering**

18 20. From approximately July 2010 through at least October 2011, Respondents issued,
19 offered and sold, within and from Arizona, LLC membership interests in SDC (the “Membership
20 Interests”).

21 21. The Membership Interests have not been registered with the Commission as
22 securities to be offered and sold within or from Arizona.

23 22. At all relevant times, Respondents have referred to these Membership Interests as
24 “points” such that a one-percent Membership Interest equals one point.

1 23. At or around the time SDC was organized in July 2010, SDC issued to SDC's
2 three founding members Membership Interests totaling 100 points with 40 points going to
3 DEDMON, 30 points going to COTTRELL, and 30 points going to a third LLC member.

4 24. From approximately July 2010 to October 2011, Respondents sold Membership
5 Interests totaling 34.375 points to 13 different investors. Eight of these investors resided in
6 Arizona; the remaining five investors resided in Florida, North Dakota and Wisconsin.

7 25. These 13 investors invested a total of approximately \$519,000 in SDC.

8 26. Principal investment amounts ranged from \$6,000 (for .125 of a point) to
9 \$233,000 (for 13 total points).

10 27. The proceeds from these sales went to SDC for its general use.

11 28. Several investors also received the following documents from SDC:

12 a) At least four investors received a one-page "Confidential Disclosure
13 Agreement" to be completed by the investor and his/her spouse (the "Confidentiality
14 Agreements");

15 b) At least five investors received a one-page "Stock Registration Form"
16 written on SDC company letterhead which to be completed by investors to let
17 Respondents know, for instance, how their SDC Membership Interests should be titled;
18 and

19 c) At least six investors received a copy of the five-page SDC "Limited
20 Liability Company Operating Agreement" ("Operating Agreement").

21 29. Each copy of the Operating Agreement given to each investor was identical except
22 in two regards: 1) the signature page would have the investors name as a signee and 2) the list of
23 members would list the persons who were members at the time of signing.

24 30. The Operating Agreement states that SDC is a "Manager-Managed" LLC and that
25 DEDMON is SDC's "Managing General Partner"; at all relevant times, DEDMON has acted in
26 this capacity.

1 31. None of these documents contain any disclosure of risk related to the purchase of
2 the Membership Interests.

3 32. The Operating Agreement states that DEDMON must approve “[a]ll sales or
4 assignments of any” Membership Interests.

5 33. As Managing Partner, DEDMON approved several transactions in which
6 Membership Interests were resold.

7 34. Respondents RSCA and COTTRELL have resold RSCA’s Membership Interests
8 totaling approximately 2.4 points to five different persons for a total of \$80,000 from January
9 2011 to November 2011.

10 35. Respondent COTRELL told at least one investor that the investment was a “slam
11 dunk” and “risk free.”

12 **C. The Arizona Offeree**

13 36. In September and October 2011, an Arizona resident (the “offeree”) viewed
14 Respondents’ Website and the “Investors” page from Arizona.

15 37. On October 6, 2011, the offeree called the telephone number listed on the
16 “Investors” page of the Website and left a message providing the offeree’s Arizona telephone
17 number (*i.e.*, 480 prefix), and stated that the offeree wanted to speak to someone about pursuing a
18 potential investment opportunity with SDC.

19 38. On October 6, 2011, DEDMON telephoned the offeree to follow up on the
20 offeree’s investment inquiry. The offeree was unavailable and DEDMON left a voice mail
21 message for the offeree that stated: (a) that the caller was DEDMON with “SDC Montana;” and
22 (b) provided the offeree with DEDMON’s Arizona telephone number (*i.e.*, 602 prefix).

23 39. On October 7, 2011, the offeree called DEDMON’s Arizona telephone number
24 and spoke to DEDMON. During this call, the offeree told DEDMON that the offeree had
25 approximately \$100,000 to invest and that the offeree was contacting Respondents to see if there
26 were any private investments for sale.

1 40. In Response, DEDMON represented to the offeree during call that there were a
2 couple of SDC investors who may be willing to sell the offeree some or a portion of their
3 Membership Interests. DEDMON also told the offeree that Respondents had recently completed
4 \$22,500,000 in Business sales, that Respondents currently have “about \$15,000,000” owed to
5 Respondents, and, “in the next day or two” Respondents would execute another Business
6 “contract for about \$50,000,000.”

7 41. On October 7, 2011, COTTRELL sent the offeree a text message to the offeree’s
8 Arizona telephone number that stated that COTTRELL was “from SDC Montana” and that
9 DEDMON had provided COTTRELL with the offeree’s contact information.

10 42. On October 11, 2011, COTTRELL sent an email to the offeree that stated that,
11 although the investment opportunity was “sold out” and was “so very close to [its] first payout,”
12 he might be willing to “let a few points go.”

13 43. Attached to COTTRELL’s October 11, 2011, email was a one-page “SDC
14 Montana Executive Summary.” The SDC Executive Summary describes SDC’s mineral-acre
15 holdings in Montana and potential joint ventures and leasing options for these holdings. It did
16 not discuss any risks associated with investing in SDC.

17 44. On October 13, 2011, COTTRELL sent an email to the offeree that states that
18 Respondents might be able to sell the offeree investments for “as low as \$40-80K,” that
19 COTTRELL was working on “other possibilities” in order to sell the offeree more investments,
20 and that the investments were “great with incredible short-term and long-term return[s].”

21 45. On October 15, 2011, COTTRELL wrote an email to the offeree that states that
22 Respondents would soon realize significant Business revenues and profits, that Respondents
23 would share with investors the profits “within a matter of a couple of months at the most,” the
24 payouts would be based on the points owned by each investor, and that investor payouts could
25 occur possibly much sooner.

26 46. The email did not discuss any risks associated with the investment.

1 47. The email contained projections of payouts that an SDC point-holder could obtain.
2 The projected payout from selling mineral rights had a projection labeled "our plan" of \$400,000
3 per point and a "conservative projection" of \$100,000 payout per point. The projected payment
4 from ongoing drilling activities had a "conservative projection" with a monthly payout of \$1,800
5 per point and an "our plan" monthly payout of \$36,000 per point. COTTRELL further explained
6 that under the conservative projections "an \$80,000 investment should return \$200,000 plus
7 \$3,600 per month in ongoing royalties."

8 48. On October 16, 2011, COTTRELL sent the offeree an email stating that
9 COTTRELL would likely decide to allow the offeree to purchase three of COTTRELL's
10 Membership Interests (*i.e.*, three "points") held in the name of RSCA and that the funds would
11 go from the offeree to RSC ADVENTURES LLC; the paperwork in terms of corporate
12 documents would all come directly and officially from SDC Montana LLC.

13 49. In his October 16, 2011, email to the offeree, COTTRELL also provided the
14 offeree with COTTRELL's Arizona bank account information so that the offeree could wire to
15 COTTRELL the payment for the Membership Interests.

16 50. On October 17, 2011 COTTRELL sent the offeree an email with the following
17 documents attached: Confidentiality Agreement, Cover Letter, Operating Agreement and Stock
18 Registration Form.

19 51. On October 18, 2011, COTTRELL sent an email to the offeree that included a
20 one-page, color "Memorandum of Understanding" dated October 17, 2011, and signed by
21 COTTRELL in his capacities as the Partner of both SDC and RSCA stating that RSCA was
22 selling to the offeree Membership Interests equaling a "three percent ownership" interest in SDC,
23 and that: "It is understood by all parties that the sole purpose of SDC Montana Consulting LLC is
24 for lease acquisition, drilling, and all other aspects that may pertain to oil and gas exploration in
25 the Williston Basin (Bakken Field) located in North Dakota and Montana."
26

1 52. Prior to providing the offeree with these documents and wiring instructions,
2 COTTRELL did not conduct any inquiry, or ask the offeree, a total stranger, whether the offeree
3 was an “accredited” or sophisticated investor who had, for instance, previously invested in or
4 managed an oil and gas business.

5 **D. General LLC Membership Interest Allegations**

6 53. Except for the purchasers of the 2.4 points that RSCA/COTTRELL resold for
7 COTTRELL’s own benefit (described in paragraph 34 above), the majority of investors paid for
8 their Membership Interests with checks, cashier’s checks, money orders or wire transfers payable
9 to SDC, and they sent the payments to SDC and DEDMON in Arizona. SDC and DEDMON
10 caused the investment funds to be deposited into Arizona and Montana bank accounts owned and
11 controlled by SDC and DEDMON.

12 54. At all relevant times, respondents SDC and DEDMON have represented to
13 offerees and investors that SDC will combine, pool or commingle the Membership Interest funds
14 together to fund and operate SDC’s Business and, for instance, acquire oil, gas and mineral
15 rights, and facilitate drilling for oil and gas.

16 55. At all relevant times, respondents SDC and DEDMON further represented to
17 offerees and investors that SDC and DEDMON would manage the essential aspects of the
18 Business, and that SDC’s ability to repay purchasers their principal investments and projected
19 profits was interwoven with and primarily dependent on SDC and DEDMON’s business
20 expertise, operational experience and knowledge of the current Montana oil and gas industry.

21 56. For instance, the “Current Projects” and “Environmental Responsibilities” pages
22 of SDC’s Website state that SDC or its agents will implement sophisticated “technologies such as
23 horizontal drilling” and “hydraulic fracturing” to “break rock along the length of a well to enable
24 the oil to flow and be extracted” from SDC’s “potentially very large” oil and gas claims within
25 the Bakken oil shale rock formation.
26

1 57. The Operating Agreement further states that DEDMON, as SDC's "managing
2 general partner," has the "primary responsibility" for managing the Business and Membership
3 Interest funds, and grants DEDMON the authority to, without limitation: (a) "make all decisions"
4 on behalf of SDC; (b) purchase, sell, develop or lease SDC's assets; (c) execute loans and other
5 contracts on behalf of SDC; and (d) hire or manage employees.

6 58. To date, Membership Interest investors have not yet received back their principal
7 investment funds or promised profits.

8 **E. Respondents' Non-Disclosure of DEDMON's Previous Violations of the Arizona**
9 **Securities Act and Related Order and Consent**

10 59. On April 27, 2005, the Division filed a Notice of Opportunity for Hearing
11 Regarding Proposed Order to Cease and Desist, Order for Restitution, Order for Administrative
12 Penalties and for Other Affirmative Action (the "Notice") against DEDMON and Omni Horizon
13 Group, LLP ("Omni"), an Arizona limited liability partnership.

14 60. The Notice ultimately resulted in the Division obtaining an "Order to Cease and
15 Desist, Order of Restitution, Order for Administrative Penalties, and Consent to Same" that
16 DEDMON and Omni executed on August 9, 2005 and was approved by the Commission on
17 September 23, 2005, as Decision No. 68160.

18 61. Decision No. 68160 includes findings of fact and conclusions of law made by the
19 Commission that DEDMON and Omni violated the registration provisions of the Securities Act,
20 A.R.S. §§ 44-1841 and 44-1842, by selling unregistered securities within and from Arizona while
21 not registered as securities salesmen or dealers. Decision No. 68160 further includes findings
22 that DEDMON and Omni violated the anti-fraud provision of the Securities Act, A.R.S. § 44-
23 1991, by failing to disclose to their investors that the stock certificates they sold would not be
24 properly transferred on the corporate books of issuing company.

25 62. In Decision No. 68160 the Commission ordered DEDMON and Omni to: (a)
26 permanently cease and desist from violating the Securities Act; (b) pay restitution to their
investors totaling \$656,676.87, with interest thereon at the rate of five percent per annum until

1 paid in full; and (c) to pay an administrative penalty totaling \$5,000, with interest thereon at the
2 rate of five percent per annum until paid in full.

3 63. In Decision No. 68160, DEDMON further agreed to never “exercise any control
4 over any entity that offers or sells securities...within or from Arizona at any time in the future.”

5 64. As of July 2012, DEDMON, his spouse and Omni had paid only \$16,276 towards
6 satisfaction of their restitution and penalty obligations as set forth in Decision No. 68160.

7 65. At all relevant times, Respondents failed to disclose Decision No. 68160 to
8 Membership Interest offerees and investors.

9 **G. Respondents’ Non-Disclosure of DEDMON’s Previous Bankruptcies**

10 66. Unbeknownst to Membership Interest offerees and investors, DEDMON and his
11 spouse voluntarily filed a Chapter 7, no-asset bankruptcy petition in the United States District
12 Court, District of Arizona, No. 2:09-bk-33352-RJH, on December 24, 2009. DEDMON’s
13 bankruptcy schedules state that he and his spouse were seeking to discharge \$3,427,189 in debt,
14 including the amount owed under Decision No. 68160, and that they had assets of only \$13,600
15 with which to satisfy said debt.

16 67. On November 15, 2010, after Respondents began offering and selling the
17 Membership Interests, DEDMON and his spouse obtained a final order discharging their debts
18 without payment to any creditors.¹ Subsequent to November 15, 2010, Respondents failed to
19 disclose DEDMON’s bankruptcy to offerees and investors.

20 68. Unbeknownst to Membership Interest offerees and investors, DEDMON and his
21 spouse also caused Omni to voluntarily file a Chapter 7 bankruptcy petition in the United States
22 District Court, District of Arizona, Case 2:09-bk-33353-RTB, on December 29, 2009.

23 69. Omni’s bankruptcy petition states that Omni is seeking to discharge \$2,048,638 in
24 debt, including the amount owed under Decision No. 68160, and that it only has assets of
25 \$50,000 from which to satisfy such debt.

26 ¹ Under 11 U.S.C. §§ 523(a)(19)(a)(A) & (B), debts arising from violations of the Securities Act like those set forth in Decision No. 68160 are not dischargeable in Chapter 7 bankruptcy proceedings.

V.

VIOLATION OF A.R.S. § 44-1842

(Transactions by Unregistered Dealers or Salesmen)

76. Respondents offered or sold securities within or from Arizona while not registered as dealers or salesmen pursuant to Article 9 of the Securities Act.

78. This conduct violates A.R.S. § 44-1842.

VI.

VIOLATION OF A.R.S. § 44-1991

(Fraud in Connection with the Offer or Sale of Securities)

79. In connection with the offer or sale of securities within or from Arizona, Respondents directly or indirectly: (i) employed a device, scheme, or artifice to defraud; (ii) made untrue statements of material fact or omitted to state material facts that were necessary in order to make the statements made not misleading in light of the circumstances under which they were made; or (iii) engaged in transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon offerees and investors. Respondents' conduct includes, but is not limited to, the following:

a) Representing to offerees and investors that they could earn substantial profits in a short period of time by purchasing the SDC Membership Interests, in part, because Respondents oil and gas Business would be managed by DEDMON as SDC's managing general partner, while further failing to disclose to them that DEDMON was previously:

(1) sanctioned by the Commission for fraudulently selling unregistered securities in violation of the Securities Act as set forth in Decision No. 68160;

(2) ordered by the Commission to pay \$656,677.87 in restitution to his previous investor victims, and \$5,000 in administrative penalties;

1 (3) that as of December 2009, only \$16,272 has been paid towards satisfaction of
2 the Decision No. 68160 by DEDMON and his spouse; and

3 (4) that Decision No. 68160 permanently bans DEDMON from violating the
4 Securities Act, and from exercising any control over any entity that offers or sells securities
5 like the Membership Interests within or from Arizona;

6 b) Representing to offerees and investors that they could earn substantial profits
7 in a short period of time by purchasing the Membership Interests, in part, because
8 Respondents' oil and gas Business would be managed by DEDMON as SDC's managing
9 general partner, while further failing to disclose to them about the existence of the
10 DEDMON's 2009 bankruptcy and the related bankruptcy in which DEDMON's company
11 Omni is seeking to discharge over \$2,000,000 in debt;

12 c) Failing to disclose risks related to purchasing the Membership Interests
13 including, without limitation, risks related to the oil and gas industry;

14 d) Representing to offerees and investors that their investment was "risk free;"
15 and

16 e) Failing to disclose the Division's previous enforcement action to offerees
17 and investors and misleading investors as to the results and significance of Decision No.
18 68160.

19 80. This conduct violates A.R.S. § 44-1991.

20 81. DEDMON directly or indirectly controlled SDC within the meaning of A.R.S. § 44-
21 1999. As a result, DEDMON is jointly and severally liable with, and to the same extent as SDC for its
22 violations of the anti-fraud provisions of the Securities Act set forth above.

23 **VII.**

24 **REQUESTED RELIEF**

25 The Division requests that the Commission grant the following relief:
26

1 Persons with a disability may request a reasonable accommodation such as a sign language
2 interpreter, as well as request this document in an alternative format, by contacting Shaylin A.
3 Bernal, ADA Coordinator, voice phone number (602) 542-3931, e-mail sabernal@azcc.gov.
4 Requests should be made as early as possible to allow time to arrange the accommodation.
5 Additional information about the administrative action procedure may be found at
6 <http://www.azcc.gov/divisions/securities/enforcement/AdministrativeProcedure.asp>

8 IX.

9 ANSWER REQUIREMENT

10 Pursuant to A.A.C. R14-4-305, if a Respondent or a Respondent Spouse requests a hearing,
11 the requesting respondent must deliver or mail an Answer to this Notice of Opportunity for Hearing
12 to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona
13 85007, within 30 calendar days after the date of service of this Notice. Filing instructions may be
14 obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site
15 at <http://www.azcc.gov/divisions/hearings/docket.asp>.

16 Additionally, the answering respondent must serve the Answer upon the Division. Pursuant
17 to A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-delivering a
18 copy of the Answer to the Division at 1300 West Washington, 3rd Floor, Phoenix, Arizona, 85007,
19 addressed to Ryan J. Millecam.

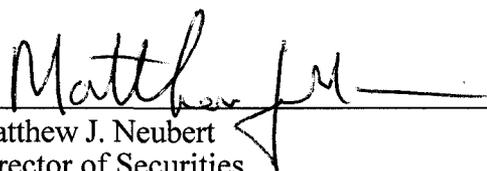
20 The Answer shall contain an admission or denial of each allegation in this Notice and the
21 original signature of the answering respondent or respondent's attorney. A statement of a lack of
22 sufficient knowledge or information shall be considered a denial of an allegation. An allegation not
23 denied shall be considered admitted.

24 When the answering respondent intends in good faith to deny only a part or a qualification
25 of an allegation, the respondent shall specify that part or qualification of the allegation and shall
26 admit the remainder. Respondent waives any affirmative defense not raised in the Answer.

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The officer presiding over the hearing may grant relief from the requirement to file an Answer for good cause shown.

Dated this 10 day of August, 2012.



Matthew J. Neubert
Director of Securities