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MEMBER

BRYAN K. BROWN
MEMBER

SSB Docket No. 03-007

IN THE MATTER OF
DIAMOND "S" OIL, LLC
AND PETE LIPPINCOTT

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§
§

Order No. CDO-1497

TO: Diamond "S" Oil, LLC
2431 Rice Boulevard
Houston, Texas 77005

Pete Lippincott
2431 Rice Boulevard
Houston, Texas 77005

EMERGENCY CEASE AND DESIST ORDER

This is your OFFICIAL NOTICE of the issuance by the Securities Commissioner of the State of Texas ("Securities Commissioner") of an EMERGENCY CEASE AND DESIST ORDER pursuant to Section 23-2 of The Securities Act, TEX. REV. CIV. STAT. ANN. art. 581-1 et seq. (Vernon 1964 & Supp. 2003) ("Texas Securities Act").

The Staff of the Enforcement Division ("the Staff") of the Texas State Securities Board ("the Securities Board") has presented evidence sufficient for the Securities Commissioner to find that:

FINDINGS OF FACT

1. Diamond "S" Oil, LLC ("Respondent Diamond") purports to be a "private non-public" company with a business address of 2431 Rice Boulevard, Houston, Texas 77005. As of February 13, 2003, there was no record of a Texas domestic or foreign corporation, professional corporation, professional association, limited partnership or limited liability company by this name on file with the Office of the Texas Secretary of State. On or about February 3, 2003, Articles of Incorporation for Diamond "S" Oil, Inc., a Domestic Business Corporation, were filed with the Office of the Texas Secretary of State, reflecting the same business address as Respondent Diamond.
2. Pete Lippincott ("Respondent Lippincott") purports to be the owner, President and CEO of Respondent Diamond with the same business address as Respondent Diamond.

3. On or about January 23, 2003, a Texas resident (the "Offeree") reviewed an Internet website with the URL <http://www.diamondsoil.com> (the "website"). The website informs investors interested in oil drilling, investing, or acquisition programs, that Respondent Diamond is an oil and gas company in Houston, Texas that is currently offering working interests in its New Wren Drilling Prospect in Monroe County, Mississippi, at a turnkey drilling cost of \$3,500 per 1% interest. The website suggests contacting Respondent Lippincott at telephone numbers 800-742-7266 or 713-522-2298 if interested in investing or for further information.
4. On or about January 23, 2003, the Offeree requested further information by contacting one of the above-referenced telephone numbers and leaving a message requesting more information. Respondent Lippincott called the Offeree and made available investments described as working interests in oil and gas projects:
 - a. One project was described as a three-well developmental project in Montague County, Texas at a cost of \$5,900 per 1% working interest. This project included the drilling of two wells and the completion of an existing well that was already producing.
 - b. The second project involved a lease in Clay County, Texas and was comprised of two phases being offered simultaneously. The first phase involved nine developmental wells offered at a cost of \$7,900 per 1% working interest. The second phase involved the drilling of five new wells on the same lease at a cost of \$5,950 per 1% working interest.
5. On or about February 1, 2003, the Offeree received offering materials via U.S. Mail from Respondent Lippincott referring to oil and gas ventures offered by Respondent Diamond containing the purported signature of Respondent Lippincott on behalf of Respondent Diamond. The materials received in the mail contained prospect reports and subscription agreements for two offerings:
 - a. The first offer, the Saner Lease Prospect ("Saner Lease") in Clay County, Texas, combined the deepening of nine existing wells and the drilling of five new wells. A 1% working interest in all 14 wells, for a cost of \$13,850 per unit, is made available. A monthly income of between \$1,512 and \$2,016 for 1% interest, with a payout of initial investment in seven to nine months, is projected.
 - b. The second project, the Holt Sand SJ #16, SJ #17 & #103 Prospect ("Holt Sand") in Montague County, Texas, offered working interest in a three-well package with two wells to be drilled and one well completed on January 24, 2003, at a cost of \$5,900 per 1% unit. There is a projected production of 105 to 200 barrels of oil per day from all three wells.
6. On or about February 13, 2003, Respondent Lippincott stated to the Offeree that the statement in the subscription agreement, that the investment was "highly speculative", was "just one of those things I put in there" and that he just takes that

language "from another form". He also stated that the investments "are not highly speculative situations" and that his programs are "conservative". Additionally, Respondent Lippincott represented to the Offeree that the \$250,000 net worth accreditation requirement set forth on the subscription agreement means "absolutely nothing" and is "absolutely meaningless" because the offer was a "private venture" and "not regulated".

7. On or about November 12, 2002, the Pennsylvania Securities Commission issued a Summary Order to Cease and Desist ("Pennsylvania Order") selling interests in the New Wren Prospect against Respondent Diamond and Respondent Lippincott. This fact was not disclosed to the Offeree by the Respondents.
8. For the period from January 1, 1998, to the present, the records of the State Securities Board fail to reflect that any securities issued by Respondent Diamond have been registered by qualification, notification or coordination and no permit has been granted for the sale of such securities within Texas.
9. For the period from January 1, 1998, to the present, Respondent Diamond and Respondent Lippincott have not been registered to offer or sell securities or registered or notice-filed to render investment advice within Texas.

CONCLUSIONS OF LAW

1. The working interests offered by Respondents are securities as defined by Section 4.A of the Texas Securities Act, to wit, certificates or instruments representing an interest in or under an oil, gas or mining lease.
2. The above-referenced Internet site, telephonic communications from Respondent Lippincott and written materials forwarded to the Offeree constitute the offer for sale of securities in Texas as the term "offer for sale" is defined in Section 4.E of the Texas Securities Act.
3. Respondents violated Section 7 of the Texas Securities Act by offering for sale the above-described securities without the securities being registered with the Securities Commissioner.
4. Respondents are acting as dealers or agents as those terms are defined in Sections 4.C and 4.D of the Texas Securities Act.
5. Respondents violated Section 12 of the Texas Securities Act by offering for sale securities in Texas without being registered or notice-filed pursuant to the provisions of Section 12 of the Texas Securities Act.
6. Respondents have made offers of securities in Texas that are materially misleading or otherwise likely to deceive the public by: failing to disclose the existence of the above-described Pennsylvania Order in connection with the offer of securities

herein; orally representing that the offered security was not speculative in contradiction to the terms of the subscription agreement.

7. Respondents' conduct, acts and practices threaten immediate and irreparable harm to the public.
8. The foregoing violations constitute bases for the issuance of an Emergency Cease and Desist Order pursuant to Section 23-2 of the Texas Securities Act.

ORDER

1. It is therefore ORDERED that Respondents immediately CEASE AND DESIST from offering and selling securities in Texas until the securities have been registered with the Securities Commissioner or an available exemption from registration is utilized.
2. It is further ORDERED that Respondents immediately CEASE AND DESIST from acting as securities agents or dealers in Texas until they are registered or an available exemption from registration is utilized.
3. It is further ORDERED that Respondents immediately CEASE AND DESIST from making offers in Texas containing statements that are materially misleading or otherwise likely to deceive the public.

NOTICE

Pursuant to Section 23-2 of the Texas Securities Act, you may request a hearing before the 31st day after the date you were served with this Order. The request for a hearing must be in writing, directed to the Securities Commissioner, stating the grounds for the request to set aside or modify the Order. Failure to request a hearing will result in the Order becoming final and non-appealable.

You are advised under Section 29.D of the Texas Securities Act that any knowing violation of an order issued by the Securities Commissioner under the authority of Section 23-2 of the Texas Securities Act is a criminal offense punishable by a fine of not more than \$5,000, or imprisonment in the penitentiary for not more than two years, or by both fine and imprisonment.

SIGNED AND ENTERED by the Securities Commissioner this 14th day of February, 2003.


DENISE VOIGT CRAWFORD
Securities Commissioner