SMSA El Paso II Acquisition Corp
Form 10-K
April 12, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

(Mark one)
x Annual Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934

For the fiscal year ended December 31, 2009

o Transition Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934

For the transition period from ______________ to _____________

Commission File Number: 000-53334

SMSA El Paso II Acquisition Corp.
(Exact Name of Registrant as Specified in Its Charter)

Nevada	26-2809162
(State of Incorporation)	(I. R. S. Employer ID Number)

11753 Willard Avenue, Tustin, CA. 92782
(Address of Principal Executive Offices)

(714) 832-3249
(Registrant's Telephone Number)

28 Cottonwood Lane, Hilton Head, SC. 2996
(Former name or former address, if changed since last report)

Securities registered pursuant to Section 12 (b) of the Act - None
Securities registered pursuant to Section 12(g) of the Act: - Common Stock - $0.001 par value

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

the preceding 12 months (or for such shorter period that the registrant was required to submit and post files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes x No o

The aggregate market value of voting and non-voting common equity held by non-affiliates as of June 30, 2009 was approximately $ -0-. The registrant had issued and outstanding 23,443,754 shares of its common stock on April 8, 2010.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. x Yes o No

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SMSA El Paso II Acquisition Corp.
Form 10-K for the year ended December 31, 2009

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Forward-Looking Statements and Associated Risks

This Report, including all documents incorporated herein by reference, includes certain "forward-looking statements" within the meaning of that term in Section 13 or 15(d) of the Securities Act of 1934, and Section 21E of the Exchange Act, including, among others, those statements preceded by, followed by or including the words "believes," "expects," "anticipates" or similar expressions.

These forward-looking statements are based largely on the Company's current expectations and are subject to a number of risks and uncertainties. The Company's actual results could differ materially from these forward-looking statements. Important factors to consider in evaluating such forward-looking statements include:

- changes in the Company's business strategy or an inability to execute the Company's strategy due to unanticipated changes in the market,
- the Company's ability to raise sufficient capital to meet operating requirements,
- various competitive factors that may prevent the Company from competing successfully in the marketplace, and
- changes in external competitive market factors or in the Company's internal budgeting process which might impact trends in the Company's results of operations.

In light of these risks and uncertainties, there can be no assurance that the events contemplated by the forward-looking statements contained in this Report will, in fact, occur.

PART I

Item 1. Business.

Overview

SMSA El Paso II Acquisition Corp. (the "Company") was organized on May 21, 2008 as a Nevada corporation to effect the reincorporation of Senior Management Services of El Paso Coronado, Inc., a Texas corporation, mandated by the plan of reorganization discussed below. The Company is a development stage company, and currently plans to engage in the business of providing drilling equipment and contract drilling services to participants in the oil, gas and mineral industries, initially in South America.

History

On January 17, 2007, Senior Management Services of El Paso Coronado, Inc. and its affiliated companies (collectively, the "SMS Companies"), filed a petition for reorganization under Chapter 11 of the United States Bankruptcy Code. On August 1, 2007, the bankruptcy court confirmed the First Amended, Modified Chapter 11 Plan (the "Plan"), as presented by SMS Companies and their creditors. The effective date of the Plan was August 10, 2007.

During the three years prior to filing the reorganization petition, the SMS Companies operated a chain of skilled nursing homes in Texas, which prior to the bankruptcy proceedings consisted of 14 nursing facilities, ranging in size from approximately 114 beds to 325 beds. In the aggregate, the SMS Companies provided care to approximately 1,600 resident patients and employed over 1,400 employees. A significant portion of the SMS Companies cash flow was provided by patients covered by Medicare and Medicaid. The SMS Companies facilities provided around-the-clock care for the health, well-being, safety and medical needs of its patients. The administrative and operational oversight of the nursing facilities was provided by an affiliated management company located in Arlington, Texas.

In 2005, the SMS Companies obtained a secured credit facility from a financial institution. The credit facility eventually was comprised of an $8.3 million term loan and a revolving loan of up to $15 million that was utilized for working capital and to finance the purchase of the real property on which two of its nursing care facilities operated. By late 2006, the SMS Companies were in an "over advance" position, whereby the amount of funds extended by the lender exceeded the amount of collateral eligible to be borrowed under the credit facility. Beginning in September 2006, the SMS Companies entered into the first of a series of forbearance agreements whereby the lender agreed to forebear from declaring the financing in default provided the SMS Companies obtained a commitment from a new lender to refinance and restructure the credit facility. The SMS Companies were unsuccessful in obtaining a commitment from a new lender, and on January 5, 2007, the lender declared the SMS Companies, including the Company, in default and commenced foreclosure and collection proceedings. On January 9, 2007, the lender agreed to provide an additional $1.7 million to fund payroll and permit a controlled transaction to bankruptcy. On January 17, 2007, the SMS Companies filed a petition for reorganization under Chapter 11 of the Bankruptcy Code.

Plan of Reorganization

Halter Financial Group, Inc. (“HFG”) participated with the SMS Companies and their creditors in structuring the Plan. As part of the Plan, HFG provided $115,000 to be used to pay professional fees associated with the Plan confirmation process. In consideration of such funding, HFG was granted an option to be repaid through the issuance of equity securities in 23 of the SMS Companies, including Senior Management Services of El Paso Coronado, Inc.

HFG exercised the option and, as provided in the Plan, 80% of the Company’s outstanding common stock, or 400,000 shares, was issued to HFG in satisfaction of HFG’s administrative claims. The remaining 20% of the Company’s outstanding common stock, or 100,004 shares, was issued to 449 holders of the Company’s unsecured debt. The 500,004 shares, or “Plan Shares”, were issued pursuant to Section 1145 of the Bankruptcy Code.

As further consideration for the issuance of the 400,000 Plan Shares to HFG, the Plan required HFG to assist the Company in identifying a potential merger or acquisition candidate with an operating business or plan of operations. Prior to any such merger or acquisition, HFG was responsible for the payment of the Company’s operating expenses and HFG agreed to provide the Company, at no cost, with consulting services, including assisting the Company with formulating the structure of any proposed merger or acquisition.

Effective May 21, 2008, HFG transferred its 400,000 Plan Shares to Halter Financial Investments L.P. (“HFI”), a Texas limited partnership controlled by Timothy P. Halter. At such time, Timothy P. Halter was the sole officer, director and shareholder of HFG and an officer and member of Halter Financial Investments GP, LLC, the general partner of HFI. Mr. Halter served as the Company’s President and sole director from May 21, 2008 until June 13, 2008, when he was replaced by Richard Crimmins.

On August 10, 2009, the Company entered into a share exchange agreement with Trans Global Operations, Inc., a Delaware corporation (“TGO”), and all of the shareholders of TGO, pursuant to which the shareholders of TGO transferred all of the issued and outstanding stock of TGO to the Company, in exchange for 4,500,000 newly-issued shares of the Company’s common stock that, in the aggregate, constituted 90% of the Company’s issued and outstanding capital stock on a fully-diluted basis as of and immediately after the consummation of such exchange. Upon the consummation of the share exchange on August, 10, 2009, Gerard Pascale became the Company’s Chairman, President, Chief Financial Officer and Secretary.

On November 5, 2009, the Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) with Michael Campbell, pursuant to which Mr. Campbell purchased from the Company an aggregate of 20,000,000 shares of the Company’s common stock for an aggregate purchase price of $20,000. On such date, the Company also entered into a Contribution Agreement with Mr. Campbell and Gerard Pascale, pursuant to which Mr. Pascale contributed 3,000,000 shares of the common stock then owned by him to the treasury of the Company to induce Mr. Campbell to enter into the Purchase Agreement. Upon the consummation of the transactions contemplated by the Purchase Agreement, Gerard Pascale resigned as the Company’s President, Chief Financial Officer and Secretary and Michael Campbell assumed such positions with the Company in addition to the positions of Chief Executive Officer and Treasurer. At such time, Mr. Campbell was also appointed to the Company’s board of directors. Mr. Pascale resigned as a director effective March 19, 2010.

The Company's Business Plan

The Company is a currently a development stage company without significant assets, liabilities or operating activities. However, concurrently with the consummation of the transactions contemplated by the Purchase Agreement, the Company abandoned its previous business plan and adopted a new business plan to acquire and employ in the marketplace oil, gas and mineral drilling rigs and well servicing equipment. Management believes that initially the Company will be able to acquire rigs and related equipment at discount prices relative to their historical market values and employ them under long-term service contracts with national oil companies ("NOCs") and independent oil companies ("IOCs") in South America that pay profitable day-rates. According to Baker Hughes Inc. ("BHI"), as of September 2009, the number of active drilling rigs in North America dropped 56% from the prior year. As a result, the Company anticipate that the Company will be able to acquire many of the idle rigs from U.S.-based oil and gas drilling and service companies at distressed prices using the Company's capital stock to finance a third or more of the acquisition cost.

The Company intends to execute its business plan by creating and taking majority interests in joint ventures with established land-based drilling and services contractors operating throughout South America. One potential joint venture partner with which the Company is in preliminary discussions has been in the oil and gas drilling and services business for over 17 years and is presently operating nine drilling rigs under contracts with Petrobas, CVRD of Brazil and Petrogal. The Company believes this potential joint venture partner has over 500 well-trained employees and is one of only ten approved land-based drilling contractors for Petrobras in Brazil. The Company expects this joint venture partner to provide the organization management and oversight to operate the drilling rigs, support the drilling crews and manage the required infrastructure for each drilling contract. The Company believes a second potential joint venture partner has approximately 400 oil field drilling and well servicing personnel on staff, and operates drilling rigs and equipment under 11 contracts with Petrobras. The Company is in the early stages of discussions or negotiations with these and other potential joint venture partners, and there can be no assurance that the Company will be successful in establishing a joint venture, or reaching any other agreement, with either of these or any other potential joint venture partners.

Drilling Industry Overview

Most oil and gas operators, both foreign and domestic, do not own their own rigs and instead rely on specialized land rig contractors, which is the business in which the Company proposed to engage, to provide the drilling rig and the crew to do the drilling. Contract drilling is characterized by the high fixed costs of owning and operating the drilling rigs and low variable costs. The industry is highly fragmented and highly dependent on the level of drilling activity and rig utilization. Globally, Nabors Industries, Inc., Patterson-UTI Energy, Inc. are the top three land drilling contractors by revenues. Despite the fact that there are between 200 and 300 land drilling contractors in North America, the top six contractors account for nearly 50% of the revenues. Internationally, most countries have no more than five-to-10 land drilling contractors with equipment in country, not including the in-house drilling contractors of some NOCs that may provide most or all of the drilling requirements of their parent.

Contract Drilling Operations

Through the Company's joint ventures, the Company initially expect to market its contract drilling services to major NOCs and IOCs in South America that are already customers of the Company's potential joint venture partners. Potential customers include Petrobras, Petrogal, Aurizonia, CVRD of Brazil, Ecopetrol of Columbia, PeruPetro, PetroEcuador and other NOCs and IOCs.

The Company expects that the principal contribution the Company will make to any joint venture the Company create will be the drilling rigs and related equipment to be employed by such joint venture or the cash or financing for the joint venture to acquire such rigs and equipment, and that the principal contribution that the Company's joint venture partner will make to the joint venture will be the drilling contract, or the customers willing to enter into a drilling contract with the joint venture, and the drilling personnel required to operate the rigs and manage the contract.

According to BHI's weekly rig count, the number of active rigs in the United States peaked at 2031 in August 2008 before falling to a low of 876 by June of 2009. In addition, according to National Oilwell Varco's Annual Rig Census ("Rig Census"), published in November 2009, an estimated 164 land-based drilling rigs were removed from service in 2009, an increase of over 64% from 2008. The Rig Census attributes the sharp increase in idle rigs to the impact of the recession and the erosion of the oil prices from the record levels set in 2008. While the number of active drilling rigs in operation has increased to 1407 in March 2010, an increase of over 61% from June 2009, management believes there is still a significant number of idled rigs and equipment in the U.S. that can be purchased at deep discounts relative to their historical market values. On the other hand, based on industry projections, the South American oil producers, including Petrobras, Petrogal, Aurizonia, CVRD of Brazil, Ecopetrol of Columbia, PeruPetro, PetroEquador and other NOC and IOC companies, are projected to collectively require over 100 land-based drilling rigs and a large amount of service equipment over the next 18 to 24 months to keep their drilling programs on schedule.

A land-based drilling rig consists of engines, a hoisting system, a rotating system, pumps and related equipment to circulate drilling fluid, blowout preventors and related equipment.

Diesel or gas engines are typically the main power sources for a drilling rig. Power requirements for drilling jobs may vary considerably, but most drilling rigs employ two or more engines to generate between 500 and 2,000 horsepower, depending on well depth and rig design. Most drilling rigs capable of drilling in deep formations, involving depths greater than 15,000 feet, use diesel-electric power units to generate and deliver electric current through cables to electrical switch gears, then to direct-current electric motors attached to the equipment in the hoisting, rotating and circulating systems.

Drilling rigs use long strings of drill pipe and drill collars to drill wells. Drilling rigs are also used to set heavy strings of large-diameter pipe, or casing, inside the borehole. Because the total weight of the drill string and the casing can exceed 500,000 pounds, drilling rigs require significant hoisting and braking capacities. Generally, a drilling rig's hoisting system is made up of a mast, or derrick, a drilling line, a traveling block and hook assembly and ancillary equipment that attaches to the rotating system, a mechanism known as the drawworks. The drawworks mechanism consists of a revolving drum, around which the drilling line is wound, and a series of shafts, clutches and chain and gear drives for generating speed changes and reverse motion. The drawworks also houses the main brake, which has the capacity to stop and sustain the weights used in the drilling process. When heavy loads are being lowered, a hydromatic or electric auxiliary brake assists the main brake to absorb the great amount of energy developed by the mass of the traveling block, hook assembly, drill pipe, drill collars and drill bit or casing being lowered into the well.

The rotating equipment from top to bottom consists of a swivel, the kelly bushing, the kelly, the rotary table, drill pipe, drill collars and the drill bit. The Company refers to the equipment between the swivel and the drill bit as the drill stem. The swivel assembly sustains the weight of the drill stem, permits its rotation and affords a rotating pressure seal and passageway for circulating drilling fluid into the top of the drill string. The swivel also has a large handle that fits inside the hook assembly at the bottom of the traveling block. Drilling fluid enters the drill stem through a hose, called the rotary hose, attached to the side of the swivel. The kelly is a triangular, square or hexagonal piece of pipe, usually 40 feet long, that transmits torque from the rotary table to the drill stem and permits its vertical movement as it is lowered into the hole. The bottom end of the kelly fits inside a corresponding triangular, square or hexagonal opening in a device called the kelly bushing. The kelly bushing, in turn, fits into a part of the rotary table called the master bushing. As the master bushing rotates, the kelly bushing also rotates, turning the kelly, which rotates the drill pipe and thus the drill bit. Drilling fluid is pumped through the kelly on its way to the bottom. The rotary table, equipped with its master bushing and kelly bushing, supplies the necessary torque to turn the drill stem. The drill pipe and drill collars are both steel tubes through which drilling fluid can be pumped. Drill pipe, sometimes called drill string, comes in 30-foot sections, or joints, with threaded sections on each end. Drill collars are heavier than drill pipe and are also threaded on the ends. Collars are used on the bottom of the drill stem to apply weight to the drilling bit. At the end of the drill stem is the bit, which chews up the formation rock and dislodges it so that drilling fluid can circulate the fragmented material back up to the surface where the circulating system filters it out of the fluid.

Drilling fluid, often called mud, is a mixture of clays, chemicals and water or oil, which is carefully formulated for the particular well being drilled. Bulk storage of drilling fluid materials, the pumps and the mud-mixing equipment are placed at the start of the circulating system. Working mud pits and reserve storage are at the other end of the system. Between these two points the circulating system includes auxiliary equipment for drilling fluid maintenance and equipment for well pressure control. Within the system, the drilling mud is typically routed from the mud pits to the mud pump and from the mud pump through a standpipe and the rotary hose to the drill stem. The drilling mud travels down the drill stem to the bit, up the annular space between the drill stem and the borehole and through the blowout preventer stack to the return flow line. It then travels to a shale shaker for removal of rock cuttings, and then back to the mud pits, which are usually steel tanks. The reserve pits, usually one or two fairly shallow excavations, are used for waste material and excess water around the location.

There are numerous factors that differentiate drilling rigs, including their power generation systems and their drilling depth capabilities. The actual drilling depth capability of a rig may be less than or more than its rated depth capability due to numerous factors, including the size, weight and amount of the drill pipe on the rig. The intended well depth and the drill site conditions determine the amount of drill pipe and other equipment needed to drill a well. Generally, land rigs operate with crews of five to six persons.

As a provider of contract land drilling services, the Company's business and the profitability of the Company's operations will depend on the level of drilling activity by oil and natural gas exploration and production companies operating in the geographic markets in which the Company operate. The oil and natural gas exploration and production industry is a historically cyclical industry characterized by significant changes in the levels of exploration and development activities. For example, as oil and natural gas prices steeply declined and credit markets tightened in late calendar 2008, customers in many geographic markets aggressively reduced drilling budgets. During periods of lower levels of drilling activity, price competition tends to increase and results in decreases in the profitability of daywork contracts.

The Company expects to obtain its contracts for drilling oil and natural gas wells either through competitive bidding or through direct negotiations with customers. The Company expects to typically enter into drilling contracts that provide for compensation on a daywork basis. The contract terms the Company expects to offer generally will depend on the complexity and risk of operations, the on-site drilling conditions, the type of equipment used and the anticipated duration of the work to be performed. The Company expects that, generally, its contracts will provide for the drilling of a single well and typically permit the customer to terminate on short notice, usually on payment of an agreed fee.

Daywork Contracts. Under a daywork drilling contract, the Company will provide a drilling rig with required personnel to its customer who the Company expects will supervise the drilling of the well. The Company generally will be paid based on a negotiated fixed rate per day while the rig is used. Daywork drilling contracts specify the equipment to be used, the size of the hole and the depth of the well. Under a daywork drilling contract, the customer bears a large portion of the out-of-pocket drilling costs and the Company generally bear no part of the usual risks associated with drilling, such as time delays and unanticipated costs.

Footage Contracts. Under footage contracts, the Company generally will be paid a fixed amount for each foot drilled, regardless of the time required or the problems encountered in drilling the well. The Company expects that typically the Company will pay more of the out-of-pocket costs associated with footage contracts as compared to daywork contracts. The risks to the Company on a footage contract will be greater because the Company will assume most of the risks associated with drilling operations generally assumed by the operator in a daywork contract, including the risk of blowout, loss of hole, stuck drill pipe, machinery breakdowns, abnormal drilling conditions and risks associated with subcontractors' services, supplies, cost escalation and personnel. The Company expects that, if it enters into footage contracts, it will endeavor to manage this additional risk through the use of engineering expertise and bid the footage contracts accordingly, and the Company will typically maintain insurance coverage against some, but not all, drilling hazards. However, the occurrence of uninsured or under-insured losses or operating cost overruns on its footage jobs could have a negative impact on its profitability. While the Company does not expect to enter into footage contracts, the Company may enter into one or more of such arrangements to the extent warranted by market conditions.

Turnkey Contracts. Turnkey contracts typically provide for a drilling company to drill a well for a customer to a specified depth and under specified conditions for a fixed price, regardless of the time required or the problems encountered in drilling the well. The drilling company would provide technical expertise and engineering services, as well as most of the equipment and drilling supplies required to drill the well. The drilling company may subcontract for related services, such as the provision of casing crews, cementing and well logging. Under typical turnkey drilling arrangements, a drilling company would not receive progress payments and would be paid by its customer only after it had performed the terms of the drilling contract in full.

While the Company does not plan to enter into turnkey contracts, the Company may decide to enter into such arrangements in the future to the extent warranted by market conditions. It is also possible that the Company may acquire such contracts in connection with future acquisitions. The risks to a drilling company under a turnkey contract are substantially greater than on a well drilled on a daywork basis. This is primarily because under a turnkey contract the drilling company assumes most of the risks associated with drilling operations generally assumed by the operator in a daywork contract, including the risk of blowout, loss of hole, stuck drill pipe, machinery breakdowns, abnormal drilling conditions and risks associated with subcontractors' services, supplies, cost escalations and personnel.

Well Servicing

The Company's business plan also contemplates that, when funding and market conditions permit, the Company will also establish a well servicing segment to provide a broad range of well services to oil and natural gas exploration and production companies, including maintenance, workover, new well completion, and plugging and abandonment. The Company's well servicing segment services may include:

- maintenance work involving removal, repair and replacement of down-hole equipment and returning the well to production after these operations are completed;

- hoisting tools and equipment required by the operation into and out of the well, or removing equipment from the well bore, to facilitate specialized production enhancement and well repair operations performed by other oilfield service companies;

- plugging and abandonment services when a well has reached the end of its productive life; and
- completion work involving selectively perforating the well casing at the depth of discrete producing zones, stimulating and testing these zones and installing down-hole equipment.

The Company expects that, generally, the Company will charge its customers an hourly rate for these services, which will vary based on a number of considerations including market conditions in each region, the type of rig and ancillary equipment required, and the necessary personnel.

The Company has no immediate plans to enter into the well serving business and there can be no assurance as to when, if ever, the Company will elect to do so.

Competition

The Company intends to operate in the oil and gas industry, which is a highly competitive environment. The Company's competitors in the oil and gas contract drilling and well services business are expected to include the major oil companies and numerous independent oil and gas drilling contractors. Many of these competitors possess and employ financial and personnel resources substantially greater than those that are available to the Company. The Company's ability to acquire long-term drilling contracts in the future in such a highly-competitive environment will depend on the Company's ability and the ability of the Company's joint venture partners to leverage the existing relationships of the Company's joint venture partners and to consummate transactions in competition with these companies. The Company believes pricing and rig availability are the primary factors its potential customers consider in determining which drilling contractor to select. In addition, the Company believes the following factors are also important:

- the type and condition of each of the competing drilling rigs;
- the mobility and efficiency of the rigs;
- the quality of service and experience of the rig crews;
- the offering of ancillary services; and
- the ability to provide drilling equipment adaptable to, and personnel familiar with, new technologies and drilling techniques.

While the Company must be competitive in its pricing, the Company believes its competitive strategy will generally emphasize the quality of its equipment and the experience of the Company's rig crews to differentiate the Company from the Company's competitors. This strategy is less effective as lower demand for drilling services or an oversupply of rigs results in increased price competition and makes it more difficult for the Company to compete on the basis of factors other than price. In all of the markets in which the Company intends to compete, an oversupply of rigs can cause greater price competition.

Contract drilling companies compete primarily on a regional basis, and the intensity of competition may vary significantly from region to region at any particular time. If demand for drilling services improves in a region in which the Company operates, the Company's competitors might respond by moving in suitable rigs from other regions. An influx of drilling rigs from other regions could rapidly intensify competition and reduce profitability.

Environmental Matters

The operations of the Company's intended business may be subject to environmental laws and regulations concerning emissions to the air, discharges to waterways, and generation, handling, storage, transportation, treatment and disposal of waste materials. The Company's operations may also be subject to other Federal, state and local laws and regulations regarding health and safety matters. While the Company expects that the Company and its joint venture partners will comply with applicable environmental and health and safety laws and regulations, these laws and regulations are constantly evolving and it is impossible to predict whether compliance with these laws and regulations may have a material adverse effect on the Company in the future.

Employees

The Company has no full time employees. The Company has consulting agreements with its Chief Executive Officer and its Chief Financial Officer, pursuant which they will provide the Company with administrative and management services. Personnel for the Company's drilling operations will be provided by the Company's various joint venture partners.

Item 1A. Risk Factors.

Not Applicable.

Item 2. Properties.

The Company does not own any real property. The Company's executive office is located at 11753 Willard Avenue, Tustin, CA. 92782, in the office of Michael Campbell, the Company's Chief Executive Officer. The Company's telephone number is (714) 832-3249. The Company does not currently maintain any other office facilities, and management believes the existing facility is sufficient for its current operations. The Company pays no rent or other fees for the use of this office.

Item 3. Legal Proceedings.

The Company is not a party to any pending legal proceedings, and no such proceedings are known to be contemplated.

Item 4. (Removed and Reserved)

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market for Trading and Eligibility for Future Sale

The Company's common stock is eligible for trading on the OTC Bulletin Board under SEC Rule 15c2-11, Subsection (a)(5). The Company's trading symbol is SMSA.OB. As of the date of this annual report, there have been no known trades of the Company's common stock.

The Company relied, based on the confirmation order the Company received from the Bankruptcy Court, on Section 1145(a)(1) of the Bankruptcy Code to exempt from the registration requirements of the Securities Act of 1933, as amended, both the offer of the Plan Shares which may have been deemed to have occurred through the solicitation of acceptances of the Plan of Reorganization and the issuance of the Plan Shares pursuant to the Plan of Reorganization. In general, offers and sale of securities made in reliance on the exemption afforded under Section 1145(a)(1) of the Bankruptcy Code are deemed to be made in a public offering, so that the recipients thereof are free to resell such securities without registration under the Securities Act.

Holders

As of April 8, 2010, there were a total of 23,443,754 shares of the Company's common stock outstanding, held by approximately 502 stockholders of record.

Dividends

During the Company's fiscal years ended December 31, 2009 and 2008, the Company did not pay dividends. The Company presently intends to retain all earnings, if any, and accordingly the Board of Directors does not anticipate declaring any dividends in the foreseeable future.

Recent Sales of Unregistered Securities

On March 2, 2010, the Company issued an aggregate of 1,093,750 shares of common stock to various investors in a private placement for an aggregate purchase price of $350,000. These transactions were exempt from registration pursuant to Section 4(2) of the Securities Act.

On March 2, 2010, the Company also issued an aggregate of 350,000 shares of common stock to the placement agent in the above-referenced private placement as consideration for its services. These transactions were exempt from registration pursuant to Section 4(2) of the Securities Act.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

The Company had no revenue for either of the years ended December 31, 2009 or 2008.

General and administrative expenses for the years ended December 31, 2009 and 2008 were approximately $292,155 and $11,977, respectively. These expenses were directly related to the maintenance of the corporate entity and the preparation and filing of periodic reports pursuant to the Exchange Act. It is anticipated that future expenditure levels will increase as the Company intends to fully comply with its periodic reporting requirements.

It is anticipated that future expenditure levels will remain relatively consistent until such time that the Company enters into a joint venture agreement with one of its potential joint venture partners. Upon entering into a joint venture agreement and thereby securing drilling contracts, it is anticipated that the Company's expenses will increase significantly.

The Company does not expect to generate any meaningful revenue or incur operating expenses for purposes other than fulfilling the obligations of a reporting company under the Exchange Act unless and until such time that the Company begins meaningful operations.

Liquidity and Capital Resources

The Company has financed its operations to date primarily through private placements of equity securities. During March 2010, the Company sold 1,093,750 shares of common stock to various investors for an aggregate purchase price of $350,000. This inflow of cash is expected to be used by the Company primarily to locate and research potential joint venture partners and establish potential joint ventures in South America.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

SMSA El Paso II Acquisition Corp.
(a development stage company)

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LETTERHEAD OF S. W. HATFIELD, CPA

REPORT OF REGISTERED INDEPENDENT CERTIFIED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
SMSA El Paso II Acquisition Corp.

We have audited the accompanying balance sheets of SMSA El Paso II Acquisition Corp. (a Nevada corporation and a development stage company) as of December 31, 2009 and 2008 and the related statements of operations and comprehensive loss, changes in stockholders' equity and cash flows for the each of the years ended December 31, 2009 and 2008 and for the period from August 1, 2007 (date of bankruptcy settlement) through December 31, 2009. These financial statements are the sole responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SMSA El Paso II Acquisition Corp. (a development stage company) as of December 31, 2009 and 2008 and the results of its operations and cash flows for each of the years ended December 31, 2009 and 2008 and the period from August 1, 2007 (date of bankruptcy settlement) through December 31, 2009, in conformity with generally accepted accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note D to the financial statements, the Company has no viable operations or significant assets and is dependent upon significant stockholders to provide sufficient working capital to maintain the integrity of the corporate entity. These circumstances create substantial doubt about the Company's ability to continue as a going concern and are discussed in Note D. The financial statements do not contain any adjustments that might result from the outcome of these uncertainties.

/s/ S. W. Hatfield, CPA
S. W. HATFIELD, CPA

Dallas, Texas
April 7, 2010

SMSA El Paso II Acquisition Corp.
(a development stage company)
Balance Sheets
December 31, 2009 and 2008

	December 31, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash on hand and in bank	$ -	$ -
Total Assets	$ -	$ -
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Contract payable to stockholder - trade	$ 250,000	$ -
Working capital advances from stockholder	-	10,977
Total Liabilities	250,000	10,977
Commitments and Contingencies		
Stockholders' Equity (Deficit)		
Preferred stock - $0.001 par value 10,000,000 shares authorized. None issued and outstanding	-	-
Common stock - $0.001 par value. 100,000,000 shares authorized. 22,000,004 and 500,004 shares issued and outstanding	22,000	500
Additional paid-in capital	41,132	500
Deficit accumulated during the development stage	(313,132)	(11,977)
Total Stockholders' Equity (Deficit)	(250,000)	(10,977)
Total Liabilities and Stockholders' Equity (Deficit)	$ -	$ 1,000

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SMSA El Paso II Acquisition Corp.
(a development stage company)
Statements of Operations and Comprehensive Income (Loss)
Years ended December 31, 2009 and 2008 and
Period from August 1, 2007 (date of bankruptcy settlement) through December 31, 2009

	Year ended December 31, 2009	Year ended December 31, 2008	Period from August 1, 2007 (date of bankruptcy settlement) through December 31, 2009
Revenues	$ -	$ -	$ -
Operating expenses			
Reorganization costs	-	3,581	3,581
Professional fees	288,205	7,683	295,888
Other general and administrative costs	3,950	713	4,663
Total operating expenses	292,155	11,977	304,132