

ORIGINAL

NEW APPLICATION



0000027944

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

AZ CORP COMMISSION
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In the matter of:

Docket No. S-20437A-05-0925

Reserve Oil & Gas, Inc., a Nevada
Corporation
3507 North Central Avenue, Suite 503
Phoenix, Arizona 85012

**TEMPORARY ORDER TO CEASE AND
DESIST AND NOTICE OF OPPORTUNITY
FOR HEARING**

Allen and Jane Doe Stout, Sr. husband and
wife
1309 West Portland Street
Phoenix, Arizona 85007-2102

Allen and Jane Doe Stout, Jr., husband and
wife
1309 West Portland Street
Phoenix, Arizona 85007-2102

Respondents.

NOTICE: THIS ORDER IS EFFECTIVE IMMEDIATELY

EACH RESPONDENT HAS 20 DAYS TO REQUEST A HEARING

EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER

The Securities Division (the "Division") of the Arizona Corporation Commission (the "Commission") alleges that Reserve Oil & Gas, Inc., Allen and Jane Doe Stout, Sr., and Allen and Jane Doe Stout, Jr. engaged in or are about to engage in acts and practices that constitute violations of A.R.S. § 44-1801, *et seq.*, the Arizona Securities Act ("Securities Act") and that the public welfare requires immediate action.

I.

JURISDICTION

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

II.

RESPONDENTS

2. RESERVE OIL & GAS, INC. ("ROG") is a Nevada corporation, authorized to conduct business in Arizona, whose last known business address is 3507 North Central Avenue, Suite 503, Phoenix, Arizona 85012.

3. ALLEN STOUT, SR. ("STOUT, SR.") is an individual whose last known address is 1309 West Portland Street, Phoenix, Arizona 85007-2102.

4. STOUT, SR. represents himself as the President of ROG.

5. JANE DOE STOUT, SR. was at all relevant times the spouse of STOUT, SR. JANE DOE STOUT, SR. is joined in this action under A.R.S. § 44-2031(C) solely for purposes of determining the liability of the marital community.

6. At all relevant times, STOUT, SR. and JANE DOE STOUT, SR. were acting for their own benefit, and for the benefit or in furtherance of the marital community.

7. ALLEN STOUT, JR. ("STOUT, JR.") is an individual whose last known address is 1309 West Portland Street, Phoenix, Arizona 85007-2012.

8. STOUT, JR. represents himself as the Vice President of ROG.

9. JANE DOE STOUT, JR. was at all relevant times the spouse of STOUT, JR. JANE DOE STOUT, JR. is joined in this action under A.R.S. § 44-2031(C) solely for purposes of determining the liability of the marital community.

10. At all relevant times, STOUT, JR. and JANE DOE STOUT, JR. were acting for their own benefit, and for the benefit or in furtherance of the marital community.

1 11. ROG, STOUT, SR., and STOUT, JR. may be collectively referred to as
2 "RESPONDENTS." JANE DOE STOUT, SR. and JANE DOE STOUT, JR. may also be
3 collectively referred to as "RESPONDENT SPOUSES."

4 **III.**

5 **FACTS**

6 12. Each of the preceding paragraphs is incorporated herein by reference.

7 13. From at least on or about August 18, 2005, RESPONDENTS have been and are
8 directly or indirectly offering securities in the form of investment contracts in oil and gas
9 opportunities.

10 14. RESPONDENTS created ROG to acquire and develop oil and gas opportunities by
11 acquiring low cost leases on undeveloped acreage in Texas.

12 15. RESPONDENTS claim to have an agreement with Benco/Rife Operating, Inc.
13 ("Benco/Rife"), a company located in Texas, to oversee the drilling and operations of ROG's
14 projects.

15 16. Under the alleged agreement, ROG is to raise \$1,237,500 per well for a 75% working
16 interest in each well. The money is to be raised from a group of investors who pool their money
17 to obtain the required amount. Benco/Rife is to develop over six thousand acres in Texas and
18 oversee the drilling, completion and operation of wells.

19 17. Once the investors have contributed their funds, the investors do not participate in
20 choosing the wells or in any of the operations.

21 18. ROG oversees the program with Benco/Rife and, according to RESPONDENTS,
22 upon completion of the wells, Benco/Rife distributes the income directly to the investors based
23 on each investor's ownership interest.

24 19. According to RESPONDENTS, the payout is projected to be 24 months with an
25 average of 20-30 years of income.

1 20. RESPONDENTS are soliciting Arizona investors through the use of the website:
2 www.reserveoil.com.

3 21. Information contained on the website solicits investors by stating that ROG's
4 objectives are to "[p]rovide maximum benefits at minimal risks that gives our investors the best
5 value possible."

6 22. RESPONDENTS continue to solicit investors through their website by setting forth
7 information, including detailed tax advantages, designed to lure investors.

8 23. For example, RESPONDENTS set forth what they term "Summary Reserve's Drilling
9 Program" which states that Reserve's Drilling Program "*has drill locations that offset producing*
10 *wells with **proven reserves on undeveloped** acreage in Cooke and Wise Counties, Texas.*" (Italics
11 added, bold provided on website.)

12 24. Further down the same section, under the title "The Program", the website states that
13 "*Reserve Oil & Gas, Inc., is seeking participants who demand substantial returns with minimal*
14 *risk for its off-set drilling project located in Cooke and Wise Counties, 'hottest gas play in*
15 *Texas.' . . . After payout, an average of 20-30 years of income is anticipated. The supplies of*
16 *petroleum products are dwindling and production is not keeping pace with demand. There is*
17 *nothing for prices to do except increase in future years thereby adding to the value of this*
18 *project. Interest owners of petroleum production will be the benefactors of these expected*
19 *increases.*" (Italics added.)

20 25. In their continuing quest to convince potential investors to invest, ROG's website
21 states that "*Reserve's Drilling program is very low risk because the Barnett Shale, a blanket*
22 *formation, is **not subject to the geological complexities most conventional reservoirs**, and has*
23 ***proven reserves.***" (Italics added, bold provided on website.)

24 26. The website also provides information on the tax advantages of oil and gas
25 investments. In referring to the tax advantages, the website states, "*These incentives are not*
26

1 *"Loop Holes"- they were placed in the Tax Code by Congress to make participation in oil and*
2 *gas ventures one of the best tax advantaged investments."* (Italics added.)

3 27. The website further states that the tax benefits are an *"80% immediate deduction of*
4 *invested amount on intangible drilling and completion costs, tangible asset depreciation, and*
5 *depletion allowance."* (Italics added.)

6 28. The website also contains a Purchaser Questionnaire which, according to the website,
7 will be used to determine a potential investor's qualifications. This questionnaire is followed by
8 a Participation Agreement entitled: Participation Agreement / Craig-Muncaster Wells / Barnett
9 Shale Prospect / Cooke County, Texas.

10 29. The website contains some disclaimers stating that nothing contained therein
11 constitutes an offer or solicitation and warns that viewers should hire their own counsel for legal
12 and tax advice. However, as shown above, most all information contained in the website is
13 designed to entice and lure those browsing the site to invest.

14 30. STOUT, SR. on at least one occasion, told a potential Arizona investor that while
15 there are risks in every investment, there is a 99% chance of success in this investment. STOUT,
16 JR. was present when STOUT, SR. made this statement.

17 31. STOUT, SR., on at least one occasion, told a potential Arizona investor about the tax
18 ramifications of investing in a well. STROUT, JR. was present when STOUT, SR. made these
19 statements.

20 32. On or about February 14, 1997, STOUT, SR. pled guilty to one count of Tax Evasion
21 in the United States District Court of Southern California (San Diego), Case No. 97-CR-386-
22 ALL.

23 33. On or about December 12, 1997, STOUT, SR. was sentenced to 8 months in prison, 2
24 years supervised release, a \$50 penalty assessment, and ordered to pay restitution in the amount
25 of \$149,203.99.

34. On or about January 20, 1998, STOUT, SR. self-surrendered to begin his 8-month prison term, which he completed on or about August or September 1998 and began his supervised release at that time.

35. Upon information and belief, STOUT, SR. completed his supervised release on or about September 2000.

36. Nowhere on the website are potential investors told that STOUT, SR. was convicted of Tax Evasion in 1997.

37. STOUT, SR. and STOUT, JR., on at least one occasion failed to tell at least one potential Arizona investor that STOUT, SR. was convicted of Tax Evasion in 1997.

IV.

VIOLATION OF A.R.S. § 44-1841

(Offer and Sale of Unregistered Securities)

38. From at least on or about August 18, 2005, RESPONDENTS offered or sold securities in the form of investment contracts, within or from Arizona.

39. The securities referred to above were not registered pursuant to Articles 6 or 7 of the Securities Act.

40. This conduct violates A.R.S. § 44-1841.

V.

VIOLATION OF A.R.S. § 44-1842

(Transactions by Unregistered Dealers or Salesmen)

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

42. 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)

43. 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 which 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 which operated or would operate as a fraud or deceit upon offerees and investors. RESPONDENTS' conduct includes, but is not limited to, the following: Failed to disclose in ROG's website and to at least one investor, that Respondent STOUT SR. was convicted of Tax Evasion on or about February 14, 1997.

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

VII.

TEMPORARY ORDER

Cease and Desist from Violating the Securities Act

THEREFORE, based on the above allegations, and because the Commission has determined that the public welfare requires immediate action,

IT IS ORDERED, pursuant to A.R.S. §44-2032(1) and A.A.C. R14-4-307, that the RESPONDENTS, their agents, servants, employees, successors, assigns, and those persons in active concert or participation with them CEASE AND DESIST from any violations of the Securities Act.

IT IS FURTHER ORDERED that this Temporary Order to Cease and Desist shall remain in effect for 180 days unless sooner vacated, modified or made permanent by the Commission.

IT IS FURTHER ORDERED that this Order shall be effective immediately.

XIII.

REQUESTED RELIEF

The Division will request that the Commission grant the following relief against
RESPONDENTS:

1. Order RESPONDENTS to permanently cease and desist from violating the Securities Act, pursuant to A.R.S. §44-2032 ;
2. Order RESPONDENTS to take affirmative action to correct the conditions resulting from their acts, practices or transactions, including a requirement to make restitution pursuant to A.R.S. §44-2032;
3. Order RESPONDENTS to pay the state of Arizona administrative penalties of up to five thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036;
4. Order that the marital communities of Allen and Jane Doe Stout, Sr., and Allen and Jane Doe Stout, Jr., be subject to any order of restitution, rescission, administrative penalties, or other appropriate affirmative action pursuant to A.R.S. § 25-215; and
5. Order any other relief that the Commission deems appropriate.

XIV.

HEARING OPPORTUNITY

RESPONDENTS may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C. Rule 14-4-307. **If any respondent or respondent spouse requests a hearing, the respondent must also answer this Temporary Order and Notice.** A request for hearing must be in writing and received by the Commission within 20 days after service of this Temporary Order to Cease and Desist. Each RESPONDENT must deliver or mail the request for hearing to Docket Control, Arizona Corporation Commission, 1200 West Washington, Phoenix, Arizona 85007. A Docket Control cover sheet must also be filed with the request for hearing. A cover sheet form and instructions may be obtained from Docket Control at (602) 542-3477 or on the Commission's Internet web site at www.cc.state.az.us/utility/forms/index.htm.

1 If a request for hearing is timely made, the Commission shall schedule a hearing to begin 10
2 to 30 days from the receipt of the request unless otherwise provided by law, stipulated by the parties,
3 or ordered by the Commission. **Unless otherwise ordered by the Commission, this Temporary**
4 **Order shall remain effective from the date a hearing is requested until a decision is entered.**
5 After a hearing, the Commission may vacate, modify or make permanent this Temporary Order,
6 with written findings of fact and conclusions of law. A permanent Order may include ordering
7 restitution, assessing administrative penalties or other action.

8 If a request for hearing is not timely made, the Division will request that the Commission
9 make permanent this Temporary Order, with written findings of fact and conclusions of law, which
10 may include ordering restitution, assessing administrative penalties or other relief.

11 Persons with a disability may request a reasonable accommodation such as a sign language
12 interpreter, as well as request this document in an alternative format, by contacting Linda Hogan,
13 Executive Assistant to the Executive Director, voice phone number 602/542-3931, e-mail
14 lhogan@azcc.gov. Requests should be made as early as possible to allow time to arrange the
15 accommodation.

16 XV.

17 ANSWER REQUIREMENT


18 Pursuant to A.A.C. R14-4-305, if any RESPONDENT or RESPONDENT SPOUSE
19 requests a hearing, the RESPONDENT or RESPONDENT SPOUSE must deliver or mail an
20 Answer to this Temporary Order and Notice to Docket Control, Arizona Corporation Commission,
21 1200 W. Washington, Phoenix, Arizona 85007, within 30 calendar days after the date of service of
22 this Temporary Order to Cease and Desist and Notice of Opportunity for Hearing. A Docket
23 Control cover sheet must accompany the Answer. A cover sheet form and instructions may be
24 obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site
25 at www.cc.state.az.us/utility/forms/index.htm.

The Answer shall contain an admission or denial of each allegation in this Temporary Order and Notice and the original signature of each RESPONDENT, RESPONDENT SPOUSE or the RESPONDENT's attorney. A statement of a lack of sufficient knowledge or information shall be considered a denial of an allegation. An allegation not denied shall be considered admitted.

When a RESPONDENT or RESPONDENT SPOUSE intends in good faith to deny only a part or a qualification of an allegation, the RESPONDENT or RESPONDENT SPOUSE shall specify that part or qualification of the allegation and shall admit the remainder. The RESPONDENT or RESPONDENT SPOUSE waives any affirmative defense not raised in the answer.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION, this 30th day of
December, 2005.


Matthew J. Neubert
Director of Securities

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