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## 1 BEFORE THE ARIZONA CORPORATION C

2 COMMISSIONERS3 MIKE GLEASON - Chairman  
4 WILLIAM A. MUNDELL  
4 JEFF HATCH-MILLER  
5 KRISTIN K. MAYES  
5 GARY PIERCEArizona Corporation Commission  
**DOCKETED**

DEC -9 2008

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6 IN THE MATTER OF THE SECURITIES  
7 OFFERING BY:

DOCKET NO. S-20437A-05-0925

8 RESERVE OIL & GAS, INC., a Nevada Corporation  
3507 North Central Avenue, Suite 503  
9 Phoenix, AZ 85012DECISION NO. **70630**10 ALLEN AND JANE DOE STOUT, SR.,  
husband and wife  
11 1309 West Portland Street  
Phoenix, AZ 85007-210212 ALLEN AND JANE DOE STOUT, JR.,  
husband and wife  
13 1309 West Portland Street  
14 Phoenix, AZ 85007-210215 RESPONDENTS.**OPINION AND ORDER**16 DATES OF PRE-HEARINGS: February 7, April 27, May 25, August 31, 2006 and  
January 30, 2007

17 DATES OF HEARINGS: November 7, 2006; May 2, May 3, and July 17, 2007

18 PLACE OF HEARING: Phoenix, Arizona

19 ADMINISTRATIVE LAW JUDGE: Marc E. Stern

20 APPEARANCES: Mr. Paul J. Roshka, Jr., ROSHKA, DEWULF &  
PATTEN, PLC, on behalf of Reserve Oil & Gas, Inc.,  
Allen and Jane Doe Stout, Sr., and Allen and Jane Doe  
Stout, Jr.; and23 Ms. Shoshana O. Epstein, Staff Attorney, on behalf of  
the Securities Division of the Arizona Corporation  
Commission.25 **BY THE COMMISSION:**26 On December 30, 2005, the Securities Division ("Division") of the Arizona Corporation  
27 Commission ("Commission") filed a Temporary Order to Cease and Desist ("T.O.") and a Notice of  
28 Opportunity for Hearing ("Notice") against Reserve Oil & Gas, Inc. ("ROG"), Allen and Jane Doe

1 Stout, Sr., and Allen and Jane Doe Stout, Jr. (collectively "Respondents"), in which the Division  
2 alleged that the Respondents committed multiple violations of the Arizona Securities Act ("Act") in  
3 connection with the offer and sale of securities in the form of investment contracts. As a result of the  
4 T.O., the Respondents were immediately ordered to cease and desist from violating the Act.<sup>1</sup>

5 Respondents were duly served with copies of the T.O. and Notice.

6 On January 19, 2006, Respondents filed a request for hearing. Subsequently, by Procedural  
7 Order, a pre-hearing conference was scheduled for February 7, 2006.

8 On February 7, 2006, the pre-hearing conference was convened as scheduled. The Division  
9 and Respondents were present with counsel. The Division requested another pre-hearing conference  
10 be scheduled and additional time be taken for the preparation of its case and further discovery. By  
11 Procedural Order, another pre-hearing conference was scheduled for April 27, 2006.

12 On March 20, 2006, a Stipulation for Substitution of Counsel for Respondents was filed with  
13 the Commission.

14 On April 27, 2006, the Division appeared through counsel. Respondents did not enter an  
15 appearance. Subsequently, substitute counsel for the Respondents advised the Hearing Division that  
16 prior counsel failed to advise him of the April 27, 2006, pre-hearing conference.

17 On April 28, 2006, by Procedural Order, a pre-hearing conference was scheduled.

18 On May 25, 2006, a pre-hearing conference was held and the Division and Respondents  
19 appeared through counsel. The parties stipulated that another pre-hearing be scheduled in  
20 approximately 60 days during which time discovery and a possible resolution of the issues raised by  
21 the Notice could be discussed.

22 On May 26, 2006, by Procedural Order, a pre-hearing conference was scheduled for August  
23 10, 2006. However this date caused a scheduling conflict and required rescheduling.

24 On July 26, 2006, by Procedural Order, the pre-hearing conference scheduled for August 10,  
25 2006, was rescheduled to August 31, 2006.

26  
27 <sup>1</sup> For purposes of clarification, the individual termed Allen Stout, Sr. in the T.O. and Notice is known as Allen C. Stout  
28 and is the father of the individual termed Allen Stout, Jr. whose correct name is Allen L. Stout. As admitted in Allen C. Stout's Answer, he is married to Eugenia Stout and the Division does not contest Allen L. Stout's statement in his Answer  
that he was not married during the relevant time frame alleged in the T.O. and Notice.

1       On August 31, 2006, the Division and Respondents appeared through counsel. The Division  
2 requested that a hearing be scheduled because the parties had been unable to agree on a settlement of  
3 the issues raised in the T.O. and Notice. Subsequently, by Procedural Order, a hearing was scheduled  
4 on November 7, 2006, and the exchange of witness lists and exhibits was ordered.

5       On November 7, 2006, a full public hearing was convened before a duly authorized  
6 Administrative Law Judge of the Commission at its offices in Phoenix, Arizona. The Division and  
7 Respondents appeared through counsel. Due to a number of outstanding motions and issues raised at  
8 the outset of the hearing, the proceeding was recessed to allow counsel for Respondents to take the  
9 deposition of a Division witness residing in Colorado. It was determined that pending motions would  
10 be addressed after the deposition was concluded.

11       On November 9, 2006, Respondents filed a Motion to Set a Settlement Conference and  
12 requested that the Assistant Chief Administrative Law Judge, Dwight Nodes, preside over that  
13 proceeding. The Division did not oppose Respondents' Motion.

14       On November 30, 2006, by Procedural Order, a settlement conference was scheduled for  
15 December 13, 2006. Subsequently, the parties were unable to conclude a settlement.

16       On January 30, 2007, by Procedural Order, a status conference was scheduled for  
17 February 15, 2007.

18       On February 15, 2007, the Division's counsel and counsel for the Respondents appeared.  
19 Pending motions were addressed including the taking of a deposition of a Division witness and the  
20 taking of the deposition of Mr. Allen C. Stout. Further, Respondents were permitted leave to file  
21 their amended Answers.

22       On May 2, 2007, the hearing was reconvened before a duly authorized Administrative Law  
23 Judge of the Commission at its offices in Phoenix, Arizona. The Division and Respondents were  
24 represented by counsel. After two days of hearing at which a Division investigator and one investor  
25 testified, counsel for the parties agreed that an additional day of hearing would be required to  
26 conclude the proceeding.

27       On May 4, 2007, by Procedural Order, the proceeding was scheduled to resume on  
28 June 27, 2007.

On May 15, 2007, the Division filed a Motion for a Continuance of the hearing from June 27, 2007, because its witness could not be available on that date due to a commitment for military duty.

On May 18, 2007, by Procedural Order, the hearing was continued to July 17, 2007.

On July 17, 2007, the Division appeared with counsel and Respondents' attorney appeared on their behalf to conclude the hearing. After the Division's investigator was cross examined, the proceeding was concluded and the respective counsel stipulated to the filing of closing briefs in late September.

8 Following the filing of closing briefs on September 26, 2007, the matter was the matter was  
9 taken under advisement pending submission of a Recommended Opinion and Order to the  
10 Commission.

\* \* \* \* \*

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

## **FINDINGS OF FACT**

15       1. ROG is a Nevada corporation authorized to conduct business in Arizona and whose  
16 last known business address is 3507 North Central Avenue, Suite 503, Phoenix, Arizona 85012.

17       2. Mr. Allen C. Stout is an individual whose last known address is 1309 West Portland  
18 Street, Phoenix, Arizona 85007.

19       3.     Mrs. Eugenia Stout is an individual and the spouse of Mr. Allen C. Stout whose last  
20 known address is 1309 West Portland Street, Phoenix, Arizona 85007.

4. Mr. Allen L. Stout is an unmarried individual whose last known address is 1309 West  
Portland Street, Phoenix, Arizona 85007. He is the son of Mr. Allen C. Stout.

23       5. On December 30, 2005, the Division issued a T.O. and Notice against Respondents in  
24 which the Division alleged multiple violations of the Act in connection with the offer and sale of  
25 securities in the form of investment contracts in oil and gas wells in Texas.

26       6. The record established that there were three individuals who made four investments  
27 totaling \$185,000 with ROG in the offering, but two investments totaling \$30,000 were returned to

1 two of the investors.<sup>2</sup>

2       7. In approximately June, 2004, or earlier, Mr. Allen C. Stout and ROG began to seek  
3 investors for investments in oil and gas wells in Texas from an office located in Phoenix, Arizona and  
4 by means of an internet site, [www.reserveoil.com](http://www.reserveoil.com).

5       8. To support its allegations raised in the T.O. and Notice, the Division called two  
6 witnesses, Mr. Scott Ingell an investor, and Mr. Gregory Thomsen, an investigator employed by  
7 the Division.<sup>3</sup>

8       9. The investment contracts offered by ROG and Mr. Allen C. Scott were not registered  
9 as securities pursuant to Articles VI or VII of the Act and neither ROG nor Mr. Allen C. Stout, who  
10 offered these securities within or from Arizona, were registered as either a dealer or salesman  
11 pursuant to Article IX of the Act.

12      10. On December 2, 1997, Mr. Allen C. Stout pled guilty to tax evasion in the United  
13 States District Court for the Southern District of California. As a result, Mr. Allen C. Stout was  
14 convicted and imprisoned for approximately eight months from January 20, 1998, until  
15 approximately September, 1998. After his release, Mr. Allen C. Stout was placed under supervised  
16 probation for a term of two years and restricted from "engaging in occupations, businesses or  
17 professions, where he handles individuals' funds or gives any type of investment advice." *[sic]*  
18 "...holding any fiduciary responsibilities of an officer, director, or of any private or publicly held  
19 corporation, whether registered or unregistered within a state." Mr. Allen C. Stout's probationary  
20 period expired two years after his release from federal custody in approximately September, 2000.  
21 (See Exh. S-3)

22      11. Mr. Scott Ingell, the sole investor witness, testified that he learned of ROG's  
23 investment program second hand from his step-father, Mr. Peter Mangurian,<sup>4</sup> sometime in 2005.

24 \_\_\_\_\_  
25 <sup>2</sup> There was also evidence of an unrelated transaction for \$40,000, but it was insufficient to determine whether it bore any  
relationship to the allegations concerning the offering described in the T.O. and Notice.

26 <sup>3</sup> Besides the Division's two witnesses, it relied largely upon documentary evidence obtained during the course of the  
Division's investigation of the Respondents and admitted into evidence during the proceeding. Additionally, portions of  
the deposition of Mr. William Smith, the initial Division investigator assigned to the case, were read into the record  
because he had left the employment of the Division. (See Exh. S-41)

27 <sup>4</sup> Mr. Ingell testified that Mr. Mangurian had invested with ROG, but Mr. Mangurian could not testify during the  
proceeding because he died before the hearing.

1 (Tr. at p. 119) Previously, Mr. Mangurian introduced Mr. Ingell to an ROG offering by informing  
2 him that "he was giving a gift to myself and my wife. And he was transferring shares of an oil well  
3 that he had purchased in my name... ." (Tr. at p. 119) According to Mr. Ingell, Mr. Mangurian  
4 transferred an interest in an oil well which Mr. Mangurian had invested in with ROG known as the  
5 Craig-Muncaster Well #1 ("CMW #1") which was being operated by Benco-Rife Energy ("BRE") in  
6 Texas.<sup>5</sup> Mr. Mangurian had invested \$20,000 in CMW #1 in approximately December, 2004, and he  
7 transferred that interest to Mr. Ingell. Subsequent to the transfer of ownership, BRE sent Mr. Ingell  
8 monthly statements and checks.

9       12. In late December, 2005, Mr. Mangurian telephoned Mr. Ingell and told him to make  
10 another oil investment with ROG using funds which Mr. Mangurian was transferring to Mr. Ingell  
11 and his wife. The funds were a gift from Mr. Mangurian to Mr. and Mrs. Ingell from a trust which  
12 Mr. Mangurian controlled and represented an "end-of-the-year transaction... to maximize tax  
13 benefits." (Tr. at p. 135)

14       13. Mr. Ingell testified that when his step-father telephoned him, he was directed to  
15 immediately write a check to ROG for \$135,000 to invest in another oil well. Mr. Ingell wrote a  
16 check to ROG, dated December 29, 2005, for \$135,000 but he indicated that "when I wrote the  
17 check, I had virtually no information except my father told me to do it." (Tr. at p. 121) Mr.  
18 Mangurian told him that he should "call Allen Stout and verify the address and overnight a package  
19 to him now." (Tr. at p. 140)

20       14. Mr. Mangurian transferred the cash from his trust into the Ingells' personal bank  
21 account from which Mr. Ingell wrote the check to ROG. According to Mr. Ingell, his only dealing  
22 with ROG and Mr. Allen C. Stout was to telephone ROG, verify the address and send his check  
23 "from a quick-ship place." (Tr. at p. 140)

24       15. After investing, Mr. Ingell testified that he received "an investor packet" which  
25 requested information concerning his ability to invest and other financial information. He also  
26 received a geology report, survey map and a log and evaluation of the well.

27  
28       <sup>5</sup> Numerous references were made to the Texas operating company or related companies, but their operational functions  
were not explained and they will be referred to as BRE unless referred to in a quotation or as a corporate entity.

1       16. Accompanying the documents was a ROG cover letter, which was signed by "Allen  
2 Stout" and also included two sets of purchaser questionnaires.

3       17. Included with ROG's letter was a form captioned "Authority for Expenditure" dated  
4 December 27, 2005, which reflected the expenditure of slightly in excess of Mr. Ingell's \$135,000  
5 investment. This document did not reflect any fee or commission payments to ROG. (Tr. at p. 129)

6       18. Mr. Ingell testified that as a result of his \$135,000 investment, he has received a return  
7 thus far of around \$9,000 from BRE. (Tr. at p. 136)

8       19. Mr. Ingell also stated that during discussions with Mr. Mangurian about his concerns  
9 for investing such a large sum of money, his step-father had informed him that he knew Mr. Allen C.  
10 Stout had been in trouble previously and further indicated that he did not expect there would be any  
11 problems. (Tr. at p. 137)

12       20. Mr. Ingell repeatedly emphasized that he did not rely on any information from ROG or  
13 Mr. Allen C. Stout, but was merely following the instructions of his step-father, Mr. Mangurian.  
14 (Tr. at p. 141, 142 and 143).

15       21. Mr. Ingell acknowledged receiving and signing a three-page letter from ROG dated  
16 December 29, 2005, apparently back-dated and sent to him after he sent his check of \$135,000 for an  
17 undivided 8 percent working interest "equal to a 6.0 percent revenue interest" in an oil well known as  
18 Phillips No. 2 St. Jo Prospect, Montague County, Texas. Mr. Ingell, in that letter, agreed that he  
19 understood that Rife Energy Operating, Inc. ("REO")<sup>6</sup> would be the operator of the well in its day-to-  
20 day operations.

21       22. By signing the letter, Mr. Ingell acknowledged that he was "financially sophisticated  
22 in business and oil and gas drilling ventures;" was advised "as with any oil and gas drilling venture, is  
23 a very high-risk undertaking and all of your investment (including your contribution for completion  
24 expenses) may very likely be lost or else never recovered in its entirety and no representations to the  
25 contrary have been made to you or your representatives by Reserve Oil and Gas, Inc. or its  
26 representative;" and that he understood that the offering was not registered with either the Securities  
27

28       

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<sup>6</sup> This appears to be a BRE-related company.

1 and Exchange Commission or under the laws of any state. (See Exh. S-56)

2       23. Mr. Ingell testified that he has retained his interest in the well and REO had continued  
3 to send income on the investment through April, 2007 prior to the recommencement of the hearing on  
4 May 2, 2007.

5       24. During the Division's investigation, it obtained documents pursuant to a Commission  
6 subpoena served on ROG and Mr. Allen C. Stout on January 24, 2006, and answered by a letter dated  
7 February 28, 2006, by Respondents' attorney at the time, Mr. Burton M. Bentley.<sup>7</sup>

8       25. The Division's investigator, Mr. Thomsen,<sup>8</sup> identified a brochure which the Division  
9 had received pursuant to its subpoena which identified ROG and promoted its website,  
10 www.reserveoil.com. The brochure set forth "the advantages of owning oil and gas wells" citing  
11 benefits such as "projected return on ownership investment is better than 10 to 1 over the life of the  
12 project; a continuing revenue stream for college funds; estate building and retirement income; and  
13 direct, vested ownership of production insures reduced cost, increased profits." (See Exh. S-8)

14       26. An ROG document obtained by subpoena consisted of a seven-part multi-page booklet  
15 which was captioned "Reserve's Drilling Program Fort Worth Basin, North Texas" and which  
16 described ROG's drilling program and how such an investment would work for an investor. The  
17 booklet described an agreement between ROG and BRE, which was to oversee the drilling and  
18 operation of the wells for investors. Investments in the program were described as low-risk and "Part  
19 Seven" of the booklet provided by ROG consisted of a "Participation Agreement Purchaser  
20 Questionnaire." (See Exh. S-37)

21       27. While ROG's website materials referenced an agreement with BRE as the operator of  
22 the Texas wells, Mr. Thomsen, during his review of the Division's investigatory file, was unable to  
23 locate any such agreement among the subpoenaed documents. (Tr. at p. 205 and 206)

24       28. ROG's officers were described as widely experienced in oil and gas field operations

25       7 Many documents were provided by Respondents' attorney Bentley and they were admitted into evidence in support of  
26 the Division's allegations. At the hearing, Respondent's current attorney objected to their admission, however, they were  
27 admitted without ruling on their probative value allowing for a subsequent determination of their worth.

28       8 Mr. Thomsen had been employed by the Division for only three months when called as a witness to testify in the  
proceeding. Prior to testifying, Mr. Thomsen reviewed the Division's ROG file which had been compiled by his  
predecessor, Mr. Bill Smith, who had previously worked as the investigator on the case, but had left his employment with  
the Division prior to the hearing.

1 and the program was explained as one which would "raise \$1,125,500 for a 75 percent working  
2 interest in each well." (See Exh. S-37)

3       29. Pursuant to the Division's subpoena of ROG, the Division also obtained copies of  
4 what were termed private offering memorandums for the Coal Creek Six, LLC and the Wise III,  
5 L.L.C., which appear to be documents utilized by ROG in its offerings. ROG had applied and  
6 registered the trade name of the "Wise III Drilling Program" with the Arizona Secretary of State on  
7 June 5, 2003. (See Exh. S-12)

8       30. ROG's website was downloaded during the Division's investigation into an  
9 approximately 60-page exhibit touting investment opportunities to prospective investors.  
10 (See Exh. S-13)

11       31. While ROG's website described Mr. Allen C. Stout as having "over 25 years of  
12 experience in business management and oil and gas operations..." his conviction for tax evasion was  
13 not disclosed.

14       32. ROG's website also contained a description of its drilling program with a stated  
15 purpose, "to minimize participant's risk and maximize their profit potential." (See Exh. S-13)

16       33. During the hearing, Mr. Thomsen read into the record portions of ROG's investor  
17 updates (from the website) which contained statements such as "specializing in low-risk  
18 opportunities; Reserve Oil & Gas. Inc. is seeking participants who demand substantial return with  
19 minimal risk for its offset drilling project; and purpose, to minimize participants' risk and maximize  
20 their profit potential." (Tr. at p. 208, 209 and 210)

21       34. The Division's initial investigator in the proceeding, Mr. Bill Smith, did not appear at  
22 the hearing, but his deposition was taken by Respondents' counsel and admitted into evidence.

23       35. During Mr. Smith's investigation of ROG, he recalled speaking with Mr. Mangurian  
24 who told him that he learned about ROG from an electrician who "had spent some time in prison"  
25 where he met Mr. Allen C. Stout who had been "accused wrongly of some indiscretions."  
26 Subsequently, Mr. Mangurian had contacted Mr. Allen C. Stout and invested \$20,000 on two  
27 occasions with ROG. Mr. Mangurian's first investment was in the CMW #1 on or about  
28 December 15, 2004, which appears to be the well interest which was transferred to his step-son.

1 Mr. Mangurian's second investment occurred on or about June 22, 2005, when he invested another  
2 \$20,000 with ROG. (Tr. at p. 165) (See Exh. R-7)

3       36. A ROG Participation Agreement in CMW #1 substantiated that Mr. Mangurian, on  
4 December 12, 2004, invested \$20,000 for a 1.333 percent working interest in the well. According to  
5 the Participation Agreement, this entitled Mr. Mangurian to a 0.99975 percent net revenue interest on  
6 his investment. (Tr. at p. 185) (See Exh. S-45)

7       37. Pursuant to the Division's subpoena, copies of letters between REO and ROG were  
8 obtained, both dated February 14, 2005. The letters confirmed Mr. Mangurian's first oil well  
9 investment and included a ROG check payable to REO in the amount of \$14,664 representing Mr.  
10 Mangurian's working interest in the well along with his name, address and social security number  
11 which were provided to REO. (See Exh. S-47 and S-48)

12       38. During Mr. Smith's deposition by Respondents, he indicated that he used an  
13 undercover name, "James Freemire," in his dealings with ROG. He made his initial contact with  
14 ROG by means of emails and received back a purchaser questionnaire from Mr. Allen C. Stout, with  
15 whom he conducted his dealings with ROG. (Tr. at p. 215) Following an initial telephone  
16 conversation with Mr. Allen C. Stout on September 20, 2005, Mr. Smith met with him at ROG's  
17 office in his undercover capacity as "James Freemire" on September 22, 2005, at which Mr. Stout's  
18 son, Mr. Allen L. Stout, and an individual named Jerry were present.

19       39. During Mr. Smith's undercover meeting with Mr. Allen C. Stout, he had a recording  
20 device with him and the substance of the meeting was subsequently transcribed by the Division.<sup>9</sup>

21       40. While promoting ROG's investment opportunity to the Division's undercover  
22 investigator, Mr. Allen C. Stout stated, "and what we try to do here is to lower the risk as much as  
23 possible." Mr. Stout went on to describe "three risks" as follows: "a drilling risk; a completion risk;  
24 and a geological risk." (Tr. at p. 247) (See Exh. S-36)

25       41. During Mr. Smith's investigation, it appeared that ROG invested only \$108,000 of the  
26 \$135,000 Mr. Ingell sent to ROG for his investment with "Rife Energy."<sup>10</sup> Mr. Smith's opinion was  
27

28       <sup>9</sup> The transcript of the taped conversation consists of 42 double-spaced pages and contains 84 indiscernible sections.

<sup>10</sup> This appears to be a reference to REO, a BRE-related entity.

1 based on a December 27, 2005, copy of an "Authority for Expenditure" which Mr. Smith received  
2 from "Rife Energy" in response to a Division subpoena.<sup>11</sup>

3       42. A similar "Authority for Expenditure" sent to Mr. Ingell by ROG was provided to Mr.  
4 Smith pursuant to the Division's subpoena of ROG's records, but it had "inflated costs, not  
5 administrative, but in, like, drilling costs and whatever, to make it \$135,000."<sup>12</sup>

6       43. From Mr. Thomsen's review of the Division's investigatory file, he was able to  
7 correlate the two documents for "Authority for Expenditure" of Mr. Ingell's investment with the  
8 document from REO reflecting a total expenditure of \$108,000 and the documents from ROG  
9 reflecting expenditures totaling \$135,000 by referring to the same "prospect names" and the "lease  
10 names" on the documents.

11       44. According to Mr. Smith in his deposition, Mr. Ingell has expressed concerns with  
12 respect to inflated costs which appear on the expenditure form provided by ROG and  
13 Mr. Allen C. Stout. (Tr. at p. 299)

14       45. Pursuant to documents obtained by subpoena, the Division presented evidence in the  
15 form of several letters, which correlated with Mr. Ingell's investment in the Phillips No. 2, St. Jo  
16 Prospect. One was a participation letter from REO to ROG dated December 27, 2005, and described  
17 what, in fact, appears to be Mr. Ingell's 8.0 percent working interest equal to a 6.0 net revenue  
18 interest for \$108,000 accepted and agreed to by ROG by Mr. Allen C. Stout. In contrast, a letter from  
19 ROG to Mr. Ingell dated December 29, 2005, described the same investment, mirrored the language  
20 of REO's letter to ROG, but was for \$135,000 and accepted and agreed to by Mr. Ingell.  
21 (See Exh. S-53 and S-56)

22       46. During his deposition, Mr. Smith acknowledged that Mr. Allen C. Stout had not  
23 pressured him to make an investment at their meeting. (Tr. at p. 396 and 397)

24       47. Neither Mr. Allen C. Stout nor Mr. Allen L. Stout appeared to give testimony during  
25 the proceeding.

26       48. Upon a review of the evidence in its entirety, we find from the preponderance of the

27       <sup>11</sup> The expenditure form received under subpoena reflected ROG as the non-operator or investor, not Mr. Ingell.

28       <sup>12</sup> This expenditure form from ROG was likewise dated December 27, 2005, but reflected Mr. Scott Ingell as the non-operator or investor. (Tr. at p. 261) (See Exh. S-51)

1 evidence that ROG and Mr. Allen C. Stout, as an unregistered dealer/salesman, were engaged in an  
2 unregistered offering and sale of securities in the form of investment contracts. The record of the  
3 proceeding further established that Respondents ROG and Mr. Allen C. Stout failed to disclose his  
4 prior criminal record and any hidden fees or commissions connected with the offer and sale of the  
5 securities described herein. The Division offered sufficient evidence of probative value which  
6 established these violations of the Act occurred, but only as to those two Respondents.

7 49. With respect to the allegations against Mr. Allen L. Stout, we do not believe that the  
8 Division has established by a preponderance of the evidence that Mr. Allen L. Stout committed acts  
9 that amount to a violation of the Act and he should be dismissed from the proceeding.

10 **CONCLUSIONS OF LAW**

11 1. The Commission has jurisdiction over this matter pursuant to Article XV of the  
12 Arizona Constitution, A.R.S. § 44-1801, *et seq.*

13 2. The investment in the form investment contracts offered by Respondents ROG and  
14 Mr. Allen C. Stout were securities within the meaning of A.R.S. § 44-1801(26).

15 3. The securities were neither registered nor exempt from registration, in violation of  
16 A.R.S. § 44-1841.

17 4. Respondents ROG and Mr. Allen C. Stout acted as dealer and/or salesman within the  
18 meaning of A.R.S. § 44-1801(9) and (22).

19 5. The actions and conduct of Respondents ROG and Mr. Allen C. Stout constitute the  
20 sale of securities within the meaning of A.R.S. § 44-1801(21).

21 6. Respondents ROG and Mr. Allen C. Stout sold unregistered securities within or from  
22 Arizona in violation of A.R.S. § 44-1841.

23 7. Respondents ROG and Mr. Allen C. Stout offered and sold securities within or from  
24 Arizona without being registered as dealer and/or salesman in violation of A.R.S. § 44-1842.

25 8. Respondents ROG and Mr. Allen C. Stout offered and sold securities in violation of  
26 A.R.S. § 44-1991 by (A) employing a device, scheme, or artifice to defraud, (B) making untrue  
27 statements or omissions of material facts, and (C) engaging in transactions, practices, or courses of  
28

1 business that operate or would operate as a fraud or deceit. Respondents conduct included: failing to  
2 disclose to offerees and investors that Mr. Allen C. Stout had been convicted of tax evasion; and  
3 failing to disclose to offerees and investors that a commission or fee would be deducted from the  
4 amount invested with ROG for the opportunity to invest in its oil projects.

5       9. Pursuant to A.R.S. § 25-214 and 25-215, this order of restitution and administrative  
6 penalties is a debt of Allen C. Stout and the marital community of Allen C. Stout and Eugenia Stout.

7       10. Respondents ROG and Mr. Allen C. Stout have violated the Act and should cease and  
8 desist pursuant to A.R.S. § 44-2032 from any future violations of A.R.S §§ 44-1841, 44-1842 and  
9 44-1991 and all other provisions of the Act.

10        11. Respondent Mr. Allen L. Stout should be dismissed from the proceeding and not  
11 found liable for any violations of the Act.

12       12. The actions and conduct of Mr. Allen C. Stout constitute multiple violations of the Act  
13 and are grounds for an Order of Restitution pursuant to A.R.S. § 44-2032 and for an Order assessing  
14 administrative penalties pursuant to A.R.S. § 44-2036.

## ORDER

IT IS THEREFORE ORDERED that pursuant to the authority granted to the Commission under A.R.S. § 44-2032, Respondents Reserve Oil & Gas, Inc. and Mr. Allen C. Stout shall cease and desist from their actions described hereinabove in violation of A.R.S. §§ 44-1841, 44-1842 and 44-1991.

IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under A.R.S. § 44-2036, Respondents Reserve Oil & Gas, Inc., Mr. Allen C. Stout, and the marital community of Mr. Allen C. Stout and Eugenia Stout, jointly and severally, shall pay as and for administrative penalties: for violation of A.R.S. § 44-1841, the sum of \$5,000 and for the violation of A.R.S. § 44-1842, the sum of \$5,000; and for violation of A.R.S. § 44-1991, the sum of \$10,000. The payment obligations for these administrative penalties shall be subordinate to the restitution obligations ordered herein and shall become immediately due and payable only after restitution payments have been paid in full or upon Respondents' default with respect to Respondents' restitution obligations.

28 IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under

1 A.R.S. § 44-2036, the Respondents Reserve Oil & Gas, Inc., Mr. Allen C. Stout, and the marital  
2 community of Mr. Allen C. Stout and Eugenia Stout, jointly and severally shall pay the  
3 administrative penalty ordered hereinabove the amount of \$20,000 payable by either cashiers' check  
4 or money order payable to the "State of Arizona," and presented to the Arizona Corporation  
5 Commission for deposit in the general fund for the State of Arizona.

6 IT IS FURTHER ORDERED that if Respondents Reserve Oil & Gas, Inc. and Mr. Allen C.  
7 Stout fail to pay the administrative penalty ordered hereinabove, any outstanding balance plus interest  
8 at the maximum lawful amount may be deemed in default and shall be immediately due and payable  
9 without further notice.

10 IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under  
11 A.R.S. § 44-2032, Respondents Reserve Oil & Gas, Inc., Mr. Allen C. Stout and the marital  
12 community of Mr. Allen C. Stout and Eugenia Stout, jointly and severally, shall make restitution in  
13 an amount not to exceed \$32,336 which restitution shall be made pursuant to A.A.C. R14-4-308  
14 subject to legal set-offs by the Respondents and confirmed by the Director of Securities, said  
15 restitution to be made within 60 days of the effective date of this Decision.

16 IT IS FURTHER ORDERED that the restitution ordered hereinabove shall bear interest at the  
17 rate of 10 percent per year for the period from the dates of investment to the date of payment of  
18 restitution by the Respondents.

19 IT IS FURTHER ORDERED that all restitution payments ordered hereinabove shall be  
20 deposited into an interest bearing account(s), if appropriate, until distributions are made.

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1 IT IS FURTHER ORDERED that Respondent Mr. Allen L. Stout is not in violation of the Act  
2 and are hereby dismissed from the proceeding.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

5 *Terry C. Gleason*

6 CHAIRMAN

*William R. Mallo*

7 COMMISSIONER

8 *Stephen Hatch-Miller*

9 COMMISSIONER

*Brian C. McNeil*

10 COMMISSIONER

*Gary Duer*

11 COMMISSIONER

12 IN WITNESS WHEREOF, I, BRIAN C. MCNEIL, Executive  
13 Director of the Arizona Corporation Commission, have  
14 hereunto set my hand and caused the official seal of the  
15 Commission to be affixed at the Capitol, in the City of Phoenix,  
16 this 9<sup>th</sup> day of Dec., 2008.

17  
18 *K. J. M.L.*  
19  
20 BRIAN C. MCNEIL  
21 EXECUTIVE DIRECTOR

22 DISSENT \_\_\_\_\_

23 DISSENT \_\_\_\_\_

24 MES:db

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1 SERVICE LIST FOR: RESERVE OIL & GAS, INC.; ALLEN AND JANE DOE  
2 STOUT, SR., HUSBAND AND WIFE; ALLEN AND JANE  
DOE STOUT, JR., HUSBAND AND WIFE.

3 DOCKET NO.: S-20437A-05-0925

4  
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7 Attorney for Respondents

8 Matt Neubert, Director  
9 Securities Division  
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