

**COMMONWEALTH OF KENTUCKY
PUBLIC PROTECTION CABINET
DEPARTMENT OF FINANCIAL INSTITUTIONS
AGENCY CASE NO. 2011-AH- 0105**

DEPARTMENT OF FINANCIAL INSTITUTIONS

PETITIONER

v.

FINAL ORDER

GEO-SENSORS/RE-CON DRILLING & EXPLORATION, INC. &
WOLFGANG B. BERNHARDT

RESPONDENTS

* * * * *

The Commissioner of the Department of Financial Institutions (“DFI”) hereby enters this **Final Order** directing Respondents, Geo-Sensors/Re-Con Drilling & Exploration, Inc.(“Geo-Sensors”) and Wolfgang B. Bernhardt (“Bernhardt”) to cease and desist from offering to sell or selling securities in violation of KRS Chapter 292, the Kentucky Securities Act (the “Act”) and to pay costs.

FINDINGS OF FACT

1. The Petitioner is the Commissioner of the Department of Financial Institutions (“DFI”) for the Commonwealth of Kentucky. The DFI is the agency of Kentucky state government charged with the administration of the provisions of KRS Chapter 292, the Securities Act of Kentucky (the “Act”), and the rules and regulations promulgated under the Act.

2. The Respondent, Geo-Sensors, is a Kentucky corporation in bad standing with the Kentucky Secretary of State. Its mailing address is 604 East Broadway, Cave City, Kentucky 42127. The Registered Agent for service of process for Geo-Sensors is Kenneth W. Humphries, 110 East 9th Street, Hopkinsville, Kentucky 42240. Respondent's chief executive officer is Respondent Wolfgang B. Bernhardt. His address is also 604 East Broadway, Cave City, Kentucky 42127.

3. DFI received a complaint from an investor who had invested approximately \$60,000 for interests in Geo-Sensors' oil and gas drilling operations in Kentucky.

4. Geo-Sensors is not registered to engage in the securities business in the Commonwealth of Kentucky. DFI has received no filing to register the securities, no claim of exemption for the securities, and no filings claiming the securities are covered securities. Further, no agent of Geo-Sensors, including Bernhardt has ever registered as an issuer agent with the DFI.

5. DFI attempted to obtain information from Geo-Sensors and Bernhardt to determine their compliance with the Act. On July 14, 2009, an investigator for the DFI served a subpoena on Geo-Sensors at the Cave City, Kentucky address. The subpoena required Geo-Sensors to produce information by July 31, 2009.

6. The subpoena was sent via certified mail, return receipt requested. The subpoena was delivered, received, and signed for by Bernhardt on July 30, 2009.

7. Mr. Bernhardt requested an extension of time to respond to the subpoena, and the DFI agreed to allow Geo-Sensors until August 31, 2009 to comply. However, no documents were produced by expiration of the extended deadline, and DFI subsequently commenced a civil

enforcement action in the Franklin Circuit Court (Civil Action No. 09-CI-1615) to enforce the subpoena.

8. The Franklin Circuit Court entered an Order on October 12, 2009 directing the Respondent to comply with the DFI subpoena within ten days of entry. Again, the Order was not complied with.

9. The Franklin Circuit Court then scheduled a hearing directing Geo-Sensors to Show Cause why it should not be held in contempt of court for failing to comply with its Order. That hearing was held on January 25, 2010. Respondent, through Bernhardt, appeared, but did not produce any documents at the time.

10. A second Show Cause hearing took place on March 17, 2010, at which time counsel for Respondents appeared with a number of boxes of documents for DFI's review and represented to the Court and DFI that his client was amenable to the entry of this Agreed Order of Permanent Injunction and Final Judgment. Ultimately however, in spite of repeated opportunities to do so as afforded by DFI, Respondents never executed or signed off on any Agreed Order in connection with this matter.

11. Upon review by the DFI, the documents produced, together with other information provided to the DFI by Respondents, showed that during a period dating back to 2006 and continuing into 2009, Respondents sold interests to numerous individual investors in a series of oil and gas drilling and exploration ventures in south central Kentucky.

12. Despite raising approximately \$323,000 from investors to complete and drill four wells in Barren, Allen and Hart Counties, no production was ever recovered from any of these wells, and investors did not receive any payment or return on their investments.

13. Not including the above investors, Bernhardt's wife, Julie, who was also the Secretary of Geo-Sensors, loaned approximately \$77,000 of her own money to the operations. Unlike any of the other investors, Julie was repaid nearly \$66,000. For his part, Wolfgang Bernhardt invested less than \$1,000 into the ventures.

14. The Bernhardts commingled investor monies with their own personal funds, and it cannot be determined with any degree of certainty how the investors' money was used. Records produced indicate that a substantial amount of money from investors was used to remodel Bernhardt's home/office in Cave City and not on oil and gas drilling and exploration.

15. Bernhardt maintained that he owned a device which, when adjusted to the proper setting, was a guaranteed method of locating oil and gas on any property, as well as gold, platinum, silver, rhodium, diamonds, and semi-precious metals. The documents produced do not reflect the purchase or development of any such seemingly miraculous oil and gas/precious metals locator device. They do, however, show that Bernhardt actually purchased a device described as an "electronic fish finder." This fish finder appears to operate in the same general manner as Bernhardt's purported oil and gas/precious metals locator.

16. Although Respondents never produced any oil and gas, they did apparently at least attempt to do some drilling on certain properties. One of the documents produced by Respondents was a notarized letter from a Barren County landowner. In that letter, the landowner stated "I... have never signed an oil lease for anyone to drill or pump oil on my property. Therefore, I want Wolfgang and Julie Bernhardt and all their equipment off my property within 30 days."

17. Respondents produced copies of four leases relating to oil and gas exploration. The lease for one of the properties did not identify Respondents (or any of its principals) as the lessee. No drilling activity ever occurred under at least two of the leases. With respect to the remainder of the leases, whatever exploration or efforts were attempted, they resulted in either dry holes or no production.

18. Materials produced by Respondents show that the Respondents promised wildly unrealistic returns to investors. One agreement estimated production of 400 barrels a day at \$50 per barrel, a 35 % profit on the investment or “approximately \$5,000 per day.” A letter to an investor from Bernhardt dated August 26, 2006, states “your investment of \$80,000 should be returned to you on or about the 25th of October. A two for one profit on your investment of \$80,000 should reach you by Dec. 31, 2006.” An “Agreement For Crude Oil Production” dated October 5, 2007 promises that Respondents will return the investor’s \$33,000 principal investment plus 15% “from the Moulden lease, located in Hart County, Ky.” The agreement implies that production had or would commence within 30 days. Respondents never conducted any drilling operations on this property. Bernhardt later told the DFI that this was because the property was “seized due to the finding of marijuana on the land.” However, the documents produced by Respondents indicate that Respondents never even had a lease to drill on the property in the first place.

19. Respondents never furnished any of the investors with prospectuses, offering documents or private placement memoranda disclosing such material information as Respondents’ production history (or total lack thereof), revenue history (or total lack thereof), the fact that the offerings were not registered securities, the fact that the Bernhardts were not registered agents,

the fact that in at least one instance Respondents did not even have a lease on the property to be drilled, or the overall risk of the investment.

20. Neither Bernhardt nor his wife, Julie, ever registered with the DFI as issuer agents in accordance with the requirements of KRS 292.330

21. Respondents never registered any of their oil and gas drilling ventures as securities with the DFI. None of the offerings were registered as securities with the Securities & Exchange Commission or any other regulatory agency, and none of the offerings were exempt from registration or were federal covered securities. All of the investments qualify for registration as securities as that term is defined by KRS 292.310(18) and other authority.

22. KRS 292.310(18) defines a “security” as “any note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, viatical settlement investment, voting-trust certificate, certificate of deposit for a security; fractional undivided interest in oil, gas, or other mineral rights; or, in general, any interest or instrument commonly known as a ‘security,’ or any certificate of interest in or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.”

23. An investment contract has been construed by the courts to mean an investment of money in a common enterprise with an expectation of profit based primarily on the efforts of others. *S.E.C. v. W.J. Howey Co.*, 328 U.S. 293, 66 S.Ct. 1100, 90 L.Ed. 1244 (1946).

24. The investment transaction(s) described above in this Order involved securities as within the meaning of KRS 292.310(18).

25. Pursuant to KRS 292.330(1), it is unlawful for any person to offer or sell securities in or from Kentucky unless that person is registered with the DFI as a broker-dealer or agent. Neither of the Bernhardtts was so registered with the DFI.

26. Pursuant to KRS 292.330, it is unlawful for any broker-dealer or issuer to employ an agent in Kentucky unless the agent is registered with the DFI, and it is unlawful for any person to offer or sell securities in or from Kentucky unless that person is registered as an agent with the DFI. Neither of the Bernhardtts was so registered with the DFI.

27. Pursuant to KRS 292.340, it is unlawful to offer or sell securities in or from Kentucky unless the offering is registered with the DFI or is an exempt or covered security. None of the offerings were registered with the DFI or were exempt or covered securities.

28. Pursuant to KRS 292.320(1), it is unlawful for any person in connection with the offer, sale, or purchase of any security, directly or indirectly, to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading. Respondents made misleading statements to investors and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

29. Pursuant to KRS 292.470, whenever it appears to the Commissioner of the DFI that any person has engaged or is about to engage in any act or practice constituting a violation of any provision of KRS Chapter 292, the Commissioner may issue a final order, after notice and an opportunity for hearing, directing any person or persons found to have engaged in activity that constitutes a violation of the Securities Act or any rule or order under the Act to cease and desist

from such activity, to pay fines or perform any other reasonable mandates directed by the Commissioner and reasonably calculated to carry out the provisions of the Securities Act.

30. An administrative complaint was filed on June 7, 2011 against Respondents alleging violations of KRS 292.340 for the offer and sale of unregistered securities in and from Kentucky, KRS 292.320(1) for making misrepresentations and/or omissions of fact about the offerings including, but not limited to, well production, commissions, drilling history, production records, payment history, and affiliation with the driller, and KRS 292.330 for offering or selling securities through an unregistered agent. The complaint was served by U.S. mail addressed to both Respondents attorney and to Respondents' registered agent for service of process on June 7, 2011.

31. More than twenty (20) days have passed since service of the administrative complaint, and the Respondents have failed to respond to the Complaint or request a hearing in this matter.

CONCLUSIONS OF LAW

1. The Respondents violated KRS 292.320(1), 292.330, and 292.340 as set forth above and are subject to the entry of a cease and desist order and other appropriate sanctions and remedies as provided for in KRS 292.470(3) and KRS 292.500(14) and (16).

2. The Respondents were properly served with the administrative complaint pursuant to 808 KAR 10:225 by serving the Respondents by U.S. mail.

3. The Respondents have failed to respond to the administrative complaint or request a hearing within twenty (20) days of service as required by 808 KAR 10:225, Section 1. Thus,

the Respondents' right to request a hearing was waived in this matter, and entry of a final order is appropriate at this time.

ORDER

THEREFORE, based upon the foregoing statement of facts, statutory authority, and conclusions, the Commissioner **HEREBY ORDERS** that:

1. The Respondents permanently cease and desist from violating the Kentucky Securities Act, KRS Chapter 292.
2. Respondents are ordered to pay a civil fine or penalty in the amount of Twenty Thousand Dollars (\$20,000.00). Payment shall be made within thirty (30) days following entry of this Final Order. The check shall be made payable to the "Kentucky State Treasurer" and delivered to the Kentucky Department of Financial Institutions, Attn: William Owsley, 1025 Capital Center Drive, Suite 200, Frankfort, KY 40601.
3. Respondent Bernhardt is permanently barred from participation or involvement in any capacity in the securities industry in Kentucky.
4. This is a **FINAL AND APPEALABLE ORDER**. This Final Order shall become effective upon completion of service as set forth in KRS 292.490.

IT IS SO ORDERED on this the 20th day of July, 2011.



CHARLES A. VICE, COMMISSIONER


NOTICE OF APPEAL RIGHTS

Pursuant to KRS 292.490 and KRS 13B.140, you are hereby notified that you have the right to appeal this Final Order of the Commissioner. If you chose to appeal, you must file a written Notice of Appeal with the Franklin Circuit Court within thirty (30) days after entry and mailing of this Final Order. A copy of any Appeal Petition must also be served on the Commissioner.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Final Order was sent by U.S. mail to the following on this the 21st day of July, 2011:

Wolfgang B. Bernhardt Geo-Sensors/Re-Con Drilling & Exploration, Inc. 604 East Broadway Cave City, KY 42127	Kenneth W. Humphries 110 East 9 th Street Hopkinsville, KY 42240
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William Owsley, Counsel