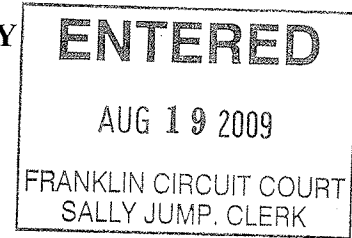


COMMONWEALTH OF KENTUCKY
FRANKLIN CIRCUIT COURT
DIVISION II
CIVIL ACTION NO. 07-CI-01930



COMMONWEALTH OF KENTUCKY, EX REL.
THE EXECUTIVE DIRECTOR OF THE
OFFICE OF FINANCIAL INSTITUTIONS

PLAINTIFF

-vs-

FINDINGS OF FACT, CONCLUSIONS OF LAW
AND
ORDER

YOUNG OIL CORPORATION, ET AL.

DEFENDANTS

This matter is before the Court upon a Bench Trial held on May 27 through May 29, 2009.

The Plaintiff, the Kentucky Department of Financial Institutions, (hereinafter "DFI") had previously filed a *Complaint for Injunctive Relief* and subsequent *Motion for Appointment of Receiver, Temporary Restraining Order, Asset Freeze and Accounting*, alleging that the Defendants, Anthony Young and Young Oil Corporation (hereinafter "YOC") violated KRS 292.330(1) by transacting business in Kentucky as unregistered broker-dealers. The Plaintiff also alleged that the Defendants

violated KRS 292.340 by selling unregistered securities, and further violated KRS 292.320 by engaging in fraud in connection with the offer and sale of the various securities. Early in the case, various individual Defendants were dismissed, rendering the allegation of violations of KRS 292.330(1) moot.

Based upon the testimony and evidence submitted during the three-day trial, the Court makes the following Findings of Fact and Conclusions of Law with respect to Defendants, Young Oil Corporation and Anthony Young, known collectively as “Defendants.”

FINDINGS OF FACT

1. Defendant, Young Oil Corporation, is a Kentucky corporation, solely owned and controlled by the Defendant, Anthony Young.
2. Defendant, Young Oil Corporation, is the general partner for the partnerships which Anthony Young solely owned and controlled.
3. That from 1997 through 2008 YOC raised nearly twenty-million (\$20 million) dollars from investors through the sale of fifty-seven (57) sequentially numbered partnerships to investors

(Exhibit P6). Those partnerships are securities as defined by KRS 292.310(18), and are subject to regulation by state and federal regulatory agencies.

4. The issues between the parties are (1) whether the securities offered and sold by the Defendants were required to be registered with the DFI or qualified as “covered securities” for exemption from regulation, and (2) whether the Defendants violated Kentucky securities laws by selling unregistered securities and by engaging in fraud in connection with the sale of securities.

5. The partnerships were not registered pursuant to KRS Chapter 292. KRS 292.420(1) provides that the burden of proving an exemption from registration is upon the person claiming it. Here, the Defendants bear the burden of proof to show that the securities they sold actually qualified for an exemption under state or federal law.

6. DFI produced evidence that the securities sold by the Defendants do not qualify for the KRS 292.410(1)(i) “small offering” exemption or the KRS 292.410(1)(j) “pre-organization” exemption.

7. Defendants assert that the partnerships are not subject to registration because they are “covered securities” pursuant to Rule 506 of Regulation D of the federal Securities Act of 1933. The

Defendants allege that the sales were private placements.

8. Rule 506 provides an exemption for securities sold under certain private placements. Issuers who engage in general solicitation or a public offering in the offering and sale of securities to investors may not claim the Rule 506 exemption.

9. The evidence presented at the trial reveals that the sales of the partnerships did not constitute private placements, and the Defendants failed to carry the burden of proof to establish that the securities at issue were covered securities.

10. The DFI presented the testimony of DFI examiner Stephen Pulliam, who testified that no record of registration existed for the offerings of the partnerships and joint ventures of Young Oil to investors. (Pulliam testimony, 5-27-09 at 9:48 a.m.).

11. That there was general solicitation and advertising of securities including a wide-ranging distribution scheme of the Young Oil public securities to potential investors scattered throughout the country. DFI produced extensive testimony proving that the Defendants sold the securities in a public rather than private offering and that, therefore, the securities do not qualify as covered securities.

12. The DFI presented four (4) witnesses who demonstrated a wide-ranging sales effort, which suggests a public, rather than a private, offering occurred.
13. The DFI also presented testimony that the Defendants operated the company using a call-center designed to reach thousands of potential investors. The call-center in question had numerous scripts of prepared responses that were designed to overcome reservations of potential investors.
14. The Defendants failed to note the clients' income, net worth, investment objectives, and risk tolerance, among other information set out in and mandated by Rule 506.
15. DFI introduced evidence that the Defendants sold securities to several non-accredited investors in violation of Rule 506. (Exhibit P15).
16. Furthermore, Rule 506 requires that an issuer provide balance sheets to non-accredited investors prior to the sale. Young Oil Company's accountant stated that he never prepared any audited financial statements for YOC. (Polson testimony, 5-28-09, 2:47 p.m.).
17. That KRS 292.320(1)(b) provides that it is unlawful to make an untrue statement of a material fact, omit to state a material fact, or to misrepresent a material fact in connection with the

offer or sale of a security.

18. The evidence presented at trial shows that the Defendants misrepresented material facts or failed to provide the investors with the necessary material information in connection with their sale of YOC securities.

19. The Defendants' first fifty-four (54) partnerships contained no information concerning production history, well status, and production paid in all the prior partnerships sold by the Defendants. (Young testimony, 5-27-09 at 11:04 a.m.).

20. The testimony of the Defendant, Anthony Young, shows that misrepresentation occurred, as not a single one of the first fifty-five (55) partnerships resulted in a profit to investors, except for perhaps one (1), contrary to Defendants' representations to investors. (Young testimony, 5-27-09 at 1:56 p.m.; Young testimony, 5-28-09 at 10:56 a.m.).

21. That the drilling history shown by Exhibit P6 also shows that seventy-four (74) of the 147 wells drilled for the first fifty-four (54) YOC partnerships, were dry holes. Defendants failed to provide this information to investors.

22. The Defendant, Anthony Young, testified that he could not recall any of the partnerships paying out more than a twenty-six percent (26%) return. (Young testimony, 5-28-09 at 11:00).

23. An employee, YOC agent, David Brown, in a recorded voice mail message informed investors that they were always successful, and that only occasionally did they fail to strike oil, because the land where they drilled is rich with natural gas. (Exhibit P13). This information about the investments detailed above was material, in that a reasonable investor would have viewed it as having significantly altered the total mix of information made available.

24. That the Defendants provided materially misleading information, or omitted to state material information to investors, and engaged in fraudulent or deceptive practices in connection with the offer and sale of securities. The agents typically used press releases as bait for investors concerning potential returns on their investment, when only Anthony Young and a select few inside investors profited from "the big producers" highlighted in the press releases.

25. The Norrod #1 Well (the best producing well of Young Oil Company) is owned by Black Dot Farms, which is owned by Mr. Anthony Young and his accountant, Shane Polson, along with five (5)

other investors. This was presented by DFI as proof of the "friends and family plan," where one investment would be rolled into the next oil well until Mr. Young attained a productive well, the profits of which were to go to various friends and families of Mr. Young.

26. Anthony Young individually profited from the profits of drilling the wells.

27. The partnerships would enter into a "turnkey contract" with Tenntucky Drilling, Inc. to drill three wells for the partnership. A typical partnership would pay \$800,000.00 to Tenntucky for drilling costs plus \$150,000.00 for completion costs. Anthony Young wholly owns and controls both YOC and Tenntucky Drilling. DFI presented expert testimony that the costs of drilling wells were inflated. Mr. Marvin Combs testified that a typical well cost only \$85,000.00 to drill (Combs testimony at 4:33 p.m.). The evidence showed that the Defendants raised over \$7 million from the sale of securities to investors in just one year, purportedly for drilling costs. Most of the Defendants' profit was on the Tenntucky contract and from production revenues.

28. Mr. Young used his profiteering scheme to purchase a Lear Jet, an \$86,000 Corvette, and various vacations to the Caribbean. Additionally, Mr. Young sponsored a racing company and lived a

lavish lifestyle, all at the expense of misinformed investors.

CONCLUSIONS OF LAW

29. That the Defendants sold unregistered securities in the form of general partnership and joint venture interests in oil and gas drilling operations in violation of KRS 292.340.

30. That the Defendants failed to meet the burden of proof in showing entitlement to an exemption or qualification as a covered security, pursuant to Rule 506 of Regulation D of the Federal Securities Act of 1933.

31. That the Defendants materially misled investors in connection with the offer and sale of securities, and made untrue statements of material fact and/or failed to disclose material facts necessary in order to make the statements made, in light of the circumstances, not misleading; and engaged in acts, practices and a course of business which operated to perpetrate fraud or deceit upon investors in violation of KRS 292.320.

WHEREFORE , IT IS ORDERED that Defendants, Anthony Young and Young Oil Corporation, are permanently enjoined from violating the Kentucky Securities Act (KRS Chapter 292).

This matter is set for trial on Plaintiff's request for rescission, restitution, or disgorgement expounded in KRS 292.470(2). The parties are instructed to schedule a hearing before the Franklin Circuit Court at a mutually agreeable date.

SO ORDERED this 19 day of August, 2009.



**THOMAS D. WINGATE, JUDGE
FRANKLIN CIRCUIT COURT
DIVISION II**

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