



*Office of the United States Attorney
Eastern District of Kentucky
Kerry B. Harvey, United States Attorney*

Oil and Gas Official Convicted of Defrauding Investors Out of Millions

FOR IMMEDIATE RELEASE

July 10, 2010

www.usdoj.gov/usao/kye

For information contact

Kyle Edelen (859) 685-4811

E-Mail: Kyle.Edelen@usdoj.gov

LEXINGTON — A federal jury in Lexington convicted an official from two oil and gas companies in Danville and Albany, Ky. on charges that he created a scheme to defraud investors in Kentucky and other states out of millions of dollars.

The president of Target Oil and Gas and the controlling interest holder of Kentucky and Indiana Oil and Gas, Michael D. Smith, 54, of Lancaster, Ky. was convicted on one count of conspiracy to commit mail fraud and 11 counts of mail fraud. Smith was acquitted of eight counts of mail fraud and two wire fraud counts.

The jury returned the verdict after approximately 10 hours of deliberation that started Friday afternoon and lasted until early Saturday morning. The trial lasted a month.

Evidence at trial proved that from February of 2003 to February of 2008, Smith, and other co-defendants, lured more than \$12 million from investors through false statements and misrepresentations about the company's oil and gas drilling programs. The company only returned approximately \$538,000 in royalties to investors.

According to trial testimony, Smith used a geologist, Ray Garton, to prepare or direct others to prepare drilling program brochures for potential investors that contained misrepresentations and false statements to inspire potential investors to purchase shares in the oil and gas drilling programs offered by the companies. The salesmen for the companies gave false statements to investors about the success of existing drilling programs and about specific wells that had hit oil or gas.

The brochures provided to investors contained geological reports prepared by co-defendant Garton, which appeared to be a specific assessment of a proposed well site but in fact was nothing more than general geological information about the area.

In the geological reports, there were claims that Garton individually assessed the proposed drilling sites and offered geological information based on these assessments. However, Garton didn't perform individual assessments and prepared geological reports that were applicable only to the general region that included the proposed site.

Also, several states, including Kentucky, issued a cease and desist orders against

Target Oil which prohibited the company from practicing business in those states. However, Smith and another co-defendant concealed this information from potential investors.

The jury also convicted Michael Smith's brother, Christopher Cello Smith, 40, of Prestonsburg, Ky., of seven counts of mail fraud. The jury acquitted Smith on a conspiracy count, two counts of wire fraud and 12 mail fraud counts.

After more than a week into the trial, two other co-defendants decided to plead guilty. Michel Smith's son, Shaun Michael Smith, 28, and company salesman Joshua Scott Harris, 25, of Hustonville, Ky. pleaded guilty to one conspiracy count, 20 counts of mail fraud and two wire fraud counts.

Garton pleaded guilty in September of last year to a conspiracy to commit wire fraud and a company salesman, Mark Irwin, pleaded guilty in January to a conspiracy charge.

Kerry B. Harvey, United States Attorney for the Eastern District of Kentucky, Michael D. Galuppo, Special Agent in Charge of the United States Postal Service (USPS) and Charles Vice from the Kentucky Department of Financial Institutions jointly made this morning.

The case was investigated by the USPS and by the securities division of the Kentucky Department of Financial Institutions. The United States was represented by Assistant United States Attorneys Frances Catron and David Marye.

The Smith brothers will be sentenced in October of this year in Lexington. Each of them faces a maximum prison sentence of 20 years. However, any sentence imposed by the court would only come after a consideration of the U.S. Sentencing Guidelines and the federal statute governing the imposition of a sentence.

— END —