



## Commonwealth of Kentucky Public Protection Cabinet

**Steven L. Beshear, Governor**

**Robert Vance, Secretary**

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**CONTACT:** Kelly May  
502-573-3390 x252  
800-223-2579 x252  
502-229-5068 Cell

### **Five Sentenced in Target Oil and Gas Investment Fraud Scheme**

*DFI Securities Division Assisted in Investigation*

**FRANKFORT, Ky. – (July 6, 2011)** – Five individuals were sentenced in U.S. District Court in Lexington last week on charges related to an investment fraud scheme through a company called “Target Oil and Gas.” The Kentucky Department of Financial Institutions (DFI) was instrumental in assisting the U.S. Attorney’s Office and the U.S. Postal Inspection Service in investigating the case.

U.S. District Judge Joseph M. Hood handed down the following sentences:

- Shaun Michael Smith, 29, of Cookeville, Tenn., was sentenced on June 27 to two and a half years in prison for mail fraud, wire fraud and conspiracy.
- Joshua Scott Harris, 25, of Houstonville, Ky., was sentenced on June 28 to a year and a day in prison for mail fraud, wire fraud and conspiracy.
- Michael Smith, 55, of Lancaster, Ky., was sentenced on June 29 to 10 years in prison and to forfeit \$3.2 million for mail fraud and conspiracy.

- Christopher Cello Smith, 51, of Prestonsburg, Ky., was sentenced on June 30 to five years in prison and to forfeit \$3 million for mail fraud
- Ray Garton, 60, a former Barrackville, W.Va., geologist, was sentenced on June 30 to five years probation, and six months community confinement followed by six months home incarceration for conspiracy to commit mail and wire fraud.

Restitution by the co-defendants will be decided within 90 days. A sixth co-defendant in the case, Mark Irwin, of Cookeville, Tenn., is scheduled to be sentenced on July 14.

In December 2008, these individuals were indicted for their roles in this scheme to defraud investors in Kentucky, Arizona, California, New Jersey and other states out of millions of dollars.

Between 2003 and 2008, these officials and employees of Target Oil and Gas helped the company lure approximately \$15.8 million from investors through a series of misrepresentations and false statements about the company's oil and gas drilling programs. The company only returned approximately \$1.19 million to investors in royalty payments.

"DFI cooperated with several agencies to investigate Target Oil and Gas," said DFI Commissioner Charles Vice. "This is another instance where the department has taken action to stop fraudulent investment activities and protect Kentucky investors."

Michael Smith was president of Target Oil and Gas in Albany, Ky., and owner of Kentucky Indiana Oil and Gas in Danville, Ky. His brother, Christopher Smith, was vice president of Target Oil and Gas.

According to evidence during a trial last July, Michael Smith had Garton, a geologist, prepare or direct others to prepare drilling program brochures that contained misrepresentations and false statements to inspire potential investors to purchase shares in the oil and gas drilling programs. The brochures contained geological reports, which made false claims that Garton had individually

assessed proposed drilling sites and deemed them adequate spots for drilling. Michael Smith's son, Shaun Smith, mailed these brochures to potential investors.

Company salesman Harris supervised and instructed Target Oil employees on what to say to entice potential investors to buy shares of the oil and gas drilling programs. He told the salesmen to make false claims to investors about past successes and about specific wells that had hit oil or gas. Harris also personally made phone calls to investors and made similar bogus claims.

After the co-defendants established initial contact with investors and mailed company brochures, they had Christopher Smith follow up with investors to finalize the sales. He told investors that the drilling programs had hit oil and gas when they had not.

Several states, including Kentucky, issued a cease and desist order against Target Oil and Gas ([www.kfi.ky.gov/legalresources/enforcementactions/securitiessea.htm](http://www.kfi.ky.gov/legalresources/enforcementactions/securitiessea.htm)), which prohibited the company from practicing business in those states. However, the Smith brothers concealed this information from potential investors.

For further information about these sentencing rulings, view the U.S. Attorney's Office, Eastern District of Kentucky, press releases at <http://www.justice.gov/usao/kye/index.html>.

DFI is an agency in the Public Protection Cabinet. It supervises the financial services industry by examining, chartering, licensing and registering various financial institutions, securities firms and professionals operating in Kentucky. DFI's mission is to serve Kentucky residents and protect their financial interests by maintaining a stable financial industry, continuing effective and efficient regulatory oversight, promoting consumer confidence, and encouraging economic opportunities.

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