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IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF OREGON

PORTLAND DIVISION

UNITED STATES OF AMERICA,	CR-10- CR'10-81-KI
Plaintiff,	INFORMATION
vs.	VIOLATION: Count 1: 18 U.S.C. § 371
JOHN W. PARROTT,	
Defendant.	

THE UNITED STATES ATTORNEY CHARGES:

At all material times,

BACKGROUND

Entities

1. ClassicStar, L.L.C. ("ClassicStar"), was a Utah limited liability company that marketed a tax shelter investment called the Mare Lease Program ("MLP"), through which ClassicStar offered to lease thoroughbred mares to wealthy individuals who wished to breed thoroughbred horses.

2. GeoStar Corporation ("GeoStar") was a Delaware corporation and was the parent corporation of ClassicStar through ClassicStar Farms, Inc., another wholly-owned subsidiary of GeoStar. GeoStar's primary business was oil and gas exploration.

3. National Equine Lending Company, L.L.C. ("NELC"), was a Utah limited

liability company that purportedly loaned money to finance investors' entry into the MLP.

4. First Equine Energy Partners, L.L.C. ("FEEP"), was a Nevada limited liability company. According to FEEP's Private Placement Memoranda. FEEP was a vehicle by which MLP investors exchanged their interests in the reproductive capacity of purported mares for purported "units" of interest in FEEP, which purportedly held interests in coal bed methane gas wells and horses.

5. First Source Wyoming, Inc. ("First Source Wyoming") was a Delaware corporation and was a subsidiary of Geostar. First Source was a precursor to FEEP and held interests in coal bed methane gas wells. First Source was a vehicle by which MLP investors exchanged their interests in the reproductive capacity of purported thoroughbred mares for purported "working interests" in coal bed methane gas wells.

6. Gastar Exploration, Ltd. ("Gastar"), was a publicly-traded Alberta, Canada, corporation whose principal business was oil and gas exploration. GeoStar and its principals owned a controlling interest in Gastar, and GeoStar's officers and directors, including Defendant PARROTT, were also at various times Gastar's officers and directors.

7. Strategic Opportunity Solutions, L.L.C., was a Utah limited liability company that did business as Buffalo Ranch and operated a quarter horse farm in Farmington, Utah.

8. Law Firm A, was a law firm based in Chicago, Illinois, that ClassicStar hired to write an opinion letter on the legality of the purported tax benefits of the MLP.

9. Law Firm B, was a law firm based in Portland, Oregon, that ClassicStar hired to write an opinion letter on the legality of the purported tax benefits of the MLP.

10. Accounting Firm A, was an accounting firm based in Salt Lake City, Utah, that

ClassicStar hired to write an opinion letter on the purported tax benefits of the MLP.

11. The Internal Revenue Service ("IRS") was an agency within the United States Department of the Treasury.

Defendant

12. Defendant JOHN W. PARROTT ("PARROTT"), a resident of Michigan, was general counsel, executive vice president, director, and 17.98% owner of GeoStar. Defendant PARROTT was a 10% owner of ClassicStar.

Mare Lease Program

13. The MLP purported to offer wealthy individuals the opportunity to invest in thoroughbred horse breeding. According to MLP promotional materials, investors would lease the reproductive capacity of specific thoroughbred mares. If the mare had a foal during the time that the investor held the lease, the investor would own the foal. MLP promoters told investors that the MLP was a legitimate way to reduce or eliminate their income taxes.

14. MLP promoters told investors that they could take deductions on their federal income tax returns for the losses generated by the thoroughbred horse breeding operation. These deductions reduced or eliminated the investors' taxes, and many investors received tax refunds, including refunds for years prior to their investment.

15. Investors typically financed their investments with a combination of 10% cash, 40% short-term loans, and 50% long-term loans. The loans often came from NELC, a purportedly independent lending company. In fact, NELC was funded and controlled by ClassicStar. NELC's practice was to transfer funds between bank accounts in the names of ClassicStar and NELC to create the appearance that the loans were funded.

16. Investors who took out supposed short-term loans from NELC received paperwork showing that their short-term loans were funded. To pay back the supposed short-term loans, investors often made a payment to NELC from funds they received from income tax refunds generated by the MLP.

17. Investors also received paperwork showing that their long-term loans were funded. Investors often did not make regular payments toward their long-term loans. In fact, some investors made no payments at all. The long-term loans were often eventually extinguished by trades involving FEEP. Many investors were issued units of ownership in FEEP, which they assigned to NELC as repayment for the long-term loans.

18. ClassicStar failed to purchase sufficient thoroughbred mares to fulfill its contractual obligations to the MLP investors, in large part due to GeoStar's massive diversions of funds from ClassicStar. To justify the deductions that the investors claimed on their income tax returns, ClassicStar substituted less-valuable quarter horse mares for the thoroughbred mares that ClassicStar had promised.

19. To mollify investors who complained about receiving interests in quarter horse mares instead of thoroughbred mares, GeoStar arranged for investors to trade their interests in quarter horse mares for "units" of ownership in FEEP. GeoStar guaranteed investors the right to "put" their interests back to FEEP at a price of $1.00 per unit, but many investors were unable to exercise their purported put options. Geostar claimed to have given substance to FEEP by contributing interests in coal bed methane gas wells to FEEP, but GeoStar did not convey the interests to FEEP.

20. From 2001 through 2007, GeoStar moved approximately $330 million in MLP

sales proceeds from ClassicStar's bank accounts to GeoStar's bank accounts and used the money, among other things, to fund ClassicStar's operations, to fund oil and gas operations for itself and its subsidiaries and related entities, including Gastar, and for the personal enrichment of GeoStar's principals, including Defendant PARROTT.

21. MLP investors filed tax returns with the IRS claiming false tax deductions of over $500 million, resulting in a tax loss to the United States government of over $200 million.

COUNT 1

(Conspiracy to Defraud the United States by Impairing and Impeding the Internal Revenue Service - 18 U.S.C. § 371)

22. Paragraphs 1 through 21 are incorporated as though fully set out herein.

23. Beginning no later than January 2001, the exact date being unknown to the United States Attorney, and continuing through at least January 19, 2010, within the District of Oregon and elsewhere, Defendant

JOHN W. PARROTT

knowingly and intentionally conspired and agreed with persons known and unknown to the United States Attorney, to defraud the United States by deceitful and dishonest means for the purpose of impeding, impairing, obstructing, and defeating the lawful government functions of the Internal Revenue Service of the Treasury Department in the ascertainment, computation, assessment, and collection of income taxes.

MANNER AND MEANS

Among the manner and means by which Defendant JOHN W. PARROTT and his co-conspirators carried out the conspiracy were the following:

24. They told investors that participation in the MLP provided a legitimate means for the investors to reduce or eliminate their income taxes.

25. They concealed the fact that NELC was an alter ego of ClassicStar whose sole source of funding was ClassicStar.

26. They concealed the fact that MLP investors' purported 50% long-term loans were not funded.

27. They recycled money back and forth between ClassicStar's and NELC's bank accounts to create the appearance that NELC funded investors' purported 50% long-term loans.

28. They promised MLP investors thoroughbred mares and instead provided many of the investors less-valuable quarter horses.

29. They filled many investors' lists of purported thoroughbred mares with less-valuable quarter horse mares to conceal from the investors and the IRS the fact that ClassicStar did not have nearly enough thoroughbred mares to operate the MLP.

30. They drafted fraudulent quarter horse mare lease agreements between ClassicStar and Strategic Opportunity Solutions, L.L.C., to create the appearance that ClassicStar was leasing and breeding large numbers of quarter horse mares.

31. They encouraged MLP investors to participate in FEEP to extinguish the unfunded 50% long-term loans from NELC.

32. They falsely claimed that GeoStar had funded FEEP by contributing interests in coal bed methane gas wells to FEEP.

33. They concealed the fact that they were funneling a large portion of the MLP investment proceeds into GeoStar's bank accounts for purposes that were unrelated to the

breeding of thoroughbred mares.

34. They determined the size of the MLP investments based on the investors' desired tax savings.

35. They caused ClassicStar to pay Law Firm A, Law Firm B, and Accounting Firm A, to write favorable tax opinion letters about the MLP, but the MLP did not really operate in the way that the opinion letters described.

36. They distributed the favorable tax opinion letter written by Law Firm A without disclosing that ClassicStar paid sales commissions to Law Firm A for inducing the law firm's clients to invest in the MLP.

37. They caused MLP investors to prepare and file false income tax returns that generated fraudulent tax savings.

38. They assisted MLP investors during their audits with the IRS by creating and presenting to the IRS false and back-dated documents, including lists of mares called Schedules A.

OVERT ACTS

In furtherance of the conspiracy and to effect the objects thereof, Defendant JOHN W. PARROTT or at least one other known co-conspirator committed overt acts in the District of Oregon and elsewhere, including the following:

1. In or about 2004, Defendant PARROTT helped draft, and one or more attorneys at Law Firm A finalized, the documents that created FEEP, including the FEEP operating agreement, subscription documents, private placement memorandum, and the list of coal bed methane gas wells.

2. On or about March 23, 2004, Defendant PARROTT attended a meeting in Texas

with TR, TF, DP, and SP, the purpose of which was to decide how to address ClassicStar's lack of sufficient horses to operate the MLP.

3. On or about April 5, 2004, Defendant PARROTT attended a GeoStar executive meeting in Tampa, Florida, at which Defendant PARROTT, T.R., T.F., D.P., and S.P., estimated GeoStar's "net cash flow" for 2004 from MLP sales.

4. On or about May 13, 2004, Defendant PARROTT contacted an attorney at Law Firm B regarding the attorney's compensation for writing an opinion letter on the legality of the tax benefits of the MLP.

5. On or about May 15, 2004, Defendant PARROTT caused an entity under his control to send an invoice to GeoStar for $44,749.99 for "management consulting services" related to FEEP and other matters, with payment to be made by wire transfer to an account that Defendant PARROTT controlled, at a bank in St. Croix, U.S. Virgin Islands.

6. On or about December 1, 2004, Defendant PARROTT, on behalf of Gastar, wrote a letter to a bank in Toronto, Ontario, Canada, asking that any restrictions on the sale of S.P.'s Gastar stock be removed.

7. On or about June 16, 2005, Defendant PARROTT signed as vice president of GeoStar an agreement through which GeoStar and some of its subsidiaries and affiliates transferred "Producing Properties" in Wyoming and Montana to Gastar and some of its subsidiaries and affiliates.

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8. On or about June 16, 2005, Defendant PARROTT signed as vice president of GeoStar an agreement through which GeoStar and some of its subsidiaries and affiliates transferred "Non Producing Properties" in Wyoming and Montana to Gastar and some of its subsidiaries and affiliates.

This was all in violation of Title 18, United States Code, Section 371.

DATED: this 9th day of March, 2010.

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