

IN THE DISTRICT COURT IN AND FOR OKLAHOMA COUNTY  
STATE OF OKLAHOMA

OCT 21 2013

TIM RHODES  
COURT CLERK

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OKLAHOMA DEPARTMENT OF )  
SECURITIES *ex rel.* IRVING L. FAUGHT, )  
ADMINISTRATOR, )  
) )  
Plaintiff, )  
) )  
v. )  
) )  
JASMINE, INC. an Oklahoma corporation; )  
OKLAHOMA ENERGY EXCHANGE, LLC, )  
an Oklahoma limited liability company; )  
HARRISBURG PROSPECT LEASE FUND, )  
an Oklahoma limited liability company; )  
GATES OIL & GAS, LTD, an Oklahoma )  
Corporation; HARRISBURG 2 PROSPECT )  
LEASE FUND, LLC, an Oklahoma limited )  
liability company; JIMMY W. GRAY, an )  
individual; GREG L. GRAY, an individual; )  
MICHAEL K. GRAY, an individual; and )  
LANCE P. BOWMAN, an individual, )  
) )  
Defendants. )

Case No. CJ-2013-5023

**ANSWER TO PETITION FOR PERMANENT INJUNCTION AND  
OTHER RELIEF**

The defendants, Jasmine, Inc., an Oklahoma corporation, Gates Oil & Gas, Ltd., an Oklahoma corporation, Harrisburg 2 Prospect Lease Fund, LLC, an Oklahoma limited liability company, Jimmy W. Gray, an individual, Michael K. Gray, an individual, and Lance P. Bowman, an individual (collectively "Defendants"), for their answer, allege and state as follows:

1. Paragraph 1 contains legal conclusions that do not require a response. To the extent a response could be deemed to be required, Defendants deny any factual allegations contained in paragraph 1.

2. Paragraph 2 contains legal conclusions that do not require a response. To the extent a response could be deemed to be required, Defendants deny any factual allegations contained in paragraph 2.

3. Paragraph 3 contains legal conclusions that do not require a response. To the extent a response could be deemed to be required, Defendants deny any factual allegations contained in paragraph 3.

4. Paragraph 4 contains legal conclusions that do not require a response. To the extent a response could be deemed to be required, Defendants deny any factual allegations contained in paragraph 4.

5. Defendants admit that Jasmine is an Oklahoma corporation with a place of business in Duncan, Oklahoma and that it issued, offered and sold well interests to participate in oil and gas drilling projects in and from Oklahoma. Defendants deny any remaining allegations contained in paragraph 5.

6. Defendants admit that OEE is an Oklahoma limited liability company with a place of business in Duncan, Oklahoma and, upon information and belief, that between January 2010 and July 2012 OEE issued, offered, and sold well interests to participate in oil and gas drilling projects in and from Oklahoma. Defendants deny any remaining allegations contained in paragraph 6.

7. Defendants admit that Harrisburg is an Oklahoma limited liability company and, upon information and belief, that it is managed by OEE and has a place of business in Duncan, Oklahoma, and that in approximately around December 2011 and July 2012 Harrisburg issued, offered, and sold preferred units in Harrisburg in order to, *inter alia*, purchase oil and gas leases

(and pay administrative costs associated therewith) to be held for resale in and from Oklahoma. Defendants deny any remaining allegations contained in paragraph 7.

8. Defendants admit that Gates is an Oklahoma corporation with its principal place of business in Duncan, Oklahoma, and that after August 2012 Gates issued, offered and was selling well interests to participate in oil and gas drilling projects in and from Oklahoma. Defendants deny any remaining allegations contained in paragraph 8.

9. Defendants admit Harrisburg 2 is an Oklahoma limited liability company managed by Gates and has a place of business in Duncan, Oklahoma, and that since August 2012, Harrisburg 2 has issued, offered, and sold s preferred units in Harrisburg in order to, *inter alia*, purchase oil and gas leases (and pay administrative costs associated therewith) to be held for resale in and from Oklahoma. Defendants deny any remaining allegations contained in paragraph 9.

10. Defendants admit Jimmy Gray is an Oklahoma resident, is the President and sole shareholder of Jasmine, and was involved in the formation of OEE, Harrisburg, Gates, and Harrisburg 2. Defendants deny Jimmy Gray was instrumental in the operation of OEE and deny any remaining allegations contained in paragraph 10.

11. Defendants admit Greg Gray is an Oklahoma resident and the son of Jimmy Gray, and served as President of OEE. Defendants deny any remaining allegations contained in paragraph 11.

12. Defendants admit Michael Gray is an Oklahoma resident and the son of Jimmy Gray, and served as President of Gates. Defendants deny any remaining allegations contained in paragraph 12.

13. Defendants admit Lance Bowman is an Oklahoma resident and served as the Chief Financial Officer of OEE for a period of time and as the CFO of Gates. Defendants deny any remaining allegations contained in paragraph 13.

14. Defendants lack sufficient information to admit or deny the allegations contained in paragraph 14 and, therefore, deny those allegations.

15. Defendants admit that Jasmine and Jimmy Gray offered and sold fractional undivided working interests in the Olta No. 1, the Mike No. 1 and No. 2, the Clark No. 2 and No. 3, and the Mackenzie No. 1 wells between 2007 and 2009, and that none of these interests were registered under the Act. Defendants deny any remaining allegations contained in paragraph 15.

16. Upon information and belief, Defendants admit the allegations contained in paragraph 16.

17. Defendants admit that, upon information and belief, in November 2009 OEE was formed, and Defendants admit Jimmy Gray was to be an employee of OEE and Greg Gray was to serve as President. Defendants deny any remaining allegations contained in paragraph 17.

18. Defendants admit that in approximately January 2010, OEE began offering and selling working interests in oil and gas wells. OEE offered and sold fractional undivided working interests in at least three wells: the Mackenzie No. 1, the Julie 1-14, and the RLT No. 2, and that none of the well interests were register under the Act. Defendants deny the remaining allegations contained in paragraph 18.

19. The OEE Well Interests PPM speaks for itself. Defendants deny any characterizations or statements that are contradictory, out of context, or incorrect.

20. Defendants admit some OEE Well Interests were offered and sold by commissioned sales people. Defendants deny the remaining allegations contained in paragraph 20.

21. The OEE Well Interests PPM speaks for itself. Defendants deny any characterizations or statements that are contradictory, out of context, or incorrect.

22. Defendants lack sufficient knowledge to admit or deny the allegations contained in paragraph 22 and, therefore, deny those allegations.

23. The OEE Well Interests PPM speaks for itself. Defendants deny any characterizations or statements that are contradictory, out of context, or incorrect.

24. Upon information and belief, Defendants admit that Jasmine was at some point the operator of both the Mackenzie No. 1 and Julie 1-14 wells, and that OEE offered and sold fractional undivided working interests in the Mackenzie No. 1. Defendants deny any remaining allegations contained in paragraph 24.

25. Defendants admit that in approximately December 2011, OEE began offering and selling interest in Harrisburg. Defendants admit the Harrisburg Preferred Units were not registered under the Act. The Harrisburg PPM speaks for itself. Defendants deny any allegations, characterizations or statements that are contradictory, out of context, or incorrect, and deny any remaining allegations contained in paragraph 25.

26. The Harrisburg PPM speaks for itself. Defendants deny any allegations, characterizations or statements that are contradictory, out of context, or incorrect, and deny any remaining allegations contained in paragraph 26.

27. The Harrisburg PPM speaks for itself. Defendants deny any allegations, characterizations or statements that are contradictory, out of context, or incorrect, and deny any remaining allegations contained in paragraph 27.

28. The Harrisburg PPM speaks for itself. Defendants deny any allegations, characterizations or statements that are contradictory, out of context, or incorrect, and deny any remaining allegations contained in paragraph 28.

29. The Harrisburg PPM speaks for itself. Defendants deny any allegations, characterizations or statements that are contradictory, out of context, or incorrect, and deny any remaining allegations contained in paragraph 29.

30. Upon information and belief, Defendants admit that between approximately December 2011 and July 2012, OEE and Harrisburg sold Harrisburg Preferred Units to investors. Upon information and belief, Defendants admit Greg Gray and Jimmy Gray received payments from OEE in addition to their OEE wages, and that Greg Gray misused investor funds. Defendants deny the remaining allegations contained in paragraph 30.

31. Defendants admit the allegations contained in paragraph 31.

32. Defendants admit the allegations contained in paragraph 32.

33. Defendants lack sufficient information to admit or deny the allegations contained in paragraph 33 and, therefore, deny those allegations.

34. Defendants admit that in approximately August 2012, Gates was formed, Michael Gray was to serve as President and oversee drilling and completion operation, as well as any ongoing well operations. Defendants deny the remaining allegations contained in paragraph 34.

35. Defendants admit that in approximately August 2012, Gates began offering and selling preferred interests in Harrisburg 2, and that the Harrisburg 2 interests were not registered

under the Act. The Harrisburg 2 PPM speaks for itself. Defendants deny any allegations, characterizations or statements that are contradictory, out of context, or incorrect, and deny any remaining allegations contained in paragraph 35.

36. The Harrisburg 2 PPM speaks for itself. Defendants deny any allegations, characterizations or statements that are contradictory, out of context, or incorrect, and deny any remaining allegations contained in paragraph 36.

37. The Harrisburg 2 PPM speaks for itself. Defendants deny any allegations, characterizations or statements that are contradictory, out of context, or incorrect, and deny any remaining allegations contained in paragraph 37

38. The Harrisburg 2 PPM speaks for itself. Defendants deny any allegations, characterizations or statements that are contradictory, out of context, or incorrect, and deny any remaining allegations contained in paragraph 38.

39. The Harrisburg 2 PPM speaks for itself. Defendants deny any allegations, characterizations or statements that are contradictory, out of context, or incorrect, and deny any remaining allegations contained in paragraph 39.

40. Defendants admit that, between approximately August 2012 and April 2013, Gates and Harrisburg 2 sold Harrisburg 2 Preferred Units. Defendants admit that there were payments to Jimmy Gray and Lance Bowman in addition to their Gates wages but deny these payment were improper or a misuse of funds. Defendants deny the remaining allegations contained in paragraph 40.

41. Defendants admit that beginning in approximately September 2012, Gates began offering and selling working interests in the Mackenzie No. 1 and Paul Ray No. 1 wells, and that

these interests were not registered under the Act. Defendants deny the remaining allegations contained in paragraph 41.

42. The Gates Well Interests PPM speaks for itself. Defendants deny any allegations, characterizations or statements that are contradictory, out of context, or incorrect, and deny any remaining allegations contained in paragraph 42.

43. Defendants admit that some Gates Well Interests were sold by commissioned salespeople. Defendants deny any remaining allegations contained in paragraph 43.

44. The Gates Well Interests PPM speaks for itself. Defendants deny any allegations, characterizations or statements that are contradictory, out of context, or incorrect, and deny any remaining allegations contained in paragraph 44.

45. Defendants admit that funds attributable to the Mackenzie No. 1 and Paul Ray No. 2 wells were deposited in a common checking account with other Gates funds but deny there was any misuse of funds. Defendants deny the remaining allegations contained in paragraph 45.

46. The Gates Well Interests PPM speaks for itself. Defendants deny any allegations, characterizations or statements that are contradictory, out of context, or incorrect, and deny any remaining allegations contained in paragraph 46.

47. Defendants admit that at one point Jasmine was the operator of both the Mackenzie No. 1 and Paul Ray No. 2 wells. Defendants admit Jasmine, OEE, and Gates each sold interest in the Mackenzie No. 1 well but deny it was oversold or that this was improper. Defendants deny the remaining allegations contained in paragraph 47.

48. Defendants admit that Gates offered and sold interests in the RLT No. 2 and Jack Justice No. 3 wells, collectively referred to by Gates and the "Whitebead Prospect," and that

these interests have not been registered under the Act. Defendants deny any remaining allegations contained in paragraph 48.

#### **FIRST CAUSE OF ACTION**

49. Defendants reallege and incorporate by reference each and every denial contained in the preceding paragraphs.

50. The allegations contained in paragraph 50 are legal conclusions. To the extent a response is required, Defendants deny any allegations contained in paragraph 50.

51. Defendants admit the listed entities sold well interests to participate in oil and gas drilling projects and preferred units. The remaining allegations contained in paragraph 51 are legal conclusions. To the extent a response is required, Defendants deny any remaining allegations contained in paragraph 51.

52. Defendants admit that the oil and gas drilling projects and preferred units sold have not been registered under the Act. Defendants deny any remaining allegations contained in paragraph 52.

53. Defendants deny the allegations contained in paragraph 53.

#### **SECOND CAUSE OF ACTION**

54. Defendants reallege and incorporate by reference each and every denial contained in the preceding paragraphs.

55. Paragraph 55 contains legal conclusions to which no response is required. To the extent a response could be deemed to be required, Defendants deny the allegations contained in paragraph 55.

56. Paragraph 56 contains legal conclusions to which no response is required. To the extent a response could be deemed to be required, Defendants deny the allegations contained in paragraph 56.

57. Paragraph 57 contains legal conclusions to which no response is required. To the extent a response could be deemed to be required, Defendants deny the allegations contained in paragraph 57.

58. Paragraph 58 contains legal conclusions to which no response is required. To the extent a response could be deemed to be required, Defendants deny the allegations contained in paragraph 58.

59. Paragraph 59 contains legal conclusions to which no response is required. To the extent a response could be deemed to be required, Defendants deny the allegations contained in paragraph 59.

60. Defendants deny the allegations contained in paragraph 60.

### **THIRD CAUSE OF ACTION**

61. Defendants reallege and incorporate by reference each and every denial contained in the preceding paragraphs.

62. Defendants deny the allegations contained in paragraph 62.

63. Defendants deny the allegations contained in paragraph 63.

64. Defendants deny the allegations contained in paragraph 64.

### **FOURTH CAUSE OF ACTION**

65. Defendants reallege and incorporate by reference each and every denial contained in the preceding paragraphs.

66. Defendants deny the allegations contained in paragraph 66.

67. Defendants deny the allegations contained in paragraph 67.

68. Defendants deny plaintiff is entitled to any of the relief set forth in their prayer for relief.

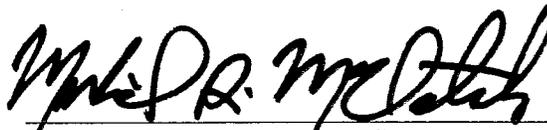
### DEFENSES

69. The interests offered and sold by Defendants constitute interests in an oil, gas or mineral lease as apart of a transaction between parties, each of whom is engaged in the business of exploring for or producing oil and gas or other valuable minerals as an ongoing business or the execution of oil and gas leases by land, miner and royalty owners in favor of a party or parties engaged in the business of exploring for or producing oil and gas or other valuable minerals.

70. The interests offered and sold by answering defendants are exempt from registration under the Oklahoma Securities Act.

71. Defendants reserve the right to add additional defenses, or disclose additional defenses in discovery, as discovery in the case proceeds.

Respectfully submitted,



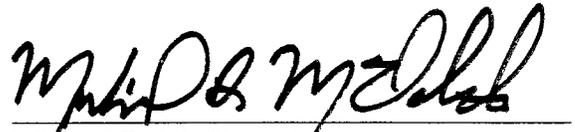
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CERTIFICATE OF SERVICE

This is to certify that on the 21<sup>st</sup> day of October, 2013, a true and correct copy of the above and foregoing document was mailed to:

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David Lawson, OBA #31130  
Robert Fagnant, OBA #30548  
Oklahoma Department of Securities  
120 North Robinson Avenue, Suite 860  
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*Attorneys for Plaintiff*

  
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