

IN THE DISTRICT COURT OF OKLAHOMA COUNTY
STATE OF OKLAHOMA

SEP - 9 2013

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Oklahoma Department of Securities)
ex rel. Irving L. Faught,)
Administrator,)

Plaintiff,)

v.)

Case No. **CJ - 2013 - 5023**

Jasmine, Inc., an Oklahoma corporation;)
Oklahoma Energy Exchange, LLC, an)
Oklahoma limited liability company;)
Harrisburg Prospect Lease Fund, LLC, 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.)

PETITION FOR PERMANENT INJUNCTION
AND OTHER RELIEF

COMES NOW the Plaintiff, Oklahoma Department of Securities ("Department"),
ex rel. Irving L. Faught, Administrator, and for its claims against the above-named
Defendants, alleges and states as follows:

OVERVIEW

1. This case involves violations of the Oklahoma Uniform Securities Act of
2004 ("Act"), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (2011), by Defendants.
Specifically, the Department alleges that Defendants: offered and sold unregistered
securities in violation of Section 1-301 of the Act; transacted business as and employed

unregistered agents in violation of Section 1-402 of the Act; and perpetrated a fraud in connection with the offer and sale of securities in violation of Section 1-501 of the Act.

JURISDICTION

2. The Administrator of the Department brings this action pursuant to Section 1-603 of the Act and is the proper party to bring this action against the Defendants.

3. Pursuant to Sections 1-102 and 1-610 of the Act, Defendants, in connection with their activities in the offer and/or sale of securities in and/or from this state, are subject to the provisions of the Act. By virtue of their activities in this state, as described herein, Defendants are subject to the jurisdiction of this Court and to service of summons within and outside of this state.

4. Venue is proper in this county.

DEFENDANTS

5. Defendant Jasmine, Inc. ("Jasmine") is an Oklahoma corporation with its principal place of business in Duncan, Oklahoma. At least between 2007 and 2009, Jasmine issued, offered and/or sold securities in and/or from Oklahoma as described herein.

6. Defendant Oklahoma Energy Exchange, LLC ("OEE") is an Oklahoma limited liability company with its principal place of business in Duncan, Oklahoma. At least between January 2010 and July 2012, OEE issued, offered, and/or sold securities in and/or from Oklahoma as described herein.

7. Defendant Harrisburg Prospect Lease Fund, LLC ("Harrisburg") is an Oklahoma limited liability company managed by OEE and having its principal place of business in Duncan, Oklahoma. At least between December 2011 and July 2012,

Harrisburg issued, offered, and/or sold securities in and/or from Oklahoma as described herein.

8. Defendant Gates Oil & Gas, LTD (“Gates”) is an Oklahoma corporation with its principal place of business in Duncan, Oklahoma. At least since August 2012, Gates has been issuing, offering, and/or selling securities in and/or from Oklahoma as described herein.

9. Defendant Harrisburg 2 Prospect Lease Fund, LLC (“Harrisburg 2”) is an Oklahoma limited liability company managed by Gates and having its principal place of business in Duncan, Oklahoma. At least since August 2012, Harrisburg 2 has been issuing, offering, and/or selling securities in and/or from Oklahoma as described herein.

10. Defendant Jimmy W. Gray (“Jimmy Gray”), an Oklahoma resident, is the President and sole shareholder of Jasmine and has been instrumental in the formation and operation of OEE, Harrisburg, Gates, and Harrisburg 2.

11. Defendant Greg L. Gray (“Greg Gray”), an Oklahoma resident, is the son of Jimmy Gray and served as President of OEE at times material hereto.

12. Defendant Michael K. Gray (“Michael Gray”), an Oklahoma resident, is the son of Jimmy Gray and served as President of Gates at times material hereto.

13. Defendant Lance P. Bowman (“Lance Bowman”), an Oklahoma resident, served as Chief Financial Officer of OEE and Gates at times material hereto.

NATURE OF THE CASE

I. Jasmine

14. In 1999, the Administrator of the Department issued an order imposing a civil penalty against Jasmine and Jimmy Gray based on their offer and sale of

unregistered securities in the nature of working interests in oil and gas wells and employment of unregistered agents.

15. At least as early as 2007, Jasmine and Jimmy Gray once again began offering and selling working interests in oil and gas wells. Between 2007 and 2009, Jasmine and Jimmy Gray offered and/or sold fractional undivided working interests (“Jasmine Well Interests”) in at least six wells: the Olta No. 1, the Mike No. 1 and No. 2, the Clark No. 2 and No. 3, and the Mackenzie No. 1. None of the Jasmine Well Interests were registered under the Act.

16. In May 2009, Jasmine and Jimmy Gray were respondents in an order issued by securities regulators in Wisconsin—again, based on their offer and sale of unregistered securities and employment of unregistered agents. In early November 2009, the two were respondents in an order issued by securities regulators in Pennsylvania based on the same offenses.

II. OEE and Harrisburg

17. In late November 2009, Jimmy Gray and Greg Gray formed OEE. Jimmy Gray was to be an employee of OEE and Greg Gray was to serve as President.

18. At least as early as January 2010, OEE began offering and selling working interests in oil and gas wells. OEE offered and sold fractional undivided working interests (“OEE Well Interests”) in at least three wells: the Mackenzie No. 1, the Julie 1-14, and the RLT No. 2. Between January 2010 and May 2012, OEE Well Interests totaling at least \$1.6 million were sold to at least 114 investors. None of the OEE Well Interests were registered under the Act.

19. Private placement memorandums distributed in connection with the offering of the OEE Well Interests (“OEE Well Interests PPMs”) state that the OEE Well Interests would be offered and sold by OEE officers and employees without the payment of commissions.

20. The OEE Well Interests were offered and sold by commissioned salespeople.

21. The OEE Well Interests PPMs also state that a portion of the offering proceeds would be allocated to the drilling of a particular well and that investor funds attributable to each well would be segregated and held in a special account—and not commingled with other OEE funds—until required for expenditure.

22. Investor funds attributable to the Mackenzie No. 1 and RLT No. 2 wells were eventually commingled with other OEE funds and neither well was drilled by the company.

23. The OEE Well Interests PPMs related to the Mackenzie No. 1 and Julie 1-14 wells do not disclose any involvement by Jasmine or Jimmy Gray or their previous securities violations.

24. Jasmine was the operator of both the Mackenzie No. 1 and Julie 1-14 wells. The offering of OEE Well Interests in the Mackenzie No. 1 functioned as a continuation of the previous offering of Jasmine Well Interests in the same well.

25. In December 2011, OEE began offering and selling interests in Harrisburg. A private placement memorandum dated December 1, 2011 (“Harrisburg PPM”) was distributed in connection with the offering. The Harrisburg PPM states that OEE and Harrisburg were offering 100 preferred return member interests in Harrisburg

("Harrisburg Preferred Units") that were to be sold for \$50,000 each and without the payment of commissions. The Harrisburg Preferred Units were not registered under the Act.

26. According to the Harrisburg PPM, Harrisburg—with OEE serving as manager—would acquire oil and gas leases within identified areas of Stephens County described as the "Harrisburg Prospect", attempt to resell the leases in one or more blocks while retaining overriding royalty interests, and distribute certain portions of the lease sale proceeds and overriding royalty income to the holders of the Harrisburg Preferred Units.

27. The Harrisburg PPM states that the use of offering proceeds would be limited to the acquisition of oil and gas leases with only two exceptions: reimbursement to OEE for "Offering and Organization Costs" not to exceed \$1,000 per Harrisburg Preferred Unit and reimbursement to OEE for "Seismic Costs and Expenses" of \$400,026. Assuming the sale of all of the Harrisburg Preferred Units, the Harrisburg PPM provides an estimate that of the \$5,000,000 in investor funds that would be received, \$4,549,974 would be used to acquire oil and gas leases.

28. The Harrisburg PPM further states that investor funds not used to acquire oil and gas leases or needed to maintain reserves for payment of reserve rentals would be distributed back to the holders of Harrisburg Preferred Units.

29. The Harrisburg PPM directs prospective investors seeking additional information to contact Jimmy Gray.

30. Between December 2011 and July 2012, OEE and Harrisburg sold Harrisburg Preferred Units to at least 76 investors, receiving at least \$5,020,500 in

investor funds. By the end of July, approximately \$684,750 of those investor funds remained in OEE and Harrisburg bank accounts. Of the approximately \$4,335,750 in investor funds used, only around \$233,250 were used to acquire oil and gas leases. The misuse of investor funds included the payment of sales commissions, the payment of refunds to previous Jasmine and OEE investors, the payment of drilling expenses related to previous Jasmine and OEE offerings, the payment of all OEE operating expenses, payments on personal loans and credit cards, the purchase of vehicles, the payment of country club dues, and direct payments to Jimmy Gray and Greg Gray in addition to their OEE wages.

31. On November 8, 2012, a petition was filed against Greg Gray in the District Court of Stephens County on behalf of Gates, OEE, and Jimmy Gray. The petition requests a declaration of the rights of the parties under a written agreement dated September 27, 2012. The resulting case, No. CJ-2012-232E, was assigned to Judge Joe H. Enos.

32. On March 14, 2013, upon joint motion by the parties, Judge Enos appointed Jerry Whitten as receiver of OEE "to take custody, control, and continue operations, to assist in identifying currently unknown interest/owners, and to identify the nature and extent of those ownership interests."

33. Greg Gray currently serves as President of United Alliance, LLC, an Oklahoma limited liability company formed on June 18, 2013 that was offering securities as recently as June 26, 2013. These securities have not been registered under the Act.

III. Gates and Harrisburg 2

34. In August 2012, Jimmy Gray and Michael Gray formed Gates. Michael Gray was to serve as President, though he would actually function as a “Tool Pusher” with responsibility for general field work. Jimmy Gray would serve as Senior Consultant, while Lance Bowman would serve as Chief Financial Officer, and the two would share responsibility for office management.

35. That same month, Gates began offering and selling preferred return member interests in Harrisburg 2 (“Harrisburg 2 Preferred Units”). A private placement memorandum dated August 20, 2012 (“Harrisburg 2 PPM”) was distributed in connection with the offering. The Harrisburg 2 PPM states that Gates and Harrisburg 2 were offering 100 Harrisburg 2 Preferred Units that were to be sold for \$50,000 each and without the payment of commissions. The Harrisburg 2 Preferred Units were not registered under the Act.

36. The Harrisburg 2 PPM states that Harrisburg 2—with Gates serving as manager—would acquire oil and gas leases within identified areas bordering the Harrisburg Prospect described as the “Harrisburg 2 Prospect”, attempt to resell the leases in one or more blocks while retaining overriding royalty interests, and distribute certain portions of the lease sale proceeds and overriding royalty income to the holders of Harrisburg 2 Preferred Units.

37. The Harrisburg 2 PPM states that the use of offering proceeds would be limited to the following: the acquisition of oil and gas leases, reimbursement to Gates for “Offering and Organization Costs” not to exceed \$1,000 per Harrisburg 2 Preferred Unit, and reimbursement to Gates for “Seismic Costs and Expenses” of \$400,026. Assuming

the sale of all of the Harrisburg 2 Preferred Units, the Harrisburg 2 PPM provides an estimate that of the \$5,000,000 in investor funds that would be received, \$4,549,974 would be used to acquire oil and gas leases.

38. The Harrisburg 2 PPM further states that investor funds not used to acquire oil and gas leases or needed to maintain reserves for payment of reserve rentals would be distributed back to the holders of Harrisburg 2 Preferred Units.

39. The Harrisburg 2 PPM directs prospective investors seeking additional information to contact Jimmy Gray, but does not otherwise mention Jimmy Gray or his previous securities violations.

40. Between August 2012 and April 2013, Gates and Harrisburg 2 sold Harrisburg 2 Preferred Units to at least 22 investors, receiving at least \$1,467,500 in investor funds. By the end of April 2013, approximately \$365,000 of those funds remained in Gates and Harrisburg 2 bank accounts. Of the approximately \$1,102,500 in investor funds used, only around \$281,500 were used to acquire oil and gas leases. The misuse of investor funds included the payment of sales commissions and direct payments to Jimmy Gray and Lance Bowman in addition to their Gates wages.

41. At least as early as September 2012, Gates began offering and selling working interests in oil and gas wells. Gates has offered and sold fractional undivided working interests ("Gates Well Interests") in at least two wells: the Mackenzie No. 1 and the Paul Ray No. 1. Between September 2012 and April 2013, Gates Well Interests totaling at least \$1,144,700 were sold to at least 37 investors. None of the Gates Well Interests were registered under the Act.

42. Private placement memorandums distributed in connection with the offering of the Gates Well Interests (“Gates Well Interests PPMs”) state that the Gates Well Interests would be offered and sold by Gates officers and employees without the payment of commissions.

43. The Gates Well Interests were offered and sold by commissioned salespeople.

44. The Gates Well Interests PPMs also state that a portion of the offering proceeds would be allocated to the drilling of a particular well and that investor funds attributable to each well would be segregated and held in a special account—and not commingled with other Gates funds—until required for expenditure.

45. Investor funds attributable to the Mackenzie No. 1 and Paul Ray No. 2 wells were deposited in a common checking account and commingled with other Gates funds.

46. The Gates Well Interests PPMs do not disclose any involvement by Jasmine or Jimmy Gray or their previous securities violations.

47. Jasmine was the operator of both the Mackenzie No. 1 and Paul Ray No. 2 wells. The offering of Gates Well Interests in the Mackenzie No. 1 functioned as a continuation of the previous offerings of Jasmine Well Interests and OEE Well Interests in the same well.

48. Gates is currently offering working interests in two more oil and gas wells: the RLT No. 2 and the Jack Justice No. 3—collectively referred to by Gates as the “Whitebead Prospect.” None of these working interests have been registered under the Act.

FIRST CAUSE OF ACTION

(Violation of Section 1-301 of the Act: Offer and Sale of Unregistered Securities)

49. Plaintiff realleges and incorporates by reference each and every allegation contained in paragraphs 1 through 48 above.

50. The Jasmine Well Interests, OEE Well Interests, Harrisburg Preferred Units, Gates Well Interests, and Harrisburg 2 Preferred Units are "securities" as defined by Section 1-102 of the Act.

51. Defendants Jasmine, OEE, Harrisburg, Gates, and Harrisburg 2 offered and sold the securities in and/or from Oklahoma.

52. The securities offered and sold by Defendants have not been registered under the Act.

53. By reason of the foregoing, Defendants have violated or materially aided a violation of, and unless enjoined may continue to violate or materially aid a violation of, Section 1-301 of the Act.

SECOND CAUSE OF ACTION

(Violation of Section 1-402 of the Act: Transaction of Business as Unregistered Agents and Employment of Unregistered Agents)

54. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding cause of action.

55. Defendants Jasmine, OEE, Harrisburg, Gates, and Harrisburg 2 are issuers as defined in Section 1-102 of the Act.

56. Defendants Jimmy Gray, Greg Gray, Michael Gray, and Lance Bowman, by virtue of their efforts and activities in effecting or attempting to effect purchases or

sales of one or more of such issuers' securities, are agents as defined in Section 1-102 of the Act.

57. Defendants Jimmy Gray, Greg Gray, Michael Gray, and Lance Bowman, at all times material hereto, were not registered in any capacity under the Act.

58. Defendants Jimmy Gray, Greg Gray, Michael Gray, and Lance Bowman transacted business in this state as unregistered agents.

59. Defendants Jasmine, OEE, Harrisburg, Gates, and Harrisburg 2 employed unregistered agents who transacted business in this state.

60. By reason of the foregoing, Defendants have violated, and unless enjoined may continue to violate, Section 1-402 of the Act.

THIRD CAUSE OF ACTION

(Violation of Section 1-501 of the Act: Untrue Statements and Omissions of Material Facts in Connection With the Offer and Sale of Securities)

61. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding causes of action.

62. Defendants OEE, Harrisburg, Gates, and Harrisburg 2, in connection with the offer and sale of securities, have made untrue statements of material fact including, but not limited to, the following:

- (a) misstatements by OEE, Harrisburg, Gates, and Harrisburg 2 that the OEE Well Interests, Harrisburg Preferred Units, Gates Well Interests, and Harrisburg 2 Preferred Units, respectively, would be offered and sold

without the payment of commissions when all were offered and sold by commissioned salespeople;

(b) misstatements by OEE and Gates that investor funds attributable to the OEE Well Interests and Gates Well Interests, respectively, would be allocated to the drilling of a particular well and held in a special account until required for expenditure when investor funds attributable to the Mackenzie No. 1, RLT No. 2, and Paul Ray No. 1 wells were commingled with other OEE and/or Gates funds; and

(c) misstatements by OEE and Harrisburg, and Gates and Harrisburg 2 that the vast majority of offering proceeds attributable to the Harrisburg Preferred Units and Harrisburg 2 Preferred Units, respectively, would be used to acquire oil and gas leases—and funds not so used or needed to maintain reserves for payment of reserve rentals would be distributed back to the holders of such securities—when only a fraction of offering proceeds were used to acquire oil and gas leases and few funds remain to be distributed back to security holders.

63. Defendants OEE, Harrisburg, Gates, and Harrisburg 2, in connection with the offer and sale of securities, have omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, including, but not limited to, the following:

(a) omission of the involvement of Jasmine or Jimmy Gray, or their previous securities violations, by OEE in OEE Well Interest PPMs, by Gates in Gates Well Interest PPMs, and by Gates and Harrisburg 2 in the Harrisburg 2 PPM;

(b) omission by OEE and Harrisburg of the fact that offering proceeds attributable to the Harrisburg Preferred Units would be used for the payment of sales commissions, the payment of refunds to previous Jasmine and OEE investors, the payment of drilling expenses related to previous Jasmine and OEE offerings, the payment of all OEE operating expenses, payments on personal loans and credit cards, the purchase of vehicles, the payment of country club dues, and direct payments to Jimmy Gray and Greg Gray; and

(c) omission by Gates and Harrisburg 2 of the fact that offering proceeds attributable to the Harrisburg 2 Preferred Units would be used for the payment of sales commissions and direct payments to Jimmy Gray and Lance Bowman.

64. By reason of the foregoing, Defendants have violated or materially aided a violation of, and unless enjoined may continue to violate or materially aid a violation of, Section 1-501 of the Act.

FOURTH CAUSE OF ACTION

**(Violation of Section 1-501 of the Act:
Act, Practice, or Course of Business Which Operates as a Fraud or Deceit Upon
Any Person)**

65. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding causes of action.

66. Defendants OEE, Harrisburg, Gates, and Harrisburg 2, in connection with the offer and sale of securities, and through the use of the untrue statements and omissions of material fact described in paragraphs 62 and 63 above, have engaged in an act, practice, or course of business that has operated as a fraud or deceit upon other persons.

67. By reason of the foregoing, Defendants have violated or materially aided a violation of, and unless enjoined may continue to violate or materially aid a violation of, Section 1-501 of the Act.

PRAYER FOR RELIEF

Defendants have engaged in acts and practices in violation of the Act and, as a result of these activities, have received a substantial amount of money from investors.

WHEREFORE, based upon the foregoing, and pursuant to the authority specifically granted by Section 1-603 of the Act, the Department prays for the court to grant the following relief:

I.

A temporary restraining order *instanter* and temporary and permanent injunctions, restraining and enjoining Defendants from transacting business in or from

Oklahoma as an issuer, issuer agent, broker-dealer, or broker-dealer agent or otherwise offering or selling securities in or from Oklahoma;

II.

An order *instanter* freezing the assets of Defendants Jasmine, OEE, Harrisburg, Gates, and Harrisburg 2;

III.

An order *instanter* requiring Defendants to file with this Court and to serve on Plaintiff, within fifteen (15) days of the filing of this Petition, an accounting, under oath, detailing all of their assets and detailing funds received from investors and the disposition and/or use of those funds;

IV.

An order requiring Defendants to make restitution to any and all investors who purchased securities from Defendants;

V.

An order requiring Defendants to disgorge any and all ill-gotten gains;

VI.

An order imposing a civil penalty against Defendants, jointly and severally, in the amount of \$250,000.00;

VII.

Such other relief as the Court considers appropriate.

Respectfully submitted,

OKLAHOMA DEPARTMENT OF SECURITIES
Irving L. Faught, Administrator

By:

David Lawson

David Lawson, OBA #31130

Robert Fagnant, OBA #30548

Oklahoma Department of Securities

120 North Robinson Avenue, Suite 860

Oklahoma City, Oklahoma 73102

Telephone: (405) 280-7700

Facsimile: (405) 280-7742

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA) SS.

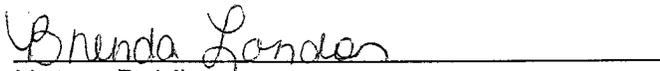
Irving L. Faught, of lawful age, being first duly sworn deposes and states: that he is the Administrator of the Oklahoma Department of Securities, that he has read the foregoing *Petition for Permanent Injunction and Other Relief* and knows the contents thereof, and that the matters and things stated therein have been provided to him by staff members of the Department under his authority and direction, and are true and correct to the best of his knowledge, information, and belief.

(SEAL)


IRVING L. FAUGHT, ADMINISTRATOR OF THE
OKLAHOMA DEPARTMENT OF SECURITIES
120 North Robinson Avenue, Suite 860
Oklahoma City, Oklahoma 73102
(405) 280-7700

Subscribed and sworn to before me this 9th day of September, 2013.

(NOTARIAL SEAL)


Notary Public

