

**IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF OHIO  
EASTERN DIVISION**

HOPE CHRISTIAN FELLOWSHIP;  
RONALD E. HALE;  
JOETTA J. HALE;  
JULIUS P. HEIL, TRUSTEE;  
THOMAS HANSON;  
CHARLES G. GRAY;  
CAROLINE J. GRAY;  
DALE H. HENCEROTH;  
MELINDA J. HENCEROTH;  
RUTH BURCHFIELD, TRUSTEE;  
JAMES M. BURCHFIELD, TRUSTEE;  
TONI I. BURCHFIELD, TRUSTEE;  
MARILYN S. WENDT, TRUSTEE;  
JANET K. COOPER;  
WILFORD L. COPELAND;  
DOROTHY COPELAND;  
VIRGIL R. BARNES  
KAREN G. BARNES  
LANCE R. HULL;  
NICOLE R. HULL;  
JOHN L. WILLIAMS;  
RUTH V. WILLIAMS;  
CLAYTON E. MORGAN, EXECUTOR;  
ZEB LOCHLEAR;  
JUDITH A. LOCKLEAR;  
LEROY H. BAKER, JR.;  
CHRISTINE A. BAKER;  
THOMAS P. SHERWOOD;  
NANCY S. SHERWOOD;  
THOMAS KEATING;  
NANCY KEATING;  
CHARLES W. CRUMBLEY;  
BRUCE C. MEADOWS;  
IRMA L. MEADOWS;  
SAMANTHA MEISTER;  
DEBRA MEISTER;  
HOLLY MEISTER;  
NINA GRAVES;  
JOHN P. CHESTNUT;  
PHYLIS CHESTNUT;  
on Behalf of Themselves and Others  
Similarly Situated,

Plaintiffs,

Case No. 4:15-cv-02275-BYP

**AMENDED CLASS ACTION  
COMPLAINT**

**DEMAND FOR JURY TRIAL**

Electronically Filed

vs.

CHESAPEAKE ENERGY CORPORATION  
6100 North Western Avenue  
Oklahoma City, Oklahoma 73118

and

CHESAPEAKE OPERATING, L.L.C.,  
c/o CT Corporation System  
1300 East Ninth Street  
Cleveland, OH 44114

Defendants.

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The Plaintiffs, on behalf of themselves and others similarly situated, sue Chesapeake Energy Corporation and Chesapeake Operating, L.L.C. for (1) violations of the Ohio Corrupt Practices Act, R.C. § 2923.31, *et seq.* (“the Ohio RICO Act”), (2) conversion, and (3) injunctive relief.

### **SUMMARY OF CLAIMS**

1. Plaintiffs and the other Class Members are lessors under oil and gas leases with Chesapeake Exploration, L.L.C. (“Chesapeake Exploration”) that lease oil and gas rights to real property in Ohio.

2. Some of the Plaintiffs and Class Members have received oil and gas royalties under their leases. These Plaintiffs and Class Members bring this action under all three Counts. The twenty-three named Plaintiffs in this group are identified in paragraphs 20-33 of this Complaint.

3. Other Plaintiffs and Class Members have not yet received oil and gas royalties. These Plaintiffs and Class Members bring this action for injunctive relief under the Ohio RICO

Act and under common law. The fifteen named Plaintiffs in this group are identified in paragraphs 34-42 of this Complaint.

4. The oil and gas leases subject to this action provide for the payment of oil and gas royalties, including royalties on natural gas (methane), natural gas liquids (ethane, propane, butane, isobutene and pentane) and oil.

5. The royalties are a portion (usually one-eighth) of the revenue realized from the sale of the oil and gas each month.

6. Although Chesapeake Exploration produces gas, it does not hold the proceeds of the sale of the gas, calculate the royalties or issue the royalty checks.

7. The entities that perform these acts are Defendants Chesapeake Energy Corporation (“Chesapeake Energy”), the corporate parent of Chesapeake Exploration, and Defendant Chesapeake Operating, L.L.C., f/k/a Chesapeake Operating, Inc. (“Chesapeake Operating”), an affiliate of Chesapeake Exploration.

**A. The Ohio RICO Claims**

8. The Ohio RICO Act provides a private cause of action for “[a]ny person who is injured or threatened with injury” by conduct violating the Act.

9. Defendants conspired to defraud, and did defraud, Plaintiffs and the other Class Members of the full amount of oil and gas royalties due them by means of multiple fraudulent and illegal acts, including acts of accounting fraud, wire fraud, mail fraud, theft and theft by deception, all in violation of the Ohio RICO Act.

10. Defendants underpaid the royalties on natural gas by fraudulently (1) paying the royalties on less than the volume of gas sold; (2) paying the royalties on less than the revenues realized from the sale of the gas; (3) deducting costs incurred after Chesapeake Exploration no

longer held title to the gas; (4) deducting gathering costs that were inflated through collusion and self-dealing with Access Midstream Partners, L.P.; (5) deducting transportation costs that were fraudulent in their amounts; (6) deducting fuel costs that were fraudulent in their amounts; (7) deducting marketing fees that were never incurred; and (8) deducting NGL costs.

11. Defendants underpaid the royalties on NGLs by fraudulently (1) paying a royalty on less than the full amount of NGLs sold; (2) likely calculating the royalties using a price less than the price paid by the buyer; and (3) deducting inflated costs that exceeded the NGL royalties, thereby paying no NGL royalties.

12. Defendants underpaid the royalties on oil by fraudulently (1) failing to pay a royalty on the full amount of oil sold; (2) paying the royalties on a price of oil that was below the market and less than the price paid by the buyer; (3) deducting costs incurred after Chesapeake Exploration no longer held title to the oil; and (4) deducting NGL costs.

13. For relief, Plaintiffs and the other Class Members seek statutory treble damages and an injunction enjoining Defendants from continuing the fraudulent acts described in this Complaint or resuming such acts in the future.

**B. The Conversion Claims**

14. Conversion is the deprivation of another's right in property without the owner's consent and without lawful justification. Conversion is actionable even where the party converting the property has no intent to commit a wrong.

15. Defendants converted the royalties owned by Plaintiffs and the other Class Members on all three products in the ways described in paragraphs 10-12 of this Complaint.

16. Defendants' conversion of the royalties was deliberate, willful and intentional, entitling Plaintiffs and the other Class Members to punitive as well as compensatory damages.

**C. Injunctive Relief**

17. Defendants' conduct has damaged, or threatens to damage, all lessors on oil and gas leases with Chesapeake Exploration in Ohio. Plaintiffs and the other Class Members request an injunction enjoining Defendants from continuing the wrongful and unlawful acts described in this Complaint and resuming such acts in the future.

**THE PARTIES**

**A. Plaintiffs Receiving Oil and Gas Royalties**

18. Plaintiffs Ronald E. Hale and Joetta J. Hale, husband and wife, are citizens of Ohio and reside in Columbiana County at 37368 Laughlin Road, Lisbon, Ohio 44432. Mr. and Mrs. Hale were assigned a portion of the lessor's rights on an oil and gas lease entered into on April 15, 2011 by and between James and Barbara Snoeberger and Chesapeake Exploration, L.L.C. pursuant to which Mr. and Mrs. Snoeberger leased its oil and gas rights to real property in Carroll County, Ohio.

19. Plaintiff Julius P. Heil is a citizen of Ohio and resides in Portage County at 1177 State Route 43, Suffield, Ohio 44260. On November 1, 2010, Mr. Heil, as Trustee to the Julius P. Heil Trust ("the Trust"), entered into an oil and gas lease with Chesapeake Exploration, L.L.C. pursuant to which the Trust leased its oil and gas rights to real property in Carroll County, Ohio. In addition, on November 12, 2008, Mr. Heil, as Trustee to the Julius P. Heil Revocable Trust dated September 5, 2006 ("the Trust"), entered into an oil and gas lease with Anschutz Exploration Corporation ("Anschutz") pursuant to which the Trust leased its oil and gas rights to real property in Carroll County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

20. Plaintiff Thomas Hanson is a citizen of Ohio and resides in Carroll County at 8501 Bay Road S.E., Carrollton, OH 44615. On November 17, 2010, Mr. Hanson entered into an oil

and gas lease with Chesapeake Exploration, L.L.C. pursuant to which he leased it oil and gas rights to real property in Carroll County, Ohio.

21. Plaintiffs Charles G. Gray and Caroline J. Gray, husband and wife, are citizens of Ohio and reside in Columbiana County at 35625 Lisbon-Dungannon Road, Lisbon, Ohio 44432. On August 4, 2010, Mr. and Mrs. Gray entered into an oil and gas lease with Dale Property Services Penn, L.P. pursuant to which they leased it oil and gas rights to real property in Columbiana County, Ohio. Dale Property Services Penn, L.P. subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

22. Plaintiffs Dale H. Henceroth and Melinda J. Henceroth, husband and wife, are citizens of Ohio and reside in Columbiana County at 10437 Trinity Church Road, Lisbon, Ohio 44432. On September 14, 2010, Mr. and Mrs. Henceroth entered into an oil and gas lease with Dale Property Services Penn, L.P. pursuant to which they leased it oil and gas rights to real property in Columbiana County, Ohio. Dale Property Services Penn, L.P. subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee. In addition, on July 6, 2009, Mr. and Mrs. Henceroth entered into an oil and gas lease with Anschutz Exploration Corporation (“Anschutz”) pursuant to which they leased it oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

23. Plaintiff Ruth Burchfield is a citizen of Ohio and resides in Columbiana County at 10472 Mardis Road, Kensington, Ohio 44427. On October 1, 2008, Ms. Burchfield, as Trustee to the Ruth Burchfield Revocable Living Trust dated August 27, 2007 (“the Trust”), entered into an oil and gas lease with Anschutz Exploration Corporation (“Anschutz”) pursuant to which the Trust

leased it oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

24. Plaintiffs James M. Burchfield and Toni L. Burchfield, husband and wife, are citizens of Ohio and reside in Columbiana County at 10251 Mardis Road, Kensington, Ohio 44427. On October 1, 2008, Mr. and Mrs. Burchfield, as Trustees to the Burchfield Revocable Living Trust dated August 27, 2007 (“the Trust”), entered into an oil and gas lease with Anschutz Exploration Corporation (“Anschutz”) pursuant to which the Trust leased it oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

25. Plaintiff Marilyn S. Wendt is a citizen of Texas and resides at 4818 Forestwood Boulevard, Tyler, Texas 75703. On January 2, 2009, Mrs. Wendt and her deceased husband, as Trustees to the A. David and Marilyn S. Wendt Living Trust dated April 27, 2000 (“the Trust”), entered into an oil and gas lease with Anschutz Exploration Corporation (“Anschutz”) pursuant to which the Trust leased it oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee. By division order dated March 12, 2015, the lessor on this lease is now Mrs. Wendt, as Trustee for MSW Trust A and the ADW Trust B. In addition, on February 1, 2009, Mrs. Wendt and her deceased husband, as Trustees to the Wendt Living Trust dated April 27, 2000 (“the Trust”), entered into an oil and gas lease jointly with other lessors with Anschutz Exploration Corporation (“Anschutz”) pursuant to which the Trust leased it oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

26. Plaintiff Janet K. Cooper is a citizen of Ohio and resides in Columbian County at 12471 Bethesda Road, Hanoverton, Ohio 44423. On February 1, 2009, Ms. Cooper entered into

an oil and gas lease jointly with other lessors with Anschutz Exploration Corporation (“Anschutz”) pursuant to which the Trust leased it oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

27. Plaintiff Wilford L. Copeland is a citizen of Ohio and resides in Columbiana County at 12471 Bethesda Road, Hanoverton, Ohio 44423. On February 1, 2009, Ms. Cooper entered into an oil and gas lease jointly with other lessors with Anschutz Exploration Corporation (“Anschutz”) pursuant to which the Trust leased it oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

28. Plaintiffs Virgil R. Barnes and Karen G. Barnes, husband and wife, are citizens of Ohio and reside in Carroll County at 7169 Abbey Road, NE, Carrollton, Ohio 44615. On July 29, 2008, Mr. and Mrs. Barnes entered into an oil and gas lease with Anschutz Exploration Corporation (“Anschutz”) pursuant to which the Trust leased it oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

29. Plaintiffs Bruce C. Meadows and Irma L. Meadows, husband and wife, are citizens of Ohio and reside in Warren County at 1274 Kay Drive, Mason, Ohio 45040. On August 22, 2008, Mr. and Mrs. Meadows entered into an oil and gas lease with Patriot Energy Partners L.L.C. (“Patriot”) pursuant to which they leased it oil and gas rights to real property in Carroll County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.



30. Plaintiffs Samantha Meister, Debra Meister and Holly Meister are citizens of Ohio and reside in Columbiana County at 10075 Salinesville Road, N.E., Salinesville, Ohio 43945. They are royalty owners on leases originally entered into by LaVern Gossman on August 1, 2008 with Patriot Energy Partners, L.L.C. (“Patriot”) that leased oil and gas rights to real property in Columbiana County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

31. Plaintiffs John P. Chestnut and Phyllis Chestnut, husband and wife, are citizens of Ohio and reside in Columbiana County at 33255 State Route 30, Hanoverton, Ohio 44423. On May 19, 2008, Mr. and Mrs. Chestnut entered into an oil and gas lease with Patriot Energy Partners, L.L.C. (“Patriot”) that leased oil and gas rights to real property in Columbiana County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

**B. Plaintiffs Not Yet Receiving Oil and Gas Royalties**

32. Plaintiff Hope Christian Fellowship, f/k/a New Hope Community Church, is a non-profit corporation incorporated under the laws of Ohio with its principal place of business in Columbiana County at 43152 State Route 39, Wellsville, Ohio 43968. On June 18, 2008, New Hope Community Church entered into an oil and gas lease with Patriot Energy Partners L.L.C. (“Patriot”) pursuant to which it leased its oil and gas rights to real property in Columbiana County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

33. Plaintiffs Lance R. Hull and Nicole R. Hull, husband and wife, are citizens of Ohio and reside in Columbiana County at 13020 State Route 644, Hanoverton, OH 44423. On February 6, 2009, Everett L. Wellendorf and Toni J. Wellendorf, prior owners of the Hull property, entered into an oil and gas lease with Anschutz Exploration Corporation (“Anschutz”) for oil and gas rights

to real property in Columbiana County, Ohio. The lessors' interest passed to Mr. and Mrs. Hull upon their purchase of the property in June 2010. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

34. Plaintiffs John L. Williams and Ruth V. Williams, husband and wife, are citizens of Ohio and reside in Columbiana County at 11954 State Route 644, Hanoverton, Ohio 44423. On February 11, 2009, Mr. and Mrs. Williams entered into an oil and gas lease with Anschutz Exploration Corporation ("Anschutz") pursuant to which they leased it oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

35. Clayton E. Morgan, the Executor of the Estate of Edward G. Morgan, is a citizen of Ohio and resides in Columbiana County at 3131 Nome Road, Salineville, Ohio 43945. On December 10, 2008, Edward G. Morgan entered into an oil and gas lease with Patriot Energy Partners L.L.C. ("Patriot") pursuant to which he leased Patriot oil and gas rights to real property in Carroll County, Ohio. Patriot subsequently assigned the leases to Chesapeake Exploration, L.L.C., the current lessee.

36. Plaintiffs Zeb Locklear and Judith A. Locklear, husband and wife, are citizens of Ohio and reside in Columbiana County at Route 1, Box 24, Salineville, Ohio 43945. On May 28, 2008, Mr. and Mrs. Locklear entered into two oil and gas leases with Patriot Energy Partners L.L.C. ("Patriot") pursuant to which they leased Patriot oil and gas rights to real property in Columbiana County, Ohio. Patriot subsequently assigned the leases to Chesapeake Exploration, L.L.C., the current lessee.

37. Plaintiffs Leroy H. Baker and Christine A. Baker, brother and sister, are citizens of Ohio and reside in Columbiana County at 92144 State Route 172, East Rochester, Ohio 44625.

On June 21, 2008, Mr. and Ms. Baker entered into an oil and gas lease with Patriot Energy Partners L.L.C. (“Patriot”) pursuant to which they leased it oil and gas rights to real property in Carroll County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

38. Plaintiffs Thomas P. Sherwood and Nancy S. Sherwood, husband and wife, are citizens of Ohio and reside in Columbiana County with an address of P.O. Box 45, Wellsville, Ohio 43968. On June 23, 2008, Mr. and Mrs. Sherwood entered into an oil and gas lease with Patriot Energy Partners L.L.C. (“Patriot”) pursuant to which they leased it oil and gas rights to real property in Carroll County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

39. Plaintiffs Thomas Keating, and Nancy Keating, husband and wife, and Charles W. Crumbley, are citizens of Ohio and reside in Columbiana County at 1635 Merle Road, Salem, Ohio 44460. On July 8, 2008, Mr. and Mrs. Keating and Mr. Crumbley entered into an oil and gas lease with Patriot Energy Partners L.L.C. (“Patriot”) pursuant to which they leased it oil and gas rights to real property in Columbiana County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

40. Plaintiff Nina Graves is a citizen of Ohio and resides in Columbiana County at 1020 Commerce Street, Wellsville, Ohio 43968. On June 4, 2008, Ms. Graves entered into an oil and gas lease with Patriot Energy Partners, L.L.C. (“Patriot”) that leased oil and gas rights to real property in Columbiana County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

**C. The Defendants**

41. Defendant Chesapeake Energy Corporation (“Chesapeake Energy”) is a publicly held corporation incorporated under the laws of Oklahoma with its principal place of business at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118.

42. Defendant Chesapeake Operating, L.L.C., f/k/a Chesapeake Operating, Inc. (“Chesapeake Operating”) is a limited liability company formed under the laws of Oklahoma with its principal place of business at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118.

**JURISDICTION AND VENUE**

43. This Court has subject matter jurisdiction over this action under 28 U.S.C. § 1332(d) because the named Plaintiffs are residents of Ohio, at least one Class Member is a citizen of a different state than the Defendants, the damages of the Class Members exceed \$5,000,000 in the aggregate, and there are more than 100 Class Members. Venue is proper because most of the Plaintiffs reside in this judicial district and many of the leases subject to this action convey gas rights to real property in this judicial district.

**FACTS**

**I. BACKGROUND**

**A. Oil and Gas Leasing**

44. Oil and gas producers enter into oil and gas leases with the owners of oil and gas rights.

45. Under such leases, the owner of the oil and gas rights (the lessor) conveys those rights to the producer (the lessee) in exchange for a royalty on the oil and gas produced and sold from the leasehold each month.

46. Royalties on oil and gas traditionally have been one-eighth of the proceeds of the sale of the oil and gas.

47. If a lease so provides, the producer may deduct “post production costs” when calculating the royalties.

48. “Post production costs” are costs incurred between the well and the point at which the lessee transfers title to product to the buyer.

49. Costs incurred after the lessee has transferred title are not deductible from oil and gas royalties.

## **B. Chesapeake Energy’s Production of Oil and Gas in Ohio**

50. Defendant Chesapeake Energy is the leading producer of oil and gas in Ohio. Its production of natural gas, NGLs and oil has grown robustly since the end of 2012, as shown by the company chart below.



51. Defendant Chesapeake Energy produces its oil and gas in Ohio through a production subsidiary, Chesapeake Exploration, L.L.C (“Chesapeake Exploration”).

52. Chesapeake Exploration produces oil and gas both under leases in which it is named as the lessee and under leases assigned to it by other lessees.

53. Chesapeake Exploration sells the oil and gas it produces to Chesapeake Energy Marketing, L.L.C. (“CEMI”), a gas marketing subsidiary of Chesapeake Energy and thus an affiliate of Chesapeake Exploration.

54. CEMI takes title to the oil and gas at the well.

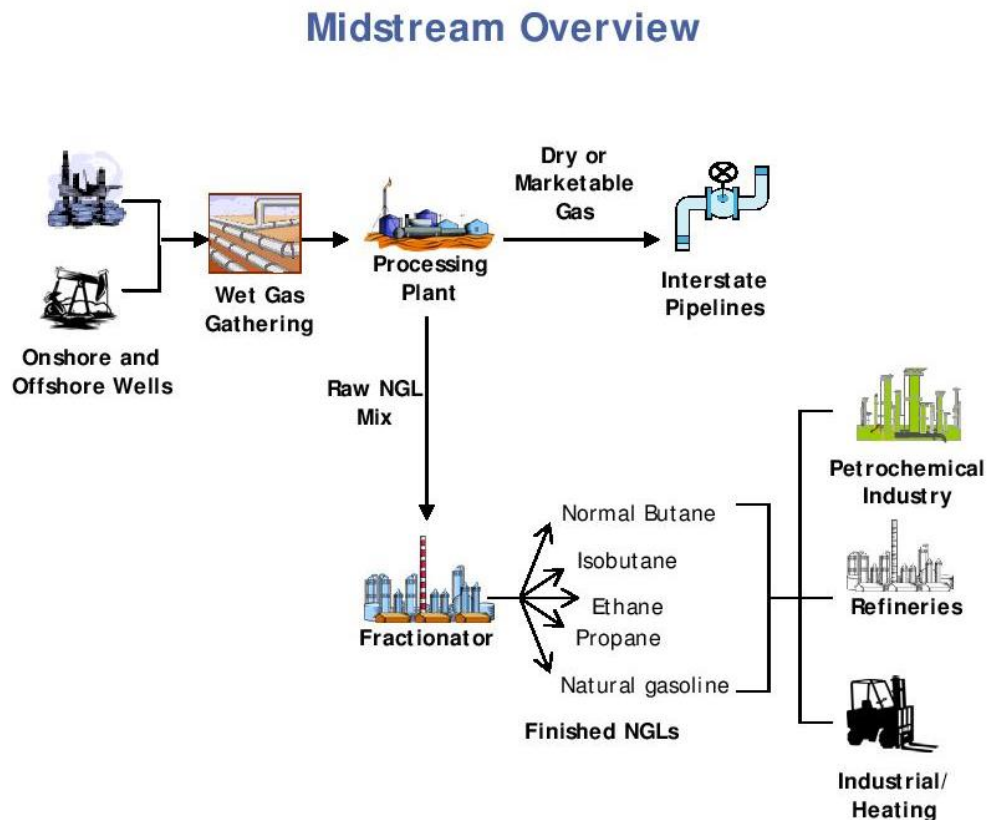
55. The oil is separated from the gas in tanks near the wells, transported by truck to market and sold by CEMI to unaffiliated third-party buyers by the barrel.

56. The raw gas is transported through gathering lines to a processing plant where CEMI processes the commingled gas purchased from many Chesapeake Exploration wells. This processing includes (1) dehydration (if the gas has excessive water vapor); (2) sweetening (if the gas has excessive sulfur and carbon dioxide); and (3) the removal of ethane, propane, butane, isobutene and pentane and other marketable natural gas liquids (“NGLs”).

57. The NGLs are transported through NGL lines to a fractionation plant where the NGLs are processed into separate products. The NGLs are then transported to market and sold by CEMI to unaffiliated third-party buyers by the gallon.

58. CEMI transports the processed natural gas (methane) through pipes to the interstate pipeline system and sells it to unaffiliated third-party buyers in units of a thousand cubic feet (“mcf”) either at the entrance to the interstate system (the pipeline “pool”) or at points on the interstate system.

59. The “midstream” services described above are shown in the illustration below prepared by Tudor, Pickering, Holt Co., an energy investment and merchant banking firm.



**C. Defendants’ Calculation of the Royalties**

60. Defendants jointly calculate the gas royalties through shared employees and jointly generate spreadsheets, royalty statements and other documents reflecting those calculations.

61. Defendant Chesapeake Energy’s Revenue Department organizes the data used to calculate the royalties on spreadsheets with eighteen columns.

62. Defendant Chesapeake Energy provided one of these spreadsheets to Plaintiff Ronald E. Hale after he inquired about his royalties.

63. The spreadsheet provided to Mr. Hale provides the calculations of the royalties on gas, NGLs and oil produced from the Utica shale well “Buck 24-15-5 1H” (“the Buck Well”) during the five month period of February 2014 through June 2014 (“the Buck Well Spreadsheet”).

64. The Buck Well spreadsheet is reproduced below. Excerpts of the data are presented in a more readable format throughout this Complaint. The product codes in the fourth column of the spreadsheet for the products at issue are 1 (Oil), 2 (Gas) and 4 (NGLs).



Date: 10/23/2014  
Owner: Ronald E. & Joetta J. Hale  
Owner Number: 1110059  
Property Name: BUCK 24-15-5 1H

Well Number	Well Name	Production Date	Pay Group	Product Code	Purchaser	Gross Volume	BTU Factor (Heating Value)	MMBTU Volume	Gross Value Prior to Deductions	3RD Party Deductions	Fuel	Affiliate Gathering/Compression/Treating Deductions	Percentage	Gross Value After Deductions	Sales Price	Owner Payment Decimal	Owner Gross Payment
837175	BUCK 24-15-5 1H	02-2014	62	1	CEMI (OIL)	943	0.000	0	\$ 88,622.56	\$ 2,251.47	\$ -	\$ -	2.540%	\$ 86,371.09	\$ 97.60	0.00071947	\$ 62.15
837175	BUCK 24-15-5 1H	02-2014	63	1	CEMI (OIL)	29	0.000	0	\$ 2,237.76	\$ -	\$ -	\$ -	0.000%	\$ 2,237.76	\$ 77.00	0.00071947	\$ 1.61
837175	BUCK 24-15-5 1H	02-2014	63	1	CEMI (OIL)	10	0.000	0	\$ 806.15	\$ -	\$ -	\$ -	0.000%	\$ 806.15	\$ 76.92	0.00071947	\$ 0.58
837175	BUCK 24-15-5 1H	02-2014	61	2	CEMI (GAS)	10,888	0.970	10,561	\$ 77,809.44	\$ 3,344.50	\$ 9,064.69	\$ 7,245.03	75.259%	\$ 58,155.62	\$ 5.34	0.00080111	\$ 40.19
837175	BUCK 24-15-5 1H	02-2014	64	2	TOTAL E&P USA INC (UTICA)	2,795	1.131	3,162	\$ 18,316.74	\$ 1,410.99	\$ 818.18	\$ 2,282.37	24.639%	\$ 13,797.20	\$ 4.94	0.00080111	\$ 11.32
837175	BUCK 24-15-5 1H	02-2014	61	4	CEMI (GAS)	39,325	0.000	0	\$ 11,447.68	\$ 13,671.10	\$ -	\$ 2,612.25	182.241%	\$ (4,835.67)	\$ (0.13)	0.00080111	\$ (0.34)
837175	BUCK 24-15-5 1H	02-2014	64	4	TOTAL E&P USA INC (UTICA)	6,487	0.000	0	\$ 10,014.15	\$ 3,651.24	\$ -	\$ 455.05	40.964%	\$ 5,917.86	\$ 0.91	0.00080111	\$ 4.86
837175	BUCK 24-15-5 1H	03-2014	62	1	CEMI (OIL)	1,070	0.000	0	\$ 100,796.69	\$ -	\$ -	\$ 2,839.31	2.817%	\$ 97,957.38	\$ 0.157	0.00071947	\$ 70.48
837175	BUCK 24-15-5 1H	03-2014	63	1	CEMI (OIL)	22	0.000	0	\$ 1,709.59	\$ -	\$ -	\$ -	0.000%	\$ 1,709.59	\$ 77.71	0.00071947	\$ 1.23
837175	BUCK 24-15-5 1H	03-2014	63	1	CEMI (OIL)	13	0.000	0	\$ 986.84	\$ -	\$ -	\$ -	0.000%	\$ 986.84	\$ 77.10	0.00071947	\$ 0.71
837175	BUCK 24-15-5 1H	03-2014	61	2	CEMI (GAS)	10,064	0.943	9,491	\$ 46,960.61	\$ 2,865.09	\$ 7,091.95	\$ 5,760.68	15.046%	\$ 31,441.89	\$ 1.12	0.00080111	\$ 21.73
837175	BUCK 24-15-5 1H	03-2014	64	2	TOTAL E&P USA INC (UTICA)	2,613	1.087	2,851	\$ 13,269.73	\$ 1,135.71	\$ 509.17	\$ 2,028.61	27.608%	\$ 9,666.24	\$ 3.66	0.00080111	\$ 7.88
837175	BUCK 24-15-5 1H	03-2014	61	4	CEMI (GAS)	52,606	0.000	0	\$ 9,782.69	\$ 14,204.65	\$ -	\$ 3,028.68	176.181%	\$ (7,430.64)	\$ (0.14)	0.00080111	\$ (0.15)
837175	BUCK 24-15-5 1H	03-2014	64	4	TOTAL E&P USA INC (UTICA)	6,847	0.000	0	\$ 7,417.75	\$ 3,754.17	\$ -	\$ 504.61	57.413%	\$ 3,158.97	\$ 0.46	0.00080111	\$ 2.59
837175	BUCK 24-15-5 1H	04-2014	62	1	CEMI (OIL)	1,242	0.000	0	\$ 118,383.18	\$ -	\$ -	\$ 3,058.35	2.583%	\$ 115,324.83	\$ 0.89	0.00071947	\$ 82.97
837175	BUCK 24-15-5 1H	04-2014	63	1	CEMI (OIL)	21	0.000	0	\$ 1,681.79	\$ -	\$ -	\$ -	0.000%	\$ 1,681.79	\$ 79.07	0.00071947	\$ 1.21
837175	BUCK 24-15-5 1H	04-2014	63	1	CEMI (OIL)	6	0.000	0	\$ 458.67	\$ -	\$ -	\$ -	0.000%	\$ 458.67	\$ 77.48	0.00071947	\$ 0.33
837175	BUCK 24-15-5 1H	04-2014	61	2	CEMI (GAS)	16,407	0.946	15,511	\$ 68,155.50	\$ 6,539.30	\$ 18,285.20	\$ 9,378.64	38.740%	\$ 41,752.36	\$ 2.54	0.00080111	\$ 28.86
837175	BUCK 24-15-5 1H	04-2014	70	2	TOTAL E&P USA INC (UTICA)	4,335	1.122	4,841	\$ 21,347.57	\$ 1,962.90	\$ 950.88	\$ 3,387.50	29.236%	\$ 15,106.29	\$ 1.50	0.00080111	\$ 12.39
837175	BUCK 24-15-5 1H	04-2014	61	4	CEMI (GAS)	30,679	0.000	0	\$ 18,049.92	\$ 24,587.21	\$ -	\$ 5,066.92	164.290%	\$ (11,604.21)	\$ (0.38)	0.00080111	\$ (0.02)
837175	BUCK 24-15-5 1H	04-2014	70	4	TOTAL E&P USA INC (UTICA)	13,692	0.000	0	\$ 14,161.53	\$ 6,212.86	\$ -	\$ 838.03	49.715%	\$ 7,131.64	\$ 0.52	0.00080111	\$ 5.85
837175	BUCK 24-15-5 1H	05-2014	62	1	CEMI (OIL)	3,031	0.000	0	\$ 281,593.91	\$ -	\$ -	\$ 8,406.50	1.980%	\$ 273,187.41	\$ 90.14	0.00071947	\$ 196.58
837175	BUCK 24-15-5 1H	05-2014	63	1	CEMI (OIL)	46	0.000	0	\$ 3,599.87	\$ -	\$ -	\$ -	0.000%	\$ 3,599.87	\$ 78.79	0.00071947	\$ 2.59
837175	BUCK 24-15-5 1H	05-2014	63	1	CEMI (OIL)	28	0.000	0	\$ 2,182.16	\$ -	\$ -	\$ -	0.000%	\$ 2,182.16	\$ 78.41	0.00071947	\$ 1.57
837175	BUCK 24-15-5 1H	05-2014	61	2	CEMI (GAS)	40,146	0.959	38,160	\$ 171,745.96	\$ 16,214.90	\$ 17,869.65	\$ 24,245.81	34.070%	\$ 112,866.60	\$ 2.81	0.00080111	\$ 70.08
837175	BUCK 24-15-5 1H	05-2014	70	2	TOTAL E&P USA INC (UTICA)	10,786	1.166	12,576	\$ 52,759.44	\$ 4,288.30	\$ 1,744.38	\$ 8,900.14	28.320%	\$ 37,795.62	\$ 3.05	0.00080111	\$ 31.01
837175	BUCK 24-15-5 1H	05-2014	61	4	CEMI (GAS)	76,306	0.000	0	\$ 50,601.54	\$ 56,206.01	\$ -	\$ 11,312.50	113.432%	\$ (16,916.97)	\$ (0.22)	0.00080111	\$ (11.69)
837175	BUCK 24-15-5 1H	05-2014	70	4	TOTAL E&P USA INC (UTICA)	28,642	0.000	0	\$ 27,409.17	\$ 13,907.05	\$ -	\$ 1,915.83	57.728%	\$ 13,506.31	\$ 0.40	0.00080111	\$ 5.51
837175	BUCK 24-15-5 1H	06-2014	67	1	CEMI (OIL)	589	0.000	0	\$ 55,315.19	\$ 1,504.46	\$ -	\$ -	2.710%	\$ 53,810.73	\$ 91.38	0.00071947	\$ 38.78
837175	BUCK 24-15-5 1H	06-2014	62	1	CEMI (OIL)	158	0.000	0	\$ 14,190.15	\$ -	\$ -	\$ -	0.000%	\$ 14,190.15	\$ 89.95	0.00071947	\$ 10.21
837175	BUCK 24-15-5 1H	06-2014	62	1	CEMI (OIL)	1,448	0.000	0	\$ 136,048.28	\$ -	\$ -	\$ 3,630.62	2.660%	\$ 132,417.66	\$ 91.43	0.00071947	\$ 95.27
837175	BUCK 24-15-5 1H	06-2014	63	1	CEMI (OIL)	9	0.000	0	\$ 765.55	\$ -	\$ -	\$ -	0.000%	\$ 765.55	\$ 81.22	0.00071947	\$ 0.54
837175	BUCK 24-15-5 1H	06-2014	63	1	CEMI (OIL)	17	0.000	0	\$ 1,403.81	\$ -	\$ -	\$ -	0.000%	\$ 1,403.81	\$ 81.24	0.00071947	\$ 1.01
837175	BUCK 24-15-5 1H	06-2014	61	2	CEMI (GAS)	15,934	0.970	14,256	\$ 223,304.89	\$ 21,380.55	\$ 24,298.30	\$ 13,445.68	31.491%	\$ 144,180.36	\$ 2.58	0.00080111	\$ 99.64
837175	BUCK 24-15-5 1H	06-2014	70	2	TOTAL E&P USA INC (UTICA)	14,076	1.130	17,031	\$ 69,956.36	\$ 5,842.06	\$ 2,402.38	\$ 11,322.05	28.012%	\$ 50,281.67	\$ 1.57	0.00080111	\$ 41.26
837175	BUCK 24-15-5 1H	06-2014	61	4	CEMI (GAS)	127,360	0.000	0	\$ 89,494.79	\$ 80,251.27	\$ -	\$ 14,986.71	106.194%	\$ (5,543.19)	\$ (0.04)	0.00080111	\$ (0.83)

## D. Defendants’ Payment of the Royalties

65. When there are multiple royalty owners with an interest in a lease, oil and gas producers require each royalty owner to execute a Division Order verifying his or her decimal interest in the royalty.

66. Defendant Chesapeake Operating issues Division Orders to Chesapeake Exploration’s royalty owners in Ohio.

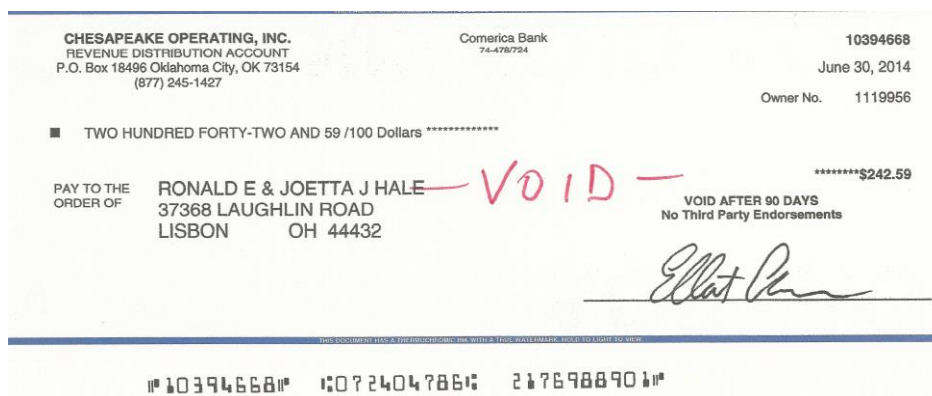


67. The Division Order issued to Plaintiffs Ronald and Joetta Hale identifies Defendant Chesapeake Operating as the “payor” of the royalties. It states: “The undersigned certifies the ownership of their decimal interest in production or proceeds, as described above, payable by Chesapeake Operating, Inc. (Payor).”



68. As the payor of the royalties, Defendant Chesapeake Operating holds and controls the royalties owned by Plaintiffs and the other Class Members.

69. Defendants jointly pay the gas royalties with checks issued by Defendant Chesapeake Operating and signed by the Treasurer of Defendant Chesapeake Energy.

70. Until approximately May of 2015, the royalty checks were issued from the Revenue Distribution Account of Defendant Chesapeake Operating, Inc. (the prior name of Chesapeake Operating, L.L.C.) with Comerica Bank. These checks were signed by Defendant Chesapeake Energy’s then Vice President and Treasurer, Elliot Chambers. An example of these checks is reproduced below.



71. Beginning in approximately June of 2015, Defendant Chesapeake Operating began issuing the royalty checks from its Revenue Distribution Account at JPMorgan Chase Bank, N.A. These checks were signed by Defendant Chesapeake Energy’s current Vice President and Treasurer, Caleb Morgret. An example of these checks is reproduced on the next page.

Chesapeake Operating, LLC P.O. Box 18496 Oklahoma City, OK 73154 (877) 245-1427		CHECK NUMBER <b>11765549</b> September 30, 2015 *** VOID AFTER 90 DAYS ***	88-88 1113
PAY TO THE ORDER OF:	RONALD E & JOETTA J HALE 37368 LAUGHLIN ROAD LISBON, OH 44432-0000	CHECK AMOUNT <b>\$32.18</b>  Security Features Details on back.	
EXACTLY *****32 DOLLARS AND 18 CENTS			
JPMorgan Chase Bank, N.A. Dallas, TX OWNER : 1119956		 NO THIRD PARTY ENDORSEMENT	
⑈ 1 1 7 6 5 5 4 9 ⑈ ⑆ 1 1 1 3 0 0 8 8 0 ⑆ 6 5 7 6 0 1 5 7 6 ⑈			

72. The royalty checks include a check stub containing a royalty statement prepared by Defendant Chesapeake Operating. An example of these check stubs is the one reproduced on the next page issued to Mr. and Mrs. Hale on July 31, 2014, covering production for February - May of 2014 on the Buck Well.

Chesapeake Operating Inc  
P.O. Box 18496  
Oklahoma City, OK 73154  
(877) 245-1427

PAGE: 1

Retain this statement for tax purposes. No  
duplicates furnished. State taxes have been  
deducted and paid where required. When writing,  
refer to lease number and owner number.

PROD DATE	P C	PRICE	I T	PY GP	LEASE				PAYMENT DECIMAL	OWNER					
					VOLUME	TAX	DEDUCT	NET VALUE		VOLUME	GRS VALUE	TAX	DEDUCT	NET	BTU

Gross Value refers to the sales price received by the operator/lessee before deduction of taxes. It may reflect the price received from an affiliated purchaser.

Deduct refers to the deductions identified in the Deduct Code below and are generally limited to taxes or deductions made by the operator/lessee. Deductions made by the purchaser (affiliated or non-affiliated) may or may not be shown.

Volume of gas is the volume (mcf) of gas produced which may or may not be equal to the volume of gas sold depending on fuel use.

837175-BUCK 24-15-5 1H					STATE: OH COUNTY: CARROLL					LEGAL: SECTION 14-15N-5W; AUGUSTA TOW					
214 1	91.60	2 62			943.06	236.29	.00	86146.75	.00071947	.68	62.15	.17	.00	61.98	
214 1	77.48	2 63			29.06	13.90	.00	2237.76	.00071947	.02	1.62	.01	.00	1.61	
214 1	76.92	2 63			10.48	.00	.00	806.15	.00071947	.01	.58	.00	.00	.58	
314 1	91.58	2 62			1069.73	264.08	.00	97696.92	.00071947	.77	70.48	.19	.00	70.29	
314 1	77.57	2 63			22.22	13.90	.00	1709.59	.00071947	.01	1.24	.01	.00	1.23	
314 1	77.10	2 63			12.80	.00	.00	986.84	.00071947	.01	.71	.00	.00	.71	
414 1	92.87	2 02			1241.54	319.68	.00	114987.42	.00071947	.89	82.96	.23	.00	82.73	
414 1	79.07	2 03			21.27	.00	.00	1681.79	.00071947	.02	1.21	.00	.00	1.21	
414 1	79.83	2 03			5.92	13.90	.00	458.67	.00071947	.01	.34	.01	.00	.33	
514 1	90.14	2 02			3030.57	764.45	.00	272422.76	.00071947	2.18	196.55	.55	.00	196.00	
514 1	78.79	2 03			45.69	.00	.00	3599.87	.00071947	.03	2.59	.00	.00	2.59	
514 1	78.91	2 03			27.83	13.90	.00	2182.16	.00071947	.02	1.58	.01	.00	1.57	
214 2	5.34	2 61			10887.53	434.08	.00	57704.27	.00069111	7.53	40.18	.30	.00	39.88	970
214 2	4.94	2 64			2795.47	109.69	.00	13687.44	.00082046	2.29	11.32	.09	.00	11.23	1131
314 2	3.13	2 61			10064.20	405.15	.00	31094.91	.00069111	6.95	21.77	.28	.00	21.49	943
314 2	3.67	2 64			2622.83	109.69	.00	9519.05	.00082046	2.15	7.90	.09	.00	7.81	1087
414 2	2.54	2 01			16406.70	651.13	.00	41078.84	.00069111	11.34	28.84	.45	.00	28.39	946
414 2	3.51	2 TB			4314.83	170.64	.00	14955.03	.00082046	3.54	12.41	.14	.00	12.27	1122
514 2	2.81	2 01			40145.94	1606.11	.00	111313.68	.00069111	27.74	78.04	1.11	.00	76.93	959
514 2	3.50	2 TB			10785.50	426.59	.00	37369.28	.00082046	8.85	31.01	.35	.00	30.66	1166
214 4	.12	2 61			39925.46	231.51	.00	-5064.32	.00069111	27.59	-3.34	.16	.00	-3.50	
214 4	.91	2 64			6486.66	36.56	.00	5874.75	.00082046	5.32	4.85	.03	.00	4.82	
314 4	.14	2 61			52605.99	289.39	.00	-7741.17	.00069111	36.36	-5.15	.20	.00	-5.35	
314 4	.46	2 64			6847.12	36.56	.00	3132.39	.00082046	5.62	2.60	.03	.00	2.57	
414 4	.38	2 01			30679.37	173.63	.00	-11778.15	.00069111	21.21	-8.02	.12	.00	-8.14	
414 4	.52	2 TB			13692.43	73.13	.00	7057.02	.00082046	11.23	5.85	.06	.00	5.79	
514 4	.22	2 01			76306.18	448.55	.00	-17348.90	.00069111	52.74	-11.68	.31	.00	-11.99	

INTEREST TYPE (IT) PRODUCT CODE (PC) DEDUCT CODE

2-ROYALTY	1-OIL(BBL) 2-GAS(MCF) 4-NGL(GAL)	BW-BACKUP WITHHOLDING GA-GATHERING MS-MISCELLANEOUS PD-OTH PIPELINE DEDUCT TG-TREATING	CP-COMPRESSION IT-INTEREST NE-NETTING EXPENSE RJ-ROY ADJUSTMENT TX-TRANSPORTATION	FL-FUEL MK-MARKETING PC-PROCESSING SW-STATE WITHHOLDING
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Total for check

\$643.07

OWNER NUMBER	1119956	CHECK NUMBER	10539236	CHECK DATE	07/31/2014
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Chesapeake Operating Inc  
P.O. Box 18496  
Oklahoma City, OK 73154  
(877) 245-1427

PAGE: 2

Retain this statement for tax purposes. No  
duplicates furnished. State taxes have been  
deducted and paid where required. When writing,  
refer to lease number and owner number.

PROD DATE	P C	PRICE	I T	PY GP	LEASE				PAYMENT DECIMAL	OWNER					
					VOLUME	TAX	DEDUCT	NET VALUE		VOLUME	GRS VALUE	TAX	DEDUCT	NET	BTU
514 4	.41	2 TB			28641.61	158.45	.00	11432.61	.00082046	23.50	9.51	.13	.00	9.38	
									LEASE TOTAL		648.10	5.03	.00	643.07	
									OWNER TOTAL		648.10	5.03	.00		
CHECK TOTAL														643.07	

## **II. DEFENDANTS' FRAUDULENT UNDERPAYMENT OF GAS ROYALTIES**

73. Defendants underpaid the natural gas royalties by fraudulently (1) calculating the royalties on less than the volume of gas sold, (2) calculating the royalties on less than the proceeds received from the sale of the gas, (3) deducting costs incurred after Chesapeake Exploration no longer held title to the gas, (4) deducting gathering costs that were inflated through collusion and self-dealing with Access Midstream Partners, L.P., (5) deducting transportation costs that were fraudulent in their amounts, (6) deducting fuel costs that were fraudulent in their amounts, (7) fraudulently deducting NGL costs from the gas royalties; and (8) fraudulently deducting NGL costs.

### **A. Defendants' Fraudulent Calculation of the Gas Royalties On Less Than the Volume of Gas Produced and Sold to CEMI at the Well**

74. Defendants falsely state on the check stubs that the volume of gas reported is the “volume of gas produced.”

75. Chesapeake Exploration files annual and quarterly reports with the Ohio Department of Natural Resources (“ODNR”) that report the volume of gas produced by each well.

76. The Table below shows the volume of gas produced by the Buck Well, as reported to the ODNR, with the volume misrepresented on the check stubs as the “volume produced.”

Gas Volumes (Buck Well 1H)				
Quarter	ODNR	Check Stubs	Vol. Short	% Short
2Q 2014	157,643	141,662.75	15,980.25	10.1369 %
3Q 2014	174,625	148,479.79	26,145.21	14.9722 %
4Q 2014	115,572	92,550.56	23,021.44	19.9195 %
1Q 2015	76,985	52,432.18	24,552.82	31.8929 %
2Q 2015	95,162	81,728.27	13,433.73	14.1166 %
TOTAL	619,987	516,853.55	103,133.45	16.6347 %

77. Defendants' falsification of the amount of gas produced appears to be their standard practice. On October 19, 2015, the U.S. Department of the Interior issued a press release stating it had found "repeated, systemic errors in Defendant Chesapeake Energy's monthly reporting of the amount of gas it produced." The press release announced that the Department had fined the company \$2.1 million for "knowing or willful maintenance of this inaccurate information."



**Office of Public Affairs**  
For Immediate Release  
October 19, 2015

**News Media Contact:**  
Patrick Etchart, 303-231-3162

**ONRR Issues \$2.1 Million Civil Penalty to Chesapeake Energy**  
*Company Cited for Maintaining Inaccurate Information in Royalty Reports*

**DENVER** – The Department of the Interior's Office of Natural Resources Revenue (ONRR) announced today that it assessed a \$2,118,900 civil penalty against Chesapeake Energy Corporation. Chesapeake failed to comply with an October 2011 Order, which found repeated, systemic errors in Chesapeake's monthly reporting of the amount of gas it produced and sold from Indian leases, directly affecting ONRR's ability to fulfill its regulatory obligation to collect every dollar due.

The 2011 Order required Chesapeake to review the amounts it reported for more than 100 Indian leases and correct unreported and misreported volumes. While ONRR eventually obtained Chesapeake's compliance with its Order to amend monthly reports to correct for its misreporting, Chesapeake continued to maintain inaccurate information on ONRR data systems for an extended period. ONRR issued the civil penalty for Chesapeake's knowing or willful maintenance of this inaccurate information.

**B. Defendants' Fraudulent Calculation Of The Royalties On Less Than The Full Revenue Realized From The Sale Of The Gas**

78. Defendant Chesapeake Energy states in letters that it mails to royalty owners that Chesapeake sells the gas to CEMI at the well and transfers title to the gas to CEMI at the well.

79. On September 30, 2015, Jason P. Blose, Associate Division Counsel of Chesapeake Energy's Eastern Division, mailed one of these letters to an Ohio royalty owner. The letter states, in pertinent part:

By way of background, Chesapeake sells production from the Lease to Chesapeake Energy Marketing, L.L.C. ("CEMLC"), which is an affiliated marketing company that takes title to, and possession of production at or near the well. CEMLC pays Chesapeake 97% of the proceeds it receives from the sale of the gas and natural-gas liquids, and 99% of the proceeds it receives from the sale of the oil, less any post-production costs incurred between the wellhead and downstream points of sale.

80. CEMI acts as Chesapeake Exploration's agent in reselling the gas because Chesapeake Exploration has a 100% contingent interest in all of the gas resold, less a 3% commission to CEMI.

81. The revenue realized from the sale of the gas consists of (1) the proceeds paid by the third-party buyers and (2) the proceeds received under derivative contracts.

82. Defendants fraudulently underpaid the gas royalties by (1) not paying a royalty on the proceeds paid by the third party buyers and (2) paying no royalty on the proceeds of derivative contracts.

*1. Defendants' Failure To Pay A Royalty on the Proceeds Paid By the Third Party Buyers*

83. The Buck Well Spreadsheet shows that Defendants calculate the gas royalty using a price of gas that is derived from the gross value of the gas after cost deductions rather than the gross value of the gas before cost deductions, as shown by the following sample data.

Month	Buyer	Vol. (mcf)	Sale Price Per mcf	Gross Value Before Deducts	Gross Value After Deducts
02-14	CEMI	10,888	5.34	77,809.44	58,155.62

84. The volume of gas (10,888 mcf) multiplied by price per mcf (\$5.34) equals \$58,141.92. This is closer to the gross value after deducts (\$58,155.62) than the gross value before deducts (77,809.44).

85. As this example shows, Defendants fraudulently calculated the royalties using a sale price based on the gross value of the gas after deductions rather than the gross value before deductions.

*2. Defendants' Failure to Pay a Royalty on the Proceeds of Derivative Contracts*

86. Defendants failed to make upward adjustments to the gas royalties upon the receipt of the proceeds of derivative contracts.

87. Defendant Chesapeake Energy admits in its annual and quarterly reports filed with the U.S. Securities Exchange Commission ("S.E.C.") that the proceeds of the derivative contracts are a part of the revenues realized from the "sale" of the gas.

88. The filings with the S.E.C. state the aggregate "gas sales" of all of Defendant Chesapeake Energy's gas production subsidiaries, including Chesapeake Exploration.

89. The Table below collects the "gas sales" reported by Defendant Chesapeake Energy in its filings with the S.E.C., using the same tabular form used by Defendant Chesapeake Energy.

<b>Natural Gas Sales (\$ in millions)</b>												
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>1Q15</b>	<b>2Q15</b>	<b>3Q15</b>
Gas Sales	3,343	4,117	6,003	2,635	3,169	3,133	2,004	2,430	2,777	425	206	228
Gas Derivatives - Realized Gains / Losses	1,269	1,214	267	2,313	1,982	1,656	328	9	(191)	200	71	70
Gas Derivatives - Unrealized Gains/Losses	467	(139)	521	(492)	425	(669)	(331)	(52)	535	(164)	(67)	33
<b>Total Gas Sales</b>	<b>5,079</b>	<b>5,192</b>	<b>6,791</b>	<b>4,456</b>	<b>5,576</b>	<b>4,120</b>	<b>2,001</b>	<b>2,387</b>	<b>3,121</b>	<b>461</b>	<b>210</b>	<b>331</b>

90. The revenues from derivative contracts increased the total gas amount of the gas sales in all but two of the nine and three quarter years shown.

91. Only in 2012 and 2013 did the derivative contracts reduce the total amount of the gas sales and those decreases were, in a relative sense, negligible.

92. The dollar amounts paid by the third-party buyers during the nine and three quarter years were approximately \$30.470 billion yet the “Total Natural Gas Sales” were approximately \$39.725 billion. Thus, \$9.255 billion of the “gas sales” were the proceeds of derivative contracts.

93. Defendants fraudulently failed to pay royalties due Plaintiffs and the other Class Members by paying no royalties on revenues realized from derivative contracts.

**C. Defendants’ Fraudulent Deduction of Costs Incurred After Chesapeake Exploration Transferred Title to the Gas to the Buyer**

94. The check stubs show no cost deductions because none are incurred by the lessee, Chesapeake Exploration.

95. Defendants state on the check stubs:

Deduct refers to the deductions identified in the Deduct Code below and are generally limited to taxes or deductions made by the operator/lessee. Deductions made by the purchaser (affiliated or unaffiliated) may or may not be shown.

96. All of the cost deductions in this case are made by the purchasers of the gas, not by the lessee, and therefore are not shown on the check stubs.

97. Defendant Chesapeake Energy’s eighteen column spreadsheets show that Chesapeake Exploration sells its gas to two buyers: CEMI and Total E&P USA, Inc. (“E&P”).

98. The spreadsheets show that these buyers deducted three categories of costs: “3<sup>rd</sup> Party Deductions,” “Fuel,” and “Affiliate Gathering/Compression/Treating Deductions.”

99. The Table below shows the costs deducted from the gas royalties on the Buck Well, with two columns added showing the total amount of the deductions and the amount per mcf.



Cost Deductions from Gas Royalties (Buck Well Spreadsheet)								
	Buyer	Volume	3 <sup>rd</sup> Party Deducts	Fuel	Gathering Compress. Treating	Percent of Gross Royalty	Total Deducts	Deducts Per mcf
02-14	CEMI	10,888	3,344.10	9,064.69	7,245.03	25.259	19,653.82	1.8051
	E & P	2,795	1,410.99	816.18	2,292.37	24.674	4,519.54	1.6170
03-14	CEMI	10,064	2,665.09	7,092.95	5,760.68	33.046	15,518.72	1.5420
	E & P	2,623	1,135.71	509.17	2,018.61	27.608	3,663.49	1.3967
04-14	CEMI	16,407	6,539.30	10,285.20	9,578.64	38.740	26,403.14	1.6093
	E & P	4,315	1,902.90	950.88	3,387.50	29.236	6,241.28	1.4464
05-14	CEMI	40,146	16,214.90	17,869.65	24,265.81	34.074	58,350.46	1.4535
	E & P	10,786	4,288.30	1,744.38	8,900.14	28.320	14,932.82	1.3845
06-14	CEMI	55,934	21,580.55	24,298.30	33,445.68	35.491	79,324.53	1.4181
	E & P	14,076	5,642.06	2,402.58	11,522.05	28.012	19,566.69	1.3901
<b>TOTAL CEMI</b>		<b>133,439</b>	<b>50,343.94</b>	<b>68,610.79</b>	<b>80,295.84</b>	<b>33.322</b>	<b>199,250.57</b>	<b>1.4932</b>
<b>TOTAL E &amp; P</b>		<b>34,595</b>	<b>14,379.96</b>	<b>6,423.19</b>	<b>28,120.67</b>	<b>27.570</b>	<b>48,923.82</b>	<b>1.4142</b>

100. All three categories of costs deducted from the gas royalties were incurred after Chesapeake Exploration sold the gas and no longer held title.

101. The only costs that can be deducted from oil and gas royalties are “post production costs,” that is, costs incurred between the well and the point at which the gas is sold and title passes.

102. Defendants defrauded Plaintiffs and the other Class Members by deducting costs for gathering, transportation and fuel that were incurred after Chesapeake Exploration no longer held title to the gas.

**D. Defendants’ Deduction of Gathering Costs That Were Inflated Through Collusion and Self-Dealing with Access Midstream Partners**

103. Even if Defendants had the right to deduct costs incurred after Chesapeake Exploration transferred title (and they had no right), the deductions were fraudulent nonetheless because they were grossly inflated through collusion and self-dealing between Defendants and Access Midstream Partners, L.P. (“Access Midstream”).

104. Until the end of 2010, the gas purchased by CEMI from Chesapeake Exploration was gathered, compressed and treated by Chesapeake Midstream Partners, L.P. (“Chesapeake

Midstream”), a subsidiary of Defendant Chesapeake Energy that owned and operated midstream systems in many states, including Ohio.

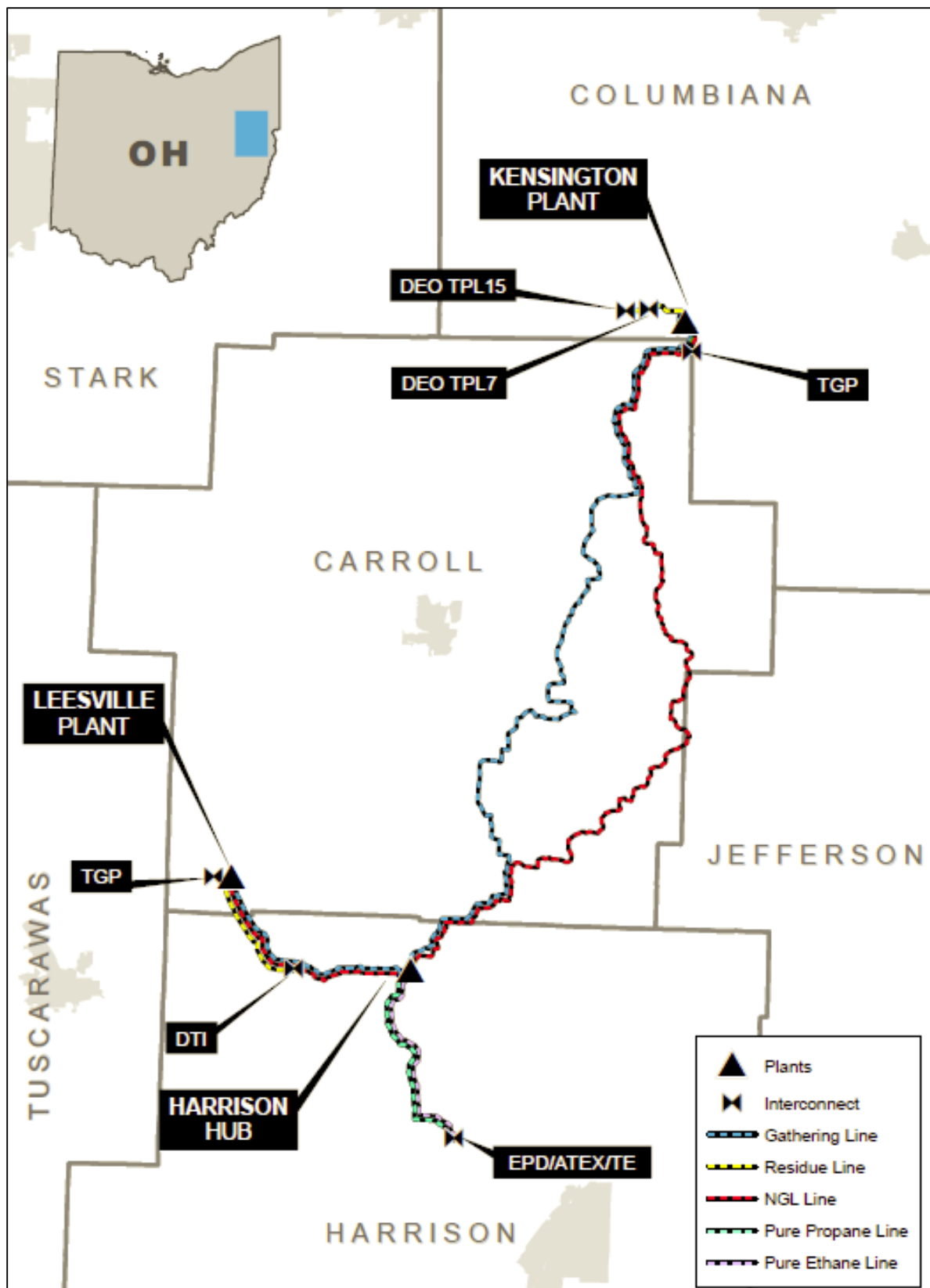
105. In 2010, Defendant Chesapeake Energy required \$5 billion in cash for operations and to service its debt.

106. To obtain this liquidity, Defendants devised a scheme to obtain an upfront payment of \$4.76 billion from private equity investors and repay those investors over time through inflated royalty deductions.

107. With the financial backing of the investors, Defendants structured the creation of an unaffiliated midstream services company, Access Midstream Partners, L.P. (“Access Midstream”) and filled key management positions with Chesapeake executives.

108. Defendant Chesapeake Energy then sold its midstream pipeline assets in various states, including Ohio, to Access Midstream for \$4.76 billion, thereby resolving its urgent need for cash.

109. Among the midstream pipeline assets sold by Defendant Chesapeake Energy to Access Midstream was Chesapeake Midstream’s gas gathering and processing system in the Utica shale region of eastern Ohio, which includes gathering lines, processing plants, NGL lines and various interconnect points into interstate pipeline systems, as shown in the graphic on the next page.



110. When Defendant Chesapeake Energy sold Access Midstream its midstream assets, it simultaneously entered into non-public side agreements with Access Midstream in which it agreed that almost all gas produced by its oil and gas production companies, including Chesapeake Exploration, would be serviced by Access Midstream for exorbitant gathering fees that would guarantee Access Midstream recoupment of its \$4.76 billion investment over ten years with a 15% return.

111. To pay Access Midstream these fees, Defendants conspired to deduct, and did deduct, grossly inflated and fraudulent gathering fees from the gas royalties of Plaintiffs and the other Class Members.

112. Defendants' scheme to raise \$4.76 billion through royalty deductions was reported in an investigative report by Pro Publica, a public interest group, on March 13, 2014. The report, titled "Chesapeake Energy's \$5 Billion Shuffle," can be accessed at [www.propublica.org](http://www.propublica.org). The reads in part as follows:

Federal rules limit the tolls that can be charged on inter-state pipelines to prevent gouging. But drilling companies like Chesapeake can levy any fees they want for moving gas through local pipelines, known in the industry as gathering lines, that link backwoods wells to the nation's interstate pipelines. Property owners have no alternative but to pay up. There's no other practical way to transport natural gas to market.

Chesapeake took full advantage of this. In a series of deals, it sold off the network of local pipelines it had built in Pennsylvania, Ohio, Louisiana, Texas and the Midwest to a newly formed company that had evolved out of Chesapeake itself, raising \$4.76 billion in cash.

In exchange, Chesapeake promised the new company, Access Midstream, that it would send much of the gas it discovered for at least the next decade through those pipes. Chesapeake pledged to pay Access enough in fees to repay the \$5 billion plus a 15% return on its pipelines.

That much profit was possible only if Access charged Chesapeake significantly more for its services. And that's exactly what appears to have happened: While the precise details of Access's pricing remain

private, immediately after the transactions Access said that gathering fees are its predominant source of income, and that Chesapeake accounts for 84 percent of the company's business.

\* \* \* \* \*

On the same day as the last of the major sales, Chesapeake signed long-term contracts pledging to pay Access a minimum fee for transporting its gas. In some cases, the fee held no matter what happened to the price of gas, or even how little of it flowed out of Chesapeake's wells.

\* \* \* \* \*

According to ProPublica projections based on figures disclosed by the companies in late 2013, Chesapeake commitments would have it paying Access a whopping \$800 million each year. Over ten years, the contracts would generate nearly twice as much money as Access paid Chesapeake for its business in the first place.

In plain words, Chesapeake and a company made up of its old subsidiaries were passing money back-and-forth between each other in a deal that added little productive capacity but allowed both sides of the transaction to rake in billions of dollars.

113. The Pro Publica report was summarized on the Oil and Gas Lawyers Blog by John

B. McFarland on October 27, 2014, as follows:

A recent investigative report by *Pro Publica* describes how Chesapeake spun off its subsidiary, Chesapeake Midstream Partners (which became Access Midstream), in the process raising \$4.76 billion. According to the report, Chesapeake sold its network of gathering lines in Pennsylvania, Ohio, Louisiana, Texas and the Midwest to Access, and entered into an agreement with Access for Access to gather and transport Chesapeake's gas. Over a ten-year period, Chesapeake pledged by this contract to pay Access enough in fees to repay Access's purchase price plus a 15 percent return on the investment. According to the report, the result of these transactions was to greatly increase Chesapeake's cost of gathering its gas, to an average of 85 cents per mcf. That gathering cost greatly increased the deductions on Chesapeake's royalty owners' checks. In effect, it could be argued that Chesapeake has monetized some of its gas reserves by locking itself into a long-term gathering agreement with Access, in exchange for a \$4.76 billion payment from Access, and in the process created an inflated gathering charge which can be passed on to its royalty owners.

114. On November 24, 2015, Seeking Alpha, a firm providing financial analysis, published a report that discussed the out-sized gathering fees. An excerpt of that report is reproduced below.

**Sweetheart Pipeline Deal with Access Midstream Continues to Haunt Chesapeake**

In 2011, Chesapeake Energy spun-out its pipeline division to Access Midstream (ALPM) for \$4.76B, a price considered at the time to be well above market value. Terms of deal saddled Chesapeake with a fixed fee gathering and transport fee arrangement which continually burdens Chesapeake Energy's profitability. Based on my analysis, the estimated cost to transport gas based on the deal is fixed at approximately \$1.60 per mcf, but may in fact be higher since I base it on the on-going reported results of the CHKR Trust. It is subject to some adjustments through time, but currently remains well above realistic economic market levels.

\* \* \* \* \*

The high contractual cost to gather and transport Chesapeake's gas production is accounted for as an *off-balance sheet* contingent liability. A large portion of the liability is based on a contract with Williams Partners because Access Midstream was acquired by Williams Partners in early 2015. Chesapeake explains the financial arrangement, and estimates the size of the contingent liability to be \$14.3B in Note 4 of its financial statements.

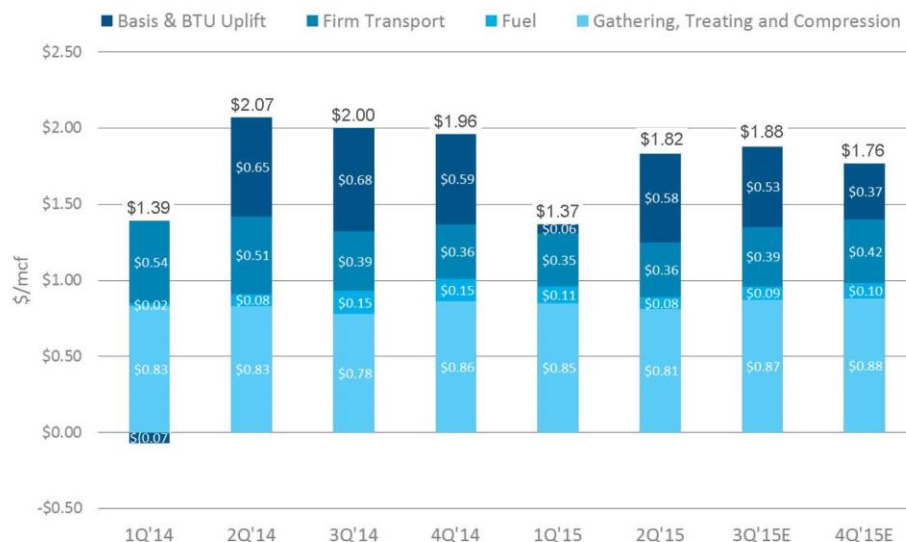
\* \* \* \* \*

It is questionable accounting in my opinion to leave something this large in size off a company's balance sheet from a liability perspective. Even though the asset base is being marked to market with the embedded fixed fee arrangement in the product price, the liability embedded in the revenue stream is not visible to investors without major deciphering of contractual arrangements.

115. Through the Chesapeake-Access “off-balance sheet arrangement,” Defendant Chesapeake Energy obtained a \$4.76 billion loan from the equity investors of Access Midstream to be repaid through out-sized and fraudulent deductions from the royalties.

116. The increased gathering costs resulting from the collusion with Access Midstream are shown on a chart prepared by Defendant Chesapeake Energy on August 5, 2015 titled “CHK Gas Differentials By Component” (“Differentials Chart”). The chart, reproduced on the next page, shows actual costs for six quarters and estimated costs for 3Q15 and 4Q15.

## CHK GAS DIFFERENTIALS BY COMPONENT<sup>(1)</sup>



- **Estimated non-basis differential marginally increases in 3Q'15 and 4Q'15**
  - > Largely due to portfolio mix – CHK continues to realize increased volume percentage of production stream from Eagle Ford and Barnett, and less northeast gas due to voluntary curtailments
- **Regional pipeline, the Spectra OPEN in the Utica Shale, coming online in 4Q'15 raises transport cost/mcf, but provides significant uplift to the natural gas sales price**

(1) Excludes MVC

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117. The Table below presents the gathering costs in the Differentials Chart in a more readable format.

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15E	4Q15E	Ave.
Gathering, Treating & Compression	0.83	0.83	0.78	0.86	0.85	0.81	0.87	0.88	<b>0.84</b>

118. The bloated nature of the gathering fees deducted from the royalties and paid to Access Midstream is seen in the Access Midstream chart on the next page posted online by the financial research firm, Market Realist.



119. This chart shows the percentage of Access Midstream's overall business that comes from Defendants in terms of gas volumes and revenue. Defendants' percentage of Access Midstream's revenues steadily increases over its percentage of Access Midstream's volumes, meaning that the gathering fees paid by Defendants greatly exceed those paid by Access Midstream's other customers.

**E. Defendants' Deduction of Transportation Costs That Were Fraudulent In Their Amounts**

120. Even if Defendants had the right to deduct costs incurred after Chesapeake Exploration transferred title (and they had no right), the deductions for interstate transportation were so excessive as to be fraudulent.



121. The deductions for transportation taken from the royalties on the Buck well for gas sold to CEMI during the period of February through May of 2014 average \$0.38, as shown in the Table below.

TRANSPORTATION COSTS (BUCK WELL SPREADSHEET)				
Month	Buyer	Volume	Trans. Deduction	Trans. Deduction per mcf
02-2014	CEMI	10,888	3,344.10	0.3071
	E&P	2,795	1,410.99	0.5048
03-2014	CEMI	10,064	2,665.09	0.2648
	E&P	2,623	1,135.71	0.4329
04-2014	CEMI	16,407	6,359.30	0.3875
	E&P	4,315	1,902.90	0.4409
05-2014	CEMI	40,146	16,214.90	0.4038
	E&P	10,786	4,288.30	0.3975
06-2014	CEMI	55,934	21,580.55	0.3858
	E&P	14,076	5,642.06	0.4008
<b>TOTAL CEMI</b>		133,439	50,163.94	<b>0.3759</b>
<b>TOTAL E &amp; P</b>		34,595	14,379.96	0.4156

122. Range Resources Corporation (“Range”) also transports Appalachian gas production. The prices paid by Range for transportation are shown in the charts from its website reproduced on the next page, the first published on December 15, 2014 and the second on October 28, 2015.

## Appalachia Gas Transportation Arrangements

Regional Direction	Projected 2014		Projected 2016		Projected 2018	
	Mmbtu/day (Gross)	Transport Cost per Mmbtu	Mmbtu/day (Gross)	Transport Cost per Mmbtu	Mmbtu/day (Gross)	Transport Cost per Mmbtu
<b>Firm Transportation</b>						
Appalachia/Local	325,000	\$ 0.21	330,000	\$ 0.22	430,000	\$ 0.30
Gulf Coast	260,000	\$ 0.31	485,000	\$ 0.43	935,000	\$ 0.51
Midwest/Canada	70,000	\$ 0.20	270,000	\$ 0.26	470,000	\$ 0.41
Northeast	185,000	\$ 0.60	185,000	\$ 0.60	185,000	\$ 0.60
Southeast	100,000	\$ 0.39	100,000	\$ 0.39	100,000	\$ 0.39
<b>Firm Sales/Released Capacity</b>	175,000	--	380,000	--	270,000	--
<b>Total Take-Away Capacity</b>	<b>1,115,000</b>	<b>\$ 0.28</b>	<b>1,750,000</b>	<b>\$ 0.28</b>	<b>2,390,000</b>	<b>\$ 0.39</b>

Capacity listed above reflects actual amounts of production that can flow under these arrangements. We believe these firm arrangements provide adequate capacity to meet our growth projections through 2018

Range net production would be approximately 83% of the gross amounts shown. Does not include current intermediary pipeline capacity of >800,000 Mmbtu/day, and assumes full utilization. Cost associated with Firm Sales/Released Capacity is assumed as a deduction to price. Based on anticipated project start dates.

## Appalachia Gas Transportation Arrangements

Regional Direction	Projected YE 2015		Projected YE 2016		Projected YE 2018	
	Mmbtu/day (Gross)	Transport Cost per Mmbtu	Mmbtu/day (Gross)	Transport Cost per Mmbtu	Mmbtu/day (Gross)	Transport Cost per Mmbtu
<b>Firm Transportation</b>						
Appalachia/Local	360,000	\$ 0.22	360,000	\$ 0.18	360,000	\$ 0.18
Gulf Coast	270,000	\$ 0.30	420,000	\$ 0.41	945,000	\$ 0.48
Midwest/Canada	285,000	\$ 0.26	285,000	\$ 0.26	585,000	\$ 0.50
Northeast	210,000	\$ 0.57	210,000	\$ 0.57	210,000	\$ 0.57
Southeast	100,000	\$ 0.39	100,000	\$ 0.39	100,000	\$ 0.39
<b>Firm Sales/Released Capacity</b>	175,000	--	270,000	--	300,000	--
<b>Total Takeaway Capacity</b>	<b>1,400,000</b>	<b>\$ 0.28</b>	<b>1,645,000</b>	<b>\$ 0.28</b>	<b>2,500,000</b>	<b>\$ 0.39</b>

Capacity listed above reflects actual amounts of production that can flow under these arrangements. We believe these firm arrangements provide adequate capacity to meet our growth projections through 2018

Range net production would be approximately 83% of the gross amounts shown. Does not include current intermediary pipeline capacity of > 650,000 Mmbtu/day, and assumes full utilization. Cost associated with Firm Sales/Released Capacity is assumed as a deduction to price. Based on anticipated project start dates.

123. As these pricing charts show, in 2014 Range spent an average \$0.21 per mcf to transport gas to Appalachian markets and an average of \$0.28 per mcf to transport gas to all markets. In the current year, Range is spending approximately \$0.22 per mcf to transport gas to Appalachian markets and an approximately \$0.28 per mcf to transport gas to all markets.

124. In contrast, Defendants deducted \$0.38 per mcf for transportation on gas produced from the Buck well sold to CEMI in February through June of 2014, as shown on the Buck Well Spreadsheet.

125. It is inconceivable that Defendants pay \$0.10 per mcf for transportation than Range pays.

**F. Defendants' Fraudulent Deductions for Fuel**

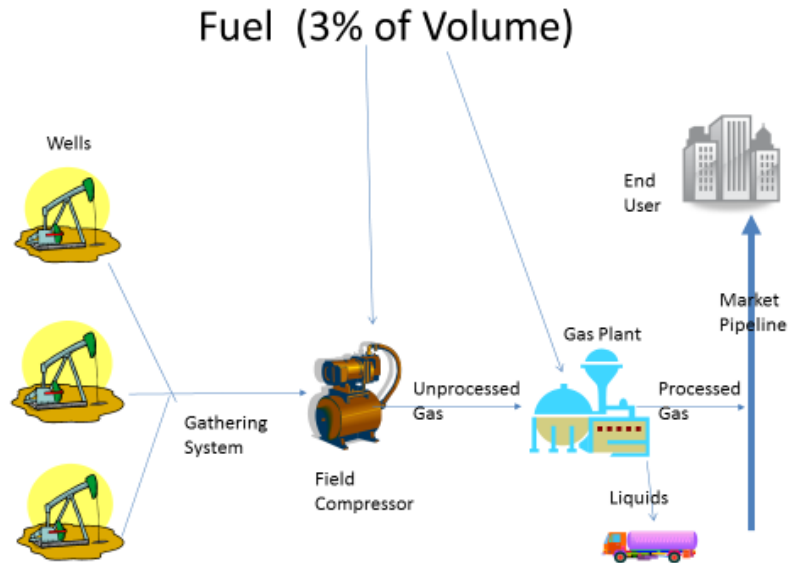
126. Defendants' deductions for "Fuel" were fraudulent because the gas used for compression, dehydration and processing was leasehold gas, not purchased gas.

127. As shown in the Table at paragraph 76 of this Complaint and reproduced below, 17% of the gas produced at the well is not resold downstream.

Gas Volumes (Buck Well 1H)				
Quarter	ODNR	Check Stubs	Vol. Short	% Short
2Q 2014	157,643	141,662.75	15,980.25	10.1369 %
3Q 2014	174,625	148,479.79	26,145.21	14.9722 %
4Q 2014	115,572	92,550.56	23,021.44	19.9195 %
1Q 2015	76,985	52,432.18	24,552.82	31.8929 %
2Q 2015	95,162	81,728.27	13,433.73	14.1166 %
TOTAL	619,987	516,853.55	103,133.45	16.6348 %

128. Defendants state on the check stubs that the reason for the difference is "fuel use."

129. Defendants' purported use of 17% of the gas for fuel is fraudulent because, typically, only 3% of a well's gas is needed for fuel, as shown by the graphic below.



130. Further, the dollar amount of the fuel deduction is also fraudulent.

131. The Differentials Chart at paragraph 116 of this Complaint shows the following fuel costs.

Fuel Costs on Differentials Chart								
1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15E	4Q15E	Average
0.02	0.08	0.15	0.15	0.11	0.08	0.09	0.10	<b>0.10</b>

132. Yet the average dollar amount deducted by Defendants for fuel on gas sold by CEMI during the five months reported on the Buck Well spreadsheet is \$0.51, as shown in the Table on the next page.

Fuel Costs On Buck Well Spreadsheet				
Month	Buyer	Volume	Fuel Deduction	Fuel Deduct
02-2014	CEMI	10,888	\$ 9,064.69	\$ 0.8325
	E&P	2,795	\$ 816.18	\$ 0.2920
03-2014	CEMI	10,064	\$ 7,092.95	\$ 0.7048
	E&P	2,623	\$ 509.17	\$ 0.1941
04-2014	CEMI	16,407	\$ 10,285.20	\$ 0.6269
	E&P	4,315	\$ 950.88	\$ 0.2204
05-2014	CEMI	40,146	\$ 17,869.65	\$ 0.4451
	E&P	10,786	\$ 1,744.38	\$ 0.1617
06-2014	CEMI	55,934	\$ 24,298.30	\$ 0.4344
	E & P	14,076	\$ 2,402.58	\$ 0.1707
<b>TOTAL CEMI</b>		<b>133,439</b>	<b>\$ 68,610.79</b>	<b>\$ 0.5141</b>
TOTAL E & P		34,595	\$ 6,423.19	\$ 0.1857

**G. Defendants' Fraudulent Deduction of Marketing Fees That Were Never Incurred**

133. Defendants also fraudulently deducted a 3% marketing fee from the price paid by the third-party buyer. Chesapeake Exploration incurred no marketing fees because it sold all of its gas to CEMI at the well. The marketing costs were incurred by CEMI after Chesapeake Exploration no longer held title to the gas.

**H. Defendants' Fraudulent Deduction of NGL Costs from The Gas Royalties**

134. Royalty owners have a separate property interest in each product and can assign those interests separately.

135. As a result, the only costs deductible from gas royalties are costs incurred with respect to the gas.

136. During the five month reported on the Buck Well Spreadsheet, the costs deducted from the NGL royalties were 142%, 176%, 164%, 133% and 106% of the value of the NGLs before the deductions.

137. These cost deductions not only cancelled out any royalty paid on NGLs, they diminished the royalties paid on gas and oil because the balance of the NGL costs not used to neutralize the NGL royalties were applied against the royalties on gas and oil.

### **III. DEFENDANTS' FRAUDULENT UNDERPAYMENT OF ROYALTIES ON NGLs**

138. Defendants fraudulently underpaid the royalties on NGLs by fraudulently (1) paying a royalty on less than the full amount of NGLs sold; (2) likely paying the royalties using a price per gallon than was less than the price paid by the buyer; and (3) deducting inflated costs that exceeded the NGL royalties, thereby paying no NGL royalties.

#### **A. Defendants' Fraudulent Payment of a Royalty on Less Gallons of NGLs Than Were Produced and Sold**

139. The Brookings Natural Gas Task Force published a study in 2013 in which it stated that oil and gas produced in the Utica shale play produces 4 to 9 gallons of NGLs from each mcf of gas. A Table from the study is reproduced below.

**Table 1: Gallons of NGL per (Mcf)  
Selected Shale Plays**

Bakken (shale oil)	6 to 12
Barnett	2.5 to 3.5
Eagle Ford (oil and gas)	4 to 9
Green River (shale oil)	4 to 6
Niobrara (shale oil)	4 to 9
Marcellus/Utica (oil and gas)	4 to 9

140. Defendants fraudulently underpaid the royalties on NGLs by paying a royalty on only 3.29 gallons of NGLs per mcf, as shown in the Table on the next page showing the NGLs produced from the Buck well.

NGLs Per Mcf (Buck Well)			
Quarter	Gas (mcf)	NGLs (gallons)	NLGs / mcf
2Q 2014	157,643	341,552.58	2.1666
3Q 2014	174,625	671,139.97	3.8433
4Q 2014	115,572	413,683.55	3.5794
1Q 2015	76,985	254,461.14	3.3053
2Q 2015	95,162	333,283.75	3.5023
<b>TOTAL</b>	<b>619,987</b>	<b>2,041,120.99</b>	<b>3.2921</b>

**B. Defendants' Likely Fraudulent Payment of the NGL Royalties Using A Price That Was Below the Market and Below the Price Paid by the Buyer**

141. Discovery may establish that Defendants also fraudulently underpaid the NGL royalties using a price that was below the market price and below the price paid by the buyer.

142. The U.S. Energy Information Administration ("E.I.A.") publishes a composite price for NGLs per million Btu, as shown in the Table below from the E.I.A. website.

**U.S. Natural Gas Liquid Composite Price (Dollars per Million Btu)**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>2009</b>	7.31	6.90	6.70	6.94	7.72	9.35	8.36	9.51	9.67	10.52	11.76	12.45
<b>2010</b>	13.46	13.23	11.89	11.62	11.29	10.93	10.18	10.48	11.02	12.15	12.71	13.07
<b>2011</b>	13.03	13.65	14.38	15.45	15.62	15.23	15.80	15.24	15.88	15.71	15.70	15.31
<b>2012</b>	13.82	12.47	13.13	12.72	10.83	8.70	9.66	10.18	10.04	10.35	10.16	9.73
<b>2013</b>	9.84	9.91	9.57	9.64	9.48	9.06	9.56	10.21	10.26	10.41	10.42	10.76
<b>2014</b>	11.61	11.94	10.03	10.26	10.02	10.17	9.94	9.69	9.86	8.75	7.84	5.63
<b>2015</b>	5.08	5.70	5.52	5.58	5.25	4.78	4.73	4.42				

143. The Buck Well Spreadsheet price provides both the gross volume of NGLs in gallons sold during the five month period of February 2014 through June 2014, as well as the gross value of the NGLs prior to cost deductions. These data are shown in the Table below, along with the computation of the value of the NGLs per gallon before cost deductions.

NGLs (Buck Well)				
Month	Buyer	Gross Gallons	Gross Value	Gross Value Per Gallon
02-2014	CEMI	39,925	11,447.68	0.2867
03-2014	CEMI	52,606	9,782.69	0.1860
04-2014	CEMI	39,679	18,049.92	0.5883
05-2014	CEMI	76,306	50,601.54	0.6631
06-2014	CEMI	127,360	89,494.79	0.7027
<b>Total</b>	<b>CEMI</b>	<b>326,876</b>	<b>179,376.62</b>	<b>0.5488</b>

144. Plaintiffs cannot presently convert the prices in the E.I.A. Table (\$/million btu) to the prices on the Buck Well Spreadsheet (\$/gallon) without knowing the chemical composition of the NGLs, which is determined by Defendants using a chromatograph.

145. Plaintiffs will obtain the chromatograph results in discovery needed for the price conversion to determine how the NGL prices published by E.I.A. compare with the NGL prices on the Chesapeake Energy's spreadsheets.

**C. Defendants' Fraudulent Deduction of Inflated NGL Costs That Exceeded the Amount of the Royalties**

146. The costs deducted from the NGL royalties on the Buck Well appear on the Buck Well Spreadsheet as "third-party deductions" and "affiliate gathering, compression and treating," as shown in the Table on the next page.



Cost Deductions From NGL Royalties (Buck Well)								
Month	Buyer	Gross Vol.	Gross Value Prior to Deducts	Third Party Deducts	Affiliate Gath. Comp. Treating	Percent	Gross Value After Deducts	Sale Price
02-2014	CEMI	39,925	11,447.68	13,671.10	2,612.25	142.241	(4,835.67)	(0.12)
	Other	6,487	10,024.15	3,651.24	455.05	40.964	5,917.86	0.91
03-2014	CEMI	52,606	9,782.69	14,204.65	3,028.68	176.161	(7,450.64)	(0.14)
	Other	6,847	7,417.75	3,754.17	504.61	57.413	3,158.97	0.46
04-2014	CEMI	30,679	18,049.92	24,587.21	5,066.92	164.290	(11,604.21)	(0.38)
	Other	13,692	14,182.53	6,212.86	838.03	49.715	7,131.64	0.52
05-2014	CEMI	76,306	50,601.54	56,206.01	1,312.50	133.432	(16,916.97)	(0.22)
	Other	28,642	27,409.17	13,907.03	1,915.83	57.728	11,586.31	0.40
06-2014	CEMI	127,360	89,494.79	80,051.27	14,986.71	106.194	(5,543.19)	(0.04)
	Other	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>TOTAL CEMI</b>		<b>326,876</b>	<b>179,376.62</b>	<b>188,720.24</b>	<b>37,007.06</b>	<b>144.464</b>	<b>(46,350.68)</b>	<b>(0.18)</b>

147. The affiliate charges are fractionation charges incurred in separating the NGLs into marketable liquids.

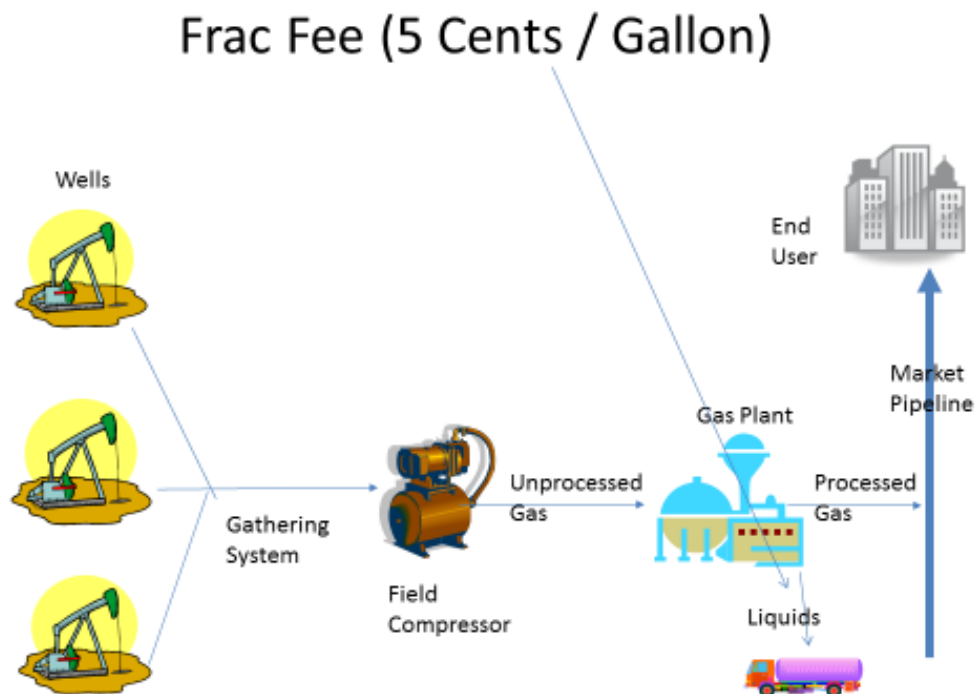
148. Plaintiffs do not presently know what services are reflected in the third-party deductions, although they likely include some form of transportation costs.

149. Regardless of how these charges are classified, they are fraudulent because they consume a grossly inordinate percentage of the value of the gas before the deductions.

150. During the five month reported on the Buck Well Spreadsheet, the costs deducted by Defendants were 142%, 176%, 164%, 133% and 106% of the value of the NGLs before the deductions. In contrast, the costs deducted by Total Exploration and Production USA were 41%, 57%, 50% and 58%.

151. In is inconceivable that the NGL costs so grossly exceeded the value of the NGLs. If they did, Defendants would have stopped producing NGLs to prevent further losses. Instead, Defendant Chesapeake Energy increased its production of NGLs in 3Q 2015 by 31%.

152. Moreover, fractionation costs are vastly lower than the amounts deducted by Defendant, as shown in the graphic below.



153. As a result of the fraudulently inflated cost deductions from the NGLs, Defendants paid no royalty on the \$179,376.62 of NGLs sold by CEMI over five months reported on the Buck Well Spreadsheet.

154. They then applied the \$46,350.68 of costs not used to cancel the NGL royalties against the positive royalties on gas, oil and the royalties earned on NGLs sold by the other seller, Total E&P USA, Inc.

### **III. DEFENDANTS' FRAUDULENT UNDERPAYMENT OF OIL ROYALTIES**

155. Defendants fraudulently underpaid the royalties on oil by fraudulently (1) failing to pay a royalty on the full amount of oil sold; (2) calculating the royalties on a price of oil that was below the market and less than the price paid by the buyer; (3) deducting costs incurred after Chesapeake Exploration no longer held title to the oil; and (4) deducting NGL costs.

#### **A. Defendants' Fraudulent Payment of Royalties on Less than the Full Amount of Oil Sold**

156. Defendants were required to pay a royalty on the full amount of oil sold to CEMI at the well.

157. Defendants fraudulently paid a royalty on less oil than was sold to CEMI at the well.

158. Chesapeake Exploration reports the barrels of oil it produces in quarterly and annual filings with the ODNR.

159. The Table on the next page shows the difference between the barrels of oil produced from the Buck Well (as reported to the ODNR) and the amount of oil on which Defendants paid a royalty.

Month	Barrels (ODNR)	Barrels (Check Stub)	Spread	Percentage No Royalty
04-2014		1,268.73		
05-2014		3,104.09		
06-2014		2,221.55		
2Q 2014	7,056	6,594.37	(461.63)	6.5423 %
07-2014		1,576.81		
08-2014		1, 063.82		
09-2014		956.39		
3Q 2014	3,672	3,587.02	(84.98)	2.3143 %
10-2014		1,019.23		
11-2014		949.43		
12-2014		952.67		
4Q 2014	2,880	2,922.05	42.05	(1.4601%)
01-2015		305.74		
02-2015		261.60		
03-2015		177.71		
1Q 2015	1,313	745.05	(567.95)	(43.2558%)
04-2015		176.74		
05-2015		694.57		
06-2015		701.88		
2Q 2015	2,094	1,573.19	(520.81)	24.8715 %
<b>Totals</b>	<b>17,015</b>	<b>15,421.68</b>	<b>(1,593.32)</b>	<b>9.3642 %</b>

160. As this Table shows, Defendants fraudulently paid a royalty on only on only 91.6% of the oil produced at the well and sold to CEMI at the well.

**B. Defendants' Fraudulent Payment of the Royalties Using a Price That Was Below Market and Below the Price Paid by the Buyer**

161. Defendants' deductions from the oil royalties show that they incurred costs in processing the oil and transporting it to market, meaning that the price they received was a downstream price.

162. The prices used by Defendants in calculating the oil royalties were always below fair market value and varied arbitrarily even within the same month on the check stubs.

163. The Table below shows the price per barrel reported on Buck Well Check Stubs compared with the average Cushing spot price reported U.S. Energy Information Administration.

Month	Buck Well Check Stubs (Ave. \$/Barrel)	Cushing Spot (\$/Barrel)	Check Stub % Cushing
02-2014	82.00	100.82	81.33 %
03-2014	82.00	100.80	81.35 %
04-2014	83.92	102.07	82.22 %
05-2014	82.61	102.18	80.85 %
06-2014	87.38	105.79	82.60 %
07-2014	83.74	103.59	80.84 %
08-2014	75.24	96.54	77.94 %
09-2014	62.05	93.21	66.57 %
10-2014	54.25	84.40	64.28 %
11-2014	51.79	75.79	68.33 %
12-2014	34.67	59.29	58.48 %
01-2015	47.30	47.22	100.16 %
02-2015	29.31	50.58	57.95 %
03-2015	17.94	47.82	37.52 %
04-2015	22.09	54.45	40.57 %
05-2015	24.55	59.27	41.42 %
06-2015	25.51	59.82	42.64 %
07-2015	27.68	50.90	54.38 %
08-2015	19.07	42.87	44.48 %
09-2015	19.61	45.48	43.12 %
<b>Average</b>	<b>50.63</b>	<b>74.14</b>	<b>68.29%</b>

**C. Defendants’ Fraudulent Deduction of Costs Incurred After Chesapeake Exploration Transferred Title to the Oil to CEMI**

164. As with gas, Chesapeake Exploration sold the oil to CEMI at the well.

165. The cost deductions from the oil royalties are not disclosed on the check stubs, because Chesapeake Exploration did not incur them.

166. The costs deductions from the oil royalties do appear, however, on Chesapeake Energy’s spreadsheets.

167. The Table below shows the cost deductions from the oil royalties, as reported on the Buck Well Spreadsheet.

Cost Deductions from Oil Royalties						
Month	Gross Vol.	Gross Value Before Deducts	Third Party Deducts	Affiliate Gath./ Comp./ Treating	Gross Value After Deducts	Sale Price
02-2014	943	88,632.56	2,251.47	0.00	86,381.09	91.60
	29	2,237.76	0.00	0.00	2,237.76	77.00
	10	806.15	0.00	0.00	806.15	76.92
03-2014	1,070	100,796.69	0.00	2,839.31	97,957.38	91.57
	22	1,709.59	0.00	0.00	1,709.59	77.71
	13	986.84	0.00	0.00	986.84	77.10
04-2014	1,242	118,383.18	0.00	3,058.35	115,324.83	92.89
	21	1,681.79	0.00	0.00	1,681.79	79.07
	6	458.67	0.00	0.00	458.67	77.48
05-2014	3,031	281,592.91	0.00	8,406.50	273,186.41	90.14
	46	3,599.87	0.00	0.00	3,599.87	78.79
	28	2,182.16	0.00	0.00	2,182.16	78.41
06-2014	589	55,335.19	1,504.46	0.00	53,830.73	91.38
	158	14,190.15	0.00	0.00	14,190.15	89.95
	1,448	136,048.28	0.00	3,630.62	132,417.66	91.43
	9	750.55	0.00	0.00	750.55	82.12
	17	1,403.81	0.00	0.00	1,403.81	81.24

168. All of the deductions under “Third-Party Deductions and “Affiliate Gathering/Compression/Treating Deductions” were in breach of the leases because these costs were all incurred after Defendant no longer held title to the oil.

**D. The Fraudulent Deduction of NGL Costs From the Oil Royalties**

169. The costs deducted from the oil royalties also breached the leases because they included NGL costs. Costs incurred on one product cannot be charged against the royalties of another product because royalty owners have a separate property interest in each product and can assign their rights in the products separately.

## **CLASS ACTION ALLEGATIONS**

170. The Plaintiffs re-allege and incorporate by reference the allegations contained in paragraphs 1-169 of this Complaint.

171. The Plaintiffs bring this action on behalf of themselves and the following Class:

Every person except governmental entities who is, or has been, a royalty owner under an oil and gas lease in which Chesapeake Exploration, L.L.C., is the present lessee, either because it is named as the lessee or because the lease has been assigned to it, and (i) the lease conveys rights to oil, natural gas and natural gas liquids in Ohio and (ii) one or more of these products was produced under the lease or may be produced under the lease.

172. The Class Members exceed 2,000 in number, making joinder impracticable. Plaintiffs do not presently know the exact number and identities of the Class Members, but they are known to Defendants and can be ascertained through their business records.

173. The claims set forth in this Complaint are common to all Class Members because Defendants underpaid the gas royalties of all Class Members in the same ways.

174. Plaintiffs are adequate representatives of all Class Members because the claims they assert are typical of the claims of all Class Members, the named Plaintiffs are not subject to any unique defenses, the interests of Plaintiffs do not conflict with those of the Class Members and Plaintiffs will fairly and adequately protect the interests of all Class Members.

175. Counsel to the Plaintiffs have extensive experience in complex litigation. This experience includes litigating cases in all state and federal courts in Ohio, in the U.S. Courts of Appeals for the Third, Fourth, Sixth and D.C. Circuits, and in the United States Supreme Court. One of the attorneys for Plaintiffs is lead trial counsel in four natural gas royalty class actions pending in the Appalachian Basin, three of which have been certified as class actions and one of which resulted in a jury verdict for the plaintiff class earlier this year.

176. The claims set forth in this Complaint are proper for certification as a class action under Rules 23(a) and 23(b)(3) of the Federal Rules of Civil Procedure because questions of law and fact common to the class predominate over any issues affecting individual class members.

177. The common questions of law include (1) whether costs can be deducted from oil and gas royalties if the costs are incurred after the lessee has sold the gas and transferred title, (2) whether costs deducted from oil and gas royalties can exceed the gross royalty, (3) whether costs incurred with respect to one product can be deducted from the royalties of another product; and (4) whether revenues received under natural gas derivative contracts are revenues realized from the sale of the gas and therefore subject to royalty.

178. The common questions of fact include (1) whether in reselling the oil and gas CEMI functioned as the agent of Chesapeake Appalachia such that the proceeds paid by the third-party buyers are the revenues on which the royalties must be paid, (2) whether Defendants exercised sufficient possession and control over the royalties to convert them, (3) whether the conduct of Defendants constituted violations of the Ohio RICO Act, and (4) whether the conduct of Defendants constituted conversion.

179. No other class action in Ohio asserts the claims asserted here. A class action for breach of contract and an accounting for the underpayment of oil and gas royalties was filed on October 26, 2015 by three plaintiffs in the Court of Common Pleas for Columbiana County captioned *Zehentbauer Family Land L.P. v. Chesapeake Exploration, L.L.C.*, et al., Case No. 2015-CV-557. The instant action is different from *Zehentbauer* because (1) this action is a statutory fraud action for treble damages whereas *Zehentbauer* is a contract action for single damages; (2) this action seeks recovery under all Ohio leases entered into by, or assigned to, Chesapeake Exploration whereas *Zehentbauer* seeks recovery under only a subset of those leases; (3) this



action seeks recovery from Chesapeake Energy whereas *Zehentbauer* does not; and (4) this action seeks recovery for claims that *Zehentbauer* does not, including claims that the royalties were calculated on the incorrect amount of the product, that the costs deducted were not deductible because the lessee did not own the product when the costs were incurred and that no royalties were paid on the proceeds of derivative contracts

180. A class action is superior to other available methods for the fair and efficient adjudication of the claims asserted because there are thousands of Class Members and individual discovery and litigation of the common issues by each lessor would be a needless waste of judicial resources. The interest of Class Members in individually controlling the prosecution of separate actions does not outweigh the benefits of a class action. It is desirable to concentrate the litigation of these claims in one forum. Any difficulties in managing this case as a class action are outweighed by the benefits a class action in disposing of common issues of law and fact.

181. The prosecution of separate actions by each lessor would create a risk of inconsistent or varying adjudications that would establish incompatible standards of conduct for the Defendants, could be dispositive of interests of persons not parties to the individual actions, and could substantially impair or impede the ability of those persons to protect their interests. Further, Defendants acted, or refused to act, on grounds generally applicable to all Class Members.

182. A class action is superior to all other methods for the fair and efficient adjudication of the claims in this case. The class is readily definable and the prosecution of a class action would eliminate the possibility of repetitious litigation and provide redress for persons unable to bring their claims individually. Maintenance of separate actions would place a substantial and unnecessary burden on the courts and could result in inconsistent adjudications. In contrast, a class action would determine the rights of all Class Members with judicial economy.

## **COUNT I**

### **VIOLATIONS OF THE OHIO CORRUPT PRACTICES ACT**

183. Plaintiffs re-allege and incorporate by reference paragraphs 1-182 of this Complaint.

184. Section 2923.34(E) of the Corrupt Practices Act, R.C. § 2923.31, et seq. (the “Act”), provides that “any person directly or indirectly injured by conduct in violation of section 2923.32” of the Act shall have “a cause of action for triple the actual damages the person sustained,” and that recoverable damages “may include, but are not limited to, competitive injury and injury distinct from the injury inflicted by corrupt activity.”

185. Section 2923.34 (B)(2) provides for injunctive relief by allowing the Court to “impose reasonable restrictions upon future activities ... including ... restrictions that prohibit the defendant from engaging in the same type of endeavor” found to be unlawful.

186. Section 2923.32 of the Act provides that “[n]o person employed by, or associated with, any enterprise shall conduct or participate in, directly or indirectly, the affairs of the enterprise through a pattern of corrupt activity....”

187. Section 2923.31(C) of the Act defines “[e]nterprise” as “any individual, sole proprietorship, partnership, limited partnership, corporation, trust, union, governmental agency, or other legal entity, or any organization, association, or group of persons associated in fact, although not a legal entity.” Section 2923.31(C) provides further that “[e]nterprise’ includes illicit as well as licit enterprises.”

188. Section 2923.31(E) of the Act provides that “[p]attern of corrupt activity” as “two or more incidents of corrupt activity, whether or not there has been a prior conviction, that are related to the affairs of the same enterprise, are not isolated, and are not so closely related to each other in time and place that they constitute a single event.”

189. Section 2923.31(I) defines “[c]orrupt activity” as “engaging in, attempting to engage in, conspiring to engage in, or soliciting, coercing, or intimidating another person to engage in” certain acts specified in Section 2923.31(I) of the Act. Under Section 2923.31(I)(1) of the Act, acts constituting “corrupt activity” include “[c]onduct defined as ‘racketeering activity’ under the ‘Organized Crime Control Act of 1970,’ 84 Stat. 941, 18 U.S.C. 1961(1)(B), (1)(C), 1(D), and 1(E), as amended.”

190. Conduct defined as “racketeering activity” under 18 § U.S.C. 1961(1)(B) includes acts that are indictable under 18 U.S.C. § 1341 (mail fraud), which prohibits the use of the U.S. mail or any interstate carrier to execute, or attempt to execute, “any scheme or artifice to defraud, or for obtaining money by means of false or fraudulent pretenses, representations, or promises,” and acts that are indictable under 18 U.S.C. § 1343 (wire fraud), which prohibits the use of interstate wire communications to execute, or attempt to execute, “any scheme or artifice to defraud, or for obtaining money by means of false or fraudulent pretenses, representations, or promises.”

191. Under Section 2923.31(I)(2)(a) of the Act, acts constituting “corrupt activity” include violations of R.C. § 2913.05, “Telecommunications Fraud,” which provides, in pertinent part, that “[n]o person, having devised a scheme to defraud, shall knowingly disseminate, transmit, or cause to be disseminated or transmitted by means of a wire, radio, satellite, telecommunication, telecommunications device, or telecommunications service any writing, data, sign, signal, picture, sound, or image with the purpose to execute or otherwise further the scheme to defraud.”

192. Under Section 2923.31(I)(2)(c) of the Act, acts constituting “corrupt activity” include a violation of R.C. § 2913.02, “Theft,” which provides that “[n]o person, with the purpose to deprive the owner of property or services, shall knowingly obtain or exert control over either

the property or services...without the consent of the owner or person authorized to give consent ... [or] ...[b]y deception;....,” and provides further that the theft of property having a value in excess of \$1,000 is a felony.

193. Section 2923.34 of the Act provides that a plaintiff who prevails in a civil action under the Act “shall recover reasonable attorney fees in the trial and appellate courts.”

194. Section 2923.34 (J) of the Act provides that “a civil proceeding or action under this section may be commenced at any time within five years after the unlawful conduct terminates or the cause of action accrues.”

195. Plaintiffs and the Class Members have standing to bring a civil action against Defendants under Section 2923.34(E) of the Act because Plaintiffs and the other Class members are persons who were “directly or indirectly injured” by Defendants’ violations of Section 2923.32 of the Act.

196. Both Defendants is a “person” within the meaning of Section 2923.32 of the Act.

197. Each Defendant is an “enterprise” within the meaning of 2923.31(C) of the Act.

198. Defendants collectively are an “enterprise” within the meaning of 2923.31(C) of the Act.

199. Each Defendant was “employed by” or “associated with” the “enterprise” and each Defendant “conduct[ed] or participate[d] in, directly or indirectly, the affairs of the enterprise through a pattern of corrupt activity” in violation of Section 2923.32 of the Act.

200. Defendants’ “pattern of corrupt activity” consisted of multiple predicate acts perpetrated by them singly and in concert from August of 2010 to the present. These acts included conspiracy, wire fraud, mail fraud, theft and theft by deception, as more fully set forth in this Count.

201. In devising and implementing this fraudulent scheme, Defendants defrauded Plaintiffs and the other Class Members of royalties due them on natural gas, NGLs and oil in the ways detailed in this Complaint and, in so doing, repeatedly and continuously violated the Ohio RICO statute.

202. Defendants' violations of the Ohio RICO statute were deliberate, willful, knowing, and premeditated.

203. In devising and implementing their scheme to defraud the Plaintiffs and other Class members of the royalties due them, Defendants communicated with one another and with other affiliated companies using the telephone wires, the United States mail, electronic email, shared electronic communications and databases.

204. Defendants conspired to mail, and did mail, royalty checks to the Plaintiffs using the United States mail, with full knowledge that the dollar amounts on the checks were fraudulent and that the accounting on the check stub was fraudulent.

205. Defendants' violations of the Act proximately caused damages to the Plaintiffs and the Class Members because those acts caused Plaintiffs and the other Class members to receive less oil and gas royalties than the oil and gas royalties due them.

WHEREFORE the Plaintiffs and the Class Members, demand a trial by jury, judgment of joint and several liability against the Defendants, compensatory damages in an amount to be proven at trial, trebling of the compensatory damages, pre-judgment and post-judgment interest, attorneys fees, and an injunction enjoining Defendants from continuing the fraudulent acts described in this Complaint or resuming such fraudulent acts in the future.

**COUNT II**  
**CONVERSION**

206. Plaintiffs re-allege and incorporate by reference paragraphs 1-205 of this Complaint.

207. Natural gas, natural gas liquids and oil were produced under most of the leases subject to this action.

208. Each Plaintiff and other Class Member is or was entitled to gas royalty payments under one or more of the leases subject to this action.

209. Defendants received and held the proceeds of the sale of the gas, natural gas liquids and oil on which Plaintiffs and the other Class Members had a royalty interest.

210. Defendants calculated the amount of the royalties to be paid Plaintiffs and the other Class Members.

211. Defendants prepared the royalty checks issued to the Plaintiffs and the other Class Members.

212. Defendants prepared the royalty statements issued to the Plaintiffs and the other Class Members.

213. Defendants issued the royalty checks and royalty statements to Plaintiffs and other Class Members.

214. Defendants underpaid the royalties on natural gas by fraudulently (1) paying the royalties on less than the volume of gas sold; (2) paying the royalties on less than the revenues realized from the sale of the gas; (3) deducting costs incurred after Chesapeake Exploration no longer held title to the gas; (4) deducting gathering costs that were inflated through collusion and self-dealing with Access Midstream Partners, L.P.; (5) deducting transportation costs that were

fraudulent in their amounts; (6) deducting fuel costs that were fraudulent in their amounts; (7) deducting marketing fees that were never incurred; and (8) deducting NGL costs from the gas royalties.

215. Defendants converted the NGL royalties owned by Plaintiffs and the other Class Members by (1) paying a royalty on less than the full amount of NGLs sold; (2) likely calculating the royalties using a price per gallon than was less than the price paid by the buyer; and (3) deducting inflated costs that exceeded the NGL royalties, thereby paying no NGL royalties.

216. Defendants converted oil royalties owned by Plaintiffs and the other Class Members by (1) paying a royalty on less than the full amount of oil sold; (2) calculating the royalties using a price that was less than the price paid by the buyer; (3) deducting costs incurred after Chesapeake Exploration no longer held title to the oil; and (4) deducting NGL costs.

217. Defendants' conversion of the royalties was deliberate, willful, intentional and with actual malice, entitling Plaintiffs and the other Class Members to punitive damages.

218. Defendants' acts of conversion proximately caused damages to the Plaintiffs and the other Class Members because the acts of conversion caused Plaintiffs and the other Class Members to receive less royalties on gas, natural gas liquids than the royalties due them.

WHEREFORE the Plaintiffs and the other Class Members seek compensatory and punitive damages in an amount to be proven at trial, pre-judgment and post-judgment interest, attorneys' fees, the costs of this action and any further relief deemed appropriate by the Court.

### **COUNT III**

#### **INJUNCTIVE RELIEF**

219. Plaintiffs re-allege and incorporate by reference paragraphs 1-218 of this Complaint.

220. Absent appropriate orders of this Court, Defendants will continue the violations of the Ohio RICO Act and acts of conversion alleged in this Complaint, causing continuing harm to Plaintiffs and the other Class Members.

221. Plaintiffs and the other Class Members have been damaged or are threatened with damage by the violations of the Ohio RICO Act and acts of conversion alleged in this Complaint.

222. Defendants have acted, and will continue to act, in ways that adversely affect all Class Members, thereby making appropriate preliminary and permanent injunctive relief.

223. All Class Members will sustain irreparable harm if the injunctive relief requested is not ordered.

224. The balance of equities favors granting the injunction because Plaintiffs and the other Class Members have been damaged by Defendants' violation of the Ohio RICO Act and acts of conversion and will continue to be damaged absent injunctive relief.

WHEREFORE Plaintiffs and the other Class Members request a preliminary and permanent injunction enjoining Defendants from violating the Ohio RICO Act and engaging in the acts of conversion alleged in this Complaint.

#### **PRAYER FOR RELIEF**

WHEREFORE Plaintiffs, on behalf of themselves and all other Class Members, respectfully request that the Court:

1. Enter an Order pursuant to Fed.R.Civ.P. 23 certifying the Plaintiff Class, appointing Plaintiffs as Class Representatives, and appointing undersigned counsel as Class Counsel;

2. Enter judgment in favor of Plaintiffs and the other Class Members and against Defendants for violations of the Ohio Corrupt Practices Act, treble damages, the costs of this action, pre-judgment interest, post-judgment interest and injunctive relief;



3. Enter judgment in favor of Plaintiffs and the other Class Members and against Defendants for conversion, compensatory and punitive damages, pre-judgment and post-judgment interest, attorneys' fees and the costs of this action; and

4. Enter a preliminary and permanent injunction enjoining Defendants from continuing their violations of the Ohio RICO Act and the acts of conversion and from resuming those violations and acts of conversion in the future.

#### **DEMAND FOR TRIAL BY JURY**

Pursuant to Rule 38(b) of the Federal Rules of Civil Procedure, Plaintiffs, on behalf of themselves and the other Class Members, demand a trial by jury as to all issues and claims triable to a jury.

Respectfully submitted,

/s/ James A. Lowe

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