

**IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF OKLAHOMA**

CURTIS L. CRANDALL and JANET
K. CRANDALL, on behalf of
themselves and all others similarly
situated,

Plaintiffs,

v.

CHESAPEAKE ENERGY
CORPORATION, CHESAPEAKE
EXPLORATION, L.L.C., as successor
by merger to CHESAPEAKE
EXPLORATION, L.P., SANDRIDGE
ENERGY, INC., AND TOM L.
WARD,

Defendants.

Case No. CIV-16-0306-HE

COMPLAINT— CLASS ACTION

DEMAND FOR JURY TRIAL

CLASS ACTION COMPLAINT

1. Plaintiffs, by and through their undersigned counsel, bring this action against Defendants to recover treble damages for their conspiracy to rig bids, fix prices and depress the market for purchases of oil and natural gas leasehold and working interests in violation of Section 1 of the Sherman Act, 15 U.S.C. § 1 *et seq.*

2. The allegations set forth herein are based on documents and information in Plaintiffs' possession, and upon information and belief developed through investigation by its counsel that included a review of publicly available documents, including a recent criminal indictment brought against Aubrey K.

McClendon, the former Chairman and Chief Executive Officer of Defendant Chesapeake Energy Corporation, for violations of Section 1 of the Sherman Act. *See United States v. Aubrey K. McClendon*, Docket Entry No. 1, No. 16-cr-043 (W.D. Okla. March 1, 2016).¹

3. Chesapeake released the following statement after the indictment of its former Chairman and CEO was handed down:

Chesapeake has been actively cooperating for some time with a criminal antitrust investigation by the Department of Justice regarding past land leasing practices and has received conditional leniency under the Antitrust Division's Leniency Program. Chesapeake does not expect to face criminal prosecution or fines relating to this matter.²

4. As set forth below, Chesapeake's receipt of conditional leniency from the DOJ's Antitrust Division is significant because it means that Chesapeake has admitted to being engaged in a criminal antitrust conspiracy and is therefore an admitted felon and co-conspirator.

THE PARTIES

5. Plaintiffs Curtis L. Crandall and Janet K. Crandall are residents of the State of Kansas that entered into an oil and gas lease directly with Defendant

¹ The indictment was withdrawn following the death of Mr. McClendon in an automobile accident on March 2, 2016.

² *See* Former CEO of Chesapeake indicted on conspiracy charges, *available at* kfor.com/2016/03/01/former-ceo-of-chesapeake-indicted-on-conspiracy-charges/ (last visited March 24, 2016).

Chesapeake Exploration L.L.C. during the Class Period relating to land located in Rice County, Kansas and suffered damages from the conspiracy alleged herein.

6. Defendant Chesapeake Energy Corporation is a publicly traded corporation organized, existing and doing business under and by virtue of the laws of Oklahoma, with its principal place of business located at 6100 N. Western Avenue, Oklahoma City, Oklahoma. Chesapeake Energy Corp. and its subsidiaries are the second-largest producer of natural gas and the eleventh largest producer of oil and natural gas liquids (NGL) in the United States.

7. Defendant Chesapeake Exploration L.L.C. is a limited liability company organized, existing and doing business under and by virtue of the laws of the State of Oklahoma, with its principal place of business located at 6100 N. Western Avenue, Oklahoma City, Oklahoma. Upon information and belief, Defendant Chesapeake Exploration L.L.C. is a successor by merger to Chesapeake Exploration, L.P. and is a wholly owned subsidiary of Defendant Chesapeake Energy Corp.

8. Defendant Chesapeake Operating L.L.C. is a limited liability company organized, existing and doing business under and by virtue of the laws of the State of Oklahoma, with its principal place of business located at 6100 N. Western Avenue, Oklahoma City, Oklahoma. Defendant Chesapeake Operating L.L.C. was formerly known as and is the successor of Chesapeake Operating, Inc.

Upon information and belief, Defendant Chesapeake Operating L.L.C. is a wholly owned subsidiary of Defendant Chesapeake Energy Corp. and acts as an agent for Defendant Chesapeake Exploration L.L.C.

9. Defendants Chesapeake Energy Corp., Chesapeake Exploration L.L.C., and Chesapeake Operating L.L.C. are collectively referred to herein as “Chesapeake.”

10. Defendant Sandridge Energy Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the State of Delaware, with its principal place of business located at 123 Robert S. Kerr Avenue, Oklahoma City, Oklahoma.

11. Defendant Tom L. Ward is the former CEO of Defendant Sandridge Energy, Inc.

JURISDICTION AND VENUE

12. This Court has jurisdiction over the subject matter of this action pursuant to Sections 4 and 16 of the Clayton Act, 15 U.S.C. §§ 15 and 26, and 28 U.S.C. §§ 1331 and 1337.

13. The claims asserted herein arise under Section 1 of the Sherman Act, 15 U.S.C. § 1 and Sections 4 and 16 of the Clayton Act, 15 U.S.C. §§ 15 and 26.

14. Venue is proper within this District pursuant to Sections 4, 12, and 16 of the Clayton Act, 15 U.S.C. §§ 15, 22, and 26, and 28 U.S.C. § 1391(b), (c), and

(d). With their corporate headquarters and offices in Oklahoma City, Defendants resided, transacted business, were found, or had agents in this District. Moreover, because numerous class members located in this District were injured by Defendants' illegal conduct, a substantial portion of the affected interstate trade and commerce described herein has been carried out in this District.

CLASS ACTION ALLEGATIONS

15. Plaintiffs bring this action as a class action under Rule 23(a) and 23(b)(3) of the Federal Rules of Civil Procedure, on behalf of themselves and all others similarly situated (the "Class"):

All persons and entities who, at any time between December 27, 2007 and April 1, 2013 (the "Class Period"), sold to one or more Defendants (a) oil and gas leasehold interests and/or (b) producing properties or interests, relating to land located in the Anadarko Basin Region.

16. Excluded from the proposed Class are Defendants, any entity in which Defendants have a controlling interest, and Defendants' legal representatives, predecessors, successors, assigns, directors, agents and employees.

17. The Anadarko Basin Region is located within the following counties:

Oklahoma: Alfalfa, Atoka, Beckham, Blaine, Caddo, Canadian, Carter, Coal, Cotton, Creek, Dewey, Ellis, Garfield, Garvin, Grady, Grant, Greer, Harmon, Harper, Hughes, Jackson, Jefferson, Kay, Kingfisher, Kiowa, Lincoln, Logan, Major, McClain, McIntosh, Noble, Osage, Pawnee, Payne, Pittsburg, Roger Mills, Stephens, Tulsa, Washington, Washita, Woods, and Woodward.

Kansas: Barber, Bullock, Clark, Coffey, Comanche, Cowley, Dickinson, Edwards, Elk, Finney, Ford, Gove, Grant, Gray, Greenwood, Harper, Harvey, Haskell, Hodgeman, Kearny, Kingman, Kiowa, Lane, Logan, Lyon, Marion, McPherson, Meade, Montgomery, Ness, Pawnee, Pratt, Reno, Rice, Rush, Saline, Scott, Sedgwick, Seward, Sheridan, Sherman, Stafford, Stevens, Sumner, Thomas, Trego, Wallace, Wilson, Wichita, and Woodson.

Texas: Sherman, Hansford, Ochiltree, Lipscomb, Moore, Hutchinson, Roberts, Hemphill, Potter, Carson, Gray, Wheeler, Donley, and Collingsworth.

Colorado: Las Animas and Baca.

18. Plaintiffs believe that the Class numbers in the hundreds or thousands and therefore the Class is so numerous and geographically dispersed that joinder of all members is impracticable.

19. Plaintiffs' claims are typical of the claims of the other members of the Class. Plaintiffs and the members of the Class sustained damages arising out of Defendants' common course of conduct in violation of law as alleged herein. The injuries and damages of each member of the Class were directly caused by Defendants' wrongful conduct.

20. Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class action and antitrust litigation.

21. Common questions of law and fact exist as to all members of the Class, and predominate over any questions affecting solely individual members of

the Class. These common questions include, but are not limited to: (i) whether Defendants conspired to unreasonably restrain trade in violation of Section 1 of the Sherman Act by engaging in a combination or conspiracy to rig bids and/or allocate the market for the purchase of leasehold interests and working properties in the Anadarko Basin Region; (ii) whether Defendants' conduct had an anticompetitive and manipulative effect during the Class Period; (iii) whether Defendants' conduct resulted in damages to Plaintiffs and Class Members during the Class Period; (iv) the appropriate measure of damages for the injury sustained by Plaintiffs and the other members of the Class; and (v) whether injunctive relief is appropriate.

22. A class action is superior to other available methods for the fair and efficient adjudication of this controversy. The prosecution of separate actions by individual members of the Class would impose heavy burdens upon the courts and Defendants, and would create a risk of inconsistent adjudications of questions of law and fact common to the Class. A class action would achieve substantial economies of time, effort, and expense, and will ensure uniformity of decisions as to persons similarly situated. Plaintiffs do not anticipate any difficulty in the management of this action as a class action.

FACTUAL ALLEGATIONS

A. Background.

23. Defendants Chesapeake and Sandridge are competitors in the business of oil and gas exploration and production, and therefore frequently compete to purchase leasehold and working interests on producing properties in the Anadarko Basin Region.

24. A leasehold interest grants a lessee the right to develop the land and to explore for and extract oil and natural gas for a defined period of time. Typical oil and gas leases span three to five years.

25. If a lessee like Defendants Chesapeake and Sandridge drills on the land during the time period of the lease, the lease is considered “held by production” for as long thereafter as oil or gas is produced from the leasehold in “paying quantities.”

26. Once a leased property begins producing oil or gas, it is known as a “producing” property. A lessee like Defendants may sell its interest in the producing property to another oil and gas company. Such sales typically include both the underlying leasehold interests and the well(s) and other infrastructure related to the leasehold.

27. The Andarko Basin Region as defined herein contains one of the largest natural gas reserves in North America and, during the Class Period, it was

producing the largest amount of natural gas in the United States. In light of its prolific hydrocarbon reserves and producing fields, the Anadarko Basin Region was the focus of intense competition by oil and gas exploration companies like Defendants.

28. This intense competition and a mad rush for the Anadarko “land play” resulted in higher prices for leasehold and producing property or “working” interests paid to Plaintiffs and members of the Class.

29. As set forth below, Defendants understood this dynamic and, rather than competing fairly for leases and producing properties and paying the prices set by market forces, Defendants engaged in a conspiracy to reduce the prices they paid Plaintiffs and members of the Class.

B. The Department of Justice’s Antitrust Investigation.

1. Defendant Chesapeake Has Admitted to Engaging in a Criminal Antitrust Conspiracy.

30. As noted above, Defendant Chesapeake has publicly admitted that it has received conditional leniency from the Department of Justice’s Antitrust Division with regard to its investigation of the conspiracy alleged herein. The significance of obtaining conditional leniency was explained by Scott D. Hammond, Deputy Assistant Attorney General for Criminal Enforcement, in a document titled “Frequently Asked Questions Regarding the Antitrust Division’s

Leniency Program and Model Leniency Letters (November 19, 2008)” that is available on the DOJ’s website³:

5. Does a leniency applicant have to admit to a criminal violation of the antitrust laws before receiving a leniency letter?

Yes. The Division’s leniency policies were established for corporations and individuals “reporting their illegal antitrust activity,” and the policies protect leniency recipients from criminal conviction. Thus, **the applicant must admit its participation in a criminal antitrust violation involving price fixing, bid rigging, capacity restriction, or allocation of markets, customers, or sales or production volumes before it will receive a conditional leniency letter.** Applicants that have not engaged in criminal violations of the antitrust laws have no need to receive leniency protection from a criminal violation and will receive no benefit from the leniency program.

...before it is provided with a conditional leniency letter, it should be in a position to admit to its participation in a criminal violation of the Sherman Act. The Division may also insist on interviews with key executives of the applicant who were involved in the violation before issuing the conditional leniency letter. A company that argues that an agreement to fix prices...might be inferred from its conduct but that cannot produce any employees who will admit that the company entered into such an agreement generally has not made a sufficient admission of criminal antitrust violation to be eligible for leniency. **A company that, for whatever reason, is not able or willing to admit to its participation in a criminal antitrust conspiracy is not eligible for leniency.**

(emphasis added).

31. Accordingly, Defendant Chesapeake’s statement that it has received “leniency under the antitrust division’s Leniency Program” and that it “does not

³ See <https://www.justice.gov/atr/file/810001/download> (last visited March 28, 2016) (emphasis added).

expect to face criminal prosecution or fines relating to this matter” means that Chesapeake has admitted to participating in a criminal antitrust conspiracy.⁴

2. The Indictment of Chesapeake’s former Chairman and CEO, Aubrey McClendon.

32. Chesapeake’s statement regarding its cooperation with the DOJ and its acceptance into the Leniency Program came on March 1, 2016, the same day that a grand jury indicted Chesapeake’s former Chairman and CEO, Aubrey K. McClendon, for allegedly engaging in an unreasonable restraint of trade in violation of Section 1 of the Sherman Act.

33. The indictment alleges that Aubrey McClendon and his co-conspirators “knowingly entered into and engaged in a combination and conspiracy to suppress and eliminate competition by rigging bids for certain leasehold interests and producing properties.”

34. The indictment further alleges that the the “substantial terms” of the conspiracy “were to suppress the prices...paid to acquire certain leasehold interests and producing properties...by eliminating competition between Company A and Company B for the purchase of these leasehold interests.”

⁴ Defendant Chesapeake recently settled a similar antitrust lawsuit brought by the Michigan Attorney General for \$25 million. In that lawsuit, the Michigan Attorney General alleged that Chesapeake colluded with a competitor, Encana Corp., to suppress prices for oil and gas leases in Michigan.

35. The indictment states that the conspiracy began when Aubrey McClendon contacted Co-conspirator 1, who “was employed by Company B as its Chief Executive Officer and Chairman of the Board of Directors until at least March 2012.”⁵

36. The indictment alleges that McClendon “proposed eliminating the head-to-head competition between Company A and Company B for the purchase of certain leaseholds and producing properties in northwest Oklahoma by agreeing not to submit bids for these leaseholds and producing properties in order to keep prices down. The defendant, AUBREY K. MCCLENDON, and Co-conspirator 1 agreed that Company B would refrain from submitting bids for these leaseholds and producing properties in order to keep prices down and in exchange for Company B receiving a share of the leaseholds and producing properties purchased by Company A at Company A’s cost. The defendant...and his co-conspirators continued to rig bids for the purchase of additional leaseholds and producing properties in northwest Oklahoma in a similar manner....”

⁵ Upon information and belief, Defendant Tom L. Ward is Co-Conspirator 1. *See Sandridge Ex-CEO Ward Said to Be Alleged McClendon Conspirator, available at www.bloomberg.com/news/articles/2016-03-02/sandridge-said-to-be-unnamed-company-in-mcclendon-indictment (last visited March 28, 2016).* Ward served as CEO and Chairman of Defendant Sandridge until he was fired in June 2013. Moreover, Defendant Ward and McClendon co-founded Defendant Chesapeake together before Ward left Chesapeake to found Defendant Sandridge in 2006. As described below, numerous factors indicate that Defendant Sandridge is Company B.

37. According to the indictment, Defendants effectuated the conspiracy by:

(a) engaging in communications concerning certain leasehold interests and producing properties, and the prices therefor, in the Western District of Oklahoma;

(b) agreeing during those communications that Company A and Company B would not compete for one another for certain leasehold interests and producing properties in the Western District of Oklahoma either by one company not submitting offers or bids to certain owners of leasehold interests and producing properties, or by one company withdrawing previously submitted offers or bids to certain owners of leasehold interests and producing properties in exchange for a share or a subset of the leasehold interests and/or producing properties purchased by the other company at the acquisition cost;

(c) submitting offers or bids, withholding offers or bids, or acting to withdraw previously submitted offers or bids, to owners of certain leasehold interests and producing properties in the Western District of Oklahoma in accordance with the agreement reached;

(d) acquiring certain leasehold interests and producing properties in the Western District of Oklahoma at collusive and noncompetitive prices and then providing the non-acquiring co-conspirator a share or a subset of the leasehold interests and/or producing properties at the acquiring co-conspirator's cost; and

(e) employing measures to keep their conduct secret, including, but not limited to, agreeing not to reveal their anticompetitive agreement to the owners of the leasehold interests and producing properties at issue in this Indictment, and instructing their subordinates to do the same.

3. Defendant Sandridge Has Disclosed that it is a “Target” of a Federal Grand Jury Antitrust Investigation.

38. The indictment refers to Aubrey McClendon as being the CEO, President and a Director of “Company A.” Defendant Chesapeake is Company A.

39. The indictment alleges that Company A entered into a conspiracy with “Company B” which was “a corporation organized and existing under the laws of Delaware with its principal place of business in Oklahoma City, Oklahoma.”

40. Upon information and belief, Defendant Sandridge—which is a Delaware corporation located in Oklahoma City—is the Company B discussed in

the indictment and its former CEO, Defendant Tom L. Ward, is the Co-Conspirator 1 discussed in the indictment.

41. Although not identified in the indictment, Defendant Sandridge disclosed in its May 7, 2015 Form 10-Q quarterly report filed with the Securities and Exchange Commission that that it was a “target” of a criminal grand jury antitrust investigation pending in the Western District of Oklahoma:

As previously disclosed, on December 18, 2013 the Company received a subpoena duces tecum from the U.S. Department of Justice in connection **with an ongoing investigation of possible violations of antitrust laws in connection with the purchase or lease of land, oil or natural gas rights. The transactions that have been the subject of the inquiry date from 2012 and prior years. On April 7, 2015, the U.S. Department of Justice notified the Company that it is a target of a grand jury investigation in the Western District of Oklahoma concerning violations of federal antitrust law.** The Company is continuing to respond to the government’s requests in connection with the investigation. The Company is unable to predict the outcome of the government’s investigation, or any range of loss that could be associated with the resolution of any possible criminal charges or civil claims that may be brought against the Company; however, any governmental action or resolution thereof could be material to the Company. The Company is cooperating with the investigation. (emphasis added).

42. According to the *United States Attorneys’ Manual* (USAM): “A ‘target’ is a person as to whom the prosecutor or the grand jury has substantial evidence linking him or her to the commission of a crime and who, in the judgment of the prosecutor, is a putative defendant.” See Criminal Resource Manual at 9-11.151-Advice of “Rights” of Grand Jury Witnesses, *available at*

<https://www.justice.gov/usam/usam-9-11000-grand-jury#9-11.151> (last visited March 28, 2016).

43. With regard to the DOJ Antitrust Division, Policy 7-1.200 of the USAM titled “Notification to Targets” states, in relevant part:

The Antitrust Division follows the Department’s general practice of informing individuals, under certain circumstances, that they are targets of an investigation and advising them of the opportunity to appear voluntarily before the grand jury. No similar opportunity to appear before the grand jury extends to corporate entities. However, the United States Attorney ordinarily should advise counsel for the corporate entities if indictment is being contemplated.

44. Accordingly, the DOJ’s notification to Defendant Sandridge that it is a “target” of the grand jury antitrust investigation pending in this District means that Sandridge is under investigation for criminal violations of the federal antitrust laws and that the grand jury has “substantial evidence” linking it to the commission of a crime.

STATUTE OF LIMITATIONS

45. Plaintiffs incorporate by reference the allegations in each preceding and succeeding paragraph of this complaint as though fully set forth herein.

46. By its nature, the conspiracy alleged herein was self-concealing because Defendants conspired through secret activities, communications, and conduct to manipulate the prices paid to Plaintiffs and Members of the Class.

47. Defendants also engaged in affirmative acts of concealment as alleged in the McClendon indictment, including “instructing their subordinates” to keep the conspiracy secret and “not reveal their anticompetitive agreement to the owners of the leasehold interests and producing properties.”

48. Because of these active steps of concealment, including fraudulent concealment, Plaintiffs and the Class did not discover and could not have discovered through reasonable due diligence that they were injured by Defendants’ conspiracy during the Class Period.

49. Indeed, Plaintiffs had neither actual nor constructive knowledge of the facts constituting its claim for relief prior to March 1, 2016, the date on which the indictment of Aubrey McClendon and the unnamed co-conspirators became public.

**PLAINTIFFS AND THE CLASS SUFFERED ANTITRUST INJURY
AS A RESULT OF DEFENDANTS’ CONDUCT**

50. Defendants’ anticompetitive conduct had severe adverse consequences on competition in that Plaintiffs and other members of the Class received less consideration for their leasehold and producing property interests than they would have absent the conspiracy.

FIRST CLAIM FOR RELIEF

**VIOLATION OF SECTION 1 OF THE SHERMAN ACT (15 U.S.C. § 1)
AND SECTION 4 OF THE CLAYTON ACT (15 U.S.C. § 15)**

51. Plaintiffs incorporate by reference the preceding allegations.

52. Defendants and their unnamed co-conspirators entered into and engaged in a conspiracy in restraint of trade in violation of Section 1 of the Sherman Act, 15 U.S.C. § 1 and Section 4 of the Clayton Act, 15 U.S.C. § 15.

53. During the Class Period, Defendants engaged in an illegal conspiracy to rig bids, allocate the market and otherwise unlawfully depress the prices of leasehold interests and producing properties in violation of the federal antitrust laws.

54. The conspiracy consisted of a continuing agreement, understanding, or concerted action between and among Defendants, in furtherance of which Defendants fixed and depressed the prices of leasehold interests and producing properties in the Anadarko Basin Region. Defendants' conspiracy is a *per se* violation of the federal antitrust laws and is, in any event, an unreasonable and unlawful restraint of trade and commerce.

55. Defendants' conspiracy, and the resulting impact on competition, occurred in or affected interstate commerce.

56. As a direct and proximate result of Defendants' unlawful conduct, Plaintiffs and members of the Class have suffered injury to their businesses or property.

RELIEF SOUGHT

57. Plaintiffs demand the following relief:
- (a) That the Court determine that this action may be maintained as a class action under Rule 23(b)(3) of the Federal Rules of Civil Procedure; that Plaintiffs be appointed as class representative; and that Plaintiffs' counsel be appointed as counsel for the Class;
 - (b) That the unlawful conduct alleged herein be adjudged and decreed to be an unlawful restraint of trade in violation of Section 1 of the Sherman Act and Section 4 of the Clayton Act;
 - (c) That Defendants, their subsidiaries, affiliates, successors, transferees, assignees, and their respective officers, directors, partners, agents, and employees, and all other persons acting or claiming to act on their behalf, be permanently enjoined and restrained from continuing and maintaining the conspiracy alleged in this Complaint;
 - (d) That Plaintiffs and the Class recover damages as provided under federal antitrust laws set forth above, and that a joint and several judgment in favor of Plaintiffs and the Class be entered against Defendants in an amount to be trebled or otherwise enhanced in accordance with such laws;
 - (f) That Plaintiffs and the Class recover their costs of this suit, including attorneys' fees, as provided by law; and
 - (g) That the Court direct such further relief it may deem just and proper.

DEMAND FOR JURY TRIAL

58. Pursuant to Rule 38 of the Federal Rules of Civil Procedure, Plaintiffs demand a jury trial as to all issues triable by a jury.

Dated: April 1, 2016

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