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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

In the matter of:

Mid America Energy, Inc.,  
a Nevada Corporation  
129 Haven Street, Unit A  
Hendersonville, TN 37075  
  
Mid America Oil & Gas  
a Tennessee Limited Liability Company  
2023 Earl Pearce Cir.  
Mount Juliet, TN 37122-1328  
  
Gary M. Milby a/k/a  
Gary Moss Milby a/k/a  
Gary M. Milley  
And Jane Doe Milby,  
husband and wife  
129 Haven Street, Unit A  
Hendersonville, TN 37075  
  
Jim and Jane Doe Whatcott,  
husband and wife,  
129 Haven Street, Unit A  
Hendersonville, TN 37075  
  
John and Jane Doe Blitz,  
husband and wife,  
129 Haven Street, Unit A  
Hendersonville, TN 37075

Respondents.

Docket No. S.20442A-06-0110

**ANSWER TO TEMPORARY  
ORDER TO CEASE AND DESIST  
BY  
RESPONDENTS MID-AMERICA  
ENERGY, INC., MID-AMERICA  
OIL & GAS, LLC AND  
GARY MILBY**

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2006 APR 12 P 4: 37  
AZ CORP COMMISSION  
DOCUMENT CONTROL

Respondents Mid-American Energy, Inc. ("MAE"), Mid-American Oil & Gas, L.L.C. ("MOAG"), and Gary M. Milby ("Milby") respond to the allegations of the Temporary Order to Cease and Desist (the "Order") as follows:

1           1.       In response to paragraph 1 of the Order, Respondents admit that the  
2 Arizona Corporation Commission (“ACC”) has subject matter jurisdiction over the claims  
3 in the Order. Milby denies that the ACC has personal jurisdiction over him and objects to  
4 the assertion of personal jurisdiction over him. Milby specifically preserves his objection  
5 to the assertion of personal jurisdiction over him and does not waive his objection to the  
6 assertion of personal jurisdiction by the filing of this answer.

7           2.       In response to paragraph 2 of the Order, Respondents admit the allegations  
8 set forth therein.

9           3.       In response to paragraph 3 of the Order, Respondents aver that MOAG is a  
10 Kentucky limited liability company with its principal place of business at 493 Pleasant  
11 Run Church Road, Campbellsville, Kentucky 42718.

12          4.       In response to paragraph 4 of the Order, Respondents deny that they  
13 currently run a website at [www.mid-americaoilandgas.com](http://www.mid-americaoilandgas.com). Respondents admit that  
14 MOAG previously ran a website at that web address.

15          5.       In response to paragraph 5 of the Order, Respondents admit that MAE is a  
16 company engaged in development drilling in several locations in Kentucky and that the  
17 above website contained information relating to drilling locations in Kentucky and  
18 ownership interests in wells. Respondents do not possess sufficient information or  
19 knowledge to admit or deny the remaining allegations of paragraph 5.

20          6.       In response to paragraph 6 of the Order, Respondents admit that Milby is an  
21 individual and that his business address is 129 Haven Street, Unit A, Hendersonville,  
22 Tennessee 37075.

23          7.       In response to paragraph 7 of the Order, Respondents admit that Milby is  
24 President of MAE and President and owner of MAOG.

25          8.       In response to paragraph 8 of the Order, Respondents deny the allegations  
26 set forth therein.

1           9.     In response to paragraph 9 of the Order, Respondents deny the allegations  
2 set forth therein.

3           10.    In response to paragraph 10 of the Order, Respondents admit that Jim  
4 Whatcott's ("Whatcott") address is 222 Basin Creek Road, Durango, Colorado 81303-  
5 3647. Respondents deny the remaining allegations of paragraph 10.

6           11.    In response to paragraph 11 of the Order, Respondents admit that Whatcott  
7 is married.

8           12.    In response to paragraph 12 of the Order, Respondents do not possess  
9 sufficient knowledge or information to admit or deny that Whatcott's activities with  
10 respect to MAE and MOAG were for the benefit of his marital community. Respondents  
11 deny the remaining allegations of paragraph 12.

12          13.    In response to paragraph 13 of the Order, Respondents admit that John Blitz  
13 ("Blitz") is an individual. Respondents deny the remaining allegations of paragraph 13.

14          14.    In response to paragraph 14 of the Order, Respondents admit that Blitz is  
15 married.

16          15.    In response to paragraph 15 of the Order, Respondents admit that the Order  
17 uses the references set forth therein.

18          16.    In response to paragraph 16 of the Order, Respondents admit that MAE has  
19 offered for sale limited partnership interests in limited partnerships in oil and gas  
20 opportunities.

21          17.    In response to paragraph 17 of the Order, Respondents admit that Whatcott  
22 placed an advertisement in the Arizona Republic beginning in late November.  
23 Respondents lack sufficient knowledge or information as to the whether the  
24 advertisement contained the quoted language set forth in paragraph 17. Respondents lack  
25 sufficient knowledge or information to form a reasonable belief with respect to the dates  
26

1 on which, or number of times that, the advertisement ran. Respondents deny that they are  
2 currently soliciting Arizona investors through newspaper advertisements.

3 18. In response to paragraph 18 of the Order, Respondents admit that Fort Knox  
4 #15 is an oil program for the drilling and completion of 3 oil wells in Adair County,  
5 Kentucky. Respondents admit that Whatcott spoke with at least one potential investor in  
6 Arizona about Fort Knox #15 and explained that there were limited partnership  
7 investments available for that investment opportunity. Respondents admit that Whatcott  
8 referred the potential investor to [www.mid-americaoilandgas.com](http://www.mid-americaoilandgas.com) and arranged to mail  
9 the potential investor materials relating to Fort Knox #15. Respondents deny the  
10 remaining allegations of paragraph 18.

11 19. In response to paragraph 19 of the Order, Respondents admit that Whatcott  
12 explained that each investor in Fort Knox #15 would have an interest in all three wells  
13 that would be drilled, which would increase the likelihood that each investor would  
14 realize a good return. Respondents admit that Whatcott said that a \$37,000 investment  
15 would provide an investor with a 2% net revenue interest in the 3 oil wells. Respondents  
16 deny the remaining allegations of paragraph 19.

17 20. In response to paragraph 20 of the Order, Respondents admit that Whatcott  
18 informed a potential investor in Arizona that similar investments in similar oil wells were  
19 seeing a return in the range of \$3,000 to \$6,000 per month on a single investment.  
20 Respondents aver that Whatcott informed the potential investor in Arizona that it  
21 generally takes 60 to 90 days to commence drilling on the wells although factors can  
22 change that time period. Respondents deny the remaining allegations of paragraph 20.

23 21. In response to paragraph 21 of the Order, Respondents admit that Whatcott  
24 explained that the investment would be in developmental drilling and that the drilling  
25 would be done near to existing producing wells that were drilling in existing oil and gas  
26 reserves. Respondents admit that Whatcott stated that there were 90 wells currently up

1 and running and that MAE intended to sell a total of approximately 200 programs (or 600  
2 wells) on this particular property. Respondents deny the remaining allegations of  
3 paragraph 21.

4 22. In response to paragraph 22 of the Order, Respondents admit that MAE has  
5 a brochure that references MAE, MAOG, and Milby and that the brochure was sent to at  
6 least one potential investor in Arizona. Respondents admit that the brochure explains  
7 MAE's "guarantee" that "should any of the three wells come up dry, a new one will be  
8 drilled at company expense" and that Whatcott explained this "guarantee" to at least one  
9 potential investor in Arizona. Respondents deny the remaining allegations of paragraph  
10 22.

11 23. In response to paragraph 23 of the Order, Respondents admit that the  
12 Private Placement Memorandum for Fort Knox #15 ("PPM") states that the partnership is  
13 offering a total of twenty five units of general partner interest for a subscription price of  
14 \$37,000 each for a total offering price of \$925,000. Respondents admit that the money  
15 for Fort Knox #15 was to be raised from a number of different individual investments.  
16 Respondents admit that the PPM states that the unit holders for the partnership "will  
17 acquire a fifty percent {50.0%} Net Revenue Interest representing sixty one point five  
18 three eight five percent {61.5385%} of the Working Interest in the three [3] New Wells."

19 24. In response to paragraph 24 of the Order, Respondents admit that the PPM  
20 states that Fort Knox Oil #15, LLP is a Tennessee Limited Liability Partnership.  
21 However, Respondents affirmatively state that, at page 1 of the Summary, the PPM  
22 discloses that Fort Knox Oil #15, LLP "is a Limited Liability Partnership to be organized  
23 under the laws of the State of Tennessee." Respondents deny the remaining allegations of  
24 paragraph 24.

1           25.    In response to paragraph 25 of the Order, Respondents admit that Fort Knox  
2 Oil #15 was to be formed to drill and, if successful, to complete and to operate three New  
3 Wells. Respondents deny the remaining allegations of paragraph 25.

4           26.    In response to paragraph 26 of the Order, Respondents deny the allegations  
5 set forth therein.

6           27.    In response to paragraph 27 of the Order, Respondents admit that a letter  
7 from Milby that is included in an information packet about Fort Knox Oil #15 states "I  
8 encourage you to visit the field operations." Respondents admit that the limited partners  
9 do not participate in the management of the company. Respondents deny that the quoted  
10 language in paragraph 27 of the Order accurately states the language of the PPM in that  
11 the quote omits certain words within the text. Respondents deny the remaining  
12 allegations of paragraph 27.

13           28.    In response to paragraph 28 of the Order, Respondents admit that the PPM  
14 identifies MAE as the Managing Partner and Program Manager of Fort Knox #15.  
15 Respondents lack sufficient knowledge or information to form a reasonable belief as to  
16 the truth of the remaining allegations of paragraph 28 and, therefore, deny the same.

17           29.    In response to paragraph 29 of the Order, Respondents admit that MAOG  
18 had a website online on January 30, 2006. Respondents deny the remaining allegations of  
19 paragraph 29.

20           30.    In response to paragraph 30 of the Order, Respondents do not possess  
21 sufficient knowledge or information to be able to respond as to whether the quoted  
22 language appeared on the website on any given date.

23           31.    In response to paragraph 31 of the Order, Respondents do not possess  
24 sufficient knowledge or information to be able to respond as to whether the quoted  
25 language appeared on the website on any given date. Respondents admit that, on or about  
26

1 January 30, 2006, the website permitted users to send contact information to the company  
2 in order to receive information regarding then-current oil and drilling projects.

3 32. In response to paragraph 32 of the Order, Respondents admit that the  
4 website had a link button for "current opportunities," that the "current opportunities"  
5 button linked to a page that identified several different oil and drilling projects, that, at  
6 one point in time, the web page listed Big Creek Oil #1, LLP; Black Gold Oil #1, LLP;  
7 Black Gold Oil #2, LLP; Black Gold Oil #3, LLP; Black Gold Oil #4, LLP; Black Gold  
8 Oil #5, LLP; and Black Gold Oil #6, LLP; that the website included details on those  
9 projects, and that the website indicated that there was an investment opportunity open in  
10 Black Gold Oil #6, LLP on or about January 4, 2006.

11 33. In response to paragraph 33 of the Order, Respondents admit that Milby's  
12 "Expanded Professional History" states that he is the President and owner of MOAG, that  
13 MOAG was a registered Operator with the Railroad Commission of Texas, that MOAG  
14 has drilled or participated in the drilling of more than 100 wells and experienced  
15 significant growth, and contains the quoted language set forth in paragraph 33.  
16 Respondents admit that MOAG is currently inactive with the Railroad Commission of  
17 Texas.

18 34. In response to paragraph 34 of the Order, Respondents admit that Milby  
19 filed for Chapter 7 bankruptcy on November 5, 2003 and received a discharge by the  
20 bankruptcy court on March 17, 2004. Respondents deny the remaining allegations of  
21 paragraph 34.

22 35. In response to paragraph 35 of the Order, Respondents admit that Blitz  
23 arranged through an advertising agency for the placement of ads, which resulted in an ad  
24 running in the Arizona Republic in early February 2006. Respondents lack sufficient  
25 knowledge or information to form a reasonable belief as to the truth of the remaining  
26 allegations of paragraph 35 and, therefore, deny the same.

1           36.    In response to paragraph 36 of the Order, Respondents admit that Blitz  
2 returned a call from a potential investor in Arizona who had responded to an  
3 advertisement and that Blitz indicated that MAE was operated by Milby and provided to  
4 investors a 2% net revenue interest in three oil wells for \$49,000 in an area called the  
5 “Knox Formation.” Respondents deny the remaining allegation of paragraph 36.

6           37.    In response to paragraph 37 of the Order, Respondents deny the allegations  
7 set forth therein.

8           38.    In response to paragraph 38 of the Order, Respondents admit that the  
9 investment opportunity for Fort Knox #15, LLP is not and was not registered with the  
10 Securities & Exchange Commission. Respondents lack sufficient knowledge or  
11 information to form a reasonable belief as to the remaining allegations of paragraph 38  
12 and, therefore, deny the same.

13           39.    In response to paragraph 39 of the Order, Respondents admit that a Private  
14 Placement Memorandum for Eagle Oil #6 (“PPM2”) was sent to a potential investor in  
15 Arizona on or about February 27, 2006. Respondents admit that the PPM2 identifies  
16 MAE as the Managing Partner and Program Manager for Eagle Oil #5, LLP and identifies  
17 Milby as the President of MAE. Respondents deny the remaining allegations of  
18 paragraph 39.

19           40.    In response to paragraph 40 of the Order, Respondents do not possess  
20 sufficient knowledge or information to be able to admit or to deny the allegations of  
21 paragraph 40.

22           41.    In response to paragraph 41 of the Order, Respondents admit that the  
23 Pennsylvania Securities Commission issued a Summary Order to Cease and Desist against  
24 MAE, Milby, and Tom McKenna on or about December 6, 2005 and that the order  
25 required MAE, Milby, and Tom McKenna to halt the offer or sale of unregistered  
26 securities in Pennsylvania. Respondents aver that they were not served with that order

1 and were not aware of it until approximately March 5, 2006. Accordingly, Respondents  
2 admit that they would not have informed any potential investors regarding the order prior  
3 to that time.

4 42. In response to paragraph 42 of the Order, Respondents deny the allegations  
5 set forth therein.

6 43. In response to paragraph 43 of the Order, Respondents admit that they did  
7 not register the partnership interests for Fort Knox #15, LLP or Eagle Oil #6, LLP  
8 pursuant to Articles 6 or 7 of the Arizona Securities Act.

9 44. In response to paragraph 44 of the Order, Respondents state that the  
10 allegation of that paragraph is a conclusion of law and not a statement of fact and,  
11 therefore, requires no response by Defendants. Further, Respondents deny the allegations  
12 of paragraph 44.

13 45. In response to paragraph 45 of the Order, Respondents deny the allegations  
14 set forth therein.

15 46. In response to paragraph 46 of the Order, Respondents state that the  
16 allegation of that paragraph is a conclusion of law and not a statement of fact and,  
17 therefore, requires no response by Defendants. Further, Respondents deny the allegations  
18 of paragraph 46.

19 47. In response to paragraph 47 of the Order, Respondents deny the allegations  
20 set forth therein.

21 48. In response to paragraph 48 of the Order, Respondents state that the  
22 allegation of that paragraph is a conclusion of law and not a statement of fact and,  
23 therefore, requires no response by Defendants. Further, Respondents deny the allegations  
24 of paragraph 48.

25 49. Respondents deny any allegation of the Order that they have not specifically  
26 admitted herein.

