

II.

RESPONDENTS

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3 2. WSK Energy, LLC (“WSK”) is an Arizona limited liability company, formed on
4 July 30, 2004, located at 23444 North 21st Way, Phoenix, Arizona 85024.

5 3. Kevin Krause (“Krause”) is a member of WSK, whose address is 23444 North 21st
6 Way, Phoenix, Arizona 85024.

7 4. Jane Doe Krause is at all relevant times the spouse of Krause. Jane Doe Krause is
8 joined in this action under A.R.S. § 44-2031(C) solely for purposes of determining the liability of the
9 marital community.
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11 5. At all relevant times, Krause and Jane Doe Krause were acting for their own benefit,
12 and for the benefit or in furtherance of the marital community.

13 6. WSK and Krause may be collectively referred to as “Respondents.”
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III.

FACTS

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17 7. Respondents are offering securities in the form of investment contracts in oil wells
18 in Northern Arizona.

19 8. Respondents are currently advertising their investment to the public through
20 advertisements in the Arizona Republic. Respondents’ advertisements state that investors will
21 receive big profits from developing Arizona oil and gas wells. Respondents’ advertisements list
22 Krause’s telephone number as a contact. Additionally, Respondents have a website,
23 wskenergy.com, in which they list investment opportunities in their oil wells in Northern Arizona.
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25 9. Respondents inform offerees that they have two programs for investing in oil wells.
26 Among the oil wells they claim to possess, Respondents have told investors that one is located in

1 2200 acres near Holbrook, Arizona that they lease from the state of Arizona. That claim is false.

2 There is no lease between Respondents and the Arizona Land Department.

3 10. Respondents have told offerees that the well was drilled and capped in 1997. In
4 fact, the well was originally drilled in 1995 and abandoned. Another person began additional
5 drilling in 1997. That project was also abandoned at the death of that prospector, with no work
6 done on the well since then. No oil or gas has been produced from that well, contrary to
7 Respondents' advertisement. Respondents have informed offerees they have received a permit
8 from the state to reopen the well.
9

10 11. Respondents told offerees that all experts who have looked at the well, including the
11 Administrator of the Arizona Oil and Gas Conservation Commission, have stated that it is a
12 producing oil and gas well. That claim is false.

13 12. Respondents are currently offering to sell 1% interests in the well for \$7500. Using
14 what they claim is a conservative forecast, they inform investors that they can produce 150 barrels
15 a day from that well, so that at a world price of \$30/barrel, the monthly income of a \$7500
16 investment will be \$1500, with production expected to last 20 years. Respondents claim to have
17 sold all units but 10.
18

19 13 Respondents also are offering for sale a 1% interest in five different oil well sites for
20 \$73,400. Respondents state that if just one well among the five brought forth 150 barrels a day, the
21 offeree will make his money back. Respondents claim that 30% of this program has been sold.
22

23 14. Respondents claim that based on data, they can drill close to 200 wells on their
24 leased sites. Respondents claim that the wells are valued at 800,000 barrels of oil per well. Thus, at
25 a price of \$50 per barrel, Respondents project the wells will earn \$4,000,000,000,000. When
26 giving these projections, Respondents did not disclose that these projections involved well sites

1 that have not been located, much less drilled, have no structural or other reports, do not include the
2 expenses involved in the process, nor did they disclose the basis of any projections.

3 15. Respondents describe their offering as a royalty working interest program in oil
4 wells.

5 16. Respondents admit that oil and gas is somewhat risky but inform investors that
6 much of the speculation has been taken out of their program.
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8 **IV.**

9 **VIOLATION OF A.R.S. § 44-1841**

10 **(Offer and Sale of Unregistered Securities)**

11 1. From on or about September 2004, Respondents offered or sold securities in the
12 form of investment contracts, within or from Arizona.

13 2. The securities referred to above were not registered pursuant to Articles 6 or 7 of the
14 Securities Act.

15 3. This conduct violates A.R.S. § 44-1841.

16 **V.**

17 **VIOLATION OF A.R.S. § 44-1842**

18 **(Transactions by Unregistered Dealers or Salesmen)**

19 4. Respondents offered or sold securities within or from Arizona while not registered as
20 dealers or salesmen pursuant to Article 9 of the Securities Act.

21 5. This conduct violates A.R.S. § 44-1842.

22 **VI.**

23 **VIOLATION OF A.R.S. § 44-1991**

24 **(Fraud in Connection with the Offer or Sale of Securities)**

25 6. In connection with the offer or sale of securities within or from Arizona,
26 Respondents directly or indirectly: (i) employed a device, scheme or artifice to defraud; (ii) made

1 untrue statements of material fact or omitted to state material facts which were necessary in order to
2 make the statements made not misleading in light of the circumstances under which they were
3 made; or (iii) engaged in transactions, practices or courses of business which operated or would
4 operate as a fraud or deceit upon offerees and investors. Respondents' conduct includes, but is not
5 limited to, the following:

6 a) Respondents have failed to explain the risk and costs involved in oil and gas
7 investment;
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9 b) Respondents have falsely informed investors that they have a lease with the State
10 Land Department for the Holbrook well;

11 c) Respondents falsely informed investors that all experts who have looked at the
12 Holbrook well, including the head of the Arizona Oil and Gas Commission, have stated that it is a
13 producing oil and gas well while failing to disclose that the well had previously been abandoned;
14 and
15

16 d) With respect to their projections, Respondents did not disclose that these projections
17 involved well sites that have not been located, much less drilled, that they have no structural
18 reports or other reports that would support their projection, that they do not include the expenses in
19 drilling when making their projections, nor did they disclose the basis of any such projections
20 given to investors.
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22 7. This conduct violates A.R.S. § 44-1991.

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VII.

TEMPORARY ORDER

Cease and Desist from Violating the Securities Act

THEREFORE, based on the above allegations, and because the Division has determined that the public welfare requires immediate action,

IT IS ORDERED, pursuant to A.R.S. §§ 44-2032 and A.A.C. R14-4-307, that the Respondents, their agents, servants, employees, successors, assigns, and those persons in active concert or participation with them CEASE AND DESIST from any violations of the Securities Act.

IT IS FURTHER ORDERED that this Temporary Order to Cease and Desist shall remain in effect for 180 days unless sooner vacated, modified or made permanent by the Commission.

IT IS FURTHER ORDERED that this Order shall be effective immediately.

VIII.

REQUESTED RELIEF

The Division will request that the Commission grant the following relief against Respondents:

1. Order Respondents to permanently cease and desist from violating the Securities Act, pursuant to A.R.S. § 44-2032;
2. Order Respondents to take affirmative action to correct the conditions resulting from their acts, practices or transactions, including a requirement to make restitution pursuant to A.R.S. § 44-2032;
3. Order Respondents to pay the state of Arizona administrative penalties of up to five thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036;
4. Order that the marital community of Krause and Jan Doe Krause be subject to any order of restitution, rescission, administrative penalties, or other appropriate affirmative action pursuant to A.R.S. § 25-215; and

1 mail ymcfarlin@cc.state.az.us. Requests should be made as early as possible to allow time to
2 arrange the accommodation.

3 **X.**

4 **ANSWER REQUIREMENT**

5 Pursuant to A.A.C. R14-4-305, if any Respondent or Respondent Spouse requests a
6 hearing, the Respondent or Respondent Spouse must deliver or mail an Answer to this Temporary
7 Order and Notice to Docket Control, Arizona Corporation Commission, 1200 W. Washington,
8 Phoenix, Arizona 85007, within 30 calendar days after the date of service of this Temporary Order
9 to Cease and Desist and Notice of Opportunity for Hearing,. A Docket Control cover sheet must
10 accompany the Answer. A cover sheet form and instructions may be obtained from Docket
11 Control by calling (602) 542-3477 or on the Commission's Internet web site at
12 www.cc.state.az.us/utility/forms/index.htm.

13 Additionally, the Respondent or Respondent Spouse, must serve the Answer upon the
14 Division. Pursuant to A.A.C. R14-4-303, service upon the Division may be made by mailing or by
15 hand-delivering a copy of the Answer to the Division at 1300 West Washington, 3rd Floor, Phoenix
16 Arizona, addressed to Mark Dinell.

17 The Answer shall contain an admission or denial of each allegation in this Temporary
18 Order and Notice and the original signature of each Respondent, Respondent Spouse or the
19 Respondent's attorney. A statement of a lack of sufficient knowledge or information shall be
20 considered a denial of an allegation. An allegation not denied shall be considered admitted.

21 When a Respondent or Respondent Spouse intends in good faith to deny only a part or a
22 qualification of an allegation, the Respondent or Respondent Spouse shall specify that part or
23 qualification of the allegation and shall admit the remainder. The Respondent or Respondent
24 Spouse waives any affirmative defense not raised in the answer.

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The officer presiding over the hearing may grant relief from the requirement to file an Answer for good cause shown.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION, this 3 day of November, 2004.

/s/ Matthew J. Neubert
Matthew J. Neubert
Director of Securities