



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

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

FEB 02 2006

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In the matter of)
WSK ENERGY, L.L.C.)
23444 North 21st Way)
Phoenix, Arizona 85024)
KEVIN H. and JANE DOE KRAUSE)
Husband and wife)
23444 North 21st Way)
Phoenix, Arizona 85024)
Respondents.)

DOCKET NO. S-03572A-04-0000

DECISION NO. 68461

ORDER TO CEASE AND DESIST, ORDER TO DISGORGE COMMISSIONS, AND ORDER FOR ADMINISTRATIVE PENALTIES AND CONSENT TO SAME BY: KEVIN KRAUSE

Respondent KEVIN KRAUSE elects to permanently waive any right to a hearing and appeal under Articles 11 and 12 of the Securities Act of Arizona, A.R.S. § 44-1801 et seq. ("Securities Act") with respect to this Order To Cease And Desist, Order to Disgorge Commissions, and Order of Administrative Penalties and Consent to Same ("Order"). Respondent admits the jurisdiction of the Arizona Corporation Commission ("Commission"); neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order; and consents to the entry of this Order by the Commission.

I.

FINDINGS OF FACT

- 1. WSK Energy, L.L.C. ("WSK") is an Arizona limited liability company, formed on July 30, 2004, and currently located at 5941 E. Edgemont Avenue, Scottsdale, Arizona 85257.
- 2. KEVIN KRAUSE ("Respondent") is (and was at all times relevant hereto) a single man currently residing at 23444 N. 21st Way, Paradise Valley, Arizona 85024.

1 3. At all times relevant, Respondent managed the business operations and conducted
2 all of the capital raising activities of WSK.

3 4. From approximately August 5, 2003 through October, 2004, Respondent offered
4 securities in the form of investment contracts in an oil well located in Northern Arizona in which
5 WSK had or would acquire a working interest ("26-1 Well").

6 5. Respondent described the investment opportunity to offerees as a percentage of
7 WSK's share of working interest in the 26-1 Well for a purchase price of \$7,500 for each one
8 percent (1%) ("Participation Interests").

9 6. Respondent caused the investment opportunity to be advertised to the public
10 through advertisements in the Arizona Republic.

11 7. Respondent caused the investment opportunities in the 26-1 Well to be advertised
12 via WSK's website, wskenergy.com. The website is no longer operational.

13 8. Respondent told offerees that the 26-1 Well was drilled and capped in 1997. In fact,
14 however, the well was originally drilled in 1995 and abandoned. Another person began additional
15 drilling in 1997, but the project was also abandoned at the death of the new prospector. No oil or
16 gas has been produced from that well, contrary to Respondent's advertisement.

17 9. Respondent told offerees that all experts who have looked at the well, including the
18 Administrator of the Arizona Oil and Gas Conservation Commission, have stated that it is a
19 producing oil and gas well. That claim is false.

20 10. Using what he claimed to be a conservative forecast, Respondent informed investors
21 that WSK could produce 150 barrels a day from the 26-1 Well, so that at a world price of \$30 per
22 barrel, the monthly income of a \$7500 investment would yield \$1500, with production expected to
23 last 20 years.

24 11. Respondent told offerees that, in addition to the 26-1 Well, WSK could drill close to
25 200 wells on land in which it had a working interest. Respondent claimed that the wells were
26 valued at 800,000 barrels of oil per well. Thus, at a price of \$50 per barrel, Respondent projected

1 the other wells would earn \$40,000,000. When giving these projections, Respondent did not
2 disclose that these projections involved well sites that have not been located, much less drilled,
3 have no structural or other reports, do not include the expenses involved in the process, nor did he
4 disclose the basis of any projections.

5 12. Respondent admitted to offerees that oil and gas ventures are somewhat risky, but
6 informed them that much of the speculation had been taken out of their program.

7 13. During the fall of 2004, WSK raised approximately \$172,500 from the sale of
8 Participation Interests to at least four (4) Arizona investors. As a result of these sales, Respondent
9 earned commissions in the amount of \$14,526.48.

10 14. At all times relevant, Respondent offered and sold securities while neither registered
11 as a dealer or salesman nor exempt from registration.

12 15. At all times relevant, Respondent offered or sold securities that were neither
13 registered nor exempt from registration.

14 16. Respondent is no longer associated with WSK in any capacity.

15 17. Following the service of a Temporary Cease and Desist Order by the Commission
16 upon it, WSK has informed the investors (a) that the Participation Interests were neither registered
17 nor exempt from registration, (b) that WSK and its agents were neither registered as a dealer or a
18 salesman nor exempt from registration, and (c) of the risks associated with their investment. WSK
19 has afforded each investor the opportunity to have their investment redeemed.

20 **II.**

21 **CONCLUSIONS OF LAW**

22 1. The Commission has jurisdiction over this matter pursuant to Article XV of the
23 Arizona Constitution and the Securities Act.

24 2. Respondent offered or sold securities within or from Arizona, within the meaning of
25 A.R.S. §§ 44-1801(15), 44-1801(21), and 44-1801(26).
26

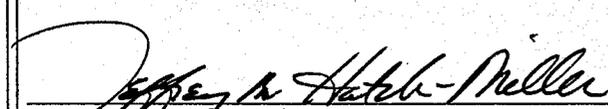
1 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that Respondent shall
2 disgorge all sales commissions earned in connection with Respondent's sales activities in this
3 matter; as reflected in the records of the Commission, such disgorgement shall be in the amount of
4 \$14,527.00, plus interest at the rate of 10% per annum from the date of this Order. Payment shall
5 be made in monthly installments in the amount of \$250.00 per month on or before the 1st day of
6 each and every month, beginning on the first day of the month immediately following the date of
7 this Order, until paid in full. Any amount outstanding shall accrue interest at the rate of 10% per
8 annum from the date of this Order until paid in full. All payments required under this Order shall
9 be made by check or money order payable to the "State of Arizona" and will be placed in an
10 interest-bearing account maintained and controlled by the Commission. The Commission shall
11 disburse the funds on a pro rata basis to investors shown on the records of the Commission. Any
12 funds that the Commission determines it is or cannot feasibly unable to disburse shall be
13 transferred to the general fund of the state of Arizona. If Respondent does not comply with this
14 order of restitution, any outstanding balance shall be in default and shall be immediately due and
15 payable.

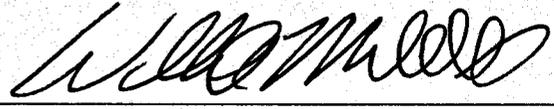
16 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that Respondent shall pay
17 administrative penalties in the amount of \$10,000.00. The payment obligation for the
18 administrative penalties shall be subordinate to any disgorgement obligations ordered herein and
19 shall become immediately due and payable only after disgorgement payments have been paid in
20 full, or if Respondent has defaulted prior to fulfilling Respondent's restitution obligations. For the
21 purposes of this Order, a bankruptcy filing by Respondent shall be an act of default on
22 Respondent's disgorgement obligation. If Respondent does not comply with this order for
23 administrative penalties, any outstanding balance may be deemed in default and shall be
24 immediately due and payable.

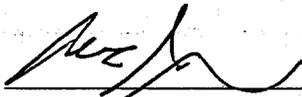
1 IT IS FURTHER ORDERED, that if any Respondent fails to comply with this order, the
2 Commission may bring further legal proceedings against that Respondent, including application to
3 the superior court for an order of contempt.

4 IT IS FURTHER ORDERED that this Order shall become effective immediately.

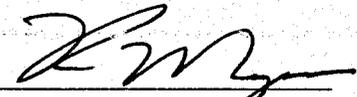
5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

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8 CHAIRMAN

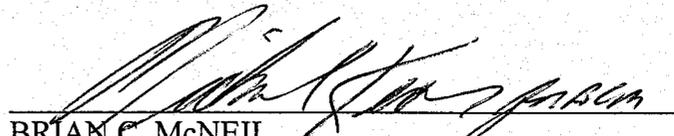

COMMISSIONER

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10 COMMISSIONER


COMMISSIONER


COMMISSIONER

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12 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,
13 Executive Director of the Arizona Corporation
14 Commission, have hereunto set my hand and caused the
15 official seal of the Commission to be affixed at the
16 Capitol, in the City of Phoenix, this 2nd day of
February, 2006.

17 
18 BRIAN C. McNEIL
19 Executive Director

20 _____
21 DISSENT

22 _____
23 DISSENT

24 This document is available in alternative formats by contacting Linda Hogan, Executive Assistant
25 to the Executive Director, voice phone number 602-542-3931, E-mail lhogan@azcc.gov.

26 (JC)

CONSENT TO ENTRY OF ORDER

1
2 1. Respondent Kevin Krause ("Respondent") admits the jurisdiction of the
3 Commission over the subject matter of this proceeding. Respondent acknowledges that he has
4 been fully advised of its right to a hearing to present evidence and call witnesses and Respondent
5 knowingly and voluntarily waives any and all rights to a hearing before the Commission and all
6 other rights otherwise available under Article 11 of the Securities Act and Title 14 of the Arizona
7 Administrative Code. Respondent acknowledges that this ORDER TO CEASE AND DESIST,
8 ORDER TO DISGORGE COMMISSIONS, AND ORDER FOR ADMINISTRATIVE
9 PENALTIES AND CONSENT TO SAME ("Order") constitutes a valid final order of the
10 Commission.

11 2. Respondent knowingly and voluntarily waives any right under Article 12 of the
12 Securities Act to judicial review by any court by way of suit, appeal, or extraordinary relief
13 resulting from the entry of this Order.

14 3. Respondent acknowledges and agrees that this Order is entered into freely and
15 voluntarily and that no promise was made or coercion used to induce such entry.

16 4. Respondent acknowledges that he has been represented by an attorney in this
17 matter, he has reviewed this Order with his attorney and understands all terms it contains.

18 5. Respondent neither admits nor denies the Findings of Fact and Conclusions of Law
19 contained in this Order. Respondent agrees that he shall not contest their validity in any present or
20 future administrative proceeding before the Commission or any other state agency concerning the
21 denial or issuance of any license or registration required by the State to engage in the practice of
22 any business or profession.

23 6. By consenting to the entry of this Order, Respondent agrees not to take any action
24 or to make, or permit to be made, any public statement denying, directly or indirectly, any Finding
25 of Fact or Conclusion of Law in this Order or creating the impression that this Order is without
26 factual basis.

1 7. Respondent will undertake steps necessary to assure that all of its agents and
2 employees understand and comply with this agreement.

3 8. While this Order settles this administrative matter between Respondent and the
4 Commission, Respondent understands that this Order does not preclude the Commission from
5 instituting other administrative proceedings based on violations that are not addressed by this
6 Order.

7 9. Respondent understands that this Order does not preclude the Commission from
8 referring this matter to any governmental agency for administrative, civil, or criminal proceedings
9 that may be related to the matters addressed by this Order.

10 10. Respondent understands that this Order does not preclude any other agency or
11 officer of the state of Arizona or its subdivisions from instituting administrative, civil or criminal
12 proceedings that may be related to matters addressed by this Order.

13 11. Respondent agrees that he will not apply to the state of Arizona for registration as a
14 securities dealer or salesman or for licensure as an investment adviser or investment adviser
15 representative until such time as all disgorgement, interest and penalties under this Order are paid
16 in full.

17 12. Respondent agrees that he will not exercise any control over any entity that offers
18 or sells securities or provides investment advisory services within or from Arizona until such time
19 as all disgorgement, interest, penalties under this Order are paid in full.

20 14. Respondent agrees that he will not sell any securities in or from Arizona without
21 being properly registered in Arizona as a dealer or salesman, or exempt from such registration; he
22 will not sell any securities in or from Arizona unless the securities are registered in Arizona or
23 exempt from registration; and he will not transact business in Arizona as an investment adviser or
24 an investment adviser representative unless properly licensed in Arizona or exempt from licensure.

1 15. Respondent acknowledges and understands that if he fails to comply with the
2 provisions of the order and this consent, the Commission may bring further legal proceedings
3 against him, including application to the superior court for an order of contempt.

4 16. Respondent agrees that until disgorgement, interest and penalties are paid in full,
5 Respondent shall notify the Director of the Securities Division within 30 days of any change in
6 business address and any change in Respondent's ability to pay amounts due under this Order.
7 Respondent agrees that he shall provide the Commission with an updated financial statement every
8 year from entry of this Order or when any change in its ability to pay amounts due under this
9 Order occurs. Respondent agrees that failure to perform any action in this paragraph shall result in
10 him being in default with any outstanding balance being immediately due and payable without
11 notice or demand.

12 17. Respondent understands that default shall render him liable to the Commission for
13 its costs of collection and interest at the maximum legal rate.

14 18. Respondent agrees and understands that if he fails to make any payment as required
15 in the Order, any outstanding balance shall be in default and shall be immediately due and payable
16 without notice or demand. Respondent agrees and understands that acceptance of any partial or
17 late payment by the Commission is not a waiver of default by the Commission.

18 19. Respondent agrees that he will continue to cooperate with the Securities Division
19 including, but not limited to, providing complete and accurate testimony at any hearing in this
20 matter and cooperating with the state of Arizona in any related investigation or any other matters
21 arising from the activities described in this Order.

22 21. Respondent consents to the entry of this Order and agrees to be fully bound by its
23 terms and conditions.

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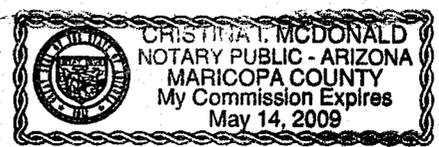
Kevin Krause
Kevin Krause

SUBSCRIBED AND SWORN TO BEFORE me this 5th day of January, 2006.

Cristina I. McDonald
NOTARY PUBLIC

My Commission Expires:

May 14, 2009



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