

BEFORE THE
STATE OF WISCONSIN
DEPARTMENT OF FINANCIAL INSTITUTIONS
DIVISION OF SECURITIES

In the Matter of
GULFTEX OPERATING INC., MASON #1-H JOINT
VENTURE, TIMOTHY P. BURROUGHS, DAVID YORK,
SHERRI K. CECOTTI, THEODORE JAHNS, and
DEREK S. WALLETS,

PETITION FOR ORDER

Respondent.

File No. S-04151(EX)

The staff of the State of Wisconsin Department of Financial Institutions, Division of Securities, Bureau of Registration & Enforcement has conducted an investigation in this matter pursuant to sec. 551.56, Wis. Stats., and as a result thereof alleges as follows:

1. GulfTex Operating Inc ("GulfTex") is a Texas corporation with a last known business address of 3030 LBJ Fwy., Ste. 1320, Dallas, TX 75234.
2. Mason #1-H Joint Venture ("Mason") is a prospective joint venture to be formed under Texas partnership law, with a last known business address of 3030 LBJ Fwy., Ste. 1320, Dallas, TX 75234.
3. Timothy P. Burroughs (DOB 10/14/59; CRD #2108227) ("Burroughs") is an individual who at all times material hereto has been President of GulfTex, with a last known business address at that of GulfTex.
4. David York ("York") is an individual who at all times material hereto has been Executive Vice President and Director of Field Operations of GulfTex, with a last known business address at that of GulfTex.
5. Sherri K. Cecotti (DOB 7/3/64) ("Cecotti") is an individual who at all times material hereto has been Secretary-Treasurer of GulfTex, with a last known business address at that of GulfTex.
6. Theodore Jahns ("Jahns") is an individual who at all times material hereto has been an agent of GulfTex, Burroughs, York, and Cecotti, with a last known business address at that of GulfTex.
7. Derek S. Wallets (DOB 8/4/73; CRD #3252965) ("Wallets") is an individual who at all times material hereto has been an agent of GulfTex, Mason, Burroughs, York, and Cecotti, with a last known business address at that of GulfTex.
8. During the period of June, 2004, Jahns and Wallets, on behalf of GulfTex, Mason, Burroughs, York, and Cecotti, offered to at least one person in Wisconsin ("the offeree") units of "joint venture interests" in Mason.
9. The offeree had no preexisting relationship with any of the Respondents.

10. Pursuant to the offering materials received by the offeree, Mason will engage in the business of “drilling, owning, and operating a hydrocarbon well in Denton County, Texas, and, if successful, the production of hydrocarbons therefrom..”
11. Pursuant to the offering materials received by the offeree, investors in Mason are to be general partners with unlimited liability, in a high risk venture, in which investors are not to rely on GulfTex but instead themselves must have the knowledge and experience to manage the deal.
12. In connection with the offer described in Paragraph 8, Wallets stated to the offeree that:
 - in reality, the venturers have no duties and responsibilities in the deal;
 - the venturers have no managing duties;
 - the only managing is done by GulfTex to drill the well and get it into production;
 - in the document is a reference to the venturers giving a power of attorney to GulfTex to operate the deal and be the manager;
 - there is nothing for venturers to do but to ask GulfTex how things are going;
 - investors have no liabilities at all beyond the amount invested;
 - there as so many "firewalls" of insurance in place that there is coverage for anything that might happen; and
 - sales commissions for the investments are included in a "cushion" for expenses in the deal.
13. Upon information and belief, investors can play a passive role in the company with no duties and responsibilities.
14. Upon information and belief, each investor will not be involved in the day-to-day management of Mason, since there are too many investors for them to each have any meaningful input, and they do not have the expertise or experience necessary to perform its duties.
15. Since the investors will be involved in a common enterprise with the expectation of profits to be derived from the essential managerial efforts of others, the "units" offered by the respondents are investment contracts as defined by section DFI-Sec. 1.02(6)(a), Wis. Adm. Code, and are therefore securities as defined by sec. 551.02(13), Wis. Stats.
16. The Mason investment contracts have never been registered for offer and sale in Wisconsin pursuant to Ch. 551, Wis. Stats.
17. *The Respondents have violated sec. 551.21(1), Wis. Stats., by offering unregistered securities in Wisconsin.*

18. In connection with the offers of the securities described above, Jahns and Wallets transacted business in Wisconsin as "agents" for GulfTex, Mason, Burroughs, York, and Cecotti, as that term is defined by sec. 551.02(2), Wis. Stats.
19. At no time have Jahns and Wallets been licensed as securities agents pursuant to Ch. 551, Wis. Stats.
20. Jahns and Wallets have violated sec. 551.31(1), Wis. Stats., by transacting business in Wisconsin as securities agents without licenses.
21. GulfTex, Mason, Burroughs, York, and Cecotti have violated sec. 551.31(2), Wis. Stats., by employing unlicensed agents to represent them in Wisconsin.
22. Since the representations in the offering document referred to in Paragraph 11 and the representations by Wallets referred to in Paragraph 12 are inconsistent, Respondents have violated sec. 551.41(2), Wis. Stats., by making an untrue statement of a material fact in connection with the offer and sale of securities to a person in Wisconsin.
23. On August 4, 1999, the State of Pennsylvania issued an administrative order against Burroughs and York, based on allegations of securities law violations.
24. On May 17, 2000, the Texas Securities Commissioner issued an administrative order against Burroughs, based on allegations of securities fraud.
25. In connection with the offer of the securities described in Paragraph 8, the Respondents omitted to disclose the issuance of the orders referred to in Paragraphs 23 and 24.
26. All Respondents have violated sec. 551.41(2), Wis. Stats., by omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, in connection with the offer and sale of securities to persons in Wisconsin.

Therefore, the staff of the Bureau of Registration & Enforcement petitions the Administrator of the Division of Securities for the issuance of the attached Order pursuant to Ch. 551, Wis. Stats.

Susan A. Kittel Moore 1/31/05
 Susan A. Kittel Moore Date
 Securities Examiner
 Registration & Enforcement Bureau

David A. Cohen 2/1/05
 David A. Cohen Date
 Supervising Attorney
 Registration & Enforcement Bureau