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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING) Order No. S-13-1274-14-CO01
whether there has been a violation of the)
Securities Act of Washington by:)
)
) CONSENT ORDER AS TO TIMOTHY P.
) BURROUGHS
Gulftex Operating, Inc.,)
Frenchtown Acres, LLC,)
Timothy P. Burroughs,)
Tim Neeley,)
)
Respondents.)

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INTRODUCTION

11 On February 21, 2014, the Securities Administrator of the Securities Division of the Department of
12 Financial Institutions (“Securities Division”) issued a Statement of Charges and Notice of Intent to Enter
13 Order to Cease and Desist, to Impose Fines, and to Charges Costs, Order Number S-13-1274-14-SC01,
14 against Respondents Gulftex Operating, Inc.; Frenchtown Acres, LLC; Timothy P. Burroughs; and Tim
15 Neeley. Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division and Respondent
16 Timothy P. Burroughs do hereby enter into this CONSENT ORDER in settlement of the matters alleged
17 herein. Respondent Timothy P. Burroughs neither admits nor denies the Findings of Fact and Conclusions
18 of Law as stated below.

19

FINDINGS OF FACT

20

Respondents

- 21 1. Gulftex Operating, Inc. (“Gulftex”) is a Texas company incorporated in 1996. At all times relevant
22 to this matter, its principal place of business was in Dallas, Texas. Gulftex is in the business of exploring
23 and developing oil and gas properties.
- 24 2. Frenchtown Acres, LLC (“Frenchtown Acres”) is a Texas limited liability company formed in
25 March 2008. At all times relevant to this matter, its principal place of business was in Dallas, Texas.
Frenchtown Acres was formed to act as managing venturer for at least three oil and gas joint ventures.
3. Timothy P. Burroughs (“Burroughs”) is a resident of Texas. Burroughs is President and co-owner of
Gulftex and managing member of Frenchtown Acres.

1 4. Tim Neeley (“Neeley”) is believed to be a resident of Texas and was, at all times relevant to this
2 matter, a representative of Gulftex.

3 Nature of the Offering

4 5. Between early 2008 and early 2010, Gulftex, Frenchtown Acres, Burroughs, and Neeley offered and
5 sold interests in oil and gas joint ventures to Washington residents. Prospective investors were contacted by
6 phone, and at least six Washington residents invested in three joint ventures for a total of \$540,000. Five of
7 the Washington investors were senior citizens, and at least four of the Washington investors did not have a
8 pre-existing relationship with any of the respondents before investing.

9 *Frenchtown Joint Ventures*

10 6. Frenchtown Acres formed Frenchtown #1-H Joint Venture, Frenchtown #1A-H Joint Venture, and
11 Frenchtown #2-H Joint Venture to acquire working interests in two natural gas wells in the Barnett Shale of
12 Texas. As managing venturer, Frenchtown Acres managed the day-to-day operations of each of the joint
13 ventures. Because Frenchtown Acres did not have its own personnel or assets, it relied on the personnel and
14 other resources of Gulftex to administer the business of the joint ventures. As operator, Gulftex was
15 responsible for the management and supervision of both wells associated with the joint ventures.

16 7. Investors had little or no input or control over the administration or management of the joint
17 ventures, or over the decisions made by Frenchtown Acres or Gulftex. As managing venturer, Frenchtown
18 Acres had complete discretion to determine, among other things, which investors were invited to join the
19 joint venture; whether to enter into agreements related to the business of the joint venture; when the target
20 depth of the well had been reached; whether to plug and abandon or attempt to complete the well; and
21 whether the well was commercially productive. While the joint venture agreement stated that Frenchtown
22 Acres could be replaced by a vote of 51% of the joint venture interests, in reality, investors could have little
23 control over the management of the joint ventures as they resided in multiple states, were not given
24 information about one another, were not provided with detailed information regarding how much money
25 had been raised or how many investors there were, and were not required to have any experience in oil and
26 gas joint ventures or their management. Washington investors did not participate in any meetings,
27 conference calls, or votes related to the joint venture. Frenchtown #2-H Joint Venture investors were
28 required to sign a Power of Attorney with their subscription documents.

29 *Offerings Documents*

30 8. To offer the joint venture investments, Gulftex representatives contacted offerees by phone and then
31 sent prospective investors a glossy booklet called a Presentation Summary, which described the proposed

1 well and the joint venture investment. The offering material included a letter from Burroughs, and the
2 booklet was organized into different sections labelled, among other things, Project Data, Why Gulftex?,
3 Maps, and “Economics and Tax Benefits.” The risks of the investment were included in a folder at the back
4 of the booklet.

5 9. In the booklet, Frenchtown Acres described the popularity of the Barnett Shale and the increased
6 production of natural gas due to new technology. Gulftex provided maps and diagrams that included the
7 amount of gas produced by wells located near the proposed well. Under the “Why Gulftex?” tab, Gulftex
8 highlighted its experience in managing oil and gas projects, and in offering oil and gas investments. Gulftex
9 did not provide information regarding the performance of oil and gas projects it had previously managed or
10 investments it had previously offered.

11 10. Under the “Economics and Tax Benefits” tab, Gulftex presented a chart of “if/then scenarios” for the
12 monthly income and approximate returns on investment that investors might receive. For example, with a
13 \$128,000 investment, if gas sold at \$6 per MCF (thousand cubic feet) and the well produced 1,000 MCF per
14 day, then the investor could receive a monthly income of \$2,109.38 and an approximate return on
15 investment of 19.78%. Gulftex’s chart did not take into account, or give an estimate of, expenses associated
16 with the wells. While Gulftex generally disclosed the risk that natural gas prices could fall, it did not provide
17 detailed disclosure regarding how far gas prices could fall before the well would become economically non-
18 productive.

19 *Investor A*

20 11. In approximately March 2008, Neeley contacted a Washington resident, Investor A, by telephone.
21 Neither Neeley nor any of the respondents had any prior relationship with Investor A. Investor A had little
22 or no prior investment experience, and no experience in oil and gas investments.

23 12. Neeley told Investor A that there were some great investment opportunities in the oil and gas fields
24 of Texas. Neeley explained that Gulftex was drilling for natural gas in the Barnett Shale, and Neeley offered
25 Investor A the chance to invest in Gulftex. Neeley told Investor A that she would get a monthly income
from the investment, and Neeley told Investor A that she would receive her investment back in five or six
years.

13. Neeley called Investor A several times, telling Investor A the benefits of investing in natural gas and
of investing with Gulftex. Investor A also spoke to Burroughs before investing with Gulftex. Burroughs told
Investor A that the Barnett Shale was going to be the main producer of natural gas in the country, and that

1 Gulftex was an established company with ties to big oil companies. Burroughs also told Investor A that her
investment would result in a monthly income for many years.

2 14. In July 2008, Investor A invested \$64,000 in the Frenchtown #1-H Joint Venture. In August 2008,
3 Investor A invested an additional \$64,000 in the joint venture after Neeley called and solicited Investor A to
4 purchase an additional one-half unit. Neeley continued to call Investor A and solicited her to invest in the
5 Frenchtown #1A-H Joint Venture and then later the Frenchtown #2-H Joint Venture. Based on
6 representations by Burroughs and Neeley, Investor A expected a monthly income of \$2,000 to \$3,000 from
her investments.

7 15. In July 2009, Investor A began receiving revenue payments. The payments were well below the
8 monthly income Investor A was expecting, so Investor A called GulfTex. A GulfTex representative told
9 Investor A the payments were lower because of operating costs, and because the price of natural gas had
10 dropped. Not long after that, the costs of operating the wells began exceeding their revenue. GulfTex sent
11 Investor A monthly invoices, which required Investor A to pay money to the joint venture each month
instead of receiving an income.

12 *Investor B*

13 16. In or around the summer of 2008, Neeley called another Washington resident, Investor B. Neeley
14 identified himself as representing GulfTex, and Neeley offered Investor B an investment in the company.
15 Neither Neeley nor any of the respondents had an existing relationship with Investor B. Investor B was not
an experienced investor, and had no experience in oil and gas investments.

16 17. Neeley called Investor B several times, telling Investor B the benefits of investing with GulfTex.
17 Neeley told Investor B that the Frenchtown #1-H well was expected to last 40 years, and that new
18 technology meant the well could last even longer. While Neeley told Investor B that there was a risk of a
19 dry hole, and that Investor B could lose his entire investment, Neeley stated that GulfTex was drilling the
20 biggest well it had ever drilled and compared the well to other wells in the area that were producing gas. In
21 September 2008, Investor B invested \$8,000 in the Frenchtown #1-H Joint Venture. Based on Neeley's
representations, Investor B expected to make a monthly income of \$200 from his investment.

22 18. Investor B initially received small revenue checks from the well that were far less than what Investor
23 B expected. Beginning in the fall of 2010, the revenue checks ceased. GulfTex informed Investor B that the
24 expenses of the well exceeded its revenue. GulfTex began sending monthly invoices requiring Investor B to
25 contribute additional funds to the joint venture each month. When Investor B contacted GulfTex regarding
the well, Burroughs told Investor B it was a great well and the invoices were due to low gas prices. About a

1 month later, Investor B received a letter from GulfTex stating that the well may be shut down due to low gas
2 prices.

3 Regulatory Actions

4 19. On November 20, 1991, the Pennsylvania Securities Commission issued a Summary Order to Cease
5 and Desist against Burroughs. The Pennsylvania Securities Commission alleged that Burroughs had violated
6 the securities salesperson registration provision of the Securities Act of Pennsylvania. On February 10,
7 1992, the Pennsylvania Securities Commission issued an Order settling the matter and ordering Burroughs
8 to comply with the Act and pay investigative costs.

9 20. On November 25, 1997, the Pennsylvania Securities Commission issued a Summary Order to Cease
10 and Desist against Burroughs and TBX Resources, Inc. (“TBX”). The Pennsylvania Securities Commission
11 alleged that Burroughs and TBX had violated the securities registration and securities salesperson
12 registration provisions of the Securities Act of Pennsylvania. On August 24, 1999, the Pennsylvania
13 Securities Commission issued an Order settling the matter and ordering TBX and Burroughs to, among
14 other things, cease and desist from violating the Act, comply with the Act, and pay investigative costs.

15 21. On May 17, 2000, the Texas State Securities Board issued an Order of Suspension of Exemption
16 against Burroughs and TBX. The Texas State Securities Board found that the continued sale of TBX
17 securities would work a fraud or deceit upon any purchasers because TBX and Burroughs had made
18 statements that were materially misleading or failed to disclose material facts in connection with the offer or
19 sale of TBX securities. On July 27, 2000, the Texas State Securities Board issued an Order Lifting Section
20 5.0 Suspension on the condition that TBX and Burroughs comply with the terms of an Undertaking that
21 TBX and Burroughs had filed.

22 22. On February 4, 2005, the Wisconsin Division of Securities issued an Order of Prohibition and
23 Revocation against GulfTex and Burroughs. The Wisconsin Division of Securities alleged that Burroughs
24 and GulfTex had violated the securities registration, securities salesperson registration, and anti-fraud
25 provisions of the Securities Act of Wisconsin. On July 28, 2005, the Wisconsin Division of Securities
issued an Order Revoking the Order of Prohibition and Revocation with the understanding that GulfTex and
Burroughs would, among other things, abide by the requirements of the Securities Act of Wisconsin.

23 23. On March 6, 2006, the Alabama Securities Commission issued a Cease and Desist Order against
24 GulfTex and Burroughs. The Alabama Securities Commission alleged that GulfTex and Burroughs had
25 violated the securities registration and securities salesperson registration provisions of the Securities Act of

1 Alabama. On April 2, 2007, the Alabama Securities Commission issued a Consent Order settling the matter
2 and ordering Burroughs and GulfTex to, among other things, pay fines and investigative costs.

3 24. In December 2008, Frenchtown #1-H Joint Venture and GulfTex were the subjects of a Summary
4 Order to Cease and Desist issued by the Pennsylvania Securities Commission. The Pennsylvania Securities
5 Commission alleged that Frenchtown #1-H Joint Venture and GulfTex had violated the securities registration
6 and securities salesperson registration provisions of the Securities Act of Pennsylvania. Frenchtown #1-H
7 Joint Venture and GulfTex were ordered to cease and desist from offering and selling securities in violation
8 of the Securities Act of Pennsylvania.

9 Misrepresentations and Omissions

10 25. Respondents failed to disclose material information related to some of the prior enforcement actions
11 that had been brought by state securities regulators against GulfTex and Burroughs. While the Respondents
12 disclosed the 2006 Cease and Desist Order by the Alabama Securities Commission against GulfTex and
13 Burroughs, the Respondents did not disclose that GulfTex and Burroughs had been subjects of several other
14 enforcement actions, including actions taken by the Texas State Securities Board in 2000 and the Wisconsin
15 Division of Securities in 2005 for fraudulent misrepresentations or omissions in the offer and sale of
16 securities.

17 26. Respondents failed to disclose material information related to the monthly income and return on
18 investment projections that were provided during telephone solicitations and in the Presentation Summary.
19 Respondents did not provide detailed disclosure regarding the estimated costs associated with operating a
20 well, or detailed information regarding how the price of natural gas would affect the investment.
21 Respondents also did not disclose the assumptions upon which the monthly income and return on
22 investment projections were made.

23 27. Respondents failed to disclose material information related to the experience of GulfTex and
24 Burroughs in offering and managing oil and gas investments. Respondents did not disclose information
25 regarding the performance of other joint ventures for which GulfTex or its affiliates acted as managing
26 venturer, and Respondents did not disclose the performance of other joint ventures for which GulfTex or its
27 affiliates acted as operator.

28 Registration Status

29 28. Respondent GulfTex Operating, Inc. is not currently registered to offer or sell securities in the state of
30 Washington, and it has not previously been so registered.

1 29. Respondent Frenchtown Acres, LLC is not currently registered to offer or sell securities in the state
of Washington, and it has not previously been so registered.

2 30. Respondent Timothy P. Burroughs is not currently registered as a securities salesperson or broker-
3 dealer in the state of Washington, and he has not previously been so registered.

4 31. Respondent Tim Neeley is not currently registered as a securities salesperson or broker-dealer in the
5 state of Washington, and he has not previously been so registered.

6 Failure to Comply With Regulation D, Rule 506

7 32. On July 7, 2008, Frenchtown Acres, LLC filed with the Securities Division a claim of exemption
from registration on behalf of Frenchtown #1-H Joint Venture for its offering under Regulation D, Rule 506.

8 33. On February 18, 2009, Frenchtown Acres, LLC filed with the Securities Division a claim of
9 exemption from registration on behalf of Frenchtown #1A-H Joint Venture for its offering under Regulation
D, Rule 506.

10 34. On April 22, 2009, Frenchtown Acres, LLC filed with the Securities Division a claim of exemption
11 from registration on behalf of Frenchtown #2-H Joint Venture for its offering under Regulation D, Rule 506.

12 35. At the time of the Frenchtown offerings, Regulation D, Rule 506 prohibited an issuer or any person
13 acting on behalf of an issuer from offering or selling securities by any form of general solicitation.
14 Frenchtown Acres, GulfTex, and their agents offered and sold investments in the Frenchtown joint ventures
15 by cold-calling prospective investors, which violated the general solicitation provisions of Regulation D,
Rule 506.

16 Based upon the above Findings of Fact, the following Conclusions of Law are made:

17
18 **CONCLUSIONS OF LAW**

19
20 1. The offer or sale of joint venture interests as described above constitutes the offer or sale of a
security as defined by RCW 21.20.005(14) and RCW 21.20.005(17).

21 2. The offer or sale of said securities was in violation of RCW 21.20.140 because no
22 registration for such an offer or sale is on file with the Securities Administrator, state of Washington, and no
23 valid claim of exemption under WAC 460-44A-506 exists.

24 3. Timothy P. Burroughs violated RCW 21.20.040 by offering or selling said securities while
25 not registered as a salesperson or broker-dealer in the state of Washington.

1 Signed this 15th day of October 2014.

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3 Signed by:

Approved as to Form by:

4
5 /s/
6 Timothy P. Burroughs, individually

7
8 /s/
9 Edwin J. Tomko, Attorney for Respondent
10 State Bar of Texas No. 20117800

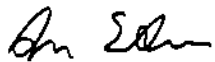
11 SIGNED and ENTERED this 28th day of October 2014.

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17 William M. Beatty
18 Securities Administrator

19 Approved by:

Presented by:

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23 

24 Suzanne Sarason
25 Chief of Enforcement

Holly Mack-Kretzler
Financial Legal Examiner

Reviewed by:



Robert Kondrat
Financial Legal Examiner Supervisor