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Texas State Securities Board

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MEMBER

SSB Docket No. 02-42

IN THE MATTER OF
HOBBS OIL COMPANY;
RAY K. HOBBS; AND
MYRA RAY

§
§
§
§

Order No. CDO-1487

TO: Ray K. Hobbs, Owner
Hobbs Oil Company
11500 North Stemmons Freeway, Suite 107
Dallas, TX 75229

Ray K. Hobbs
11500 North Stemmons Freeway, Suite 107
Dallas, TX 75229

Myra Ray
11500 North Stemmons Freeway, Suite 107
Dallas, TX 75229

EMERGENCY CEASE AND DESIST ORDER

This is your OFFICIAL NOTICE of the issuance by the Securities Commissioner of the State of Texas ("Securities Commissioner") of an EMERGENCY CEASE AND DESIST ORDER pursuant to Section 23-2 of The Securities Act, TEX. REV. CIV. STAT. ANN. art. 581-1 et seq. (Vernon 1964 & Supp. 2002) ("Texas Securities Act").

The Staff of the Enforcement Division ("Staff") of the Texas State Securities Board ("Securities Board") has presented evidence sufficient for the Securities Commissioner to find that:

FINDINGS OF FACT

1. Hobbs Oil Company ("Respondent HOC") is a Texas sole-proprietorship whose last known address is 11500 North Stemmons Freeway, Suite 107, Dallas, Texas 75229.
2. Ray K. Hobbs ("Respondent Hobbs") is a natural person who is owner of Respondent HOC and whose last known business address is the same as Respondent HOC.

3. Myra Ray ("Respondent Ray") is a natural person who acted as a salesperson for Respondent HOC as described herein, and whose last known business address is the same as Respondent HOC.
4. On or about November 19, 2002, Respondent Ray, on behalf of Respondents HOC and Hobbs, contacted a Wisconsin resident ("Offeree"), to evaluate the Offeree's interest in an oil and gas offering named the Brookshire Dome Prospect ("Brookshire"). On or about November 22, 2002, Respondent Ray, on behalf of Respondents HOC and Hobbs, sent, or caused to be sent to the Offeree, sales literature about the Brookshire and a participation agreement ("Participation Agreement") to purchase working interest in the existing oil and gas leases of the Brookshire.
5. Paragraph 5 of the Participation Agreement states that "Participant agrees to pay its proportionate share of the balance of the AFE amounts at such times and in such increments as requested by Hobbs Oil Company. Failure to pay said costs within thirty business days of a cash call shall result in the forfeiture of the interest in and to the subject well and any associated Leases. Any cost savings associated with the actual drilling and completion costs will be refunded to each Participant proportionately."
6. On or about November 25, 2002, Respondent Ray, on behalf of Respondents HOC and Hobbs, telephoned the Offeree and made available an opportunity to purchase working interest ("Brookshire working interest") in the existing oil and gas leases of the Brookshire. Respondent Ray, on behalf of Respondents HOC and Hobbs, represented to the Offeree that the drilling was to begin on the prospect shortly, with the first return to investors from production by February of 2003, and that investors would recoup their entire investment from production within thirteen (13) months from the investors' first return.

Respondent Ray, on behalf of Respondents HOC and Hobbs, also represented to the Offeree that investors had no duties or responsibilities and that the prospect was a "turnkey operation" with investors having no other liabilities beyond the amount of their initial investment.

Respondent Ray, on behalf of Respondents HOC and Hobbs, also informed the Offeree that Respondent Ray received a five (5%) percent sales fee from the investors' purchase of the Brookshire working interest.

7. The Brookshire working interest have not been registered with the Securities Commissioner by qualification, notification or coordination and no permit has been granted for their sale within Texas.
8. Respondents HOC, Hobbs, and Ray (collectively "Respondents"), at all times relevant to this Order, were not registered with the Securities Commissioner as securities dealers, agents, investment advisers, or investment adviser representatives.

CONCLUSIONS OF LAW

1. The Brookshire working interest is an interest in oil and gas leases and a “security” as that term is defined in Section 4.A of the Texas Securities Act.
2. Respondents engaged in the offer for sale of the above-described securities, in and from Texas, as the term “offer for sale” is defined in Section 4.E of the Texas Securities Act.
3. Respondents violated the Texas Securities Act by offering for sale the above-described securities, in and from Texas, at a time when the securities were not registered with the Securities Commissioner, as required by Section 7 of the Texas Securities Act.
4. Respondents HOC and Hobbs have acted as “dealers” in securities, in and from Texas, as that term is defined in Section 4.C of the Texas Securities Act.
5. Respondent Ray has acted as an “agent” of a dealer, in and from Texas, as that term is defined in Section 4.D of the Texas Securities Act.
6. Respondents violated the Texas Securities Act by offering for sale the above-described securities, in and from Texas, at a time when the Respondents were not registered with the Securities Commissioner, as required by Section 12 of the Texas Securities Act.
7. Respondent Ray’s representation, on behalf of Respondents HOC and Hobbs, that investors would recoup their investment within thirteen (13) months from the investors’ first return is materially misleading or would otherwise likely deceive the public, in light of the true structure of the offering, which is the purchase of working interest in oil and gas leases and not the purchase of a guaranteed return.
8. Respondent Ray’s representation, on behalf of Respondents HOC and Hobbs, that the Brookshire was a “turnkey operation” with investors having no other liabilities beyond the amount of their initial investment is materially misleading or would otherwise likely deceive the public, in light of Paragraph 5 of the Participation Agreement which states that “Participant agrees to pay its proportionate share of the balance of the AFE amounts at such times and in such increments as requested by Hobbs Oil Company. Failure to pay said costs within thirty business days of a cash call shall result in the forfeiture of the interest in and to the subject well and any associated Leases. Any cost savings associated with the actual drilling and completion costs will be refunded to each Participant proportionately.”
9. Respondents’ conduct, acts and practices threaten immediate and irreparable harm to the public.
10. The foregoing violations constitute bases for the issuance of an Emergency Cease and Desist Order pursuant to Section 23-2 of the Texas Securities Act.

ORDER

1. It is therefore ORDERED that Respondents immediately CEASE AND DESIST from acting as securities dealers or agents in and/or from Texas until they are registered with the Securities Commissioner or an available exemption is utilized.
2. It is further ORDERED that Respondents immediately CEASE AND DESIST from offering for sale or selling securities in and/or from Texas until the securities have been registered with the Securities Commissioner or an available exemption is utilized.
3. It is further ORDERED that Respondents immediately CEASE AND DESIST from offering for sale or selling securities in and/or from Texas through offers that contain statements that are materially misleading or otherwise likely to deceive the public.

NOTICE

Pursuant to Section 23-2 of the Texas Securities Act, you may request a hearing before the 31st day after the date you were served with this Order. The request for a hearing must be in writing, directed to the Securities Commissioner, stating the grounds for the request to set aside or modify the Order. Failure to request a hearing will result in the Order becoming final and non-appealable.

You are advised that pursuant to Section 29.D of the Texas Securities Act any knowing violation of an order issued by the Securities Commissioner under the authority of Section 23-2 of the Texas Securities Act is a criminal offense punishable by a fine of not more than \$5,000 or imprisonment in the penitentiary for not more than two years, or by both such fine and imprisonment.

SIGNED AND ENTERED by the Securities Commissioner this 18th day of December, 2002.


DENISE VOIGT CRAWFORD
Securities Commissioner