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## *Texas State Securities Board*

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IN THE MATTER OF  
BALANCED ENERGY, LLC, AND KIRK JOHNSON

§  
§

Order No. ENF-14-CDO-1731

TO: Balanced Energy, LLC  
1121 S. Carroll Avenue, Suite 200  
Southlake, Texas 76092

Kirk Johnson  
1121 S. Carroll Avenue, Suite 200  
Southlake, Texas 76092

### 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. arts. 581-1 to 581-43 (West 2010 & Supp. 2013) (the "**Texas Securities Act**").

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

#### FINDINGS OF FACT

1. Balanced Energy, LLC ("**Respondent Balanced Energy**") is a Domestic Limited Liability Company that maintains a last known address at 1121 S. Carroll Avenue, Suite 200, Southlake, Texas 76092. Respondent Balanced Energy claims that it is the first company in the oil and gas exploration and production industry to accept Bitcoin as payment for its prospects.
2. Kirk Johnson ("**Respondent Johnson**") is the President of Respondent Balanced Energy. He maintains a last known address at 1121 S. Carroll Avenue, Suite 200, Southlake, Texas 76092.

3. Respondents are offering for sale working interests in wells in the South Runway Prospect, located in Runnels County, Texas, and the North Guitar Prospect, also located in Runnels County, Texas. Respondents advertised the working interests at the Texas Bitcoin Conference and are continuing to advertise the working interests through other means of general solicitation, including a webpage and social media that are accessible by the general public.
4. Respondents are telling investors that they may purchase the working interests in a well in the South Runway Prospect as follows:
  - a. Investors may purchase 6.25% working interest for \$30,038.00,
  - b. Investors may purchase 12.50% working interest for \$60,076.00, and
  - c. Investors may purchase 25% working interest for \$120,152.00.
5. Respondents are representing that the purchase of 6.25% working interest in a well in the South Runway Prospect may generate profits estimated as follows:
  - a. The purchase of 6.25% working interest may generate annual net income from \$18,476.33 to \$92,759.06, depending upon variations in the total barrels of oil per day, price per barrel of oil and other factors, and
  - b. The purchase of 6.25% working interest may result in a net return of \$36,884.41 after the first year, or a first year cash return ranging from 77% to 117% of the amount of investment.
6. Respondents are telling investors that they may purchase the working interests in the wells in the North Guitar Prospect as follows:
  - a. Investors may purchase 6.25% working interest for \$31,771.00,
  - b. Investors may purchase 12.50% working interest for \$63,542.00, and
  - c. Investors may purchase 25% working interest for \$127,084.00.
7. Respondents are representing that the purchase of 6.25% working interest in the wells in the North Guitar Prospect may generate profits estimated as follows:
  - a. The purchase of 6.25% working interest may generate annual net income from \$15,504.75 to \$144,148.91, depending upon variations in the total barrels of oil per day, price per barrel of oil and other factors, and
  - b. The purchase of 6.25% working interest may result in a net return of \$37,997.35 after the first year, or a first year cash return ranging from 76% to 118% of the amount of investment.

8. The working interests in the South Runway Prospect and the North Guitar Prospect have not been registered by qualification, notification or coordination, and no permit has been granted for their sale in Texas.
9. Rule 506 of Regulation D under the Securities Act of 1933 authorizes an issuer to engage in general solicitation in offering and selling covered securities without first complying with state securities registration requirements, provided that, among other things, all purchasers of the securities are accredited investors and the issuer takes reasonable steps to verify that such purchasers are accredited investors.
10. Respondents are offering the aforementioned investments to purchasers who are not accredited investors. Respondent Johnson is claiming that more than one existing investor is an unaccredited investor, and he is now offering the working interests to at least one Texas resident that he knows is not an accredited investor.
11. Respondents are not taking reasonable steps to verify that all purchasers are accredited investors. Respondent Johnson is claiming that “we don’t do any verification” and “we’re not going to play paperwork police.”
12. Respondents are accepting payment through Bitcoin, a digital currency system that incorporates cryptography and is designed to enable users to send money over the Internet without using a credit card or bank account. They have posted a Quick Response Code on social media to allow investors to pay for their investments using Bitcoin.
13. Respondents will convert some or all of the payment receive through Bitcoin to traditional currency, and use it to pay for business operations.
14. In connection with the offer for sale and sale of working interests in wells in the South Runway Prospect and North Guitar Prospect, Respondents are intentionally failing to disclose any material facts relating to the nature of the risks associated with the investment, including, but not limited to, the following:
  - a. The nature of the risks associated with the purchase of working interests, including risks inherent to investments in oil and gas drilling programs and the risk that the investor may lose the entirety of their capital investment,
  - b. The nature of the risks associated with the use of Bitcoin to purchase working interests, including the risks inherent to the use of Bitcoin and the risk that fluctuation in the price of the digital currency may affect business operations.

15. Respondents are making an offer containing statements that are materially misleading or otherwise likely to deceive the public by offering working interests, discussing the profitability of investments in the working interests and failing to disclose the risks identified herein.

#### CONCLUSIONS OF LAW

1. The above-described investments are "securities" as that term is defined by Section 4.A of the Texas Securities Act.
2. Respondents are violating Section 7 of the Texas Securities Act by offering securities for sale in Texas at a time when the securities are not registered with the Securities Commissioner.
3. Respondents are engaging in fraud in connection with the offer for sale of securities.
4. Respondents are making an offer containing a statement that is materially misleading or otherwise likely to deceive the public.
5. Respondents' conduct, acts, and practices threaten immediate and irreparable public harm.
6. The foregoing violations constitute basis 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 offering for sale any security in Texas until the security is registered with the Securities Commissioner or is offered for sale pursuant to an exemption from registration under the Texas Securities Act.
2. It is further ORDERED that Respondents immediately CEASE AND DESIST from engaging in any fraud in connection with the offer for sale of any security in Texas.
3. It is further ORDERED that Respondents immediately CEASE AND DESIST from offering securities in Texas through an offer containing a statement that is materially misleading or otherwise likely to deceive the public.

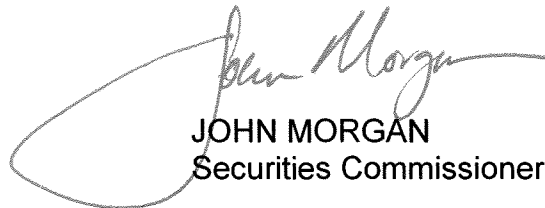
#### NOTICE

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, and state 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 under Section 29.D of the Texas Securities Act that 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 10<sup>th</sup> day of March, 2014.



JOHN MORGAN  
Securities Commissioner