

JOHN MORGAN
SECURITIES COMMISSIONER



RONAK V. PATEL
DEPUTY SECURITIES COMMISSIONER

Mail: P.O. BOX 13167
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Texas State Securities Board

208 E. 10th Street, 5th Floor
Austin, Texas 78701-2407
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BETH ANN BLACKWOOD
CHAIR

DERRICK MITCHELL
MEMBER

E. WALLY KINNEY
MEMBER

DAVID A. APPLEBY
MEMBER

ALAN WALDROP
MEMBER

SOAH DOCKET NO. 312-14-3801

IN THE MATTER OF	§	IN THE STATE OFFICE OF
BALANCED ENERGY, LLC	§	
AND KIRK JOHNSON	§	ADMINISTRATIVE HEARINGS

TO: Balanced Energy, LLC
1121 S. Carroll Avenue, Suite 200, Southlake, Texas 76092
c/o Dan Waller, Secore & Waller, LLP,
12222 Merit Drive, Suite 1350, Dallas, Texas 75251

Kirk Johnson
1121 S. Carroll Avenue, Suite 200, Southlake, Texas 76092
c/o Dan Waller, Secore & Waller, LLP,
12222 Merit Drive, Suite 1350, Dallas, Texas 75251

NOTICE OF HEARING

This is your OFFICIAL NOTICE that a hearing will be held at the State Office of Administrative Hearings, in the William P. Clements Building, 300 W. 15th Street, 4th Floor, Austin, Texas, before an Administrative Law Judge on Thursday, the 26th day of June, 2014, at 9:00 a.m., for the purpose of determining whether to affirm, modify, or set aside Emergency Cease and Desist Order No. ENF-14-CDO-1731.

This hearing will be held pursuant to The Securities Act, Tex. Rev. Civ. Stat. Ann. arts. 581-1 to 581-43 (West 2010 & Supp. 2013) ("Texas Securities Act"); the Rules and Regulations of the State Securities Board, 7 Tex. Admin. Code Chapter 101 (Supp. 2014) ("Board Rules"); the Administrative Procedure Act, Tex. Gov't. Code Ann. §§ 2001.001 to 2001.902 (West 2008 & Supp. 2013); and the Rules of Practice and Procedure of the State Office of Administrative Hearings, 1 Tex. Admin. Code Chapter 155 (Supp. 2013) ("SOAH Rules").

Legal authority and jurisdiction for this matter exist under Sections 23-2 and 24 of the Texas Securities Act, Section 2003.021(b) of the Texas Government Code, and Section 155.51 of the SOAH Rules.

IF YOU FAIL TO ATTEND THE HEARING, THE FACTUAL ALLEGATIONS IN THIS NOTICE COULD BE DEEMED ADMITTED, AND THE SECURITIES COMMISSIONER MAY DISPOSE OF THIS CASE WITHOUT A HEARING AND MAY GRANT THE RELIEF SOUGHT IN THIS NOTICE.

BACKGROUND

1. On March 10, 2014, the Securities Commissioner entered the Emergency Cease and Desist Order No. ENF-14-CDO-1731 (hereinafter referred to as the "Emergency Cease and Desist Order"). A true and correct copy of the Emergency Cease and Desist Order is attached as Exhibit No. 1, and it is fully incorporated herein.
2. The Emergency Cease and Desist Order ordered Balanced Energy, LLC, and Kirk Johnson (hereinafter collectively referred to as "Respondents") to immediately cease and desist from:
 - a. 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,
 - b. Engaging in any fraud in connection with the offer for sale of any security in Texas, and
 - c. Offering securities in Texas through an offer containing a statement that is materially misleading or otherwise likely to deceive the public.
3. On April 8, 2014, Respondents, through counsel, requested a hearing to challenge the Emergency Cease and Desist Order. A true and correct copy of the request is attached as Exhibit No. 2.
4. Section 23-2.D requires that all hearings be held not later than the 10th day after the date the Securities Commissioner receives the request for a hearing unless the parties agree to a later hearing date. As referenced within Exhibit No. 2, the Enforcement Division and Respondents agreed to a later hearing date.
5. A hearing has now been set at the State Office of Administrative Hearings for June 26, 2014.
6. At the hearing, the Enforcement Division of the State Securities Board will produce evidence supporting the Emergency Cease and Desist Order, and it will pray that SOAH enter a proposal that affirms the Emergency Order.

7. Pursuant to Section 105.13 of the Board Rules, the Enforcement Division will respectfully requests that SOAH order that all costs charged to the State Securities Board by any court reporting service in this matter be assessed against the Respondents.

CONTACT INFORMATION

Jeramy Heintz
Attorney, Enforcement Division
State Bar No. 24074390
State Securities Board
208 E. 10th Street, 5th Floor
Austin, Texas 78701
Telephone: 512-305-8392
Facsimile: 512-305-8398
Electronic mail: jheintz@ssb.state.tx.us

Docketing Office
State Office of Administrative Hearings
300 W. 15th Street, Suite 504
Austin, Texas 78701
Telephone: 512-475-3445
Facsimile: 512-475-4994

SECURITIES COMMISSIONER'S REPRESENTATIVE

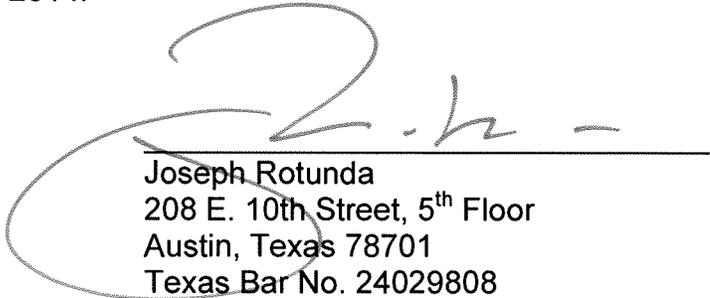
Pursuant to Section 105.8 of the Board Rules, all documents filed by any party, other than business records and transcripts, and all documents issued by the Administrative Law Judge must be contemporaneously served upon the Securities Commissioner's representative as identified below:

Marlene Sparkman
Securities Commissioner's Representative
State Securities Board
208 E. 10th Street, 5th Floor
Austin, Texas 78701
Telephone: 512-305-8300
Facsimile: 512-305-8336

Pursuant to Section 105.13 of the Board Rules, the Staff respectfully requests that the Office order that all costs charged to the State Securities Board by any court reporting service in this matter be assessed against the Respondents.

You are invited to appear personally, with, without, or through counsel, and to present any and all evidence relating to the matters set forth in this Notice.

Signed this 28th day of May, 2014.

A large, stylized handwritten signature in black ink, appearing to read "J. Rotunda", is written over a horizontal line. The signature is written in a cursive style with a large loop at the beginning.

Joseph Rotunda
208 E. 10th Street, 5th Floor
Austin, Texas 78701
Texas Bar No. 24029808
Telephone: 512-305-8392
Facsimile: 512-305-8398
Electronic Mail: jrotunda@ssb.state.tx.us

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of this Notice of Hearing have been sent to the Respondents through their attorney of record via facsimile at 972-776-0240 and via e-mail, and to the Securities Commissioner's Representative via hand-delivery, on this the 28th day of May, 2014.

via electronic mail

Dan Waller
Secore & Waller, LLP
12222 Merit Drive, Suite 1350
Dallas, TX 75251
(972) 776-0200
(972) 776-0240 (fax)
dan@secorewaller.com
ATTORNEY FOR RESPONDENTS

via hand-delivery

Marlene Sparkman
State Securities Board
208 E. 10th Street, 5th Floor
Austin, Texas 78701
(512) 305-8300
(512) 305-8336 (fax)
SECURITIES COMMISSIONER'S REPRESENTATIVE



Jeremy Hejntz
Attorney, Enforcement Division
State Bar No. 24074390
State Securities Board
208 E. 10th Street, 5th Floor
Austin, Texas 78701
Telephone: 512-305-8392
Facsimile: 512-305-8398
Electronic mail: jhejntz@ssb.state.tx.us

EXHIBIT No. 1

JOHN MORGAN
SECURITIES COMMISSIONER

RONAK V. PATEL
DEPUTY SECURITIES COMMISSIONER

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AUSTIN, TEXAS 78711-3167

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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.

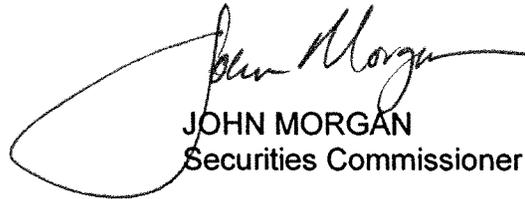
NOTICE

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 10th day of March, 2014.



JOHN MORGAN
Securities Commissioner

EXHIBIT No. 2

SECORE & WALLER, L.L.P.
ATTORNEYS AND COUNSELORS

MERIT TOWER
12222 MERIT DRIVE, SUITE 1350
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(972) 776-0200
TELECOPIER (972) 776-0240
www.secorewaller.com

DAN R. WALLER, P.C.

dan@secorewaller.com

April 8, 2014

Via U.S. Mail

John Morgan, Securities Commissioner
Texas State Securities Board
208 E. 10th Street, 5th Floor
Austin, Texas 78701

Re: *In the Matter of Balanced Energy, LLC and Kirk Johnson;*
Order No. ENF-14-CDO-1731

Dear Mr. Morgan:

Pursuant to Section 23-2 of the Texas Securities Act, I am writing to request a hearing regarding the Emergency Cease and Desist Order entered against my clients Balanced Energy, LLC and Kirk Johnson.

I have alerted Jeremy Heintz at the Texas State Securities Board that we would be requesting a hearing, and we discussed postponing the hearing beyond Section 23-2(D)'s 10-day deadline until June 10, 2014 in order to engage in what we believe will be meaningful settlement discussions. Mr. Heintz was agreeable to this date.

Our grounds for requesting a hearing to discuss setting aside or modifying the order are that my clients have halted all current offerings and will make rescission offers to all previous investors. Additionally, my clients have retained counsel to assist in future securities offerings in an attempt to comply with the Texas Securities Act.

Please contact me should you have any questions.

Sincerely,



Dan R. Waller, P.C.

DRW:lhs