State of Wisconsin

Department of Financial Institutions

Scott Walker, **Governor** | Jay Risch, **Secretary**

November 13, 2018

First Payzone Exploration, LLC
James Dean French, Registered Agent
Texas Department of Criminal Justice Hospital
809 Harborside Drive
Galveston, TX 77550

Sent via Personal Service

Re: James D. French and First Payzone Exploration, LLC
DFI Case No. S-221407 (EX)

Dear Mr. French:

Enclosed please find copies the following documents:

- Summary Order to Cease and Desist
- Affidavit of Service

Sincerely,

Katherine Clementi

Katherine Clementi
Division of Securities

Enclosures

Division of Securities
Mail: PO Box 1768 Madison, WI 53701-1768
Courier: 4822 Madison Yards Way, Madison, WI 53705
Voice: (608) 261-9555 Fax: (608) 264-7979 Web: www.wdfi.org

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

In the Matter of, JAMES D. FRENCH and FIRST PAYZONE EXPLORATION, LLC, Respondents.	SUMMARY ORDER TO CEASE AND DESIST DFI Case No. S-221407 (EX)

I.

The Administrator of the State of Wisconsin, Department of Financial Institutions, Division of Securities ("Division"), having legal authority and jurisdiction to administer and enforce the Wisconsin Uniform Securities Law, Wis. Stats. Ch. 551 ("Ch. 551") and rules and orders promulgated thereunder, and having determined that this action is necessary and appropriate in the public interest and for the protection of investors, hereby enters this Order as follows:

II.

Division staff have presented evidence sufficient for the Administrator to make the following findings of fact and conclusions of law:

A. Findings of Fact

Respondent

1. James Dean French ("French") is an adult male resident of Texas born in December 1964. French currently resides at the Texas Department of Criminal Justice Hospital at 809 Harborside Drive, Galveston, Texas 77550.

2. First Payzone Exploration, LLC ("First Payzone") was a limited liability company organized in Texas on or about April 28, 2010. At all times material, French was the president, manager, and registered agent of First Payzone.

Conduct

3. French has never been registered with the Division in any capacity.

4. On or about May 10, 2001, the State of Pennsylvania issued a summary order to cease and desist against B.J. Oil and French, among others, for offering unregistered securities using unregistered agents in Pennsylvania.

5. On or about June 13, 2007, French was charged with theft of services between $20 and $500 in *The State of Texas vs. James Dean French*, No. 119330, in Taylor County, Texas. French eventually paid restitution to the victim.

6. In or about September 2007, French was charged with theft between $1,500 and $20,000 in The State of Texas v. James Dean French, No. 23112A in Taylor County, Texas. French eventually paid restitution to the victim.

7. On or about June 18, 2010, the Internal Revenue Service filed a tax lien against French for approximately $655,827.59.

8. On or about September 23, 2013, French was named as a defendant in *Demetres Velendzas, Bruce Munch, Jonathan Cheng, John Januska, and Bruce Rowley vs. First Payzone Exploration, LLC, James French, and Houston Energy Resources, LLC*, a civil action filed in Texas by investors in First Payzone, LLC.

9. Investor JF is an adult male resident of LaCrosse County, Wisconsin.

10. Between May 18, 2010 and March 13, 2014, Investor JF invested a total of $300,030.35 in fractional undivided working interests in various oil and gas wells through French and First Payzone in 12 separate transactions.

11. At no time prior to any of his 12 investment transactions did French inform Investor JF of the Pennsylvania order, theft charges, tax lien, or the lawsuit naming him as a defendant.

B. Conclusions of Law

Legal Authority and Jurisdiction

12. The Administrator has legal authority and jurisdiction over the conduct described above, pursuant to Ch. 551 and the rules and orders promulgated thereunder.

13. Pursuant to Wis. Stat. § 551.102(28), the fractional undivided working interests in oil and gas are securities.

14. Pursuant to Wis. Stat. § 551.501(2), it is unlawful for a person, in connection with the offer, sale, or purchase of a security, directly or indirectly, to make an untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

Violations

15. Through the conduct described above in ¶¶ 3-11, French and First Payzone violated Wis. Stat. § 551.501(2) when he sold fractionalized undivided working interests in oil and gas

ventures through First Payzone Explorations to Investor JF while omitting the fact that French was the subject of the Pennsylvania Cease and Desist Order, two counts of theft, a federal tax lien in the amount of $655,827.59, and named as a defendant in a civil action filed by other First Payzone investors.

III.

In view of the above findings of fact and conclusions of law, the Administrator deems it necessary and appropriate in the public interest and for the protection of investors, and pursuant to its legal authority and jurisdiction under Ch. 551, to wit Wis. Stat. § 551.604, to issue the following orders and notices:

A. Summary Orders issued pursuant to Wis. Stat. § 551.604(2)

(a) IT IS ORDERED that RESPONDENTS, their agents, servants, officers, employees, successors, affiliates, and every entity and person directly or indirectly controlled or organized by or on behalf of the RESPONDENTS, shall cease and desist from making or causing to be made to any person or entity in Wisconsin any further offers or sales of securities unless and until such securities qualify as covered securities or are registered under Ch. 551 or successor statute, pursuant to Wis. Stats. §§ 551.604(1)(a) and (2).

(b) IT IS FURTHER ORDERED that all exemptions from registration set forth in Ch. 551 or successor statute that might otherwise apply to any offer or sale of any security of or by RESPONDENTS, their agents, servants, officers, employees, successors, affiliates, and every entity and person directly or indirectly controlled or organized by or on behalf of RESPONDENTS, are hereby revoked, pursuant to Wis. Stats. §§ 551.604(1)(b) and (2).

(c) IT IS FURTHER ORDERED that RESPONDENTS, their successors, affiliates, controlling persons, officers, agents, servants, employees, and every entity and person directly or indirectly controlled or hereafter organized by or on behalf of RESPONDENTS are prohibited from violating Wis. Stat. § 551.501 or successor statute.

(d) PLEASE TAKE NOTICE that the summary orders of the Administrator are effective as of the date of issuance of this order, pursuant to Wis. Stat. § 551.604(2). You are advised that any willful violation of an Order issued by the Division under Ch. 551 is a criminal offense punishable under the provisions of Wis. Stat. § 551.508.

B. Service of Order

(e) IT IS FURTHER ORDERED that this order shall be sent promptly by certified mail to each party named in the order at his or her last known address or to the party's attorney of record, or shall be personally served upon the party or the party's attorney of record,

pursuant to Wis. Admin. Code § DFI-Sec 8.06. This order shall also be served upon the office of the administrator pursuant to Wis. Stat. § 551.611.

(f) PLEASE TAKE NOTICE that the date of the service of this order is the date it is placed in the mail (which is also the issue and effective date below). If the order is served personally, the date of service of this order is the date of personal service. You are advised that any willful violation of an order issued by the division under Ch. 551 is a criminal offense punishable under the provisions of Wis. Stat. § 551.508.

C. Notice of Hearing Rights

(g) PLEASE TAKE NOTICE that you have the right to request a hearing. Every request for a hearing shall be in the form of a petition with the Division, pursuant to Wis. Admin. Code DFI-Sec. 8.01. A petition for a hearing to review the order shall:

(1) Plainly admit or deny each specific allegation, finding or conclusion in the order and incorporated papers. However, if the petitioner lacks sufficient knowledge or information to permit such an admission or denial, the petition shall so state, and that statement shall have the effect of a denial; and

(2) State all affirmative defenses. Affirmative defenses not raised in the request for hearing may be deemed waived.

(h) PLEASE TAKE FURTHER NOTICE that, within 15 days after receipt of a request in a record from you, the matter will be scheduled for a hearing or other public administrative proceedings, pursuant to Wis. Stats. §§ 551.604(2) and (3).

(i) PLEASE TAKE FURTHER NOTICE that if you do not request a hearing and none is ordered by the Administrator within 30 days after the date of service of this order, the findings of fact, conclusions of law, and summary and proposed orders, including the imposition of civil penalty or requirement for payment of restitution, disgorgement, interest, or the costs of investigation sought in a statement in the order, become final as by operation of law, pursuant to Wis. Stat. § 551.604(2).

EXECUTED at Madison, Wisconsin this 13th day of November, 2018.

Leslie M. Van Buskirk

Leslie M. Van Buskirk
Administrator

Division of Securities
State of Wisconsin Department of Financial Institutions
4822 Madison Yards Way, 4th Floor
Madison, WI 53701

State of Wisconsin

Department of Financial Institutions

Scott Walker, **Governor** Jay Risch, **Secretary**

AFFIDAVIT OF SERVICE
AND COMPLIANCE WITH WIS. STAT. § 551.611

STATE OF WISCONSIN)
) ss.
COUNTY OF DANE)

I, KATHERINE CLEMENTI, first being duly sworn, depose and state:

1. I am employed with the State of Wisconsin, Department of Financial Institutions, Division of Securities.

2. In compliance with Wis. Stat. §§ 227.48, 551.611, and 891.46; and Wis. Admin. Code. §§ DFI-Sec 8.06 and 8.07, I have caused to be served copies of the following documents upon the Administrator for the Division of Securities:

   a. A copy of the Summary Order to Cease and Desist, DFI Case No. S-221407 (EX); and

   b. A copy of this Affidavit of Service.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief.

Katherine Clementi
KATHERINE CLEMENTI

State of Wisconsin
Department of Financial Institutions
Division of Securities

Subscribed and sworn to before me

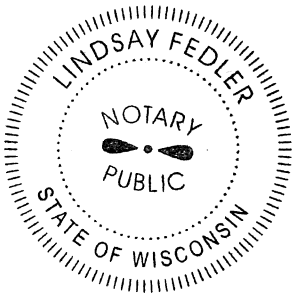
This 13th day of November, 2018.

Lindsay Fedler

Notary Public, State of Wisconsin

My commission is permanent.

(Notary Seal)



Division of Securities
Mail: PO Box 1768 Madison, WI 53701-1768
Courier: 4822 Madison Yards Way, Madison, WI 53705
Voice: (608) 261-9555 Fax: (608) 264-7979 Web: www.wdfi.org