IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
ABILENE DIVISION

SECURITIES AND EXCHANGE COMMISSION,	§	
	§	
Plaintiff,	§	
	§	
v.	§	Case No.: 1:14-cv-185
	§	
PAUL R. DOWNEY, JEFFRY P. DOWNEY, and JOHN M. LEONARD,	§	
	§	
Defendants.	§	

COMPLAINT

Plaintiff Securities and Exchange Commission (the "Commission") files this Complaint against Defendants Paul R. Downey, Jeffry P. Downey, and John M. Leonard (collectively "Defendants"), and alleges as follows:

SUMMARY

1. Between January 2010 and May 2011, the father-son duo of Paul and Jeffry Downey used their company, Quest Energy Management Group, Inc. ("Quest"), to raise at least $4.8 million from 17 investors through fraudulent offers and sales of interests in a limited partnership called Permian Advanced Oil Recovery Investment Fund I, LP ("PAOR"), as well as fraudulent offers of Quest preferred stock.

2. In conducting the offer and sale of limited partnership units in PAOR, the Downeys drafted and used a fraudulent private placement memorandum ("PPM"). The PPM for the PAOR offering contained overt lies and materially misleading omissions about: (i) the financial health and viability of Quest, (ii) the debt and liens associated with certain oil and gas leases in which PAOR was purportedly acquiring an interest, (iii) the use of offering proceeds by

the Downeys and Quest, (iv) current and projected petroleum production from certain oil-and-gas leases, (v) purported independent audits of PAOR, and (vi) foreseeable litigation against Quest and the Downeys.

3. As part of their scheme, the Downeys enlisted the help of John M. Leonard, a resident of Naples, Florida and Chicago, Illinois. Despite being neither registered as a broker-dealer nor associated with a registered broker-dealer, Leonard solicited investors on behalf of Quest and the Downeys and received at least $405,698 as a result of his sales of PAOR limited partnership interests – representing a 10-percent (10%) commission on funds invested by investors personally solicited by Leonard or his associates.

4. By reason of these activities and the conduct described in more detail below, Defendants Paul and Jeffry Downey have offered and sold securities, and have violated and – unless enjoined – will continue to violate the antifraud provisions of the federal securities laws, specifically Section 17(a) of the Securities Act of 1933 ("Securities Act"), Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder. Similarly, Defendant Leonard has violated and – unless enjoined – will continue to violate Section 15(a) of the Exchange Act, which generally prohibits the offer or sale of securities by an unregistered broker.

5. In the interest of protecting the public from any further fraudulent activity and harm, the Commission brings this action against the Defendants seeking permanent injunctive relief, disgorgement of ill-gotten gains resulting from Defendants' violations of the federal securities law, accrued prejudgment interest on those ill-gotten gains, civil monetary penalties, and officer-and-director bars against the Downeys.

JURISDICTION AND VENUE

6. Defendants offered and sold securities – in the forms of limited partnership ("LP") units in PAOR and Quest preferred stock – to investors and prospective investors. The LP units in PAOR are securities under Section 2(a)(1) of the Securities Act [15 U.S.C. §77b] and Section 3(a)(10) of the Exchange Act [15 U.S.C. §78c]. The LP units in PAOR are also investment contracts, which are securities under the same sections of the Securities Act and the Exchange Act. Finally, Quest preferred stock is a security under the same provisions of the federal securities laws. As such, the Court has jurisdiction over this action pursuant to Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)] and Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78(aa)].

7. Venue is proper because a substantial part of the events or omissions giving rise to the claims occurred within the Northern District of Texas, Abilene Division. Quest maintained its headquarters and its principal place of business in Albany, Texas. Additionally, Defendant Jeffry Downey resides in Abilene, Texas. Both locations are within the Abilene Division of the Northern District of Texas.

DEFENDANTS

8. **Paul R. Downey**, age 71, resides in Naples, Florida. Paul Downey founded Quest in 2005 and was its Chief Executive Officer ("CEO"), its sole shareholder, and one of its two directors.

9. **Jeffry P. Downey**, age 42, resides in Abilene, Texas and is the son of Defendant Paul Downey. Jeffry Downey was Quest's President, its Chief Operating Officer ("COO"), and one of its two directors.

10. **John M. Leonard**, age 53, maintains residences in Naples, Florida and Chicago, Illinois. Since October 2009, Leonard has not been registered, associated, or affiliated with any broker-dealer. From August 1992 to October 2009, Leonard was a registered representative associated with eight different broker-dealers. In September 2011, Leonard settled a disciplinary proceeding instituted against him by the Financial Industry Regulatory Authority ("FINRA"). Leonard accepted and consented to a two-year suspension from associating, in any capacity, with any broker-dealer registered with FINRA.

RELATED ENTITY

11. **Quest Energy Management Group, Inc., ("Quest")** was formed in November 2005 as a Delaware corporation and, during the relevant period, maintained its principal place of business and headquarters in Albany, Texas. Since May 24, 2013, Quest has been under the control of a receiver appointed by a federal district court in the Middle District of Florida. *See SEC v. Arthur Nadel, Scoop Capital, LLC, Scoop Management, Inc.*, Civ. No. 8:09-CV-00087-RAL-TBM (M.D. Fla., Tampa Division), Doc. 1024 (Order Expanding Scope of Receivership to include Quest). During the relevant period, Defendant Paul Downey owned 100 percent of Quest's issued and outstanding common stock.

STATEMENT OF FACTS

12. In November 2005, the Downeys formed Quest and headquartered it in Albany, Texas. From the time they formed Quest, the Downeys used Quest to conduct oil-and-gas related offerings.

13. The Downeys sought to fund Quest in a variety of ways. Beginning in 2006, the Downeys frequently pursued and obtained financing for Quest from banks. In turn, the Downeys personally guaranteed repayment of Quest's loans and pledged as collateral certain oil and gas

leases. These same oil and gas leases – pledged as collateral for bank loans – later became the focus of the Downeys' 2010 Quest offering to PAOR investors.

14. Over the years, Quest borrowed larger sums from banks, increasing the indebtedness of Quest and the Downeys. For example, in October 2010, Quest borrowed $700,000 from Bank A and used a portion of the loan proceeds ($112,000) to repay an earlier (2008) loan from Bank A. As guarantors, the Downeys pledged certain oil and gas leases as collateral for this debt.

15. Between November 2008 and March 2010 – just prior to when the January 2010 PAOR offering that is the subject of this Complaint commenced – the Downeys, through Quest, raised $6.5 million from investors by selling promissory notes, called Senior Preferred Notes ("SPN"), that purported to be issued by Quest. As a result of this offering, Quest incurred a $6.5 million debt obligation to investors in the Quest SPNs.

PAOR Offering

16. Beginning in January 2010, the Downeys – through Quest and Defendant John Leonard – offered and sold interests in a limited partnership they formed called Permian Advanced Oil Recovery Investment Fund I, LP ("PAOR"). Quest served as PAOR's Operating General Partner, controlling all of PAOR's operations.

17. The Downeys drafted the PPM that was used to market and sell interests in PAOR to prospective investors. The PPM recited that investors in the PAOR offering would acquire: (1) LP units in PAOR and (2) Quest preferred stock.

18. The PPM also provided that PAOR would acquire from Quest a 15-percent (15%) working interest in oil-and-gas leases located on four Texas properties that Quest purported to own and operate: (1) the Musselman Caddo Unit in Shackelford County (the "MCU Lease"), (2)

the Kilgore Ranch Project in Brown County (the "Kilgore Lease"), (3) the Snyder Ranch Project in Callahan County (the "Snyder Lease"), and (4) the KPC Project in Caldwell and Guadalupe Counties (the "KPC Lease") (collectively, the "Leases"). The PPM promised that PAOR investors would receive, based on their 15% ownership in the Leases, 15% of all oil-and-gas production revenue generated by the Leases. And, according to the PPM, the Downeys projected that PAOR investors would obtain a return on investment of more than 130% in just three years. In reality, PAOR investors received a 6% return of their investments.

19. The Downeys appended an exhibit to the PPM labeled Quest's "Business Plan 2009 – 2015 Executive Summary" ("Executive Summary"). In this Executive Summary, the Downeys touted their vision and discipline "to become one of the larger independent oil and gas producers in the Permian Basin by Q4-2014" and ultimately be positioned to "introduce its IPO with a potential market capitalization of $6.2B [Billion] - $8.7B [Billion] by 2015." Given the state of Quest's financial affairs at the time, as discussed further below, this representation by the Downeys was baseless and, at best, a pipedream.

20. The PPM also provided that PAOR investors would receive Quest preferred stock. As a result, Defendants offered Quest preferred stock to investors and prospective investors. However, Quest never authorized or issued shares of preferred stock to PAOR or its investors.

Quest's Financial Condition

21. The PPM did not properly disclose Quest's financial condition to prospective investors. At the time it commenced the PAOR offering in January 2010, Quest possessed a significant amount of indebtedness on which it was obligated to make monthly or quarterly payments. These burdensome and on-going debt obligations stemmed from: (i) prior bank loans, (ii) obligations to investors in Quest-issued SPNs, and (iii) significant unpaid debts flowing from

acquisition costs to which the Downeys had committed Quest to pay several years earlier to acquire the Leases (that Quest purportedly owned and operated). For example, as of January 2010, Quest still owed acquisition costs of more than $830,000 to the original leaseowner of the MCU Lease and more than $250,000 to the original leaseowner of the KPC Lease. Finally, Quest undertook a $6.5 million obligation when it sold the Quest-issued SPNs to investors.

22. In spite of these significant financial issues facing the Operating General Partner of PAOR, the Downeys failed to disclose Quest's existing debt obligations. Instead of being told about the significant existing debt (that made promises of "ownership" misleading), the PPM merely contained a vague, ambiguous, and prospectively-worded boilerplate provision that, "*[i]f* [Quest] incurs additional indebtedness a portion of its cash flow will have to be dedicated to the payment of principal and interest on such indebtedness." (emphasis added). In fact, the Downeys *knew* at this time that the indebtedness was a certainty and that they had to allocate a substantial portion of Quest's cash flow to pay back principal and interest on existing debts.

23. To further mislead investors, the Downeys painted a sunny picture of Quest's historical and near-term operations, detailing in the PPM that: "Quest is a 4-year-old Texas based oil and gas company with a successful track record of developing properties with proven recoverable reserve. . . . PAOR is a low risk development project in fields that have been fully delineated by prior drilling." This assurance that PAOR was a low-risk project, however, was materially misleading. For example, to prevent this statement about PAOR's Operating General Partner from materially misleading prospective investors, the Downeys should have disclosed Quest's existing debt burden, its marginal solvency, and its overextended debt collateral – all of which made the PAOR investment anything but "low risk." If Quest had been unable to satisfy

its debt obligations, Quest creditors could have foreclosed on the Leases and prevented PAOR investors from receiving *any* returns on their investments.

24. Further, the Downeys failed to tell PAOR investors that Quest operated at a loss, and had negative operating revenue, every year from 2009 to 2012. And these omissions became increasingly more material and more misleading as Quest's financial condition worsened as cash flows from the Leases became barely sufficient to cover operating expenses, let alone existing debt obligations.

25. By Spring 2011, the prospect of Quest defaulting on its debt obligations was inescapable and obvious to the Downeys. For example, the Downeys were repeatedly warned by Bank A that the balance in Quest's operating account had fallen below $10,000. And as the Downeys knew, they faced the reality that if Bank A automatically withdrew Quest's March 2011 loan installment payment (as it was entitled to do), then Quest's payroll checks would bounce. Despite this known and imminent financial peril, the Downeys allowed the PAOR offering to continue through May 2011 without revising, editing, or otherwise updating the PPM to disclose to investors and prospective investors the bleak financial condition of PAOR's General Partner and the risks flowing therefrom.

26. Finally, the Downeys' discussion about "Liquidity and Capital Resources" in the PPM was misleading and intentionally vague: "[Quest]'s liquidity and capital resources are, to some extent, dependent on its ability to raise sufficient capital to pay for the purchase price of the Limited Partnership Units." Since Quest offered and sold LP units in PAOR, it is illogical that Quest would "pay for the purchase price" of the LP units.

Misrepresentations by the Downeys concerning the Leases

27. The Downeys also made misrepresentations about current and projected oil and gas production from the Leases. According to the PPM, Quest acquired the Leases, containing a total of 166 oil and/or gas wells, in 2006 and 2007. As represented by the Downeys in the PPM, forty-one (41) of these wells produced 120 barrels of oil equivalent daily. However, the reality, which the Downeys knew because of daily interactions with Quest's field supervisor, was that the wells located on the Leases were producing no more than 78 barrels of oil equivalent daily – not 120 barrels. The Downeys reiterated this misrepresentation in the Management section of the PAOR PPM, crediting Jeffry Downey with increasing production from 48 barrels of oil equivalent daily in 2005 to 3,800 barrels of oil equivalent daily by December 2009. Based on *actual* production of 78 barrels of oil equivalent daily, monthly production was, at most, 2,400 barrels – not 3,800 barrels.

28. In its Executive Summary, the Downeys asserted that Quest was "currently upgrading acquired properties to increase daily production to 500 – 1,000 [barrels of oil equivalent daily] by Q3-2010 and has expansion plans to achieve 2,500 – 3,500 [barrels of oil equivalent daily] by Q1-2011." In reality, the Downeys knew that: (i) Quest had no realistic "expansion plans," (ii) no purported "upgrades" were underway or in the works, and (iii) their projections of 2,500 to 3,500 barrels of oil equivalent daily was, at best, severely reckless, and, at worst, intentionally deceptive.

The 15% Interest to be owned by PAOR investors was illusory.

29. The Downeys also knew that the 15% interest that PAOR investors purportedly possessed in the oil-and-gas revenues produced by the KPC Lease was illusory. This interest would, in turn, putatively give the investors the right to earn 15% of the revenues derived from

the KPC Lease. Unbeknownst to the PAOR investors – because the Downeys did not disclose it in the PPM – the Downeys paid the limited revenues they received from the producing wells on the KPC Lease to the original leaseowner to fulfill payment of the lease's $700,000 purchase price. As late as November 2010 – in the midst of the PAOR offering – Quest still owed $240,000 to the original leaseowner of the KPC Lease.

30. And, the Downeys further agreed to provide the original leaseowner of the KPC Lease with ***all*** KPC Lease production revenues to satisfy the remaining $240,000 indebtedness. The Downeys failed to disclose this revenue diversion to PAOR investors in the PPM. As a result, PAOR investors would not obtain their promised 15% interest until after the Lease's purchase price had been fully paid. Or, given Quest's dire financial straits, PAOR investors may have never received the revenues from the KPC Lease to which they were entitled. Finally, and contrary to the Downey's disclosures in the PPM, the original leaseowner of the KPC Lease operated the KPC Lease, not Quest.

Downeys failed to disclose that two of the Leases were previously pledged as collateral.

31. The Downeys also failed to disclose in the PPM that they, on behalf of Quest, had previously pledged the MCU and KPC Leases as collateral on prior Quest loans. In fact, the Downeys had previously pledged the MCU Lease at least *twice* by the time the PAOR offering commenced: (i) first, to secure Quest's January 2007 acquisition of the MCU Lease and to assume an $832,000 promissory note payable to the original leaseowner of the MCU Lease; and (ii) second, to secure a 2008 loan (and then a 2010 loan) from Bank A.

32. Additionally, at the time of the PAOR offering, the Downeys and Quest had previously pledged the KPC Lease as collateral in connection with their offer and sale of Quest-issued SPNs between November 2008 and March 2010. As recited in the SPN offering

documents, investors in the Quest-issued SPNs were "senior to any debt related to the Company's assets on [the KPC Lease]." The KPC Lease described in the SPN offering documents was the same lease referenced by the Downeys in the PAOR PPM. Nevertheless, the Downeys failed to disclose the preceding SPN offering (or the senior interest in the KPC Lease purportedly reserved exclusively for SPN investors) to prospective PAOR investors.

33. The Downeys knew about these liens and their potential impact on PAOR investors. In August 2009, Quest engaged a due diligence service provider to summarize the PAOR offering and to issue a report for salesmen who would be marketing the PAOR offering to prospective investors. In September 2010 – nine months *after* the PAOR offering commenced – the due diligence provider issued its report and emphasized that the MCU Lease was encumbered by ***four*** liens, including those owned by Bank A and the original leaseowner of the MCU Lease. Summarizing the foreclosure risk these liens posed to PAOR investors, the due diligence provider warned: "Since there is an assignment of revenues that is attached to these two encumbrances, cash flows that would otherwise go to the investors could be diverted to the lender." Despite this knowledge, the Downeys did not revise or update the PPM to disclose this material risk to PAOR investors. And, perhaps even worse, prospective PAOR investors received an edited version of the due diligence report that omitted these critical warnings about material risks inherent in the PAOR offering.

34. Similarly, the Downeys knew – at the outset and throughout the PAOR offering – that Quest was obligated to make interest payments to SPN investors. By personally guaranteeing the loans that Quest obtained from banks, the Downeys signed loan agreements that listed the MCU Lease as collateral. Summing up these notable encumbrances and erasing any doubt concerning the Downeys' knowledge, Defendant Paul Downey submitted an affidavit to a

federal district court in April 2013 that admitted that: "[V]irtually all of Quest's assets have been pledged or encumbered in the course of Quest's efforts to raise capital. As a result, a takeover of Quest by the Receiver would not put the Receiver in a position to liquidate assets of any significant value."

Misuse of Offering Proceeds

35. As recited in the PPM, Quest advised investors and prospective investors that it would use 85.5% of funds invested in the PAOR offering (roughly $4.1 million of the $4.8 million raised) to drill and complete nine (9) wells on the MCU and Kilgore Leases. The PPM further directed that 10.5% of PAOR investor funds would be used to pay sales commissions and offering costs and 3.77% would be used for working capital.

36. Despite these representations, the Downeys and Quest used less than 25 percent of the $4.8 million offering proceeds (approximately $1.1 million) for drilling and completion purposes. Instead, the Downeys spent $3 million on their personal residential and automobile expenses, payroll, lease royalty obligations, lease purchase debt, bank debt, interest and principal owed to the SPN note-holders, legal and accounting fees, federal taxes, and insurance.

37. In the Spring of 2011 – in the midst of a cash deficit at Quest – the Downeys misused PAOR investor funds by diverting: (i) $244,887 to investors in previous Quest offerings, (ii) $150,000 to pay down the acquisition costs of the MCU Lease, and (iii) $66,282 to pay down its debt obligations to Bank A.

38. Also during this timeframe, the Downeys sent more than $100,000 of PAOR investor funds to a Naples, Florida tax accounting and estate planning firm. The Downeys used these funds to compensate for research and due diligence services the firm performed, on behalf of one of the firm's wealthy clients, on Quest and the PAOR investment. The proposed

investment was not in PAOR LP interests, but was envisioned as a separate, inside agreement for the wealthy client to invest in the Leases. This proposed investment would not benefit PAOR investors and, in any event, the wealthy client chose not to invest with Quest.

39. The Downeys' conduct further reveals their awareness of the misallocations. For example, Defendant Jeffry Downey signed checks to investors in previous Quest offerings and to at least one of Quest's creditors. Both Paul and Jeffry Downey sent and received emails that reflected their knowledge of the misuses of PAOR investor funds and the continuing liquidity problems posed by Bank A's automatic monthly withdrawals for Quest's monthly loan installment payments.

Misrepresentations and Omissions about the Hatchett Ranch Lease

40. The Downeys and Quest also deceived investors regarding the purchase of the Hatchett Ranch lease in Callahan County, Texas (the "Hatchett Ranch Lease"). During the first part of 2011, the Downeys spent $467,331 of PAOR investor funds to purchase the Hatchett Ranch Lease in the name of Quest – not the PAOR partnership. After this blatant misuse of PAOR investor proceeds, the Downeys advised investors that Quest "ha[d] come to an agreement on acquiring the Hatchett Ranch Lease – a 4,000 acre lease in Callahan County with multiple pay zones. PAOR will participate in this acquisition *without requiring additional capital*." (emphasis added). The Downeys also told PAOR investors that the Hatchett Ranch Lease would "be added to the PAOR project **at no additional cost to the original investors**, and should increase the overall performance of the FUND." (emphasis in original). However, as the Downeys knew, the Hatchett Ranch Lease was acquired with PAOR investor funds. Thus, *after* the Downeys used PAOR funds to buy an asset for Quest, they then led investors to falsely believe that the Hatchett Ranch Lease was a PAOR asset when, in fact, it was not.

41. As further evidence of their deception, the Downeys attempted to assign the Hatchett Ranch Lease in 2013 to repay a $500,000 loan made to Quest. The Downeys neither apprised the PAOR investors of the attempted assignment nor sought approval for it – even though they represented that the Hatchett Ranch Lease was a PAOR asset acquired with PAOR investor funds.

Misrepresentations and Omissions about an independent audit

42. The Downeys and Quest also misrepresented that the PAOR partnership would be subject to an annual independent audit. According to the PPM, Quest's Chief Financial Officer ("CFO") was charged with managing PAOR's finances, including "supervising the annual independent audit of the Partnership." However, the Downeys and Quest never authorized or facilitated an independent audit of the PAOR partnership, and Quest's CFO never supervised such an audit. Defendant Jeffry Downey was the Quest officer responsible for implementing and using Quest's accounting software and for coordinating with an accounting firm to prepare annual tax returns for Quest-related investments. He knew, or was severely reckless in not knowing, the difference between an independent audit and an annual tax return.

Misrepresentation and Omission about Anticipated Litigation

43. The Downeys and Quest also deceived investors by misrepresenting in the PAOR PPM that "to the best knowledge of the Company, no legal actions are contemplated against the Company and/or its Directors, Officers and Shareholders." However, the Downeys knew that statement was, at best, misleading. As early as 11 months before the PAOR offering commenced, the Downeys were contacted by a receiver appointed by a federal district court in Tampa, Florida (the "Receiver"). The Receiver served the Downeys with a subpoena for documents pertaining to $5.1 million that flowed to Quest from investors in a 10-year Ponzi

scheme. *See SEC v. Arthur Nadel, et al.*, Civ. Action No. 8:09-CV-00087 (M.D. Fla., Tampa Division). Throughout 2009, the Receiver reiterated to the Downeys that the source of the $5.1 million invested with Quest was a group of defrauded investors and that it was his responsibility as receiver to recoup the funds for their benefit. The Receiver apprised the Downeys of his intention to take possession of all of Quest's outstanding common stock, pursuant to the Downeys' pledge of the stock in 2007 as collateral for the $5.1 million infusion to Quest. Based on these circumstances, the Downeys faced the likelihood that the Receiver would seek to liquidate some or all of Quest's assets, take possession of its common stock, and/or replace its management. Despite these things, there is no mention in the PPM of the Receiver, the source of the $5.1 million cash infusion, or the potential adverse financial implications to Quest and PAOR as a result of this asserted claim.

John Leonard's Sales Efforts

44. Throughout the duration of the PAOR offering, Defendant John Leonard served as a salesman for the Downeys and Quest. Leonard solicited investors and prospective investors to invest in the PAOR offering, despite being neither registered as a broker-dealer nor associated or affiliated with a registered broker-dealer. Leonard received $405,698 in commissions, representing a 10% commission on funds invested by investors personally solicited by Leonard or two of his associates.

FIRST CLAIM FOR RELIEF

Violations of the Antifraud Provisions of the Securities Act
Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)]

[against Defendants Paul R. Downey and Jeffry P. Downey]

45. The Commission repeats and re-alleges Paragraphs 1 through 44 of this Complaint, as if fully set forth herein.

46. By engaging in the conduct described herein, Defendants Paul R. Downey and Jeffry P. Downey, directly or indirectly, singly or in concert, in the offer or sale of securities, by use of the means or instrumentalities of interstate commerce or of the mails, knowingly or with severe recklessness, employed devices, schemes, or artifices to defraud.

47. By engaging in the foregoing misconduct, Defendants Paul R. Downey and Jeffry P. Downey, directly or indirectly, singly or in concert, in the offer or sale of securities, by use of the means or instrumentalities of interstate commerce or of the mails, and at least negligently: (i) obtained money or property by means of untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (ii) engaged in transactions, practices, and/or courses of business which operate as a fraud or deceit upon purchasers, prospective purchasers, and other persons.

48. Defendants Paul R. Downey and Jeffry P. Downey made the above-referenced misrepresentations and omissions knowingly or with severe recklessness with regard for the truth. Defendants were also negligent in their actions regarding the representations and omissions alleged herein.

49. By engaging in this conduct, Defendants Paul R. Downey and Jeffry P. Downey violated, and unless enjoined will continue to violate, Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

SECOND CLAIM FOR RELIEF

Violations of Antifraud Provisions of the Exchange Act
Section 10(b) [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5]

[against Defendants Paul R. Downey and Jeffry P. Downey]

50. The Commission repeats and re-alleges Paragraphs 1 through 44 of this Complaint, as if fully set forth herein.

51. By engaging in the foregoing misconduct, Defendants Paul R. Downey and Jeffry P. Downey, in connection with the purchase or sale of securities, by use of means or instrumentalities of interstate commerce or of the mails, or of any facility of any national securities exchange, directly or indirectly: (i) employed devices, schemes, or artifices to defraud; (ii) made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (iii) engaged in acts, practices, and courses of business which operate as a fraud or deceit upon persons, including purchasers or sellers of securities.

52. Defendants Paul R. Downey and Jeffry P. Downey made the above-referenced misrepresentations and omissions knowingly or with severe recklessness regarding the truth.

53. By reason of the foregoing, Defendants Paul R. Downey and Jeffry P. Downey violated, and unless enjoined will continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

THIRD CLAIM FOR RELIEF

Violation of Broker-Dealer Registration Provisions of the Exchange Act Section 15(a) [15 U.S.C. § 78o(a)]

[against Defendant John M. Leonard]

54. The Commission repeats and re-alleges Paragraphs 1 through 44 of this Complaint, as if fully set forth herein.

55. Defendant John M. Leonard, by use of the mails or any means or instrumentality of interstate commerce, effected transactions in, or induced or attempted to induce the purchase or sale of, securities without being registered with the Commission as a broker or dealer or as an associated person of a registered broker or dealer.

56. By engaging in this conduct, Defendant John M. Leonard violated, and unless enjoined will continue to violate, Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)].

PRAYER FOR RELIEF

For these reasons, the Commission respectfully requests that this Court enter a final judgment:

a. Permanently enjoining Paul R. Downey and Jeffry P. Downey from violating Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder;

b. Permanently enjoining Paul R. Downey and Jeffry P. Downey from, directly or indirectly, soliciting existing or potential investors to purchase or sell securities, provided however that such injunction shall not prevent them from purchasing or selling securities for their own accounts;

c. Permanently enjoining Paul R. Downey and Jeffry P. Downey from participating, directly or indirectly, in any securities offering, including acting as a manager, administrator, promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer, or issuer for purposes of the issuance of any securities;

d. Permanently enjoining John M. Leonard from violating Section 15(a) of the Exchange Act;

e. Ordering Paul R. Downey, Jeffry P. Downey, and John M. Leonard to disgorge ill-gotten funds and benefits obtained or to which they were not otherwise entitled, as a result of the violations alleged herein, plus prejudgment interest on that amount;

f. Ordering Paul R. Downey, Jeffry P. Downey, and John M. Leonard to pay civil penalties under Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Sections 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)];

g. Prohibiting Defendants Paul R. Downey and Jeffry P. Downey, under Section 20(e) of the Securities Act [15 U.S.C. § 77t(d)(4)] and Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)], from acting as an officer or director of any issuer that has a class of securities registered under Section 12 of the Exchange Act [15 U.S.C. § 78l] or that is required to file reports under Section 15(d) of the Exchange Act [15 U.S.C. § 78o(d)]; and

h. Granting such additional relief as the Court deems just, appropriate, and equitable.

Respectfully submitted,

DATED: November 20, 2014

/s/ B. David Fraser

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