Composite Exhibit B

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
ABILENE DIVISION

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

ORDER

Following the Court's July 25, 2016 Order granting Plaintiff Securities and Exchange Commission's ("Commission") motion for summary judgment against Defendant John M. Leonard [Doc. 101], the Commission filed a motion for remedies, and for entry of final judgments, against Leonard. The Commission requests a Final Judgment against Leonard, ordering three forms of relief: (1) permanent injunction, (2) disgorgement of the ill-gotten gains Leonard received as a result of his violations, including prejudgment interest, and (3) civil penalties.

Having considered the Commission's motion and the record in this case—including the findings of fact and conclusions of law regarding Leonard's liability previously set forth in the Court's Order granting summary judgment [Doc. 101]—the Court has concluded that the Commission's motion should be, and hereby is, **GRANTED.** By separate document, the Court will issue a final judgment against Leonard.

In granting the Commission's motion, and in addition to the Court's findings of fact and conclusions of law in its July 25, 2016 Order granting the Commission's motion for summary

judgment against Leonard [Doc. 101], the Court makes the following specific findings of fact and conclusions of law relating to the relief requested:

FINDINGS OF FACT

1. From March 2010 through June 2011, Leonard induced investors to purchase securities issued by Quest Energy Management Group, Inc. ("Quest") in a limited partnership called Permian Advanced Oil Recovery Investment Fund I, L.P. ("PAOR"). PAOR was a fraudulent oil-and-gas investment promoted by Leonard's co-defendants, Paul R. Downey and Jeffrey P. Downey, through Quest. Doc. 100, pp. 2, 5. Leonard sold PAOR securities to 13 investors, who collectively invested more than $4 million. Doc. 101, p. 5 n.2. For each of those sales, Leonard received a 10% commission from Quest, totaling $405,698. *Id.*

2. From August 1992 to October 2009, Leonard was associated with Commission-registered brokers. In 2008, Leonard made unsuitable investment recommendations to 13 customers in violation of NASD Conduct Rules 2310 and 2110, and FINRA Rule 2010. In 2011, FINRA sanctioned Leonard for this misconduct, suspending him from associating with any FINRA-registered broker-dealer for two years. A federal court determined that the investment that was the subject of his 2008 misconduct was a fraudulent oil-and-gas investment. *See SEC v. Provident Royalties, LLC*, No. 3:09-CV-01238-L, 2013 WL 5314354, at *6 (N.D. Tex. Sep. 23, 2013) (finding Provident's securities offerings fraudulent).

3. Leonard ceased being associated with a registered broker in October 2009 and has not been otherwise registered as a broker. Within eight months after ceasing to be registered, Leonard began offering and selling PAOR securities. Apart from offering fraudulent oil-and-gas investments, Leonard had no experience in the oil-and-gas industry and admittedly knew nothing about the industry.

4. When recommending PAOR, Leonard told investors that the investment: (i) has been "excellent"; (ii) was "lower risk, proven, . . . tremendous upside," and (iii) offered "outstanding return potential vs any oil offering I have seen!" In reality, Leonard had no basis to make such statements. He did no due diligence on the PAOR investment to determine its quality or its suitability for investors. Moreover, during the 15 months that Leonard offered and sold PAOR, its actual performance contradicted his claims.

5. To conceal his Quest commissions, Leonard directed Quest to send payments to the bank account of a friend, Nicole Saunders. In the course of this litigation, Leonard offered misleading testimony regarding these payments, claiming that he could not control to whom Quest sent money and that he refused to accept the money. When Saunders received a subpoena from the Commision, Leonard advised her to state, falsely, that the Quest money sent to, and received in, her bank account for Leonard represented a loan to her from Leonard. He further suggested that Saunders refuse to testify or otherwise provide information to the Commission.

6. Leonard likewise offered dissembling testimony on the nature of his compensation from Quest. In his emails with Quest, he admitted these payments were commissions. But in his deposition, he mischaracterized his compensation as a salary or gift, while obstinately refusing to concede the obvious connection between his PAOR sales and his compensation.

7. There is no evidence in the summary-judgment record that Leonard acknowledges or recognizes his violations.

8. All of Leonard's commissions flowed from his illegal conduct. Thus, $405,698 is a reasonable approximation of the ill-gotten gains that were causally connected to his violations.

CONCLUSIONS OF LAW

Injunctive Relief

Courts consider a number of factors in determining whether to grant injunctive relief, including: (1) the egregiousness of the defendant's conduct; (2) the isolated or recurrent nature of the violations; (3) the degree of scienter; (4) the sincerity of the defendant's recognition of his transgression; and (5) the likelihood of the defendant's job providing opportunities for future violations. *SEC v. Gann*, 565 F.3d 932, 940 (5th Cir. 2009); *SEC v. Blatt*, 583 F.2d 1325, 1334-35 (5th Cir. 1978); *SEC v. Helms*, No. A-13-cv-01036-ML, 2015 WL 5010298, at *18 (W.D. Tex. Aug. 21, 2015). Here, Leonard's conduct was extremely egregious, recurrent, and carried out with high scienter. He has not recognized his misconduct. And his occupation will likely provide him opportunities for future violations. Given these facts, a permanent injunction is warranted against Leonard.

Disgorgement

A defendant is subject to disgorging a reasonable approximation of the proceeds causally connected to his wrongdoing. *SEC v. Seghers*, 298 F. App'x 319, 336 (5th Cir. 2008); *SEC v. Banner Fund Int'l*, 211 F.3d 602, 617 (D.C. Cir. 2000). A disgorgement award is appropriate even in the absence of fraud. *See, e.g., SEC v. Parkersburg Wireless LLC*, 991 F. Supp. 6, 9-10 (D.D.C. 1997) (ordering disgorgement and other remedies); *SEC v. Schooler*, 106 F. Supp.3d 1157, 1169 (S.D. Cal. 2015).

The Commission has established $405,698 to be a reasonable approximation of the ill-gotten gains flowing from Leonard's violations. The Court will order him to disgorge this amount plus prejudgment interest of $89,063. *Blatt*, 583 F.2d at 1335.

Civil Penalties

Section 21(d) of the Exchange Act authorizes the Commission to seek, and the Court to impose, civil penalties against a defendant who violates the federal securities laws. 15 U.S.C. § 78u(d). Civil penalties are designed to punish the violator and to deter future violations. *See SEC v. Life Partners Holdings, Inc.*, 71 F. Supp.3d 615, 622-23 (W.D. Tex. Dec. 2, 2014); *SEC v. Offill*, No. 3:07-CV-1643-D, 2012 WL 1138622, *3 (N.D. Tex. Apr. 5, 2012); *Kenton Capital,* 69 F. Supp.2d at 17.

For each violation that involves "fraud, deceit, manipulation, or deliberate or reckless disregard of a regulatory requirement" and directly or indirectly results in "substantial losses . . . to other persons," the Court may impose a penaly not to exceed the greater of $178,156 for a natural person or the gross amount of pecuniary gain to that person 15 U.S.C. § 78u(d)(3)(B)(iii); 17 C.F.R. § 201.1001. Here, the Commission has established that Leonard's violations involved deliberate or reckless disregard of a regulatory requirement and that they directly resulted in substantial losses to other persons.

The following factors are relevant in determining whether a civil penalty is appropriate and, if so, in what amount:

> (1) the egregiousness of the defendant's conduct; (2) the degree of the defendant's scienter; (3) whether the defendant's conduct created substantial losses or the risk of substantial losses to other persons; (4) whether the defendant's conduct was isolated or recurrent; (5) whether the defendant has admitted wrongdoing; and (6) whether the penalty should be reduced due to the defendant's demonstrated current and future financial condition.

Life Partners, 71 F. Supp.3d at 623; *SEC v. Razmilovic*, 822 F. Supp. 2d 234, 279 (E.D.N.Y. 2011).

The Court has already determined that factors 1, 2, 4, and 5 support the need for injunctive relief. These four factors likewise support imposition of a civil penalty. As to the

third factor, the Court concludes that Leonard's conduct created substantial losses to 13 other persons, exceeding $4 million. The Court will therefore impose an appropriate penalty against Leonard. As to the sixth factor, Leonard has failed to demonstrate that his current or future financial condition warrants reducing the penalty amount. The penalty amount will therefore not be reduced.

Therefore, the maximum penalty against Leonard equals the greater of: (i) $405,698 (which represents his gross pecuniary gain), or (ii) $178,156 for each violation. The Court finds that a total penalty amount of $178,156 imposed against Leonard is an appropriate penalty amount in this instance.

SO ORDERED.

Dated this 29th day of September, 2016.

SAM R. CUMMINGS
SENIOR UNITED STATES DISTRICT JUDGE

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF TEXAS

ABILENE DIVISION

SECURITIES AND EXCHANGE COMMISSION,	§	
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PAUL R. DOWNEY, JEFFRY P. DOWNEY, and JOHN M. LEONARD,	§	
	§	
Defendants.	§	
	§	

ORDER

Following the Court's July 25, 2016 Order granting Plaintiff Securities and Exchange Commission's ("Commission") motion for summary judgment against Defendants Paul R. Downey and Jeffrey P. Downey (collectively the "Downeys") [Doc. 100], the Commission filed a motion for remedies, and for entry of final judgments, against the Downeys. The Commission requests Final Judgments against the Downeys, ordering three forms of relief: (1) permanent injunctions, (2) officer-and-director bars, (3) disgorgement of the ill-gotten gains they received as a result of their violations, including prejudgment interest, and (4) civil penalties.

Having considered the Commission's motion and the record in this case—including the findings of fact and conclusions of law regarding the Downeys' liability previously set forth in the Court's Order granting summary judgment [Doc. 100]—the Court has concluded that the Commission's motion should be, and hereby is, **GRANTED**. By separate documents, the Court will issue final judgments against the Downeys.

In granting the Commission's motion, and in addition to the Court's findings of fact and conclusions of law in its July 25, 2016 Order granting the Commission's motion for summary judgment against the Downeys [Doc. 100], the Court makes the following specific findings of fact and conclusions of law relating to the relief requested:

FINDINGS OF FACT

1. Working in collaboration with each other, the Downeys raised $4.9 million from 17 investors in a fraudulent offering of securities—in the form of limited-partnership securities in the Permian Advanced Oil Recovery Investment Fund I, L.P. ("PAOR")—from January 2010 through June 2011.

2. In carrying out the fraudulent offering, the Downeys acted with a high level of scienter, knowingly deceiving investors about virtually every aspect of the investment. Among other things, they concealed from investors that a receiver appointed by a federal court in Florida had informed the Downeys the year before the offering that the company serving as PAOR's general partner—Quest Energy Management Group, Inc. ("Quest"), where the Downeys served as directors and officers—had received $5.1 million in proceeds from a Ponzi scheme. Doc. 61, p. 10.

3. The Downeys flagrantly misrepresented how they would use the PAOR investment proceeds, mispending more than 61%—$3 million—on undisclosed costs. *Id.* at pp. 18-20. And they withheld Quest's true financial condition, concealing lease encumbrances, the negative impact of its heavy debt load, and its diminishing cash flows. *Id.* at pp. 21-26. Moreover, even after the Downeys learned that the receiver had filed a motion to place Quest into receivership, they continued to solicit and accept large investments without disclosing the receivership. *Id.* at p. 50.

4. The Downeys each received direct financial benefits from the fraud. Investor funds served as the source of their salaries in 2010 and 2011, and covered their residential and automobile expenses in those years.

5. Given the large amount of funds that the Downeys illegally obtained from investors and the recurrent nature of their fraud—which caused their victims collectively to sustain heavy losses—the Downeys' misconduct was extremely egregious.

6. The Downeys have not recognized or otherwise acknowledged their misconduct. And they have proven to be quite adept at attacting numerous individuals to invest in oil-and-gas investments. A high likelihood therefore exists that their occupation will provide them opportunities for future violations.

CONCLUSIONS OF LAW

Injunctive Relief

Courts consider a number of factors in determining whether to grant injunctive relief, including: (1) the egregiousness of the defendant's conduct; (2) the isolated or recurrent nature of the violations; (3) the degree of *scienter*; (4) the sincerity of the defendant's recognition of his transgression; and (5) the likelihood of the defendant's job providing opportunities for future violations. *SEC v. Gann*, 565 F.3d 932, 940 (5th Cir. 2009); *SEC v. Blatt*, 583 F.2d 1325, 1334-35 (5th Cir. 1978); *SEC v. Helms*, No. A-13-cv-01036-ML, 2015 WL 5010298, at *18 (W.D. Tex. Aug. 21, 2015). Here, the Downeys' conduct was extremely egregious, recurrent, and carried out with high scienter. They have not recognized their misconduct, and their occupations will likely provide them opportunities for future violations. Given these facts, permanent injunctions are warranted against the Downeys.

Officer-and-Director Bars

Section 20(e) of the Securities Act of 1933 ("Securities Act") and Section 21(d)(2) of the Securities Exchange Act of 1934 ("Exchange Act"), as amended by the Sarbanes-Oxley Act of 2002, authorize courts to bar individuals who commit fraud in violation of Securities Act Section 17(a)(1) and Exchange Act Section 10(b) from serving as officers or directors of any Commission-reporting company if their conduct demonstrates "unfitness" to so serve. 15 U.S.C. § 77t(e); 15 U.S.C. § 78u(d)(2); *SEC v. Bankosky*, 716 F.3d 45, 48 (2d Cir. 2013); *SEC v. Petros*, No. 3:10-cv-1178-M, 2013 WL 1091236, *5-6 (N.D. Tex. March 1, 2013); *SEC v. Strauss*, No. 2:08-CV-0206-WAP, 2011 WL 1158783, at *7 (N.D. Miss. March 28, 2011).

In determining "unfitness," courts generally consider six non-exclusive factors: "(1) the egregiousness of the underlying securities law violation; (2) the defendant's repeat offender status; (3) the defendant's role or position when he engaged in the fraud; (4) the defendant's degree of scienter; (5) the defendant's economic stake in the violation; and (6) the likelihood that misconduct will recur." *Bankosky*, 716 F.3d at 48 (quoting *SEC v. Patel*, 61 F.3d 137, 141 (2d Cir. 1995)); *SEC v. Provident Royalties, LLC*, No. 3:09-cv-01238-L, 2013 WL 5314354, at *7 (N.D. Tex. Sep. 23, 2013); *Petros*, 2013 WL 1091236, at *5-6.

Considering the above factors, the Court concludes that an officer-and-director bar is warranted against each of the Downeys. The Court has already determined that the Downeys committed an extremely egregious fraud with a high level of scienter and that there is a significant likelihood that their misconduct will recur. It has also found the Downeys to have served as Quest's executive officers and directors during the fraud and to have had a significant economic stake in the violations. Although the record does not reflect previous violations, the

Court is persuaded that the remaining factors overwhelmingly support imposing officer-and-director bars.

Disgorgement

The Court finds that the Downeys collaborated with one another in committing the violations. It is appropriate, therefore, to hold them jointly and severally liable for disgorgement of the ill-gotten gains in this case. *See SEC v. Halek*, 537 F. App'x 576, 580 (5th Cir. 2013); *SEC v. United Energy Partners, Inc.*, 88 F. App'x 744, 747 (5th Cir. 2004) (*per curiam*). The Commission has established $4.9 million to be a reasonable approximation of the ill-gotten gains flowing from the Downeys' violations. The Court will order the Downeys to pay prejudgment interest on the ordered disgorgement. *Blatt*, 583 F.2d at 1335.

Civil Penalties

The Commission has established that the Downeys' violations involved fraud and deceit and resulted in substantial losses of $4.9 million to 17 investors, collectively. Each of the Downeys is therefore subject to a third-tier penalty under Section 20(d) of the Securities Act of 1933 and Section 21(d) of the Securities Exchange Act of 1934 [15 U.S.C. §§ 77t(d)(2)(C) and 78u(d)(3)(B)(iii)]. Under these statutes, the Court may impose a civil penalty against a defendant not exceeding the greater of $178,156 per violation or the gross amount of pecuniary gain to such defendant as a result of the violation. *Id.*; 17 C.F.R. § 201.1001 (adjusting statutory penalty amounts for inflation).

Therefore, the maximum third-tier penalty for each of the Downeys equals the greater of: (i) $2.45 million (half of the $4.9 million illegally raised, which represents the gross pecuniary gain in this case), or (ii) $178,156 for each violation. The Court finds that a total penalty amount

of $178,156 to be imposed against each of the Downeys is an appropriate amount in this instance.

SO ORDERED.

Dated this 29th day of September, 2016.

SAM R. CUMMINGS
SENIOR UNITED STATES DISTRICT JUDGE