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18 **UNITED STATES DISTRICT COURT**  
19 **CENTRAL DISTRICT OF CALIFORNIA**  
20 **WESTERN DIVISION**

21 **SECURITIES AND EXCHANGE**  
22 **COMMISSION,**

23 Plaintiff,

24 vs.

25 **HARRISON SCHUMACHER; PAUL**  
26 **MYSYK; QUANECO, LLC; and**  
27 **QUANTUM ENERGY, LLC,**

28 Defendants, and

**QUANECO ENERGY HOLDINGS,**  
**LLC; FAT CHANCE OIL & GAS,**  
**LLC; ANV, LLC; and TARA**  
**SCHUMACHER,**

Relief Defendants.

FILED  
CLERK, U.S. DISTRICT COURT  
AUG 21 2015  
CENTRAL DISTRICT OF CALIFORNIA  
DEPUTY

Case No. **CV15-6388 DDP RAOx**

**COMPLAINT**

**(DEMAND FOR JURY TRIAL)**

**(FILED UNDER SEAL)**

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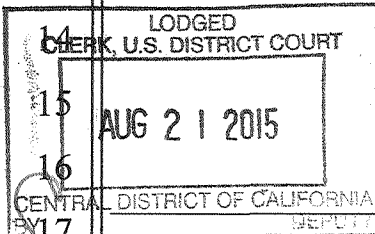
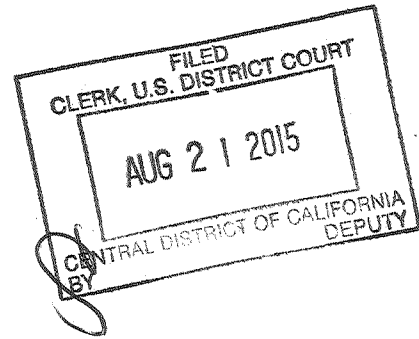
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14 **SECURITIES AND EXCHANGE  
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15 Plaintiff,

16 vs.

17 **HARRISON SCHUMACHER; PAUL  
MYSYK; QUANECO, LLC; and  
QUANTUM ENERGY, LLC,**

18 Defendants, and

19 **QUANECO ENERGY HOLDINGS,  
LLC; FAT CHANCE OIL & GAS,  
LLC; ANV, LLC; and TARA  
SCHUMACHER,**

20 Relief Defendants.

Case No. **CV 15-6388 DDP RAO**

**COMPLAINT**

**(DEMAND FOR JURY TRIAL)**

**(FILED UNDER SEAL)**

1 **COMPLAINT**

2 1. Plaintiff Securities and Exchange Commission (“Commission”) for its  
3 Complaint against Harrison Schumacher (“Schumacher”), Paul Mysyk (“Mysyk”),  
4 Quantum Energy, LLC (“Quantum”), Quaneco, LLC (“Quaneco”), (collectively  
5 “Defendants”), and Quaneco Energy Holdings, LLC, Fat Chance Oil & Gas, LLC,  
6 and ANV, LLC, and Tara Schumacher (“Relief Defendants”), alleges as follows:

7 **SUMMARY OF ALLEGATIONS**

8 2. From April 2010 to the present, Quantum, Quaneco, and Schumacher  
9 perpetrated a fraudulent scheme in connection with five unregistered offers and sales  
10 of securities in oil and gas investment programs. Each of these offerings resulted in  
11 either a total loss to investors or a 99 percent loss to investors. For each of the five  
12 offerings, Quantum, Quaneco, and Schumacher made a series of materially false and  
13 misleading statements in materials provided to investors. Quantum, Quaneco, and  
14 Schumacher also diverted investor funds from their stated purpose, exploration and  
15 development of oil and gas resources, to undisclosed corporate overhead expenses  
16 and/or Schumacher’s *personal* use.

17 3. Mysyk participated in three of these offerings and acted negligently in  
18 assisting with the offerings while Quantum, Quaneco, and Schumacher’s misconduct  
19 was ongoing.

20 4. Defendants’ false and misleading statements fall into three general  
21 categories. First, Defendants promised investors that they would place limits on the  
22 amount of funds used to pay overhead expenses, such as their salaries, as opposed to  
23 direct expenses for developing oil and gas resources, such as property acquisition and  
24 drilling. For all five offerings, investors were either told that all investor funds would  
25 be used to develop oil and gas resources or that overhead expenses would be limited  
26 to thirty percent of funds raised. Contrary to these representations, Defendants  
27 regularly diverted investor funds in excess of thirty percent to pay overhead expenses,  
28

1 including their own salaries. Furthermore, Schumacher regularly diverted investor  
2 funds by using Quantum's corporate account to pay his personal expenses.

3 5. Second, Defendants' false and misleading statements to investors created  
4 the appearance that financial controls were in place. For example, Defendants  
5 claimed that investor funds would be placed in separate trust or escrow accounts.  
6 However, Defendants never created separate accounts and deposited the proceeds of  
7 their offerings in Quantum's general operating accounts. At times, Quantum also told  
8 investors that it would make no loans to affiliates and that any contracts with  
9 affiliates would be at market rates. Contrary to these representations, Quantum  
10 loaned money to affiliates and executed at least two contracts with Quaneco (which  
11 was also controlled by Schumacher, and, until November 2012, jointly by  
12 Schumacher and Mysyk). Schumacher signed these contracts on behalf of both  
13 entities. The contracts concealed the diversion of investor funds to corporate  
14 overhead and Schumacher's personal use by creating the false appearance that money  
15 sent to Quaneco was used to develop oil and gas resources. In reality, Quaneco  
16 pocketed the vast majority of transferred investor funds and hired third parties to  
17 perform the limited work that occurred for a fraction of the price Quaneco charged  
18 Quantum.

19 6. Third, Quantum and Schumacher made materially false and misleading  
20 statements about the economic prospects of at least one of the oil and gas offerings.  
21 Quantum and Schumacher sent investors an economic report that purported to be a  
22 good faith estimate of the potential return on the relevant investment. The report was  
23 materially misleading because its projections omitted any and all fees that would be  
24 paid to Quantum. Nevertheless, Quantum and Schumacher continued to provide  
25 investors with these economic projections even after a business partner who created  
26 the report asked Schumacher to stop using the report because it was misleading.

27 7. Quantum and Schumacher continued to raise money for this project even  
28 after the same business partner withdrew from the relationship, sued Schumacher and

1 Quantum, and obtained a court order that recognized that the business partner had the  
2 ability to sue for Quantum's profits if it continued to pursue the project.

3 8. By this time, Schumacher knew that there was no chance of finding oil  
4 on the relevant properties. Quantum and Schumacher nevertheless continued to raise  
5 money from investors with the same materially misleading information, and failing to  
6 disclose the court's order.

7 9. Defendants' various schemes worked – at least for them. Quantum,  
8 Quaneco and Schumacher raised approximately \$12.3 million from at least 300  
9 investors residing in over a dozen states. Most of this money was spent on Quantum  
10 and Quaneco's overhead expenses, including Schumacher's salary (which grossly  
11 exceeded the compensation disclosed to investors). Investors, on the other hand,  
12 have lost 99 to 100 percent of their money.

13 10. By the conduct described herein, Defendants Quantum, Quaneco, and  
14 Schumacher violated Section 10(b) of the Securities Exchange Act of 1934 [15  
15 U.S.C. §78j(b)] ("Exchange Act") and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5]  
16 and Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933 [15 U.S.C. §§77e(a),  
17 77e(c) and 77q(a)] ("Securities Act"). Further, Schumacher violated Exchange Act  
18 Section 15(a) [15 U.S.C. § 78o], and aided and abetted the violations of Section 10(b)  
19 of the Exchange Act and Section 17(a) of the Securities Act by Quantum and  
20 Quaneco. Mysyk violated Sections 5(a), 5(c), and 17(a)(2)-(3) of the Securities Act.  
21 Each Defendant will continue to violate the foregoing statutes and rules unless  
22 restrained or enjoined by this Court.

23 11. The Commission seeks preliminary and permanent injunctive relief,  
24 disgorgement of ill-gotten gains, plus prejudgment interest, civil penalties and other  
25 appropriate and necessary equitable relief.  
26  
27  
28



1           16.   **Paul J. Mysyk**, age 48, resides in Chardon, Ohio. He is the co-founder  
2 of Quaneco and Quantum. Prior to November 1, 2012, Mysyk was a managing  
3 member and indirect fifty percent owner of Quaneco and Quantum. On November 1,  
4 2012, Mysyk transferred all of his ownership interests in Quaneco, Quantum and  
5 related entities to Schumacher. On that same date, Mysyk, on behalf of Sampra, LLC  
6 (“Sampra”), an entity solely owned by Mysyk, signed a consulting agreement with  
7 Quantum in which Sampra was to be paid \$12,000 per month to provide management  
8 and consulting services. The contract terminated at the end of February 2013, and  
9 since that time, Mysyk has had no meaningful involvement in Quaneco’s or  
10 Quantum’s affairs. Mysyk has no formal training in geology, geophysics, or  
11 petroleum engineering. Prior to forming Quaneco and Quantum, he worked as a  
12 broker selling, among other things, oil and gas investments.

13           17.   **Quantum Energy, LLC**, is an Oklahoma limited liability company that  
14 was formed in 1997 by Schumacher and Mysyk. Its principal place of business is in  
15 Los Angeles, California, but it previously maintained offices in Willoughby Hills,  
16 Ohio, and Sheridan, Wyoming. From its inception to November 1, 2012,  
17 Schumacher and Mysyk each indirectly owned fifty percent interests in Quantum  
18 through ANV, LLC (“ANV”), an entity solely owned by Schumacher, and Sampra,  
19 LLC, an entity solely owned by Mysyk. On November 1, 2012, Mysyk transferred  
20 his interests in the various Quantum entities to Schumacher. Since November 1,  
21 2012, Quantum Energy, LLC has been wholly owned by ANV. Since 1996,  
22 Quantum has offered and sold a series of oil and gas programs to investors and acted  
23 as the agent for those programs. For certain of those programs it receives and  
24 distributes royalty payments to investors for producing wells.

25           18.   **Quaneco, LLC**, is an Oklahoma limited liability corporation that was  
26 formed in 1996 by Schumacher and Mysyk. Quaneco’s principal place of business is  
27 in Los Angeles, California, but it previously maintained additional offices in  
28 Willoughby Hills, Ohio, and Sheridan, Wyoming. Quaneco is wholly owned by

1 Quaneco Energy Holdings, LLC. Quantum listed Quaneco as the operator  
2 responsible for hiring drilling contractors and overseeing drilling operations and  
3 procuring mineral leases for three of the Quantum offerings referenced in this  
4 Complaint. Quaneco used the same addresses as Quantum and at times, used its  
5 funds to pay Quantum's expenses including employee compensation. On July 18,  
6 2014, the Utah Department of Natural Resources Board of Oil, Gas, and Mining  
7 issued an order finding that Quaneco had failed to plug certain wells located in Utah.

8 **DEFENDANTS' TOLLING AGREEMENTS**

9 19. On or about April 30, 2014, Defendants entered into a six-month tolling  
10 agreement in which they agreed to toll the running of any applicable statute of  
11 limitation for the period beginning on April 14, 2014, through October 14, 2014.

12 20. On or about October 13, 2014, Defendants entered into a six-month  
13 tolling agreement in which they agreed to toll the running of any applicable statute of  
14 limitation for the period beginning on October 14, 2014, through April 14, 2015.

15 21. On or about April 13, 2015, Defendants entered into a six-month tolling  
16 agreement in which they agreed to toll the running of any applicable statute of  
17 limitation for the period beginning on April 14, 2015, through October 14, 2015.

18 **RELIEF DEFENDANTS**

19 22. **Quaneco Energy Holdings, LLC**, ("QEHL") is an Oklahoma limited  
20 liability company formed in 2005. It owns Quaneco. From its inception to  
21 November 1, 2012, Schumacher and Mysyk each indirectly owned fifty percent  
22 interests in QEHL through Fat Chance Oil and Gas, LLC ("Fat Chance") and Trinity  
23 Oil, LLC ("Trinity"), respectively. QEHL is now wholly owned by Fat Chance.

24 23. **Fat Chance Oil and Gas, LLC** is an Oklahoma limited liability  
25 company formed in 1999 and wholly owned and controlled by Schumacher. It shares  
26 a mailing address with Quantum and currently owns QEHL. Fat Chance does not have  
27 employees, business operations, or assets other than its bank account. Starting in  
28 2012 and continuing to present day, Fat Chance has received significant funds



1 through a series of same-day bank wire transfers from bank accounts of Quantum to  
2 ANV, and then from ANV to Fat Chance.

3 24. ANV, LLC is a single-member Oklahoma limited liability company  
4 formed in 1998 wholly owned by Schumacher. It shares a mailing address with and  
5 owns Quantum. ANV does not have employees, business operations, or assets other  
6 than its bank account. Starting in November 2012, ANV's bank account received  
7 several wire transfers of funds from Quantum's main operating account before being  
8 transferred again, on the same day, to Fat Chance's bank account.

9 25. Tara Schumacher resides in Woodland Hills, California. She is  
10 married to Harrison Schumacher. From 2009 to the present, Tara Schumacher  
11 received payments in the amount of at least \$165,216 from Quantum-related entities.

12 **FACTS**

13 26. From April 2010 through February 2015, Quantum, Quaneco, and  
14 Schumacher raised more than \$12 million from investors as a result of five  
15 unregistered fraudulent offerings related to oil and gas ventures. Commission  
16 Regulation D requires that, for private placements where no registration statement is  
17 on file with the Commission, companies prepare a Private Placement Memorandum  
18 ("PPM") that discloses the nature, character and risk factors relating to the offering.  
19 For three of the five offerings, Quantum and Schumacher provided investors with  
20 PPMs that contained materially false and misleading statements and omissions. For  
21 two other programs, Quantum and Schumacher raised money using written  
22 investment contracts and solicitation letters that contained materially false and  
23 misleading statements and omissions. Mysyk participated in three of these offerings.

24 **I. THE CRAWFORD THRUST OFFERING**

25 27. By April 2010, Defendants' began an unregistered offering called the  
26 Crawford Thrust Offering ("Crawford Offering"). The Crawford Offering PPM,  
27 dated April 15, 2010, stated that the offering's primary purpose was to promote  
28 property acquisition and drilling activity in Utah and Wyoming. The offering sold

1 “interests” that consisted of (1) shares in Quaneco, and (2) overriding royalty  
2 interests in oil and gas properties in Utah and Wyoming. An overriding royalty is a  
3 percentage share of a future revenue interest retained by the owner of a mineral lease  
4 that does not participate in the cost of development or production. A working interest  
5 is generally a share of future revenues in a mineral lease that participates in the cost  
6 of development and production.

7 28. At that time, Schumacher and Mysyk were the sole owners of Quantum  
8 and managed Quantum’s operations for the Crawford Offering, including creating  
9 and/or approving the solicitation materials that Quantum sent to investors. Quantum  
10 distributed the Crawford Offering PPM to all potential and actual investors.

11 29. To raise funds for the Crawford Offering, Quantum contacted potential  
12 investors via the phone and mail in California and dozens of other states, including  
13 investors with whom it had no prior contact, but had obtained their contact  
14 information using lead lists purchased from third parties.

15 30. Schumacher directly participated in soliciting investors for the Crawford  
16 Offering. He also supervised a sales force that solicited investors. Schumacher and  
17 the sales force received 10-percent bonuses for all money raised from investors.

18 31. No registration statements were ever filed with the Commission or  
19 otherwise in effect with respect to the Crawford Offering.

20 32. Between April 2010 and May 2011, Quantum raised a total of  
21 \$4,111,500 for the Crawford Offering from 69 investors residing in over a dozen  
22 states.

23 33. The Crawford Offering resulted in a complete loss of the funds raised  
24 from its investors. In other words, investors in the Crawford Offering were  
25 completely wiped out and did not receive a single dollar of their money back.

26 34. As alleged below, the Crawford Offering PPM contained numerous  
27 material misrepresentations.  
28

1           **A. The Quantum PPM's Misrepresentations Regarding The Use Of**  
2           **Investor Proceeds**

3           35. The Crawford Offering PPM contained statements about Quantum's  
4 compensation and the use of the proceeds of the offering. The PPM asserted that, "as  
5 compensation for its managerial services in connection with the Offering activities,"  
6 Quantum would receive an initial non-recurring management fee equal to 30 percent  
7 of total subscriptions. The PPM also estimated that costs of the offering were  
8 \$50,000 (regardless of the amount raised). The only other compensation to Quantum  
9 referenced in the PPM was an annual administrative fee "equal to 7% of gross  
10 revenues from the Overriding Royalty Interests."

11           36. The PPM also provided an explanation of the anticipated use of proceeds  
12 from the Crawford Offering, which included a sample breakdown. The sample  
13 breakdown showed \$50,000 in offering costs and a 30 percent management fee. The  
14 sample breakdown allocated all other investor funds to property acquisition costs and  
15 interests in Quaneco.

16           37. The PPM cautioned investors that Quantum had "the right to vary the  
17 use of proceeds received from this Offering in its sole discretion," and that the actual  
18 use of proceeds could be different than the breakdown shown in the PPM. However,  
19 the PPM's statements about the use of proceeds from the Crawford Offering were  
20 materially misleading because they did not caution investors that Quantum would  
21 exercise its discretion to increase its own management fee in the absence of any profit  
22 or potential for profit. Indeed, on several occasions, the PPM and associated agency  
23 agreement that Quantum signed made clear that Quantum's compensation would be  
24 exactly 30 percent.

25           38. In reality, Quantum took the administrative fee (\$50,000) and the  
26 management fees (\$1.233 million) provided for in the PPM, but then took another  
27 \$316,000 to pay for its overhead expenses. Thus, Quantum paid itself a management  
28 fee of 39 percent of offering proceeds, as opposed to the 30 percent provided for in

1 the PPM. Defendants did not advise investors that they had diverted offering  
2 proceeds to pay Quantum additional fees.

3 39. The majority of the excess management fee was used to pay employee  
4 salaries that exceeded the limits on executive compensation that were set forth in the  
5 Crawford Offering PPM. In the PPM, Quantum represented that Schumacher's  
6 annual compensation would not exceed \$150,000. However, Schumacher, through  
7 Quantum, paid himself in excess of \$150,000 in 2010 and 2011. In 2010, for  
8 example, Quantum paid Schumacher \$315,793 – more than double the amount  
9 represented in the PPM. Schumacher was paid excess compensation even though no  
10 profit had been earned for investors in the Crawford Offering, and the proceeds of the  
11 offering were being rapidly wiped out.

12 40. During the Crawford Offering, Schumacher used Quantum's corporate  
13 account to pay his personal expenses, not always reimbursing Quantum. He also  
14 charged Quantum his monthly lease payments on his Porsche vehicle.

15 41. Schumacher and Mysyk knew or were reckless in not knowing that  
16 Schumacher's compensation exceeded the amounts stated in the PPM because they  
17 approved Quantum's salaries. Mysyk warned Schumacher that his compensation  
18 exceeded the amount stated in the PPM, and that Schumacher was therefore  
19 defrauding their investors. Nevertheless, Schumacher and Mysyk never advised  
20 investors that Schumacher was being paid much more than the amount set forth in the  
21 PPM.

22 **B. Defendants' Misrepresentations Regarding The Protection Of**  
23 **Investor Proceeds**

24 42. The Crawford Offering PPM contained several statements that provided  
25 investors with assurances that their funds would be used responsibly. For example,  
26 the PPM stated that it would make no loans to Quantum or any of its affiliates. This  
27 statement proved to be false. Quaneco transferred up to \$20,000 to QEH between  
28

1 May and October of 2010. Schumacher knew of and approved Quantum's loan to  
2 QEH, and Mysyk was aware of it.

3 43. Although this transfer to an affiliate was made while the Crawford  
4 Offering was ongoing, Defendants did not correct the PPM's false assurance that no  
5 loans to affiliates would occur.

6 44. The Crawford Offering PPM also asserted that investor funds would be  
7 deposited into a separate escrow account. At the time of this assertion, Defendants  
8 knew or were reckless in not knowing that no separate escrow account existed and  
9 Defendants did not subsequently create a separate escrow account for the program.  
10 Rather, Quantum deposited investor funds directly into its existing operating account.  
11 Quantum used this account to hold investor funds and pay overhead and other  
12 expenses.

13 45. The Crawford Offering PPM advised investors that Schumacher and  
14 Mysyk were responsible for the proper conduct of Quantum's business. Schumacher  
15 and Mysyk oversaw Quantum's corporate accounts, but did not correct the PPM's  
16 misstatement that all money would be placed in a separate escrow account.

17 **II. THE 2011 DRILLING AND PRODUCTION PROGRAM**

18 46. In February 2011, Quantum issued a PPM for a 2011 Drilling and  
19 Production Program (the "2011 D&P"). According to the PPM, which was dated  
20 February 1, 2011, the primary purpose of the offering was to provide cash  
21 distributions from the sale of oil and gas production from the existing wells and any  
22 wells drilled on the properties to be acquired. The unregistered offering sold "units"  
23 (on a dollar per unit basis), which were fractional, undivided interests (1) in existing  
24 producing wells, and (2) in oil and gas leases on properties to be acquired by  
25 Quantum. Schumacher and Quantum also offered preferred shares in Quaneco as  
26 incentives to certain investors.

27 47. Schumacher and Mysyk were the sole owners of Quantum and managed  
28 its operations for the 2011 D&P, including creating and/or approving the solicitation

1 materials that Quantum sent to investors. Quantum distributed the 2011 D&P PPM to  
2 all potential and actual investors.

3 48. To raise funds for the 2011 D&P, Quantum contacted investors from its  
4 prior programs via the phone and mail in California and several other states.  
5 Quantum also contacted investors residing in dozens of other states with whom it had  
6 no prior contact using lead lists purchased from third parties.

7 49. Schumacher directly participated in soliciting investors for the 2011  
8 D&P. He also supervised a sales force that solicited investors. Schumacher and the  
9 sales force received 10-percent bonuses for all money raised from investors.

10 50. No registration statements were ever filed with the Commission or  
11 otherwise in effect with respect to the 2011 D&P.

12 51. Between January 2011 and May 2012, Quantum raised a total of \$3.75  
13 million for the 2011 D&P from 112 investors in over a dozen different states,  
14 including California.

15 52. The 2011 D&P PPM investors received one percent of their investment  
16 returned after five years. In other words, investors lost 99 percent of their money.  
17 Through February 2015, the 112 D&P investors collectively received approximately  
18 \$7,000 a month in royalty payments.

19 53. At the time Defendants distributed the 2011 D&P PPM to investors,  
20 Defendants knew, or were reckless in not knowing, that they had failed to honor  
21 numerous representations in the Crawford Offering PPM. Defendants had  
22 implemented no new controls at Quantum. Defendants also knew that investors in  
23 the Crawford Offering had received no return on their investment. None of this was  
24 disclosed to investors in the 2011 D&P.

25 54. As alleged below, the 2011 D&P PPM contained numerous material  
26 misrepresentations.

27 **A. The 2011 D&P PPM's Misrepresentations Regarding The Use Of**  
28 **Investor Proceeds**

1           55. Like the Crawford Offering PPM, the 2011 D&P PPM contained  
2 statements about Quantum's compensation and the use of proceeds of the offering.  
3 The PPM asserted that Quantum would receive a fee equal to 30 percent of the  
4 proceeds of the offering. It also identified a \$50,000 organizational fee and a  
5 "General and Administrative Fee" of up to 7.5 percent of gross revenues, which  
6 would be used to pay for the program's "monthly and annual accounting expenses."  
7 The 2011 D&P PPM further provided that Quantum would receive 20 percent of net  
8 revenues from producing wells "after Pay Out" and 25 percent of revenues from any  
9 new wells. The PPM did not reference any other fees, reimbursements, or other  
10 forms of compensation to Quantum, unless Quantum exercised its right to seek  
11 additional contributions, which it never did.

12           56. The PPM also provided an explanation of the anticipated use of proceeds  
13 from the 2011 D&P offering, which included a sample breakdown. The sample  
14 breakdown showed \$50,000 in organizational costs and a 30 percent management fee.  
15 The sample breakdown allocated all other proceeds from the offering to the  
16 acquisition of existing wells and drilling costs for new wells.

17           57. The PPM further stated that "[w]hile actual expenditures may vary  
18 significantly depending upon the actual amount of subscriptions and other presently  
19 unknown factors, it [was] estimated that the aggregate subscriptions of [investors]  
20 will be expended" as set forth in the sample allocation. However, the PPM stated on  
21 several occasions that Quantum's management fee would be exactly 30 percent. The  
22 PPM's statements about the use of proceeds from the 2011 D&P offering were  
23 materially misleading because they did not advise investors that Quantum would  
24 increase its own fees with no additional disclosure to investors (and had done so in  
25 connection with the Crawford Offering) or in the absence of any profit or potential  
26 for profit.

27           58. Contrary to the PPM's representation that Quantum's management fee  
28 would be limited to 30 percent of offering proceeds, approximately 65 percent of the

1 funds provided by 2011 D&P investors were used to cover Quantum's administrative  
2 and other overhead expenses. Of the \$3.75 million raised for the 2011 D&P,  
3 Quantum took \$50,000 as an organizational fee and at least \$970,565 as a  
4 management fee. Quantum used only \$380,963 to purchase working interests in  
5 existing wells located in Louisiana. Quantum transferred the remaining investor  
6 funds (approximately \$2 million) to Quaneco pursuant to a drilling contract in which  
7 Quaneco purported to provide five drilling rigs to drill wells on properties acquired  
8 by Quantum for the 2011 D&P.

9       59. Quaneco paid about \$960,425 of the \$2 million it received from  
10 Quantum to third parties for drilling services. Quaneco kept the remainder of the  
11 investor funds (approximately \$1 million). Quaneco, however, provided no rigs or  
12 drilling services of its own. Quaneco spent the remainder of the funds on (a)  
13 Schumacher's personal expenses; (b) Quaneco employee compensation; and (c) other  
14 Quantum and Quaneco overhead expenses unrelated to the actual development of  
15 wells (including monthly payments of \$1,135 for a Porsche).

16       60. All told, Quantum and Quaneco only spent 36 percent (approximately  
17 \$1.3 million) of the \$3.75 million it raised for the 2011 D&P on actual drilling  
18 expenses. It used the majority of the funds—approximately \$2.42 million – on  
19 overhead expenses, with employee compensation being the largest category.  
20 Defendants did not advise investors that they had diverted offering proceeds to pay  
21 Quantum additional fees.

22       63. As was the case with the Crawford Offering, a portion of the investor  
23 funds that were diverted from legitimate drilling expenses were used to pay  
24 compensation that exceeded the limits set forth in the PPM. The 2011 D&P PPM  
25 stated that Schumacher's annual compensation would not exceed \$150,000. This  
26 statement was materially false. Schumacher paid himself in excess of \$150,000 in  
27 2010, 2011, and 2012. In 2010, for example, Schumacher received \$315,793 from  
28 Quantum – more than double the amount represented in the PPM. Schumacher



1 directed that Quantum pay him excess compensation even though no profit had been  
2 earned for investors in the 2011 D&P offering and the proceeds of that offering were  
3 being rapidly diminished.

4 64. Schumacher and Mysyk knew or were reckless in not knowing that  
5 Schumacher's compensation exceeded the amounts stated in the PPM because they  
6 approved Quantum's salaries. Mysyk warned Schumacher that his compensation  
7 exceed the amount stated in the PPM. Nevertheless, Defendants never advised  
8 investors that Schumacher was being paid much more than the amount set forth in the  
9 PPM.

10 65. Schumacher and Mysyk knew or were reckless in not knowing that  
11 Quantum used investor funds to pay overhead expenses (including employee and  
12 their personal compensation) in excess of the amounts disclosed in the 2011 D&P  
13 PPM. Schumacher and Mysyk never advised investors that Quantum had exceeded  
14 the 30 percent management fee set forth in the 2011 D&P PPM.

15 **B. Defendants' Scheme To Conceal Their Misappropriation of Investor**  
16 **Funds Through Turnkey Contracts With Affiliates**

17 66. To conceal this diversion of investor funds, Defendants used a fraudulent  
18 drilling agreement with Quaneco, one of Quantum's affiliates. Schumacher executed  
19 a "turnkey drilling agreement" on behalf of both Quantum and Quaneco to provide  
20 drilling services for the 2011 D&P. The contract provided that Quantum would make  
21 a nonrefundable payment of \$4,392,857 to Quaneco in exchange for drilling five  
22 wells.

23 67. Quaneco, however, did not own any drilling rigs and did not employ any  
24 engineers, roughnecks, or other drilling professionals. Quantum instead paid third  
25 parties substantially less – \$507,827 – for the same drilling services that Quaneco had  
26 contracted to provide (or approximately one-fourth of the money Quantum paid  
27 them).

28

1           68. Defendants carried out the fraudulent contract with Quaneco for the  
2 purpose of concealing their extensive misappropriation of investor funds.

3           69. In addition, Defendants made material misrepresentations relating to the  
4 turnkey agreement. In the 2011 D&P PPM, Quantum disclosed the possibility that it  
5 could hire an affiliate to drill and operate new wells, but stated that the affiliate would  
6 be compensated at a customary rate no less favorable than an independent third party  
7 in the same geographic region.

8           70. Contrary to representations made in the 2011 D&P PPM, Defendants  
9 never performed any analysis to determine whether Quaneco's compensation  
10 constituted a customary rate for the same geographic region. Nor did Defendants  
11 disclose to investors that Quaneco retained other operators to drill and service the  
12 drilling operations for a fraction (approximately one-fourth) of the funds it received  
13 for its purported drilling services.

14           **C. Defendants' Misrepresentations Regarding Protection of Investor**  
15           **Proceeds**

16           71. The 2011 D&P PPM contained several statements that provided  
17 investors with assurances that their funds would be used responsibly. For example,  
18 the PPM stated that the 2011 D&P Program would make no loans to Quantum or any  
19 of its affiliates. This representation was false. On August 1, 2011, QEH transferred  
20 \$6,000 to Schumacher. The transfer was carried out by a series of same-day  
21 transfers from Quantum's main account to Quantum's operating account, and then to  
22 the bank account owned by Fat Chance (which was wholly owned by Schumacher).

23           72. Schumacher and Mysyk knew or were reckless in not knowing that  
24 Schumacher's loans violated the terms of the 2011 D&P PPM. Schumacher and  
25 Mysyk never advised investors that funds were being loaned to Schumacher contrary  
26 to the PPM's representations.

27           73. The 2011 D&P PPM also stated that investor funds would be deposited  
28 into a separate escrow account until it closed. At the time of this assertion,

1 Defendants knew or were reckless in not knowing that no separate escrow account  
2 had been created and that Quantum had failed to create a separate account for  
3 investor funds in the Crawford Offering where a similar promise had been made.  
4 Defendants did not subsequently create a separate escrow account for 2011 D&P  
5 investments. Rather, Quantum deposited investor funds directly into its existing  
6 operating account. Quantum used this account to hold investor funds and pay  
7 expenses related to other programs.

8 74. The 2011 D&P PPM advised investors that Schumacher and Mysyk  
9 were responsible for the proper conduct of Quantum's business. Schumacher and  
10 Mysyk oversaw Quantum's corporate accounts but never advised investors that no  
11 separate account had been created for the 2011 D&P.

12 **III. THE CRANE PROGRAM**

13 75. In approximately March 2012, Defendants started offering and selling  
14 working interests in an oil and gas well in Utah called the Crane 16-4 (the "Crane  
15 Program"). Unlike the two prior offerings, the Crane Program used participation  
16 agreements, not a PPM. According to agreements and solicitation letters, the  
17 purpose of the Crane Program was to raise funds to drill and complete the Crane 16-4  
18 well. The participation agreements conveyed (1) a working interest in the Crane 16-4  
19 well; (2) an overriding royalty interest in certain mineral leases owned by Quantum  
20 or Quaneco located in Utah and Wyoming; and (3) Preferred D shares in Quaneco.

21 76. At that time, Schumacher and Mysyk were the sole owners of Quantum  
22 and managed Quantum's operations for the Crane Program, including creating and/or  
23 approving the solicitation materials that Quantum sent to investors.

24 77. Quantum solicited investors in several states by phone calls and written  
25 correspondence. In addition to contacting investors from its prior programs,  
26 Quantum contacted investors residing in dozens of other states with whom it had no  
27 prior contact using lead lists purchased from third parties.

1 78. Schumacher directly participated in soliciting investors for the Crane  
2 Program. He also supervised a sales force that solicited investors. Schumacher and  
3 the sales force received 10-percent bonuses for all money raised from investors.

4 79. Defendants did not file a registration statement with the Commission  
5 regarding the Crane Program.

6 80. From March 2012 to November 2012, the Defendants raised a total of  
7 \$1.56 million for the Crane Program. Fifty-two investors from over a dozen states  
8 invested.

9 81. The Crane Program was a total loss; investors did not receive any of the  
10 \$1.56 million raised back.

11 82. During the Crane Program offering, Defendants knew, or were reckless  
12 in not knowing, that they had failed to honor numerous representations in the  
13 Crawford Offering PPM and 2011 D&P PPM.

14 83. Nevertheless, Defendants made material misrepresentations concerning  
15 the Crane Program, and engaged in a scheme to defraud investors concerning their  
16 use of investor funds, as alleged below.

17 **A. Defendants' Misrepresentations Regarding The Use Of Investor**  
18 **Proceeds**

19 84. In the participation agreements and in correspondence with investors,  
20 Defendants, individually and through Quantum, told investors that *all* funds received  
21 for the Crane Program would be used for drilling and lease expenses for the Crane  
22 16-4 well.

23 85. These statements were materially false. Quantum used approximately  
24 60 percent of the funds it raised for the Crane Program to pay Quantum and  
25 Quaneco's overhead expenses, with only about 40 percent of investor funds used to  
26 develop the Crane 16-4 well.

27  
28

1           86. As was the case with the Crawford Offering and 2011 D&P offerings,  
2 much of the money investors put into Crane Program was ultimately used to pay  
3 Quantum's overhead expenses and Schumacher's personal expenses.

4           87. Schumacher and Mysyk discussed and approved each transfer payment  
5 for Quantum and Quaneco. They also discussed every compensation payment that  
6 was made by Quantum or Quaneco. Schumacher and Mysyk thus knew or were  
7 reckless in not knowing that Quantum and Quaneco used investor funds to pay  
8 overhead expenses. They also knew or were reckless in not knowing that Quantum  
9 never disclosed to investors that approximately 42 percent of the funds raised were  
10 used on actual project-related expenses contrary to their representation that *all* funds  
11 would be used for drilling and lease expenses.

12           **B. Defendants' Scheme To Conceal The Misappropriation of Investor**  
13           **Funds Through Turnkey Contracts With Affiliates**

14           88. As with the 2011 D&P, Defendants again engaged in a scheme to  
15 conceal the extent of their misuse of funds to investors. Quantum transferred the  
16 majority of funds raised by the Crane Program to Quaneco pursuant to a turnkey  
17 drilling agreement. The contract was a single page and signed by Schumacher on  
18 behalf of both Quantum and Quaneco. The agreement provided that Quantum would  
19 pay Quaneco \$1,779,166.29 to provide a drilling rig for the Crane 16-4 well.

20           89. However, Quaneco did not itself provide a drilling rig and performed no  
21 drilling services of its own – it paid \$482,963 to third parties to drill and complete the  
22 well and kept the remainder of funds (\$932,697). Defendants used the turnkey  
23 contract to create the false appearance that investor proceeds were being used by  
24 Quaneco for drilling activity when, in fact, the proceeds were used to cover business  
25 overhead.

26           **IV. THE OVERRIDING ROYALTY DEVELOPMENT PROGRAM**

27           90. In approximately October 2012, Quantum began its fourth unregistered,  
28 fraudulent offering called the Overriding Royalty Development Program ("ORDP").

1 The ORDP PPM, dated October 22, 2012, stated that its primary purpose was to  
2 provide cash distributions from the sales of oil and gas production from new wells to  
3 be drilled on properties in a Colorado region known as the Niobrara Chalk and/or for  
4 sale of working interests in these properties to an incoming industry partner.

5 91. By the time Quantum began fundraising for the ORDP, Schumacher and  
6 Mysyk had parted ways, in large part due to disputes over Schumacher's repeated  
7 misappropriation of investor funds. In approximately November 2012, Mysyk sold  
8 his interest in Quantum to Schumacher for \$1, making Schumacher the sole owner of  
9 Quantum and the sole manager of Quantum's operations for the ORDP.

10 92. Schumacher created and/or approved the ORDP solicitation materials  
11 that Quantum sent to investors, including the ORDP PPM, which Quantum  
12 distributed to all potential and actual investors.

13 93. To raise funds for the ORDP, Quantum contacted via the phone and mail  
14 investors from its prior programs and investors residing in dozens of states with  
15 whom it had no prior contact using lead lists purchased from third parties.

16 94. Schumacher directly participated in soliciting investors for the ORDP.  
17 He also supervised a sales force that solicited investors. Schumacher and the sales  
18 force received 10-percent bonuses for all money raised from investors.

19 95. No registration statements were ever filed with the Commission or  
20 otherwise in effect with respect to the ORDP.

21 96. The ORDP raised money in two phases. During the first phase, from  
22 November 2012 until December 2013, Quantum raised \$1,293,562 from at least 46  
23 investors residing in over a dozen different states, including residents of this District,  
24 based upon the representations in the PPM.

25 97. During the second phase of the ORDP, from January 2013 through at  
26 least October 2014, Schumacher and Quantum raised at least \$717,812 by selling  
27 convertible promissory notes (CPNs) to approximately 32 investors (many of whom  
28 had invested in the first phase of the ORDP). The CPNs promised to pay investors

1 interest rates from eight to 25 percent. The ORDP CPNs gave investors an interest in  
2 all acreage acquired by Quantum under the ORDP based on the amount invested. All  
3 CPNs included an option to convert the note's unpaid principal and interest into an  
4 investment in the ORDP or a future program.

5 98. In total, Schumacher and Quantum raised at least \$1,858,974 for the  
6 ORDP.

7 99. At the time Schumacher and Quantum solicited investors and used the  
8 ORDP PPM to raise money, Schumacher and Quantum knew, or were reckless in not  
9 knowing, that they had failed to honor numerous representations that they made to  
10 investors in the Crawford Offering, the 2011 D&P, and the Crane Program.

11 100. Nevertheless, Schumacher and Quantum again made material  
12 misrepresentations concerning the ORDP, as alleged below.

13 **A. The ORDP PPM's Misrepresentations Regarding Quantum's**  
14 **Compensation and Misappropriation of ORDP Investor Funds for**  
15 **Schumacher's Personal Use**

16 101. The ORDP PPM contained statements about Quantum's compensation  
17 and the use of the proceeds of the offering. The PPM asserted that "[a]s  
18 compensation for its managerial services Quantum will receive an initial nonrecurring  
19 management fee equal to 30% of subscriptions." The PPM also referenced a  
20 \$50,000 organizational fee. The ORDP PPM did not reference any other fees or  
21 compensation that could be paid to Quantum from the offering proceeds.

22 102. The PPM also provided an explanation of the anticipated use of proceeds  
23 from the ORDP, which included a sample breakdown. The sample breakdown  
24 showed the \$50,000 organizational fee and a 30 percent management fee. The  
25 sample breakdown allocated all other investor funds to property acquisition and  
26 drilling. The PPM noted that "[w]hile actual expenditures may vary significantly  
27 depending upon the actual amount of subscriptions and other presently unknown  
28 factors, it [was] estimated that the aggregate subscriptions of [investors] will be

1 expended” as set forth in the sample allocation. However, the PPM stated several  
2 times that Quantum’s compensation would be exactly 30 percent. The PPM’s  
3 statements about the use of proceeds from the ORDP offering were materially  
4 misleading because they did not advise investors that Quantum would increase its  
5 own fees with no additional disclosure to investors (and had done so in connection  
6 with three previous offerings).

7 103. In addition, for the second phase of the ORDP, Schumacher and  
8 Quantum made statements to investors that were even more misleading. For phase  
9 two, Schumacher and Quantum told investors that the sole intended purpose of their  
10 funds was to finance the ORDP. The CPNs expressly stated that Quantum would  
11 “use the proceeds of the loan solely for the Development of the Borrower’s 2012  
12 Overriding Royalty and Development Program” or at least in one case, “solely for the  
13 acquisition of lease acreage from the State of Colorado Land Board.”

14 104. Schumacher knew or was reckless in not knowing that these  
15 representations mattered to potential ORDP investors. At times, Schumacher raised  
16 funds by orally promising select investors that Quantum would forgo its 30 percent  
17 promotional fee.

18 105. All of Schumacher and Quantum’s representations to investors regarding  
19 the use of investor proceeds were false. Instead of limiting management fees to the  
20 30 percent promised in the ORDP PPM, or the zero percent promised to select  
21 investors, Schumacher and Quantum diverted approximately 74 percent of investor  
22 funds towards promotional, administrative, or consulting costs.

23 106. Quantum spent the majority of investor funds on its overhead expenses,  
24 including employee salaries, office lease, employee health insurance premiums,  
25 office supplies, phone bills, and computer repair work. Of the \$1,858,974 that  
26 Quantum raised through the ORDP offering, Quantum diverted approximately  
27 \$1,374,574 (or 74 percent of investor funds raised) to cover its own overhead  
28 expenses rather than investments in the program.



1           107. Quantum incurred only \$484,400 in prospecting costs for the ORDP,  
2 which amounted to less than 27 percent of funds raised for the project.

3           108. Quantum had \$855,493.40 available for investment in oil and gas  
4 activities from the sale of interests pursuant to the PPM. Of that amount, Quantum  
5 paid \$51,000 to Sampra for consulting services Mysyk provided, which were  
6 unrelated to the ORDP and instead concerned winding down Quantum's operations in  
7 Montana and Utah, and \$323,093 to itself.

8           109. A portion of the excess fee to Quantum was used to pay Schumacher a  
9 salary that exceeded the limit on compensation set forth in the ORDP PPM. The  
10 PPM represented that Schumacher's annual compensation would not exceed  
11 \$250,000 per year. Contrary to this representation, in 2014, Schumacher paid himself  
12 a salary that exceeded the \$250,000 annual compensation limit by approximately  
13 \$67,000. Schumacher paid himself excess compensation even though no profit had  
14 been earned for investors in the ORDP offering and the proceeds of the offering were  
15 being rapidly wiped out.

16           110. By October 2012, Schumacher controlled and approved all transactions  
17 involving the Quantum, ANV, and Fat Chance bank accounts. Therefore, he knew or  
18 was reckless in not knowing both (1) that his annual compensation exceeded the  
19 amount disclosed in the ORDP PPM, and (2) that Quantum had not honored its  
20 representations to investors that only 0-30 percent of funds raised would be spent on  
21 overhead. Schumacher did not advise investors that he was directing payments to  
22 himself in excess of the compensation level set forth in the PPM or that Quantum was  
23 diverting the vast majority of funds raised to its own overhead.

24           **B. Misrepresentations Regarding Protection of Investor Proceeds**

25           111. The ORDP PPM represented that Quantum would maintain a separate  
26 trust account for the purchaser's benefit, and it would deposit all funds received in  
27 that account.  
28

1 112. At the time they made these representations, Schumacher and Quantum  
2 had not set up a separate bank account for proceeds of the ORDP offering and knew  
3 or were reckless in not knowing that they had failed to set up such an account in  
4 connection with three previous offerings. Schumacher and Quantum never created a  
5 separate trust account for the funds contributed by ORDP investors.

6 113. Schumacher knew or was reckless in not knowing that Quantum  
7 promised investors in the ODRP PPM that it would segregate investor funds into a  
8 separate trust account and knew that it did not do so. Schumacher, acting through  
9 Quantum, caused all offering proceeds to be deposited into Quantum's operating  
10 account and its main account. Schumacher made and/or approved the transfer of the  
11 funds from these accounts to cover overhead expenses such as Quantum's office  
12 lease, employee compensation, and Schumacher's personal expenses. Schumacher  
13 continued raising funds with the ORDP PPM even as existing funds were being  
14 deposited in Quantum's operating account and approved using those funds for his  
15 personal expenses.

16 **C. Schumacher And Quantum Knowingly Raised Funds with**  
17 **Misleading Statements About The ORDP's Economic Prospects**

18 114. Schumacher and Quantum raised funds for the ORDP by sending  
19 potential investors a single-well economic report prepared by its outside business  
20 partner ("the Niobrara Partner"). The report was material to investors because it  
21 purported to be a good-faith estimate of the potential return on investment in the  
22 ORDP. However, its economic projections were grossly inflated because they did not  
23 account for Quantum's 30 percent management fee and other funds that would go to  
24 Quantum.

25 115. Schumacher and Quantum were aware that these projections were  
26 inflated. On August 22, 2013, the Niobrara Partner's co-principal, informed  
27 Schumacher that:  
28

1 you and your agents have been using a single-well economic report that  
2 [the Niobrara Partner] has provided you. In this report, [the Niobrara  
3 Partner] has accounted for the [the Niobrara Partner's] 20% carry as  
4 provided in our [MOU]. The report does not include the 30%  
5 commission that Quantum is charging its clients, nor the 7.5% of gross  
6 revenues due to Quantum per the attached SEC Form D filing. As such,  
7 please refrain from using any economic projections previously generated  
8 by [the Niobrara Partner] for the [Niobrara Project].

9 116. Schumacher never told investors the report was inaccurate. Despite  
10 being warned of the inaccuracy of the report, and asked to cease using it to solicit  
11 investors, Schumacher continued to solicit funds for the ORDP by sending the report  
12 to potential and actual investors.

13 117. In the PPM and investor solicitation materials, Schumacher and  
14 Quantum also told investors there was little risk of finding recoverable oil and that  
15 Quantum would be able to complete all or part of the project.

16 118. For example, in solicitation letters, Schumacher described the Niobrara  
17 Project as shallow oil play in which there was little to no risk of not finding oil.  
18 Schumacher told investors in April 2013 that "the geologic risk [is] next to non-  
19 existent" and that "a blind monkey with a divining rod could find oil out there."

20 119. Schumacher and Quantum knew or were reckless in not knowing that  
21 Quantum's ability to meet its promises to investors in connection with the ORDP  
22 rested entirely on Quantum's ability to finance the work of the Niobrara Partner.

23 120. In October 2012, Quantum executed a Memorandum of Understanding  
24 ("MOU") with the Niobrara Partner. The MOU provided that the location of the  
25 prospective drilling area, the Area of Mutual Interest ("AMI") was the Niobrara  
26 Partner's trade secret. Quantum agreed to finance the Niobrara Partner's efforts  
27 through a monthly retainer of \$25,000 and a budget of \$2,500,000 for specific  
28 exploration and drilling activities. The Niobrara Partner's exclusive knowledge of  
the AMI and its services were essential to Quantum's ability to complete the project.

1           121. Quantum failed to pay the retainer and certain agreed-upon expenses that  
2 were needed to fulfill critical components of the project, including aerial surveys,  
3 geological studies, and the hiring of qualified professionals to acquire leases. As  
4 early as January 2013, the Niobrara Partner notified Schumacher that the Niobrara  
5 project was “on hold” until Quantum made past due payments to the Niobrara  
6 Partner.

7           122. By July 2013, Quantum had stopped making any payments under the  
8 MOU. Through the summer 2013, the Niobrara Partner repeatedly warned  
9 Schumacher about unpaid bills for geological surveys and lease development and that  
10 the lack of funding effectively rendered the Niobrara Project unviable. On August 3,  
11 2013, the Niobrara Partner informed Schumacher by e-mail that its land team had  
12 walked off the job and that the partner’s efforts had stopped because of the lack of  
13 funding.

14           123. By August 2013, the Niobrara Partner became concerned that  
15 Schumacher had improperly depleted investor funds and had made  
16 misrepresentations to investors concerning the Niobrara Project. The Niobrara  
17 Partner’s co-principal and CEO wrote to Schumacher on August 15, 2013, “It appears  
18 that Quaneco is using project funds to pay overhead and commissions while not  
19 supporting the project.” In a another e-mail on August 19, 2013, the Niobrara  
20 Partner’s CEO wrote: “We have reasons to believe that Quaneco has been collecting  
21 funds in the guise that they are for the project and then diverting them to pay  
22 Quaneco’s overhead.”

23           124. Schumacher never disclosed to its investors that the Niobrara Partner  
24 had stopped all work on the Niobrara Project or that the project was at risk due to  
25 Quantum’s inability to provide financing. Without the Niobrara Partner, Quantum  
26 had no rights to the AMI and no basis on which to claim *any* possibility for an  
27 investment return.  
28

1           125. On January 9, 2014, the Niobrara Partner sued Schumacher, Quantum,  
2 and related entities in Colorado state court, seeking a preliminary injunction to enjoin  
3 Schumacher and Quantum from breaching the MOU by bidding on leases in the AMI  
4 and using the Niobrara Partner's confidential trade secret. On April 10, 2014, the  
5 Colorado court issued an order finding that Schumacher and Quantum had likely  
6 breached the MOU by failing to provide funding to the Niobrara Partner. The court  
7 further found that Quantum and Schumacher "may well have misappropriated, or  
8 seek to misappropriate, [the Niobrara Partner's] trade secrets" and "Schumacher has  
9 no knowledge of the hydrocarbon potential of the [Area of Mutual Interest]  
10 independent of the information furnished to him and his entities by [the Niobrara  
11 Partner]. . . [and] [i]f Defendants misappropriate the trade secrets, secure the oil and  
12 gas leases, and make money, then Plaintiffs can seek damages."

13           126. Schumacher and Quantum did not inform the ORDP investors of  
14 Niobrara Partner's lawsuit to enjoin Quantum from infringing on its trade secrets.  
15 Nor did Schumacher and Quantum inform ORDP investors that the court's April 10,  
16 2014 order effectively precluded Quantum from retaining profits relating to the  
17 ORDP.

18           127. Schumacher admitted in sworn testimony with the Commission that he  
19 concluded between June and July 2014 – based on a conversation with a geologist –  
20 that there was no hope for finding oil in the AMI.

21           128. Despite this understanding, Schumacher and Quantum continued to raise  
22 funds for the ORDP through the sale of CPNs as late as September 2014.  
23 Schumacher and Quantum continued to make the same misrepresentations ensuring  
24 Quantum's ability to complete the Niobrara Project. Between July and the end of  
25 September 2014, seven investors sent checks totaling \$75,000 to Quantum  
26 referencing the ORPD. Schumacher maintained control over the Quantum bank  
27 accounts in which these investments were deposited. Schumacher did not tell any  
28 ORDP investors that there was no hope for finding oil in the AMI.

1 **V. THE ROSWELL PROSPECT**

2 129. From approximately May 2014 to at least February 2015, Schumacher  
3 and Quantum raised funds from investors for what they called the Roswell Prospect.  
4 In written correspondence and telephone calls to prospective investors in California  
5 and several other states, Schumacher asserted that he was raising funds to cover  
6 marketing costs related to the potential sale of 11,000 acres of mineral leases owned  
7 by Quantum and located in Johnson Country, Wyoming.

8 130. At this time, Schumacher was the sole owner of Quantum, and was the  
9 manager of Quantum's operations for the Roswell Prospect, including creating and/or  
10 approving the solicitation materials that Quantum sent to investors.

11 131. For the Roswell Prospect, Quantum again contacted numerous potential  
12 investors in several states, and did little, if anything, to ensure that its investors were,  
13 in fact, accredited.

14 132. Schumacher directly participated in soliciting investors for the Roswell  
15 Prospect. He also supervised a sales force that solicited investors. Schumacher and  
16 the sales force received 10-percent bonuses for all money raised for investors.

17 133. No registration statements were ever filed with the Commission or  
18 otherwise in effect with respect to the Roswell Prospect.

19 134. Schumacher and Quantum raised funds for the Roswell Prospect through  
20 the sale of CPNs. The CPNs were issued by Quantum who promised to repay the  
21 Roswell Prospect's investors the loan principal reflected in the CPNs at interest rates  
22 between 20 to 25 percent upon its completion. The CPNs also afforded investors  
23 varying options to convert the outstanding interest and principal to: (a) an investment  
24 in another Quantum oil and gas program, the ORDP; (b) a Quantum investment to be  
25 determined later; or (c) a share of Quantum's overriding royalty interest in Johnson  
26 County acreage yet to be determined. The CPNs did not disclose that Schumacher  
27 had already concluded that there was no chance of finding oil in AMI and, as a result,  
28 no chance that the ORDP would be profitable.

1           135. The Roswell Prospect's CPNs, all of which were drafted by  
2 Schumacher, expressly provide that all investor funds will be used "[s]olely for the  
3 geologic evaluation of land in Johnson, County, WY, acreage, including any and all  
4 lease costs."

5           136. Schumacher and Quantum knew or were reckless in not knowing that  
6 these statements were false because Quantum had failed to contain its overhead  
7 expenses to 30 percent (much less the zero percent promised to Roswell investors) in  
8 four consecutive offerings.

9           137. From May 2014 until February 24, 2015, Schumacher and Quantum  
10 raised between \$600,000 and \$900,000 for the Roswell Prospect using CPNs. As of  
11 February 2015, Quantum's expenses for the geologic evaluation of land and leases  
12 had not exceeded \$150,000, but Quantum and its related entities collectively had no  
13 more than \$20,000 in their bank accounts. Schumacher and Quantum could not  
14 account for the remainder of the raised funds – approximately \$450,000 to \$750,000.

15           138. Schumacher and Quantum's representations to investors regarding the  
16 use of investor funds were materially false. Instead of applying the funds to the direct  
17 cost of developing the Roswell Prospect, Schumacher and Quantum diverted the  
18 majority of the funds raised for Quantum's and Quaneco's overhead expenses and  
19 Schumacher's personal benefit.

20           139. Quantum has received funds from the sale of the Roswell Prospect CPNs  
21 as recently as February 16, 2015. Through March 2015, Schumacher solicited  
22 investors with written correspondence and oral updates claiming Quantum received  
23 indications of interest in Roswell Prospect's assets from major oil companies and that  
24 a sale of the leases is imminent.

## 25 **VI. SCHUMACHER'S AND QUANTUM'S ONGOING FUNDRAISING**

26           140. Schumacher and Quantum continue to raise funds. On March 6, 2015,  
27 Schumacher and Quantum filed a Form D with the Commission concerning a new  
28 offering called the Quantum Energy Phoenix Program ("Phoenix Program").

1 Schumacher and Quantum have amended the Form D. In the latest Form D/A filing,  
2 dated July 24, 2015, they claim that the Phoenix Program has already raised \$75,000  
3 and seeks to raise an additional \$2 million by offering working interests in an oil and  
4 gas venture. The form also states that the Phoenix Program proposes to use \$670,000  
5 of the offering's gross proceeds to pay Schumacher.

6 141. No registration statements were ever filed with the Commission or  
7 otherwise in effect with respect to the Phoenix Program.

8 142. On July 7, 2015, Schumacher sent potential investors a solicitation letter  
9 regarding the Phoenix Program. He emphasized that the "primary concern" was to  
10 get "revenue started this year," and then explained a recent offer to purchase land that  
11 he received that day, and, to facilitate Schumacher's ability to complete the sale, "we  
12 have to raise the money now." Schumacher therefore offered additional incentives  
13 for the next \$300,000 raised. He further emphasized the immediate need to raise  
14 additional funds by stating,

15 if we do this now, this will do everything we need to have  
16 done, to start drilling in August. This will allow us to drill  
17 3 wells this year, which, if successful, will start generating  
18 revenue in November. Precisely what I told you we could  
do if the financing was provided.

19 143. Based on recently obtained bank records, it appears that Quantum and  
20 Schumacher have raised over \$200,000 from 12 investors for the Phoenix Program,  
21 and have received other investor funds that may be related to other offerings. The  
22 bank records show that some of these funds are being diverted to Schumacher and do  
23 not reflect a large purchase of land.



1 **CLAIMS FOR RELIEF**

2 **FIRST CLAIM**

3 **Exchange Act 10(b) and Rule 10b-5 thereunder**

4 (Against Defendants Schumacher, Quantum and Quaneco)

5 144. The Commission repeats and re-alleges Paragraphs 1 through 142 of the  
6 Complaint as if fully set forth herein.

7 145. Defendants Schumacher, Quantum and Quaneco violated Section 10(b)  
8 of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §  
9 240.10b-5].

10 146. As set forth above, Schumacher, Quantum, and Quaneco, in connection  
11 with the purchase or sale of securities in the United States, by the use of the means or  
12 instrumentalities of interstate commerce, or of the mails, or of the facilities of a  
13 national securities exchange, directly or indirectly:

14 (a) employed devices, schemes, and artifices to defraud;

15 (b) made untrue statements of material fact or omitted to state material facts  
16 necessary in order to make the statements made, in the light of the  
17 circumstances under which they were made, not misleading; and

18 (c) engaged in acts, practices, or courses of business which operated or would  
19 operate as a fraud or deceit upon purchasers of securities.

20 147. Schumacher, Quantum, and Quaneco knowingly or recklessly  
21 misrepresented the amount of money that would be allocated to the actual exploration  
22 and development of oil and gas resources in the PPMs and other solicitation materials  
23 for the Crawford Offering, 2011 D&P, Crane Program, ORDP and the Roswell  
24 Prospect offerings. These misrepresentations included commitments that Quantum's  
25 expenses would not exceed 30 percent of funds raised, that investor's funds would be  
26 held in segregated accounts and that Quantum would not make loans to affiliates.  
27 Schumacher, Quantum, and Quaneco continued to raise money based on these  
28

1 commitments as they diverted investor funds to Quantum and Quaneco's overhead  
2 expenses.

3 148. Schumacher, Quantum, and Quaneco further engaged in a scheme to  
4 defraud investors by using fraudulent turnkey contracts to conceal their diversion of  
5 investor funds.

6 149. By engaging in this conduct, Schumacher, Quantum, and Quaneco  
7 violated, and unless enjoined will continue to violate, Section 10(b) of the Exchange  
8 Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

9 **SECOND CLAIM**

10 **Violations of Section 17(a) of the Securities Act**

11 (Against Defendants Schumacher, Quantum and Quaneco)

12 150. The Commission repeats and re-alleges Paragraphs 1 through 149 of the  
13 Complaint as if fully set forth herein.

14 151. Schumacher, Quantum and Quaneco violated Section 17(a)(1), (2)  
15 and/or (3) of the Securities Act [15 U.S.C. § 77q(a)(1), (2), & (3)].

16 152. As set forth above, Schumacher, Quantum and Quaneco, directly or  
17 indirectly, singly or in concert with others, in the offer or sale of securities, by use of  
18 the means and instrumentalities of interstate commerce or of the mails, knowingly or  
19 with reckless disregard for the truth:

20 (a) employed devices, schemes or artifices to defraud;

21 (b) obtained money or property by means of untrue statements of material fact  
22 or omissions to state material facts necessary in order to make the statements  
23 made, in light of the circumstances under which they were made, not  
24 misleading; and

25 (c) engaged in transactions, practices, or courses of business which operated or  
26 would operate as a fraud or deceit upon purchasers of securities.

27 153. Schumacher, Quantum and Quaneco knowingly, recklessly or  
28 negligently misrepresented the amount of money that would be allocated to the actual

1 exploration and development of oil and gas resources in the PPMs and other  
2 marketing materials for the Crawford Offering, 2011 D&P, Crane 16-4, ORDP, and  
3 the Roswell Prospect offerings. These misrepresentations included commitments that  
4 Quantum's expenses would not exceed 30 percent of funds raised, that investor's  
5 funds would be held in segregated accounts and that Schumacher, Quantum and  
6 Quaneco would not take loans from investor funds. Schumacher, Quantum and  
7 Quaneco continued to raise money based on these commitments as they diverted  
8 investor funds to Quantum and Quaneco's overhead expenses.

9 154. By engaging in this conduct, Schumacher, Quantum and Quaneco  
10 violated, and unless enjoined will continue to violate, Section 17(a) of the Securities  
11 Act [15 U.S.C. §§ 77q].

12 **THIRD CLAIM**

13 **Aiding and Abetting Violations of**

14 **Section 10(b) and Rule 10b-5 of the Exchange Act**

15 (Against Schumacher)

16 155. The Commission repeats and re-alleges Paragraphs 1 through 154 of the  
17 Complaint as if fully set forth herein.

18 156. Schumacher aided and abetted Quantum's and Quaneco's violations of  
19 Section 10(b) of the Exchange Act and Rule 10b-5. Quantum and Quaneco employed  
20 fraudulent devices, made untrue statements of material facts and omissions of  
21 material facts, and engaged in transactions that operated as a fraud or deceit upon  
22 persons, all in connection with the purchase or sale of securities in the United States,  
23 in violation of Section 10(b) of the Exchange Act and Rule 10b-5, by engaging in  
24 activities described in paragraphs 153 above. Pursuant to Section 20(e) of the  
25 Exchange Act [15 U.S.C. § 78t(e)], Schumacher knowingly provided substantial  
26 assistance to Quantum and Quaneco in its commission of these unlawful acts.

1 **FOURTH CLAIM**

2 **Securities Act Sections 5(a) and 5(c)**

3 (Against all Defendants)

4 157. The Commission repeats and re-alleges Paragraphs 1 through 156 of the  
5 Complaint as if fully set forth herein.

6 158. Defendants, directly or indirectly, singly and in concert with others, have  
7 been offering to sell, selling and delivering after sale, certain securities, and have  
8 been directly or indirectly: (a) making use of the means and instruments of  
9 transportation and communication in interstate commerce and of the mails to sell  
10 securities, through the use of written contracts, offering documents and otherwise; (b)  
11 carrying and causing to be carried through the mails and in interstate commerce by  
12 means and instruments of transportation, such securities for the purpose and sale and  
13 for delivery after sale; and (c) making use of the means or instruments of  
14 transportation and communication in interstate commerce and of the mails to offer to  
15 sell such securities.

16 159. No registration statements were ever filed with the Commission or  
17 otherwise in effect with respect to these securities described in the Complaint, nor  
18 was any exemption from registration available.

19 160. By reason of the foregoing, Defendants have violated and, unless  
20 enjoined, will continue to violate Sections 5(a) and 5(c) of the Securities Act [15  
21 U.S.C. §§ 77e(a) and 77e(c)].

22 **FIFTH CLAIM**

23 **Exchange Act 15(a)**

24 (Against Defendant Schumacher)

25 161. The Commission repeats and re-alleges Paragraphs 1 through 160 of the  
26 Complaint as if fully set forth herein.

27 162. As alleged above, Schumacher acted as a “broker” pursuant to Exchange  
28 Act Section 15(a)(1) by effecting transactions in and induced the purchase and sale of

1 securities in interstate commerce without being registered with the SEC. He oversaw  
2 Quantum's sales force and directly participated in the solicitation of funds, and  
3 received a 10 percent bonus for money raised from investors. Schumacher's activity  
4 does not qualify for any exemption from registration.

5 163. By reason of the foregoing, Schumacher has violated and, unless  
6 enjoined, will continue to violate Section 15(a)(1) of the Exchange Act [15 U.S.C. §  
7 78o(a)].

8 **SIXTH CLAIM**

9 **Violations of Section 17(a)(2) & (3) of the Securities Act**

10 (Against Defendant Mysyk)

11 164. The Commission repeats and re-alleges Paragraphs 1 through 163 of the  
12 Complaint as if fully set forth herein.

13 165. Mysyk violated Section 17(a) (2) and/or (3) of the Securities Act [15  
14 U.S.C. § 77q(a) (2) & (3)].

15 166. As set forth above, Mysyk, directly or indirectly, singly or in concert  
16 with others, in the offer or sale of securities, by use of the means and  
17 instrumentalities of interstate commerce or of the mails, negligently:

18 (a) obtained money or property by means of untrue statements of material fact  
19 or omissions to state material facts necessary in order to make the statements  
20 made, in light of the circumstances under which they were made, not  
21 misleading; and

22 (b) engaged in transactions, practices, or courses of business which operated or  
23 would operate as a fraud or deceit upon purchasers of securities.

24 167. Mysyk negligently misrepresented the amount of money that would be  
25 allocated to the actual exploration and development of oil and gas resources in the  
26 PPMs and other marketing materials for the Crawford Offering, 2011 D&P, and  
27 Crane 16-4 offerings. These misrepresentations included commitments that  
28 Quantum's expenses would not exceed 30 percent of funds raised, that investor's

1 funds would be held in segregated accounts and that Defendants would not take loans  
2 from investor funds. Defendants continued to raise money based on these  
3 commitments as they diverted investor funds to Quantum and Quaneco's overhead  
4 expenses.

5 168. By engaging in this conduct, Mysyk violated, and unless enjoined will  
6 continue to violate, Section 17(a) (2) and (3) of the Securities Act [15 U.S.C. §§  
7 77q(a) (2 and (3))].

8 **SEVENTH CLAIM**

9 **Unjust Enrichment**

10 (Against Relief Defendants as Custodians of Investor Funds)

11 169. The Commission repeats and re-alleges Paragraphs 1 through 168 of the  
12 Complaint as if fully set forth herein.

13 170. Relief Defendants received funds and property from one or more of the  
14 Defendants, which are the proceeds, or are traceable to the proceeds, of the unlawful  
15 activities of the Defendants, as alleged in paragraphs 1 through 168 above.

16 171. Relief Defendants obtained the funds and property alleged above as part  
17 of and in furtherance of the securities violations alleged in paragraphs 1 through 168  
18 above and under circumstances in which it is not just, equitable or conscionable for  
19 them to retain the funds and property. As a consequence, Relief Defendants were  
20 unjustly enriched.

21 **RELIEF REQUESTED**

22 WHEREFORE, the Commission respectfully requests that this Court enter a  
23 judgment:

24 A. Finding that Defendants violated the Federal securities laws and  
25 the Commission Rule alleged in this Complaint;

26 B. Preliminarily and permanently restraining and enjoining  
27 Schumacher, Quantum, and Quaneco, as well as their agents, servants,  
28 employees, attorneys and all persons in active concert or participation

1 with them who receive actual notice of the injunction by personal service  
2 or otherwise, from violating, directly or indirectly, Sections 5(a), 5(c),  
3 and 17(a) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), 77q(a)] and  
4 Exchange Act Section 10(b) [15 U.S.C. §§78j(b)], and Rule 10b-5  
5 thereunder [17 C.F.R. § 240.10b-5], and enjoining Schumacher from  
6 violating Section 15(a) of the Exchange Act [15 U.S.C. 78o(a)].

7 **C.** Preliminarily and permanently restraining and enjoining Mysyk  
8 from violating, directly or indirectly, Securities Act Sections 5(a), 5(c),  
9 and 17(a)(2)-(3).

10 **D.** Preliminarily and permanently enjoining Schumacher, Quantum,  
11 and Quaneco from directly or indirectly soliciting or accepting funds  
12 from any person or entity for any unregistered offering of securities.

13 **E.** Preliminarily and permanently enjoining Schumacher, Quantum,  
14 and Quaneco from directly or indirectly selling or encumbering any asset  
15 of Quantum or Quaneco absent Court approval.

16 **F.** Ordering Schumacher, Quantum, Quaneco and Relief Defendants  
17 to disgorge, jointly and severally, all ill-gotten gains and/or unjust  
18 enrichment obtained as a result of the fraudulent misconduct, acts or  
19 courses of conduct described in this Complaint, and to pay prejudgment  
20 interest thereon.

21 **G.** Ordering each Defendant permanently barred from participating in  
22 an offering of penny stock, including engaging in activities with a  
23 broker, dealer, or issuer for purposes of issuing, trading, or inducing or  
24 attempting to induce the purchase or sale of any penny stock as defined  
25 in Rule 3a51-1 under the Exchange Act [17 C.F.R. § 240.3a-51-1].

26 **H.** Ordering each Defendant to pay civil monetary penalties pursuant  
27 to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section  
28 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

1 I. Granting such equitable relief as may be appropriate or necessary  
2 for the benefit of investors pursuant to Section 21(d)(5) of the Exchange  
3 Act [15 U.S.C. § 78u(d)(5)].


4 J. Retaining jurisdiction over this action to implement and carry out  
5 the terms of all orders and decrees that may be entered.

6  
7 Dated: August 21, 2015

Respectfully submitted,

8 **Securities and Exchange Commission**

9 By its Attorneys,

10   
11 \_\_\_\_\_  
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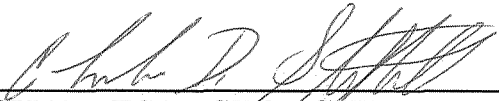
**DEMAND FOR A JURY TRIAL**

Under Rule 38 of the Federal Rules of Civil Procedure, the Commission demands trial by jury in this action of all issues so triable.

DATED: August 21, 2015

Respectfully submitted,  
**Securities and Exchange Commission**

By its Attorneys,

  
\_\_\_\_\_  
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