
**UNITED STATES DISTRICT COURT FOR THE
NORTHERN DISTRICT OF TEXAS, FORT WORTH DIVISION**

**United States Securities
and Exchange Commission,**

Plaintiff,

v.

**The Heartland Group Ventures, LLC;
Heartland Production and Recovery LLC;
Heartland Production and Recovery Fund
LLC; Heartland Production and Recovery
Fund II LLC; The Heartland Group III,
LLC; Heartland Drilling Fund I, LP;
Carson Oil Field Development Fund II,
LP; Alternative Office Solutions, LLC;
ArcoOil Corp.; Barron Petroleum LLC;
James Ikey; John Muratore; Thomas
Brad Pearsey; Manjit Singh (aka
“Roger”) Sahota; and Rustin Brunson;**

Defendants,

and

**Dodson Prairie Oil & Gas LLC; Panther
City Energy LLC; Muratore Financial
Services, Inc.; Bridy Ikey; Encypher
Bastion, LLC; IGroup Enterprises LLC;
Harprit Sahota; Monroe Sahota; Sunny
S. Sahota; Barron Energy Corp.; Dallas
Resources Inc.; Leading Edge Energy,
LLC; Sahota Capital LLC; and 1178137
B.C. Ltd.;**

Relief Defendants.

No. 4:21-cv-1310-O

Defendant Brunson’s Brief Regarding Preliminary Injunction

Defendant Rustin Brunson files this brief pursuant to the Court’s electronic Order of December 10, 2021 (ECF No. 45), directing the parties to file additional briefing regarding why the Court should include a provision waiving “bad actor” disqualification in the preliminary injunction against Brunson.

Unlike its allegations against other Defendants, the SEC does not characterize Brunson as a recidivist fraudster. The SEC does not even assert that Brunson is likely to commit securities laws violations in the future. To the contrary, Brunson has materially aided the SEC's investigation into Defendants' conduct and is currently rendering substantial assistance to the Court's appointed Receiver in her asset protection and recovery efforts. Indeed, long before the SEC sought an involuntary receivership and asset freeze in this matter, Brunson put a stop to further Heartland fundraising and further Heartland payments to the Sahota Defendants. *See* Compl. ¶ 138 (ECF No. 1).

Brunson is the only defendant against whom the SEC has not alleged an intentional fraud claim. Instead, the SEC has asserted claims against Brunson for negligent misrepresentation by omission and participation in the sale of unregistered securities for which no registration exemption applies. *See* Compl. ¶¶ 3, 84, 92–108, 113–116, 124–125, 145–48, 153–157. Brunson denies the claims against him and intends to defend himself in due course.

Rather than bear the significant cost and burden of litigating the SEC's application for preliminary injunction, Brunson compromised with the SEC and agreed to be enjoined from violating the same provisions of the Securities Act of 1933 that the SEC has alleged he violated in this matter. In reaching this compromise, the SEC withdrew its request to preliminarily enjoin Brunson from participating in private oil and gas securities offerings. This was material to Brunson because he is currently pursuing at least one such private offering (unrelated to the parties and claims in this suit).

Brunson's compromise with the SEC is frustrated by Rule 506(d)(1), which disqualifies private offerings from registration exemptions when certain "bad actors" participate. 17 C.F.R. § 230.506(d)(1). The Court's Temporary Restraining Order (ECF No. 12) and the SEC's proposed

preliminary injunction against Brunson would qualify him as a “bad actor.” *Id.* at 506(d)(1)(ii). As a result, although the SEC intended to release Brunson from the conduct-based injunctive relief it previously sought, the remaining statutory injunctive relief has the same effect because it renders Brunson a “bad actor.”

Rule 506(d)(2)(iii) vests the Court with the power to cure this problem. Specifically, Rule 506(d)(2) provides:

Paragraph (d)(1) of this section shall not apply: . . . (iii) If, before the relevant sale, the court or regulatory authority that entered the relevant order, judgment or decree advises in writing (whether contained in the relevant judgment, order or decree or separately to the Commission or its staff) that disqualification under paragraph (d)(1) of this section should not arise as a consequence of such order, judgment or decree.

For these reasons, Brunson requests that the Court include a provision in the preliminary injunction to the effect that: “pursuant to 17 C.F.R. § 230.506(d)(2)(iii), the Court advises that ‘Bad Actor’ disqualification under 17 C.F.R. § 230.506(d)(1) should not arise as a consequence of this Order or the Court’s Temporary Restraining Order (ECF No. 12).” Otherwise, Brunson will be de facto enjoined from participating in private oil and gas securities offerings for at least the next five years.

As Chief Justice Burger explained in discussing the SEC’s burden to show entitlement to injunctive relief:

To make such a showing, it will almost always be necessary for the Commission to demonstrate that the defendant’s past sins have been the result of more than negligence. Because the Commission must show some likelihood of a future violation, defendants whose past actions have been in good faith are not likely to be enjoined. That is as it should be. An injunction is a drastic remedy, not a mild prophylactic, and should not be obtained against one acting in good faith.

Aaron v. Sec. & Exch. Comm’n, 446 U.S. 680, 703 (1980) (Burger, C. J., concurring) (citation omitted). The SEC has not alleged that Brunson acted in bad faith, and Brunson’s substantial cooperation with both the SEC and the Receiver demonstrates his good faith, particularly at this stage. Because there is no reason to believe Brunson is at risk for committing future violations of

the securities laws—and even if he were, the preliminary injunction itself serves as a sufficient deterrent for such conduct—Brunson asks that the Court exercise its authority to except him from “bad actor” status so he may participate in legitimate private offerings about which the SEC has expressed no concerns or reservations.

Defendant Rustin Brunson therefore respectfully requests that the Court enter the agreed preliminary injunction specifically including a provision waiving “bad actor” disqualification pursuant to 17 C.F.R. § 230.506(d)(2)(iii), and grant Brunson all further relief to which he may be entitled.

Date: December 13, 2021

Respectfully submitted,

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