STATE OF OREGON
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
DIVISION OF FINANCE AND CORPORATE SECURITIES
ENFORCEMENT SECTION
BEFORE THE DIRECTOR OF THE DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

In the Matter of:	**) S-10-0028**
	)
Daniel Holz,	**) Order to Cease and Desist;**
	) Order Denying Exemptions;
	) License Application Bar;
	) Order Assessing Civil
Respondent.	**) Penalties; and**
	) Consent to Entry of Order.
	)
	)
	)
	)

WHEREAS the Director of the Department of Consumer and Business Services for the State of Oregon (the "Director") conducted an investigation of Daniel Holz ("Holz" or the "Respondent") and determined that the Respondent engaged in activities constituting violations of ORS 59.005 to 59.451, 59.991 and 59.995 (the "Oregon Securities Law");

WHEREAS the Respondent, wishes to resolve and settle this matter with the Director;

NOW THEREFORE, as evidenced by the authorized signature subscribed on this Order, the Respondent hereby **CONSENTS** to the entry of this Order upon the Director's Findings of Fact, and Conclusions of Law as stated herein:

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350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387

I. FINDINGS OF FACT

The Director **FINDS** that:

A. Hydrogen Fusion Engine Company, Incorporated

1. The Hydrogen Fusion Engine Company, Incorporated ("HFEC") was, at all times material herein, a California corporation formed on December 15, 2006 (Entity Number C294427).[1] Michael Sullivan was its vice president and national director of marketing. Its principal place of business was 14851 Jeffrey Road, Suite 185; Irvine, CA 92618. At all times material herein the company's web address was http://www.nanodetonator.com.

B. Michael Sullivan and Five Star Auto Club, Inc.

2. From on or about December 1997 to on or about June 2000 Michael Sullivan was the President, Vice President, founder and sole shareholder of Five Star Auto Club, Inc. ("Five Star Auto"). Five Star Auto was a Delaware Corporation formed on or about December 2, 1997 (File # 2821647). Five Star Auto operated a multi-level marketing program in which its members recruited other members into the program in exchange for a commission and the ability to lease an automobile. Members generally paid an annual fee and small monthly payments in exchange for the exclusive right to recruit other members. Membership in the club was marketed as an opportunity to lease

[1] This registration is currently suspended.

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their "dream vehicle" for "free" while earning between $180 and $80,000 a month.

C. Preliminary Injunction Against Michael Sullivan

3. On June 9, 2000 the United States District Court for the Southern District of New York (the "SDNY" or the "Court") entered a preliminary injunction against Michael Sullivan, Five Star Auto, and others having found that Five Star Auto's was an illegal pyramid operation.[2] A majority of the participants never received income from the Five Star Auto Club.

4. The preliminary injunction, among other things, placed Michael Sullivan under strict conduct prohibitions when selling any business venture in the future.

D. HFEC Dealership Licenses and the Nanodetonator

5. Beginning in June 2007, Sullivan and HFEC sold dealership licenses by means of a multi-level marketing program that was similar to the Five Star Auto program. In total, HFEC purportedly had 1,200 dealerships nationally. The initial cost for a dealership was $195 and was later increased to $390.

6. Each dealership allowed the dealer to be the exclusive outlet in their area for a soon to be released proprietary invention called the Hydrogen Fusion Engine.[3] The Hydrogen Fusion Engine purportedly featured a device called the

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[2] Federal Trade Commission v. Five Star Auto Club Inc., et.al. (Civ. No. 99-1693).

[3] Initially one dealership covered 150,000 households. Later that was changed to 150,000 individuals.

Nanodetonator, which looked and inserted like a normal spark plug. Unlike traditional spark plugs, however, the Nanodetonator purportedly produced energy by splitting hydrogen atoms that were taken from the ambient air and causing a fusion reaction. The purpose of the dealerships was to convert a consumer's gas automobile engine into a Hydrogen Fusion Engine.

7. According to the dealership agreement entered into by HFEC with each dealer, HFEC agreed to furnish and pay all expenses of the dealership to convert up to 150,000 car engines to hydrogen nuclear fusion for six months or until the dealership broke even, whichever came first. Thereafter, the dealer was responsible for all dealership expenses (HFEC would jointly pay the promotion expenses with the dealership). Each dealer was to charge each customer $500 per conversion and $50 per month for rental of a Nanodetonator. The dealership kept $25 of the rental fee and HFEC kept the remainder. The Nanodetonator was to be marketed to consumers as a way for ordinary passenger cars to eliminate the need for gasoline by harnessing the power of nuclear fusion and a way to decrease dependence on foreign oil.

8. As with Five Star Auto, the participants in the HFEC were compensated in whole or in part based upon the sales of their downline distributors. Generally, HFEC paid 30% commission on sales of Nanodetonator dealership licenses they sold and 10% commissions on sales made by their recruits.

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E. Permanent Injunction against Michael Sullivan

9. On February 23, 2009, the SDNY found that Sullivan made false or misleading statements or misrepresentations of material fact in connection with the advertising, promotion, offering for sale, sale or distribution of the HFEC dealerships[4] in violation of its June 2000 preliminary injunction. Accordingly, the Court converted the preliminary injunction to a permanent injunction.

F. Daniel Holz

10. Daniel Holz ("Holz" or the "Respondent") is an Oregon resident who, at all times material herein, resided at 8580 SW 147th Terrace, #104; Beaverton, OR 97007. Holz had previously been involved with Sullivan as a participant in the Five Star Auto Club. In addition, Holz had declared Chapter 13 Bankruptcy in 1994 and 2000 in United States Bankruptcy Court in Portland, Oregon. Holz is not and, at all times material herein, was not licensed by the Oregon Division of Finance and Corporate Securities ("DFCS")[5] to sell securities in Oregon.

11. Between July 2007 and September 2007 Holz acquired at least 6 dealerships from HFEC. This included 4 dealerships in Washington County, Oregon on July 31, 2007 at a cost of $195 per

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[4] In seeking the permanent injunction, the FTC charged, inter alia, that the gas savings claims made by Sullivan were unsubstantiated and violated basic scientific principles.

[5] DFCS is a division of the Department of Consumer and Business Services.

dealership, and 2 dealerships in Maricopa County, Arizona on September 26, 2007 at a cost of $390 per dealership.

G. Sale of Securities

12. Starting in September 2007, Holz offered and sold interests in his dealerships to members of the general public by promoting high monthly returns for a low initial investment. Holz solicited investors either directly through his personal contacts or by placing classified advertisements on www.craigslist.org ("Craigslist").[6] These interests were not registered as securities in Oregon.

H. Craigslist Solicitations

13. Holz typically solicited investors through Craigslist by placing an initial listing that contained a subject line that touted the opportunity for a high return with a low investment. The body of the listing contained very little information beyond what was stated in the subject line. The following are examples of subject lines used by Holz:

"WAKE UP OREGONIANS 166% RETURN ON SMALL INVESTMENT."

"$10,000 FOR A $1,000 INVESTMENT."

"HIGH RETURNS LOW INVESTMENT 1K TO 50K RETURNS 20K TO 1 MILLION."

"Lucrative Investment Returns"

[6] Craigslist is a web forum for persons in metropolitan areas to post listings for jobs, housing, the sale of goods and services, events, and additional community information.

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14. Through Craigslist, prospective investors were able to express an interest in the opportunity by sending an email to Holz. When a prospective investor did so, Holz would respond by providing more specific details regarding HFEC. For example, Holz wrote the following response to an initial inquiry on December 7, 2007:

> _____,
>
> I am a private party in a very lucrative business converting vehicles from gasoline & diesel to recently patented high tech hydrogen fusion technology. A press release is coming shortly when the World will be introduced to this new technology. My 2000 Benz is scheduled to be converted next month. I would like to share my good fortune & help small investors get ahead. You would make from my millions of profits on average $1,600 monthly for twelve consecutive months for each $1,000 investment. Maximum $50,000 is allowed. Go to "nanodetonator.com" I was fortunate to secure four Dealerships with the Hydrogen Fusion Engine Co & will be converting one million vehicles in the next four years. All of the 1,200 U.S. Dealerships have been secured, the Company is now entering phase II. Do your due diligence & let me know if you have further questions & want to continue. I will then e-mail you my returns schedule and contract.
>
> Tx
> Dan

15. As with the initial solicitation, the information relayed to prospective investors in the response email varied over time. Typically, Holz offered a 1% share in a dealership

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for $1,000 to $2,000 with a minimum investment of $1,000 and a maximum of $50,000. The total monthly return per $1,000 investment varied from $850 to $4,000. In total, Holz placed advertisements through Craigslist in 20 cities across the United States – including Oregon – from September 2007 to February 2008.

16. In subsequent email correspondence, Holz told investors that their returns were tied to the profits of the dealerships. He also indicated that the dealerships would earn profits as soon as 1) the Nanodetonator was completed and produced, and 2) HFEC completed an initial public offering. He suggested that a press release announcing the completion of the Nanodetonator would be completed soon. At times he provided prospective investors with a "Nanodetonator 1st Year Estimate" that purported to provide an estimate of the number of conversions per month for the dealerships and the accompanying profits.

17. Holz also told prospective investors that their funds would be used for start up costs; accountant and attorney's fees; setting up the company; setting up the returns program; and/or for advertising and miscellaneous expenses.

18. To add legitimacy to the Nanodetonator, Holz would direct prospective investors to the HFEC website.[7] He would also

[7] The HFEC website was designed to solicit prospective dealers. It contained a "Technical Overview" that explained the history and purported science

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tell prospective investors that HFEC had already received a patent for the Nanodetonator in the United States and that the international patent was pending.

19. Holz conducted very little due diligence into the dealerships before acquiring the dealerships and he did not research the scientific validity of the technology behind the Nanodetonator; Holz only reviewed the HFEC website and listened to a few national conference calls conducted by Sullivan. As such, Holz had no independent knowledge or a justifiable basis for many of the statements he made to prospective investors.

20. In total, Holz raised approximately $110,000 from 15 investors – including 9 Oregon investors.[8] In connection with those sales Holz did not disclose to any of the purchasers, inter alia, that 1) Holz had had a prior business relationship with Sullivan; 2) Sullivan was the subject of a preliminary injunction that placed strict conduct prohibitions when he sold business ventures – including HFEC; 3) Holz had declared bankruptcy twice in 1994 and 2000; 4) there were numerous risks associated with investing in the dealerships; and 5) their interests were not registered as securities under the Oregon Securities Laws. The investors would not have invested had they

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behind the Hydrofusion Engine and the Nanodetonator. It also explained the process for becoming a dealer.

[8] One investment was given in exchange for golf lessons. Holz also gave 10 interests in his dealerships for no consideration to persons who had performed "good deeds."

known any of the aforementioned omissions.

I. Texas Securities Commission Investigation and Complaint

21. Around December 2007, an investigator for the Texas Securities Commission viewed Holz's solicitation in the Austin, Texas edition of Craigslist and proceeded to conduct an undercover email exchange with Holz.

22. On or about January 2007, an enforcement attorney with the Texas Securities Commission called Holz and informed him that those solicitations were illegal. Holz agreed to stop unregistered securities solicitations in Texas. Shortly thereafter, however, Holz continued to solicit the investigator – including providing address information where the investigator could send his cashier's check. On February 2, 2008, the investigator filed a complaint with DFCS. DFCS opened an investigation on February 7, 2008.

J. DFCS Investigation

23. As part of its investigation, DFCS found that Holz used some of the investors funds to pay personal expenses, including: back rent, car payments, food, medical and dental, and general living expenses. DFCS further found that none of the investors would have invested in a dealership had they known that Holz was going to use their funds to pay personal expenses.

24. As of the date of this Order, none of the investors received a return from their investment and HFEC's license is presently suspended.

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K. Holz's Unsound Financial Condition

25. As of the date of this Order Holz is 66 years old and resides with his wife in Beaverton, Oregon. Both of their primary sources of income are social security. At times Holz has taken on sales jobs in exchange for a commission, but the amount he has received in commissions in the past two years has been nominal.

26. Holz's monthly living expenses and the amount he owes in back taxes and other arrears significantly exceeds his income. Holz pays in excess of $1,200 in living expenses, which includes rent, phone, and utilities. In addition, he owes in excess of $4,000 in unpaid legal fees, $2,000 in unpaid medical bills, $900,000 in back federal and state taxes, and $10,000 in other unpaid fees.

II. CONCLUSIONS OF LAW

A. Definitions under ORS 59.015

27. The interests in dealerships described in this Order are "securities" as that term is defined under ORS 59.015(19)(a) because they are investment contracts in that they required an investment of money in a common enterprise with the expectation of profits made from the management and control of others.

28. Holz acted as a "salesperson" as that term is used under ORS 59.015(18)(a) because he represented or purported to represent an issuer or owner of securities in effecting or attempting to effect transactions in securities.

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B. Securities Fraud under ORS 59.135(2)

29. Holz violated ORS 59.135(2) when he directly or indirectly in connection with the purchase or sale of securities made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading.

30. These material untrue statements and omissions by Holz include, but are not limited to, not informing prospective investors that 1) he had had a prior business relationship with Sullivan; 2) Sullivan was the subject of a preliminary injunction that placed strict conduct prohibitions when he sold business ventures – including HFEC; 3) he had declared bankruptcy twice in 1994 and 2000; 4) there were substantial risks associated with investing in the dealerships; 5) their interest were not registered as securities under the Oregon Securities Laws; and 6) he was going to use investor funds for personal use and not towards start-up costs associated with the dealerships.

C. Sale of Unregistered Securities under ORS 59.055

31. Holz violated ORS 59.055 when he offered or sold securities in Oregon that were not registered.

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D. Unlicensed Salesperson Sales Under ORS 59.165

32. Holz violated ORS 59.165(1) when he transacted business in Oregon as a salesperson without first being licensed to do so.

III. ORDERS

NOW, THEREFORE, THE DIRECTOR ISSUES THE FOLLOWING ORDERS:

A. Cease and Desist

33. The Director, pursuant to the authority under ORS 59.245(4) hereby **ORDERS** that Holz, and any affiliated and/or successor business or corporation, shall **CEASE and DESIST** from violating any provision of the Oregon Securities Law and Administrative Rules promulgated thereunder.

B. Denial of Exemptions

34. The Director pursuant to the authority under ORS 59.045 hereby **DENIES** Holz and any affiliated and/or successor business or corporation the exemptions allowed by ORS 59.025 and ORS 59.035.

C. Bar from Applying for a Securities and other Financial Services Licenses

35. The Director **ORDERS** that Holz is **BARRED** from applying for, holding, or renewing any license or registration required by the Division of Finance & Corporate Securities including, but not limited to, securities, mortgage lending and mortgage banking, or consumer finance until further order of the Director.

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D. Civil Penalties

36. The Director, pursuant to the authority under ORS 59.995 hereby **ASSESSES** the following **CIVIL PENALTIES** against Holz: $100,000 for Holz's continuing violations of ORS 59.135(2); $50,000 for Holz's continuing violations of ORS 59.055; and $50,000 for Holz's continuing violations of ORS 59.165; for a total of $200,000.

37. In consideration of Holz's age and unsound financial condition, the Director hereby **SUSPENDS** the **CIVIL PENALTY** in its entirety so long as Holz complies with the terms of this Order and commits no further violations of the Oregon Securities Laws.

The entry of this Order in no way limits further remedies that may be available to the Director under Oregon law.

IT IS SO ORDERED.

Dated this 10th day of August, 2010 at Salem, Oregon.

CORY STREISINGER, Director
Department of Consumer and Business Services

/s/ David Tatman
David Tatman, Administrator
Division of Finance and Corporate Securities

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CONSENT TO ENTRY OF ORDER

For Daniel Holz

I, Daniel Holz, state that I have read the foregoing Order and that I know and fully understand the contents hereof; that I have been advised of the right to a hearing and of the right to be represented by counsel in this matter; that I voluntarily and without any force or duress, consent to the entry of this Order, expressly waiving any right to a hearing in this matter; that I understand that the Director reserves the right to take further actions to enforce this Order or to take appropriate action upon discovery of other violations of the Oregon Securities Law; and that I will fully comply with the terms and conditions stated herein.

I further assure the Director that I will not effect securities transactions in Oregon unless such activities are in full compliance with Oregon Securities Law and administrative rules promulgated thereunder.

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I understand that this Consent Order is a public document.

Dated this 6 day of August, 2010.

By /s/ Daniel Holz

Daniel Holz

ACKNOWLEDGMENT

Signed before me this 6 day of August, 2010 by Daniel Holz, who was first duly sworn on oath.

/s/ Josie Z. Planton
(Individual)

Josie Z. Planton
(Printed Name of Notary Public)
Notary Public for the
State of: Oregon
My commission expires: April 21, 2011

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