

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

1
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6 In the Matter of:) S-10-0028
7 Daniel Holz,)
8 Respondent.) Order to Cease and Desist;
9) Order Denying Exemptions;
10) License Application Bar;
11) Order Assessing Civil
12) Penalties; and
13) Consent to Entry of Order.
14)
15)
16)
17)

13 WHEREAS the Director of the Department of Consumer and
14 Business Services for the State of Oregon (the "Director")
15 conducted an investigation of Daniel Holz ("Holz" or the
16 "Respondent") and determined that the Respondent engaged in
17 activities constituting violations of ORS 59.005 to 59.451,
18 59.991 and 59.995 (the "Oregon Securities Law");

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

21 NOW THEREFORE, as evidenced by the authorized signature
22 subscribed on this Order, the Respondent hereby **CONSENTS** to the
23 entry of this Order upon the Director's Findings of Fact, and
24 Conclusions of Law as stated herein:
25

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1 I. FINDINGS OF FACT

2 The Director FINDS that:

3 A. Hydrogen Fusion Engine Company, Incorporated

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

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

12 2. From on or about December 1997 to on or about June
13 2000 Michael Sullivan was the President, Vice President, founder
14 and sole shareholder of Five Star Auto Club, Inc. ("Five Star
15 Auto"). Five Star Auto was a Delaware Corporation formed on or
16 about December 2, 1997 (File # 2821647). Five Star Auto
17 operated a multi-level marketing program in which its members
18 recruited other members into the program in exchange for a
19 commission and the ability to lease an automobile. Members
20 generally paid an annual fee and small monthly payments in
21 exchange for the exclusive right to recruit other members.
22 Membership in the club was marketed as an opportunity to lease

23
24
25 ¹ This registration is currently suspended.

1 their "dream vehicle" for "free" while earning between \$180 and
2 \$80,000 a month.

3 **C. Preliminary Injunction Against Michael Sullivan**

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

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

13 **D. HFEC Dealership Licenses and the Nanodetonator**

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

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

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

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



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

7 7. According to the dealership agreement entered into by
8 HFEC with each dealer, HFEC agreed to furnish and pay all
9 expenses of the dealership to convert up to 150,000 car engines
10 to hydrogen nuclear fusion for six months or until the
11 dealership broke even, whichever came first. Thereafter, the
12 dealer was responsible for all dealership expenses (HFEC would
13 jointly pay the promotion expenses with the dealership). Each
14 dealer was to charge each customer \$500 per conversion and \$50
15 per month for rental of a Nanodetonator. The dealership kept
16 \$25 of the rental fee and HFEC kept the remainder. The
17 Nanodetonator was to be marketed to consumers as a way for
18 ordinary passenger cars to eliminate the need for gasoline by
19 harnessing the power of nuclear fusion and a way to decrease
20 dependence on foreign oil.

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

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1 **E. Permanent Injunction against Michael Sullivan**

2 9. On February 23, 2009, the SDNY found that Sullivan
3 made false or misleading statements or misrepresentations of
4 material fact in connection with the advertising, promotion,
5 offering for sale, sale or distribution of the HFEC dealerships⁴
6 in violation of its June 2000 preliminary injunction.
7 Accordingly, the Court converted the preliminary injunction to a
8 permanent injunction.

9 **F. Daniel Holz**

10 10. Daniel Holz ("Holz" or the "Respondent") is an Oregon
11 resident who, at all times material herein, resided at 8580 SW
12 147th Terrace, #104; Beaverton, OR 97007. Holz had previously
13 been involved with Sullivan as a participant in the Five Star
14 Auto Club. In addition, Holz had declared Chapter 13 Bankruptcy
15 in 1994 and 2000 in United States Bankruptcy Court in Portland,
16 Oregon. Holz is not and, at all times material herein, was not
17 licensed by the Oregon Division of Finance and Corporate
18 Securities ("DFCS")⁵ to sell securities in Oregon.

19 11. Between July 2007 and September 2007 Holz acquired at
20 least 6 dealerships from HFEC. This included 4 dealerships in
21 Washington County, Oregon on July 31, 2007 at a cost of \$195 per
22

23 _____
24 ⁴ In seeking the permanent injunction, the FTC charged, inter alia, that the
25 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.

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

3 **G. Sale of Securities**

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

11 **H. Craigslist Solicitations**

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

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

19 "\$10,000 FOR A \$1,000 INVESTMENT."

20 "HIGH RETURNS LOW INVESTMENT 1K TO 50K RETURNS 20K TO
21 1 MILLION."

22 "Lucrative Investment Returns"

23
24
25

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.



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

7 _____,

8 I am a private party in a very lucrative
9 business converting vehicles from gasoline &
10 diesel to recently patented high tech
11 hydrogen fusion technology. A press release
12 is coming shortly when the World will be
13 introduced to this new technology. My 2000
14 Benz is scheduled to be converted next
15 month. I would like to share my good
16 fortune & help small investors get ahead.
17 You would make from my millions of profits
18 on average \$1,600 monthly for twelve
19 consecutive months for each \$1,000
20 investment. Maximum \$50,000 is allowed. Go
21 to "nanodetonator.com" I was fortunate to
22 secure four Dealerships with the Hydrogen
23 Fusion Engine Co & will be converting one
24 million vehicles in the next four years.
25 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.

21 Tx
22 Dan

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

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1 for \$1,000 to \$2,000 with a minimum investment of \$1,000 and a
2 maximum of \$50,000. The total monthly return per \$1,000
3 investment varied from \$850 to \$4,000. In total, Holz placed
4 advertisements through Craigslist in 20 cities across the United
5 States - including Oregon - from September 2007 to February
6 2008.

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

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

22 18. To add legitimacy to the Nanodetonator, Holz would
23 direct prospective investors to the HFEC website.⁷ He would also
24

25 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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1 tell prospective investors that HFEC had already received a
2 patent for the Nanodetonator in the United States and that the
3 international patent was pending.

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

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

22 _____
23 behind the Hydrofusion Engine and the Nanodetonator. It also explained the
24 process for becoming a dealer.

25 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."

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1 known any of the aforementioned omissions.

2 **I. Texas Securities Commission Investigation and Complaint**

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

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

16 **J. DFCS Investigation**

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

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

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1 **B. Securities Fraud under ORS 59.135(2)**

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

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

20 **C. Sale of Unregistered Securities under ORS 59.055**

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

23 ///

24 ///

25 ///

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1 **D. Civil Penalties**

2 36. The Director, pursuant to the authority under ORS
3 59.995 hereby **ASSESSES** the following **CIVIL PENALTIES** against
4 Holz: \$100,000 for Holz's continuing violations of ORS
5 59.135(2); \$50,000 for Holz's continuing violations of ORS
6 59.055; and \$50,000 for Holz's continuing violations of ORS
7 59.165; for a total of \$200,000.

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

12
13 The entry of this Order in no way limits further remedies
14 that may be available to the Director under Oregon law.

15
16 **IT IS SO ORDERED.**

17
18 Dated this 10th day of August, 2010 at Salem, Oregon.

19
20 CORY STREISINGER, Director
21 Department of Consumer and Business Services

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

1 I understand that this Consent Order is a public document.

2

3 Dated this 6 day of August, 2010.

4

5 By /s/ Daniel Holz

6 Daniel Holz

7

ACKNOWLEDGMENT

8

9

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

11

12

/s/ Josie Z. Planton
(Individual)

13

14

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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