

**BEFORE THE ARKANSAS SECURITIES COMMISSIONER
CASE NO. S-19-0053
ORDER NO. S-19-0053-19-OR01**

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ARKANSAS SECURITIES DEPT.

IN THE MATTER OF:

**HANNOVER HOUSE, INC.;
D. FREDERICK SHEFTE; and
ERIC F. PARKINSON**

RESPONDENTS

CEASE AND DESIST ORDER

On October 8, 2019, the Staff of the Arkansas Securities Department (“Staff”) filed its Request for Cease and Desist Order (“Request”). In its Request, the Staff states that it has certain information and evidence indicating that Hannover House, Inc.; D. Frederick Shefte; and Eric F. Parkinson have violated provisions of the Arkansas Securities Act (“Act”), codified at Ark. Code Ann. §§ 23-42-101 through 23-42-509. The Arkansas Securities Commissioner (“Commissioner”) has reviewed the Request and based upon the representations made therein finds that:

FINDINGS OF FACT

The Request contains the following representations of fact:

1. Hannover House, Inc. (“Hannover House”) is a company organized and existing under the laws of the state of Wyoming with a principal place of business located at 300 N. College Avenue, Suite 311, Fayetteville, Arkansas 72701. Hannover House is a publicly traded media corporation whose shares trade on the OTC Markets under the symbol HHSE. D. Frederick Shefte is the President of Hannover House. Eric F. Parkinson is the Chairman and Chief Executive Officer of Hannover House. Hannover House has never been registered with the Arkansas Securities Department (“Department”) in any capacity pursuant to the Act.

2. D. Frederick Shefte (“Shefte”) is an individual resident of the state of Arkansas currently residing in Fayetteville, Arkansas. Shefte is the President of Hannover House. Shefte has never been registered with the Department in any capacity pursuant to the Act.

3. Eric F. Parkinson (“Parkinson”) is an individual resident of the state of Arkansas currently residing in Fayetteville, Arkansas. Parkinson is the Chairman and Chief Executive Officer of Hannover House. Parkinson has never been registered with the Department in any capacity pursuant to the Act.

4. According to its website, Hannover House is “a full service media company, specializing in the production and distribution of feature films for theater, home video and Video-On-Demand formats for the North American retail marketplace.”

5. Texas Resident One (“TX1”) is a private investment firm headquartered in Dallas County, Texas that invests in companies whose stock shares trade on the OTC Markets. TX1 relies on a company’s public financial statements when determining if the company meets the qualification requirements for funding.

6. From July 2014 to June 2015, Hannover House issued five Convertible Notes (collectively, the “Notes”) to TX1 in exchange for a total investment of \$146,000.00. More specific details for the Notes are as follows:

A. On July 15, 2014, Hannover House issued a Convertible Note (“Note 1”) to TX1 in exchange for an investment of \$25,000.00. Note 1 was executed by Shefte in his capacity as President of Hannover House. The terms of Note 1 required Hannover House to pay interest on the unpaid principal balance in the amount of 12% per annum. Note 1 had a six-month payment term with a maturity date of January 15, 2015. Additionally, Note 1 gave TX1 the option, at any

time before or after maturity, to convert the unpaid balance into securities of Hannover House at a discount rate to the trading price at the time of conversion.

B. On November 7, 2014, Hannover House issued a Convertible Note (“Note 2”) to TX1 in exchange for an investment of \$15,000.00. Note 2 was executed by Shefte in his capacity as President of Hannover House. The terms of Note 2 required Hannover House to pay interest on the unpaid principal balance in the amount of 12% per annum. Note 2 had a twelve-month payment term with a maturity date of November 7, 2015. Additionally, Note 2 gave TX1 the option, at any time before or after maturity, to convert the unpaid balance into securities of Hannover House at a discount rate to the trading price at the time of conversion.

C. On November 14, 2014, Hannover House issued a Convertible Note (“Note 3”) to TX1 in exchange for an investment of \$23,000.00. Note 3 was executed by Shefte in his capacity as President of Hannover House. The terms of Note 3 required Hannover House to pay interest on the unpaid principal balance in the amount of 12% per annum. Note 3 had a twelve-month payment term with a maturity date of November 14, 2015. Additionally, Note 3 gave TX1 the option, at any time before or after maturity, to convert the unpaid balance into securities of Hannover House at a discount rate to the trading price at the time of conversion.

D. On April 15, 2015, Hannover House issued a Convertible Note (“Note 4”) to TX1 in exchange for an investment of \$33,000.00. Note 4 was executed by Shefte in his capacity as President of Hannover House. The terms of Note 4 required Hannover House to pay interest on the unpaid principal balance in the amount of 12% per annum. Note 4 had a twelve-month payment term with a maturity date of April 15, 2016. Additionally, Note 4 gave TX1 the option, at any time before or after maturity, to convert the unpaid balance into securities of Hannover House at a discount rate to the trading price at the time of conversion.

E. On June 10, 2015, Hannover House issued a Convertible Note (“Note 5”) to TX1 in exchange for an investment of \$50,000.00. Note 5 was executed by Parkinson in his capacity as Chief Executive Officer of Hannover House. The terms of Note 5 required Hannover House to pay interest on the unpaid principal balance in the amount of 12% per annum. Note 5 had a twelve-month payment term with a maturity date of June 10, 2016. Additionally, Note 5 gave TX1 the option, at any time before or after maturity, to convert the unpaid balance into securities of Hannover House at a discount rate to the trading price at the time of conversion.

7. On September 14, 2015, TX1 delivered a conversion notice to Hannover House for the conversion of \$10,000.00 of the unpaid balance owed under Note 1 into 5,000,000 shares of Hannover House’s common stock. Hannover House did not provide the conversion shares within three business days of receipt of the conversion notice, as required by Note 1. Consequently, TX1 filed suit against Hannover House in the District Court of Dallas County, Texas requesting actual damages for the unpaid amounts owed under the Notes plus lost profits, accrued interest, and attorney’s fees and costs. TX1 obtained a judgment (“Texas Judgment”) against Hannover House on October 6, 2016. The Texas Judgment subsequently was registered as a foreign judgment and entered against Hannover House by way of an Order entered by the Circuit Court of Washington County, Arkansas on December 5, 2016.

8. Prior to execution of the Notes, the Respondents failed to disclose to TX1 certain pertinent and material information that a reasonable investor would want to know prior to making an investment. Specifically, the Respondents failed to disclose to TX1 several judgments and pending civil suits existing and filed against Hannover House before TX1 made the investments. Quarterly financial statements filed by Hannover House with the SEC, which were relied upon by

TX1 prior to making the investments, further failed to disclose any of the existing judgments and lawsuits against the company.

9. Subsequent to execution of the Note, the Respondents have made several “lulling statements” that were false and misleading and designed to cover up the fraudulent omissions related to TX1’s investment.

A. Hannover House, through Shefte and Parkinson, maintains an “Investor Relations” blog on its website where it communicates updates on legal matters and other relevant business and financial matters to existing and potential stockholders. In a June 5, 2019 blog post entitled “Winning the War against False and Fraudulent Foreign Judgments,” Parkinson signed and caused to be issued a fake legal pleading designed to convince the public that the Texas Judgment would be dismissed. The pleading was entitled “Declaration of Eric F. Parkinson Regarding Hannover House Full Payment and Satisfaction of Convertible Notes Issued by [TX1]” and included a cover motion purportedly prepared by an attorney for Hannover House. The blog post stated: “the declaration – along with an attorney’s cover motion – is in the process within the Texas courts to remove the [TX1] judgment and to seek damages against them.”

B. The Staff’s review of the Texas Judgment case file found that no such pleading has ever been filed with the court. The last filed pleading in the official court file was the Texas Judgment entered by the court on October 6, 2016. Additionally, the attorney whose name was listed on the cover motion of Parkinson’s Declaration formally withdrew as counsel for Hannover House by way of an Order entered by the court several years prior, on September 27, 2016.

10. The Staff's review of Department records found that the Notes issued by Hannover House were not registered as securities pursuant to the Act. Regarding these investments, the Staff found no record of a filing evidencing a proof of exemption in accordance with the Act and no notice filing pursuant to federal law in connection with a covered security.

APPLICABLE LAW

11. Ark. Code Ann. § 23-42-102(17)(A)(i) includes a Note under the Act's definition of a security.

12. Ark. Code Ann. § 23-42-501 provides that it is unlawful for any person to offer or sell any security unless it is registered, exempt, or a covered security.

13. Ark. Code Ann. § 23-42-507(2) makes it unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly, to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading.

CONCLUSIONS OF LAW

14. The Notes whereby TX1 invested money in Hannover House in exchange for a return or, alternatively, the right to convert the unpaid balance into common stock in Hannover House were securities as defined by Ark. Code Ann. Ark. Code Ann. § 23-42-102(17)(A)(i).

15. None of the securities sold by Hannover House were registered with the Department. Further, the Staff's review of Department records found no record of a notice filing or proof of an exemption filed in accordance with the Act. Therefore, Hannover House violated Ark. Code Ann. § 23-42-501 when it sold the subject securities to TX1.

16. Hannover House, Shefte, and Parkinson committed securities fraud in violation of Ark. Code Ann. § 23-42-507(2) by omitting to state material facts necessary to make statements

made, in light of the circumstances under which they were made, not misleading, as set forth above in paragraphs nine through ten. Specifically, the Respondents omitted to inform TX1 of several pending civil suits and judgments existing against Hannover House prior to the date of TX1's investments in the company.

ORDER

17. Respondent Hannover House shall immediately cease and desist from further violations of Ark. Code Ann. § 23-42-501 by refraining from soliciting, offering, or selling securities in and from the state of Arkansas unless and until the securities are properly registered pursuant to the Act, exempt from such registration, or are covered securities.

18. Respondents Hannover House, Shefte, and Parkinson shall immediately cease and desist from further violations of Ark. Code Ann. § 23-42-507(2) by refraining from committing fraud or deceit in connection with the offer or sale of any securities in the state of Arkansas.

19. A hearing on this Cease and Desist Order shall be held if requested by any of the Respondents in writing within thirty days of the entry of this Order or if otherwise ordered by the Commissioner. Ark. Code Ann. § 23-42-209(a)(2)(A). Such request should be addressed to the Commissioner and submitted to the following address: Arkansas Securities Commissioner, 201 East Markham, Suite 300, Little Rock, Arkansas 72201.

20. If no hearing is requested and none is ordered by the Commissioner, this Cease and Desist Order shall remain in effect until it is modified or vacated by the Commissioner. Ark. Code Ann. § 23-42-209(a)(2)(B).

Dated this 8th day of October, 2019.

A handwritten signature in black ink, appearing to read "B. Edmond Waters", written over a horizontal line.

B. Edmond Waters
Arkansas Securities Commissioner