

IN THE CIRCUIT COURT OF BENTON COUNTY, ARKANSAS
CIVIL DIVISION

A. HEATH ABSHURE,
ARKANSAS SECURITIES COMMISSIONER

v.

NICK LYNN TECHNOLOGIES, INC.,
LENDELL EARL HILLHOUSE, SR., and
JAMES ROBIN PACE

No. CV2008-947-
CLINGER

2008 APR 17 AM 10 55
FILED
BRENDA RECHFIELD
CLERK AND RECORDER
BENTON COUNTY, ARKANSAS
PLAINTIFF
DEFENDANTS

COMPLAINT

Comes now the plaintiff, A. Heath Abshure, Arkansas Securities Commissioner, by and through counsel, Theodore Holder, Assistant Commissioner, and Shannon Underwood, Staff Attorney, and for his complaint alleges the following:

PARTIES

1. A. HEATH ABSHURE (Commissioner) is the Arkansas Securities Commissioner, duly appointed in accordance with Ark. Code Ann. § 23-42-201(a) (Repl. 2000). He is charged with the administration of the Arkansas Securities Act (Act), codified at Ark. Code Ann. §§ 23-42-101 *et seq.* (Repl. 2000).
2. NICK LYNN TECHNOLOGIES, INC. (NLT) is an Arkansas for profit corporation formed on 9 August 1999. Its principal place of business and main office is 2106 South Walton Boulevard, Suite D, Bentonville, Arkansas 72712.
3. LENDELL EARL HILLHOUSE, SR. (Hillhouse), a resident of Jonesboro, Arkansas, is the president of NLT. Upon information and belief, Hillhouse owns 90% of NLT.
4. JAMES ROBIN PACE (Pace) is a resident of Bentonville, Arkansas and an attorney whose office address is the same as NLT's address. Upon information and belief, Pace owns 10% of NLT.

JURISDICTION and VENUE

5. This is an action brought pursuant to the Act, specifically Ark. Code Ann. § 23-42-209 (Repl. 2000), which permits the Commissioner to seek injunctive relief and relief ancillary to injunctive relief as may be appropriate in the public interest, including, but not limited to obtaining an accounting, disgorgement and the assessment of a fine.
6. Venue is proper in Benton County. Certain acts, transactions, practices and courses of business constituting the violations alleged herein occurred and certain offers or sales of securities took place within Benton County.
7. These actions of Pace and Hillhouse constitute violations of several sections of the Act, specifically Ark. Code Ann. § 23-42-501 (Repl. 2000), the sales of unregistered, nonexempt securities and Ark. Code Ann. § 23-42-507 (Repl. 2000), securities fraud.

FACTUAL ALLEGATIONS

UNREGISTERED OFFER AND SALE OF SECURITIES

8. Beginning in 2002 and continuing through December 2006, Hillhouse and Pace approximately \$729,000 from a number of investors in Arkansas through the offer and sale of securities.
9. Hillhouse and Pace conducted their offers and sales of securities by making personal solicitations in face-to-face encounters, by means of the Internet, including the use of a web site and electronic mail, and by the use of telephones.
10. In exchange for investments, Hillhouse and Pace caused NLT to issue “promissory notes” signed by Pace as the secretary of NLT and/or signed by Hillhouse as president. Most of these notes indicated the percentage of NLT’s profits and, where applicable, the time period during

- which note holder's entitlement to the percentage of profit set out would be paid. These documents bore little resemblance to a true promissory note. They had no maturity date and no interest rate. Instead of a promise for payment of principal and interest, as a promissory note would do, these documents contained payment terms of a percentage of NLT profits.
11. These "promissory notes" were also unlike normal corporate debt instruments in that the payment to the investors was stated to be *after* payment to corporate shareholders, who usually are not compensated until debt is paid off.
 12. These "promissory notes" failed to identify the corporate shareholders, who are believed to have been Hillhouse and Pace. *See* ¶¶3 and 4.
 13. The investors expected their profits to come solely from the efforts of Hillhouse and Pace. The investors made none of the decisions regarding the operation of NLT and, other than to provide Hillhouse and Pace with their money, were not expected to and did not take any action to receive the promised returns.
 14. As a result, each "promissory note" offered and sold by Hillhouse and Pace constituted an investment contract and, therefore, was a security pursuant to Ark. Code Ann. § 23-42-102(15) (Supp. 2007).
 15. Shortly after some of these "promissory notes" was delivered to an investor in return for an NLT investment, Pace filed on behalf of NLT a Form D with the United States Securities and Exchange Commission identifying the investment as part of a private placement in accordance with Regulation D, Rule 504, promulgated under the Securities Act of 1933, 15 U.S.C. § 77a *et seq.* *See* 17 CFR § 230.504. Pace filed thirty-four of these forms.
 16. Each of these forms indicated that the persons to whom a purported promissory note had been

sold was not an accredited investor, as that term is defined in Regulation D. *See* 17 CFR § 230.501(a).

17. The forms showed that the sales of all of these investments were parts of a single offering.

18. A statement in each of the forms stated that NLT was relying also on exemptions from the registrations provisions of the Act, specifically Ark. Code Ann. § 23-42-504(a)(1) (Repl. 2000), which exempts isolated non-issuer sales, and Ark. Code Ann. § 23-42-504(a)(9) (Repl. 2000), a small offering exemption for not more than thirty-five investors. Neither of these exemptions under the Act applied. The isolated non-issuer exemption did not apply because these sales were not isolated, and the seller was the issuer, NLT. The small offering exemption did not apply because NLT failed to file a proof of exemption with the Arkansas Securities Department before the sales took place, a requirement for this exemption under Ark. Code Ann. § 23-42-504(b) (Repl. 2000). Further, Regulation D, Rule 504 did not exempt these securities from the registration provisions of the Act.

SECURITIES FRAUD - MISREPRESENTATIONS AND MATERIAL OMISSIONS

19. Hillhouse developed a business plan for NLT and began selling interests in NLT. According to this business plan, NLT was supposed to be a business assisting the government in collecting taxes and making emergency notifications through 911 systems. The business plan divided NLT into five parts, to wit:

- a. *Capacity International Bank*. This would be a bank located in Omaha, Nebraska to serve as financial backing for NLT activities.
- b. *U.S. Liberty Card*. This would be a credit card with which taxpayers could pay their taxes and other government fees, such as court fees.

- c. *Data Pay*. This would be the credit card processing division of NLT.
- d. *Millenium Technologies*. This company would collect back taxes for the Internal Revenue Service (IRS).
- e. *911 Center or System*. Using reverse 911 technology, represented to be new technology, this system would be able to call up to 1.3 million citizens to notify them of local emergencies.

20. Hillhouse and Pace assembled and printed this business plan in booklet form suitable for use as sales material on or before August 2005, the date placed on the front of the booklet. As printed, the business plan contained projected balance sheets, income statements, revenue assumptions and cash flow statements for the years 2006 through 2010. Net income was projected to be over \$2.5 billion in 2006, NLT's anticipated first year of operation, and increase to over \$5.8 billion by 2010. Total revenues during this period were projected to be approximately \$5.2 billion in 2006 and over \$10.6 billion by 2010.

21. According to the business plan, NLT planned to generate these enormous revenues in several ways, including the following charges and rates of return:

- a. 2.43% convenience processing fee per Liberty Card transaction;
- b. 8% above prime annual interest rate on balances left on the Liberty Card;
- c. 25% of the back taxes collected by Millenium Technologies for the IRS; and
- d. \$1 per month on every telephone bill in the United States, including both land lines and cellular telephones.

22. In making offers of these securities, Hillhouse and Pace made numerous false and misleading statements. They would tell potential investors that well known political figures were deeply

involved with NLT, including President George W. Bush, former President Bill Clinton, Senator Hillary Clinton, former Internal Revenue Commissioner Mark Everson, IRS official Floyd Williams, former Secretary of State James Baker and the Houston law firm, Baker Botts, United States Representative John Bozeman and United States Representative Marion Berry. None of these individuals were deeply or even peripherally involved with NLT. Either explicitly, or implicitly, Hillhouse and Pace told prospective investors that through these contacts, they would have no trouble getting legislation through Congress that would be necessary to realize the income projections attached to the business plan after it was printed and disseminated in print and online, specifically 1) the \$1 per month surcharge on every telephone bill in the United States, ¶ 19(d), *supra*, and 2) the nationalized 911 system, ¶ 19(e), *supra*.

23. To perpetuate the myth that high-level government officials were backing NLT, Hillhouse and Pace stated to investors that they had a meeting scheduled with the Ways and Means Committee of the United States House of Representatives, that they had a meeting with President George W. Bush and that NLT had a \$1 billion no-interest loan from the IRS. When questioned by investors about the meetings between President Bush and Hillhouse and Pace, which were always canceled or rescheduled, Hillhouse and Pace created excuses, which included natural disasters or acts of war that required President Bush's full attention.
24. Hillhouse and Pace also had no hesitation in falsely representing to prospective investors that NLT already had contracts and business relationships with governmental agencies in place. In fact, these contracts and relationships did not exist. Such representations appeared in the business plan.

25. Such misrepresentations also appeared in a letter dated 2 April 2007 and mailed to some if not all investors. In that letter Pace made several misstatements, to wit:

- a. "Please note that every note made by this corporation has been registered with the Securities and Exchange Commission in Washington." In fact, the filings referred to in ¶¶ 15-18, *supra*, pursuant to Regulation D, Rule 504, were exemption filings and not registrations. Further, they were not sufficient to exempt these notes from the registration provisions of the Act.
- b. "The Internal Revenue Service has issued a letter formally approving use of The Liberty Government Card." No such letter or communication exists. The IRS gave no such approval of the Liberty Card.

26. The forms showed that the sales of all of these investments were parts of a single offering.

Over the course of their fraudulent scheme, Hillhouse and Pace promised different investors different payment terms resulting in material changes in the terms of the offering. This constitutes securities fraud.

27. The following table shows how the terms of the offering changed over time from investor to investor. The investors' names are replaced by numbers beginning with AR.

Sub ¶	Investor	Amount invested	Payment Terms	Date executed
a.	AR16	\$2,700.00	\$2,700.00 or 2.5% of NLT's net income or 10% of state [sic] net income[AR16] is working each year, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2002 during the life of payee.	1/22/02
b.	AR8	\$5,000.00	\$5,000.00 or 5% of NLT's net income, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2002.	1/22/02

Sub ¶	Investor	Amount invested	Payment Terms	Date executed
c.	AR27	\$2,000.00	\$2,000.00 or 2% of NLT's net income, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2002 during the life of payee..	2/1/02
d.	AR18	\$2,000.00	\$2,000.00 or 2% of NLT's net income, payable on or before December of each year beginning in 2002 during the life of payee..	3/23/02
e.	AR2	\$5,000.00	\$5,000.00 or 2% of NLT's net income, payable on or before December of each year beginning in 2002 during the life of payee..	3/27/02
f.	AR41	\$15,000.00	\$15,000.00 or 4% of NLT's net income, payable on or before December of each year beginning in 2002 during the life of payee..	4/13/02
g.	AR42	\$5,000.00	\$5,000.00 or 2% of NLT's net income, payable on or before December of each year beginning in 2002 during the life of payee..	4/16/02
h.	AR18	\$2,000.00	\$2,000.00 or 2% of NLT's net income, payable on or before December of each year beginning in 2002 during the life of payee..	6/7/02
i.	AR24	\$1,000.00	\$1,000.00 or 1% of NLT's net income, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2002 during the life of payee.	6/7/02
j.	AR26	\$1,000.00	\$1,000.00 or 1% of NLT's net income, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2002 during the life of payee.	6/7/02
k.	AR27	\$2,000.00	\$2,000.00 or 2% of NLT's net income, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2002 during the life of payee.	6/7/02
l.	AR28	\$1,000.00	\$1,000.00 or 1% of NLT's net income, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2002 during the life of payee.	6/7/02
m.	AR30	\$1,000.00	\$1,000.00 or 1% of NLT's net income, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2002 during the life of payee.	6/7/02
n.	AR6	\$5,000.00	3% of NLT's net income, payable on or before December of each year beginning in 2002 during the life of payee.	6/21/02

Sub ¶	Investor	Amount invested	Payment Terms	Date executed
o.	AR25	\$1,000.00	\$1,000.00 or 1% of NLT's net income, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2002 during the life of payee.	6/25/02
p.	AR27	\$1,000.00	\$1,000.00 or 1% of NLT's net income, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2002 during the life of payee.	6/25/02
q.	AR29	\$1,000.00	\$1,000.00 or 1% of NLT's net income, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2002 during the life of payee.	6/25/02
r.	AR34	\$2,000.00	\$2,000.00 or 2% of NLT's net income, payable on or before December of each year beginning in 2002 during the life of payee.	7/19/02
s.	AR18	\$1,000.00	\$1,000.00 or 1% of NLT's net income, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2002.	8/8/02
t.	AR24	\$1,000.00	\$1,000.00 or 1% of NLT's net income, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2002.	8/8/02
u.	AR18	\$1,000.00	\$1,000.00 or 1% of NLT's net income, payable on or before December of each year beginning in 2002 during the life of payee.	10/18/02
v.	AR27	\$1,000.00	\$1,000.00 or 1% of NLT's net income, payable on or before December of each year beginning in 2002 during the life of payee.	10/18/02
w.	AR18	\$1,000.00	\$1,000.00 or 1% of NLT's net income, payable one year from this date and during the life of payee.	11/13/02
x.	AR27	\$1,000.00	\$1,000.00 or 1% of NLT's net income, payable one year from this date and during the life of payee.	11/13/02
y.	AR17	\$20,000.00	\$20,000.00 or 10% of NLT's net income, payable during the life of payee on or before December of each year beginning in 2002 or to be paid back out of the High Yield Government Programs on or before February 1, 2003 in exchange for a Bridge Loan with Data Pay and Excel Corporation. This will help sponsor and to see to the needs of The _____ Church of _____. Mr. [AR17] is also to receive \$140,000 from the High Yield Government Program or interest in Data Pay.	11/22/02
z.	AR17	\$10,000.00	\$10,000.00 on or before January 31, 2003.	1/17/03
aa.	AR17	\$10,000.00	\$10,000.00 on or before February 28, 2003.	1/31/03

Sub ¶	Investor	Amount invested	Payment Terms	Date executed
bb.	AR33	\$20,000.00	\$20,000.00 "or .00125 percent and to exclude payments made to any corporate shareholder" [sic], these amounts are due for the years 2006 and 2007, payable on or before December of each year beginning in 2006.	11/6/03
cc.	AR22	\$15,000.00	1.5% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years of 2005 and 2006 after which the principal amount shall be due and payable.	10/5/04
dd.	AR1	\$5,000.00	\$5,000.00 or 3% of NLT's net income, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2005.	3/17/05
ee.	AR6	\$1,000.00	2% of NLT's net income, payable on or before December of each year beginning in 2005 during the existence of payor.	3/17/05
ff.	AR19	\$25,000.00	\$25,000.00 or 2% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years of 2005 and 2006 after which the principal amount shall be due and payable.	4/22/05
gg.	AR4	\$80,000.00	\$80,000.00 or 2.25% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years of 2005 and 2006 after which the principal amount shall be due and payable.	5/3/05
hh.	AR5	\$95,000.00	\$95,000.00 or 6.75% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years of 2005 and 2006 after which the principal amount shall be due and payable.	5/3/05
ii.	AR32	\$7,500.00	0.375% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years of 2005 and 2006 after which the principal amount shall be due and payable.	6/23/05
jj.	AR35	\$5,000.00	0.25% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years of 2005 and 2006 after which the principal amount shall be due and payable.	6/23/05
kk.	AR39	\$5,000.00	0.25% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years of 2005 and 2006 after which the principal amount shall be due and payable.	6/23/05
ll.	AR14	\$5,000.00	0.25% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years of 2005 and 2006 after which the principal amount shall be due and payable.	8/9/05
mm.	AR21	\$5,000.00	0.25% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years of 2005 and 2006 after which the principal amount shall be due and payable.	8/11/05

Sub ¶	Investor	Amount invested	Payment Terms	Date executed
nn.	AR1	\$50,000.00	\$50,000.00 or 7% of NLT's net income, excluding payments made to any corporate shareholder, whichever is greater, payable on or before December of each year beginning in 2005.	10/17/05
oo.	AR23	\$3,000.00	\$3,000.00 or 0.00125% of NLT's net income, excluding payments made to any corporate shareholder, not to exceed the sum of \$3,000.00 per year for 2006 and 2007, payable on or before December of each year beginning in 2006.	10/17/05
pp.	AR37	\$20,000.00	\$20,000.00 or 0.00125% of NLT's net income, excluding payments made to any corporate shareholder, not to exceed the sum of \$500,000.00 per annum, due for the years 2006 and 2007, payable on or before December of each year beginning in 2006.	12/1/05
qq.	AR17	\$10,000.00	\$10,000.00 or 0.005% of NLT's net income, excluding payments made to any corporate shareholder, not to exceed the sum of \$500,000.00 per annum, due for the years 2006 and 2007, payable on or before December of each year beginning in 2006.	4/14/06
rr.	AR13	\$4,200.00	\$4,200.00 or 0.0021% of NLT's net income, excluding payments made to any corporate shareholder, not to exceed the sum of \$500,000.00 per annum, due for the years 2006 and 2007, payable on or before December of each year beginning in 2006.	6/1/06
ss.	AR15	\$5,000.00	\$5,000.00 or 0.0025% of NLT's net income, excluding payments made to any corporate shareholder, not to exceed the sum of \$500,000.00 per annum, due for the years 2006 and 2007, payable on or before December of each year beginning in 2006.	6/1/06
tt.	AR17	\$10,000.00	\$10,000.00 or 0.005% of NLT's net income, excluding payments made to any corporate shareholder, not to exceed the sum of \$500,000.00 per annum, due for the years 2006 and 2007, payable on or before December of each year beginning in 2006.	6/1/06
uu.	AR36	\$15,000.00	\$15,000.00 or 0.0075% of NLT's net income, excluding payments made to any corporate shareholder, not to exceed the sum of \$500,000.00 per annum, due for the years 2006 and 2007, payable on or before December of each year beginning in 2006.	6/1/06
vv.	AR37	\$5,000.00	\$5,000.00 or 0.0025% of NLT's net income, excluding payments made to any corporate shareholder, not to exceed the sum of \$500,000.00 per annum, due for the years 2006 and 2007, payable on or before December of each year beginning in 2006.	6/1/06

Sub ¶	Investor	Amount invested	Payment Terms	Date executed
ww.	AR19	\$25,000.00	\$25,000.00 or 2.5% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	6/19/06
xx.	AR12	\$10,000.00	\$10,000.00 or 0.005% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	7/8/06
yy.	AR20	\$3,000.00	\$3,000.00 or 0.0015% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	8/1/06
zz.	AR40	\$25,000.00	\$25,000.00 or 0.00125% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	8/1/06
aaa.	AR11	\$25,000.00	\$25,000.00 or 1.25% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	8/24/06
bbb.	AR20	\$2,000.00	\$2,000.00 or 0.1% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	8/24/06
ccc.	AR3	\$2,500.00	\$2,500.00 or 0.125% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	8/24/06
ddd.	AR31	\$2,500.00	\$2,500.00 or 0.125% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	8/24/06
eee.	AR7	\$25,000.00	\$25,000.00 or 1.25% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	8/24/06
fff.	AR19	\$10,000.00	\$10,000.00 or 0.005% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	9/5/06

Sub ¶	Investor	Amount invested	Payment Terms	Date executed
ggg.	AR19	\$10,000.00	\$10,000.00 or 0.005% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	9/15/06
hhh.	AR19	\$10,000.00	\$10,000.00 or 0.005% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	9/21/06
iii.	AR10	\$40,000.00	\$40,000.00 or 2% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	10/2/06
jjj.	AR12	\$10,000.00	\$10,000.00 or 0.005% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	10/2/06
kkk.	AR38	\$5,000.00	\$5,000.00 or 0.0025% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	10/2/06
lll.	AR9	\$5,000.00	\$5,000.00 or 0.0025% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	10/2/06
mmm.	AR19	\$10,000.00	\$10,000.00 or 0.005% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	10/17/06
nnn.	AR38	\$5,000.00	\$5,000.00 or 0.0025% of NLT's net income, excluding payments made to any corporate shareholder for the taxable years 2006 and 2007 after which the principal amount shall be due and payable.	10/20/06

28. Together, Hillhouse and Pace sold over \$700,000 of these investment contracts, \$729,000 according to Pace's filings with the SEC and \$716,400 according to the investment contracts appearing in the table set out above. Of that amount, Hillhouse took approximately \$198,000 for personal use, and Pace took approximately \$143,000 for personal use. The rest of the

money was spent for various purposes, none of which could reasonably be expected to bring to fruition the expectations raised by the business plan and the statements made to prospective investors by Hillhouse and Pace.

VIOLATIONS

UNREGISTERED OFFER AND SALE OF SECURITIES

29. The plaintiff realleges and incorporates by reference all factual allegations set out in ¶¶ 1-4 and 8-18.

30. As the facts set out in ¶¶ 1-4 and 8-18 show, the defendants herein have violated the Act by selling unregistered securities in violation of Ark. Code Ann. § 23-42-501(Repl. 2000).

SECURITIES FRAUD - MISREPRESENTATIONS AND MATERIAL OMISSIONS

31. The plaintiff realleges and incorporates by reference all factual allegations set out in ¶¶ 1-4 and 19-28.

32. As the facts set out in ¶¶ 1-4 and 19-28 show, the defendants herein have violated the Act by committing securities fraud. Specifically, Hillhouse and Pace, in connection with the offer, sale, or purchase of securities, directly or indirectly:

- a. Employed a device, scheme, or artifice to defraud;
- b. Made untrue statements of material fact or omitted material facts necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading; and
- c. Engaged in acts, practices, or courses of business which operates or would operate as a fraud or deceit upon any person.

CLAIMS FOR RELIEF

INJUNCTIVE RELIEF

33. Pursuant to Ark. Code Ann. § 23-42-209(a)(3) (Repl. 2000) and Ark. Code Ann. § 16-106-101(d) (Repl. 2006), the Commissioner may apply to this court for injunctive relief to permanently enjoin any act or practice found to be in violation of the Act and to enforce compliance with the Act and any order issued under the Act, regardless of whether a cease and desist order has been issued.

34. It is clear from the facts set out in ¶¶ 1-4 and 8-28 that, unless restrained and enjoined, the defendants will continue to illegally offer and sell unregistered securities by means of securities fraud.

ANCILLARY RELIEF

35. Ark. Code Ann. § 23-42-209(b) (Repl. 2000) and Ark. Code Ann. § 16-106-101(d) (Repl. 2006) provide that the Commissioner may apply to this court for ancillary relief which may be in the public interest, including obtaining an accounting, disgorgement and the assessment of a fine in an amount not more than the amount of money received in connection with a violation of the Act.

RELIEF REQUESTED

WHEREFORE, the Commissioner respectfully requests this Court to:

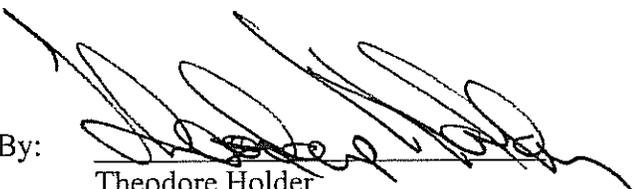
1. Permanently restrain and enjoin the defendants, their agents, officers, employees, attorneys and others in active concert or participation with them, directly or indirectly, singly or in concert, from further violations of the Act;

2. Order the defendants to render an accounting of all monies received and disbursed in connection with violations of the Act set out above;
3. Order disgorgement to all investors of all monies raised by the defendants, plus any profits that might have been realized;
4. Assess a fine against the defendants, payable jointly and severally, in an amount equal to the amount of money taken in by the defendants in the prosecution of the violations set out above; and
5. Grant such other and further relief to which the plaintiff might be entitled as the Court may deem just and appropriate.

Respectfully submitted,

A. Heath Abshure
ARKANSAS SECURITIES COMMISSIONER

By:


Theodore Holder
ASSISTANT SECURITIES COMMISSIONER

and

Shannon Underwood
STAFF ATTORNEY

Attorneys for Plaintiff