

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

IN THE MATTER OF:

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

RESPONDENTS

REQUEST FOR CEASE AND DESIST ORDER

The Staff of the Arkansas Securities Department (“Staff”) has received information and has in its possession certain 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.

ADMINISTRATIVE AUTHORITY

1. This matter is brought in connection with violations of the Act and is therefore properly before the Arkansas Securities Commissioner (“Commissioner”) in accordance with Ark. Code Ann. § 23-42-209.

RESPONDENTS

2. 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.

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3. 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.

4. 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.

FACTS SUPPORTING REQUEST FOR CEASE AND DESIST ORDER

5. 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.”

6. 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.

7. 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.

8. 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.

9. 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.

10. 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.

11. 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

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

13. 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.

14. 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

15. 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).

16. 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.

17. 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.

LEGAL AUTHORITY TO ISSUE CEASE AND DESIST ORDER

18. Ark. Code Ann. § 23-42-209(a)(1)(A) provides that whenever it appears to the Commissioner, upon sufficient grounds or evidence satisfactory to the Commissioner, that any person has engaged or is about to engage in any act or practice constituting a violation of any provision of the Act, or any rule or order under the Act, the Commissioner may summarily order the person to cease and desist from the act or practice.

PRAYER FOR RELIEF

WHEREFORE, the Staff respectfully requests that the Commissioner summarily order Hannover House to immediately cease and desist from offering and/or selling securities to residents of the state of Arkansas until such time as the securities in question and the entities and persons offering and selling the securities are all properly registered under the Act; that the Commissioner will summarily order Hannover House, Shefte, and Parkinson to immediately cease and desist from committing fraud or deceit in connection with the offer or sale of any securities to residents of the state of Arkansas; and, for all other just and proper relief to which the Staff may be entitled.

Respectfully Submitted,



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