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STATE OF CALIFORNIA
BUSINESS, TRANSPORTATION AND HOUSING AGENCY
DEPARTMENT OF CORPORATIONS

TO: Island Falls Financial, Inc.
Kevin R. Hackenberg, CEO
12 East Greenway Plaza, Suite 1100
Houston, Texas 77046

DESIST AND REFRAIN ORDER
(For violations of sections 25110 of the Corporations Code)

The California Corporations Commissioner finds that:

1. Island Falls Financial, Inc. (“Island Falls”) is purportedly a Wyoming corporation operating in the State of Texas with a last known business address of 12 East Greenway Plaza, Suite 1100, Houston, Texas 77046. Records of the Wyoming Secretary of State indicate that the corporation was initially formed in 1998 and was determined to be “defunct” as of May 31, 2006 as a result of “delinquency”. Island Falls purportedly engages in the business of loan development and project financing.

2. Kevin R. Hackenberg (“Hackenberg”) is the Chief Executive Officer of Island Falls and his last known business address is 12 East Greenway Plaza, Suite 1100, Houston, Texas 77046.

3. Beginning in or about February and March of 2004 Island Falls and Hackenberg offered and sold an investment contract to a California resident entitled “Pay Order Agreement”. The investment contract was purportedly in a “Self Liquidating Loan”. The contract states that Island Falls “guarantees with full corporate and personal (individual) responsibility and authority, under penalty of perjury” the terms of the Pay Order Agreement. The Pay Order agreement specified that for an investment of \$29,500.00 in “Bank fees” paid by the investor, referred to in the contract as

1 “Applicant” the investor would receive a self liquidating loan in the amount of \$920,000.00 which
2 Island Falls, referred to in the contact as IFF would pay off within one year for the investor. The Pay
3 Order Agreement provided that

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5 “ Upon receipt of gross loan proceeds from IFF’S credit facility with respect to the
6 hypothecation of a Barclays Issued Stand By Letter of Credit (“SLC”), IFF will
7 deliver and Applicant will receive net loan proceeds in the amount of \$920,000.00
8 (Nine Hundred Twenty Thousand US Dollars)... APPLICANT has met certain
9 requirements and has been approved by IFF to receive this loan.

10 All net proceeds received by APPLICANT under this Agreement shall be derived
11 from the GROSS PROCEEDS received from the SELF LIQUIDATING LOAN
12 PROGRAM and APPLICANT’S proceeds shall be delivered by SWIFT wire transfer
13 or Fed Wire to APPLICANT’S designated bank coordinates. As long as IFF has
14 received the gross loan proceeds from the credit facility, the APPLICANT’S net loan
15 proceeds will be delivered irrevocably and unconditionally without protest or delay.
16 IF the credit facility fails to deliver to IFF the gross loan proceeds by the
17 aforementioned date, then IFF will immediately return to APPLICANT all bank fees
18 plus 10% interest.

19 This Pay Order Agreement is valid and binding upon commencement of the SELF
20 LIQUIDATING LOAN PROGRAM, immediately upon APPLICANT being informed
21 that the program has commenced, and only at that time, shall this AGREEMENT
22 automatically become a pay order”

23
24 4. A “Memorandum of Understanding” was also included with the Pay Order Agreement,
25 which stated that Island Falls had approved the self liquidating loan to the Participant from Island
26 Falls and that “IFF has the ability to secure a self liquidating loan in the amount of \$920,000.00
27 through the acquisition and hypothecation of and established HSBC Standby Letter of Credit (SLC).
28 IFF will secure this loan through a private Credit Facility” and that the loan would be available within
20 to 45 business days from the first business day following the full receipt of the “bank fees” from
the investor. It also states “IFF agrees to liquidate (payoff) the loan for Participant within 1 (ONE)
year.” The representations made to the investor was that in exchange for the payment of the bank fee
the investor would be able to keep the entire amount of the “loan proceeds” which Island Falls would
pay off with profits they made through unspecified investments.

1 5. Island Falls also subsequently entered into an identical investment contract with a
2 California resident in the form of a Pay Order Agreement and Memorandum of Understanding except
3 that it specified that in exchange for payment of \$50,000 in bank fees by the investor the investor
4 would receive a \$1,200,000 self-liquidating loan from Island Falls which Island Falls would pay off
5 on behalf of the investor.
6

7 6. After Kevin Hackenberg executed the investment contracts on behalf of Island Falls and
8 received the investor's "bank fees", Island Falls failed to provide the proceeds of the self-liquidating
9 loan to the investors or refund the investor's "bank fees". Kevin Hackenberg and Island Falls were
10 also the subject of a subsequent "Order To Cease And Desist" issued by the Secretary of State for the
11 State of Missouri on September 26, 2006 in which they and others were found to have engaged in the
12 sale of unregistered nonexempt securities by means of making untrue statements of material fact and
13 omitting to state material facts in connection with the sale of those securities in violation of Missouri
14 securities laws. According to the allegations of the Order, investor funds were used to purchase a
15 vehicle, a car stereo and for other personal uses. The Missouri order can be found at the Internet
16 address of www.sos.mo.gov/securities/orders/AP-06-18.asp
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19 7. The Department of Corporations has not issued any permit, license or other form of
20 authorization, approval or qualification to allow any person to offer and sell investment contracts in
21 the form of Pay Order Agreements and Memorandums of Understanding with Island Falls.
22

23 Based upon the foregoing findings, the California Corporations Commissioner is of the
24 opinion that the investment contracts in the form of Pay Order Agreements and Memorandums of
25 Understanding with Island Falls constitute securities, which are subject to qualification under the
26 California Corporate Securities Law of 1968, and that these securities have been offered and sold
27 without being qualified in violation of section 25110 of the Corporations Code. Pursuant to
28 Corporations Code section 25532, Island Falls Financial, Inc. and Kevin Hackenberg are hereby

1 ordered to desist and refrain from the further offer or sale in the State of California of securities,
2 including but not limited to investment contracts in the form of Pay Order Agreements and
3 Memorandums of Understanding with Island Falls Financial, Inc., unless and until qualification has
4 been made under the California Corporate Securities Law or unless exempt.

5 This Order is necessary, in the public interest, for the protection of investors and consistent
6 with the purposes, policies, and provisions of the Corporate Securities Law of 1968.

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8 Dated: December 28, 2006
9 Los Angeles, California

10 PRESTON DuFAUCHARD
11 California Corporations Commissioner

12 By _____
13 ALAN S. WEINGER
14 Lead Corporations Counsel

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