

ORIGINAL EXCEPTION



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2016 OCT -6 A 11:03

1 **Brian Hageman**  
2 16603 N. 113<sup>th</sup> Avenue  
3 Surprise, Arizona 85378  
4 Respondent In Pro Per  
5  
6

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8 Arizona Corporation Commission

9 COMMISSIONERS

DOCKETED

OCT 06 2016

10  
11 DOUG LITTLE, Chairman  
12 BOB STUMP  
13 BOB BURNS  
14 TOM FORESE  
15 ANDY TOBIN

DOCKETED BY *YH*

16

\_\_\_\_\_) DOCKET NO. S-20896A-13-0378  
In the matter of: )  
)  
BRIAN C. HAGEMAN )  
) **EXCEPTIONS TO THE RECOMENDATION**  
DELUGE, INC. )  
)  
HYDROTHERM POWER CORPORATION )  
)  
Respondents. )  
\_\_\_\_\_)

17 In the matter of DOCKET NO. S-20896A-13-0378 the Respondents  
18 submit these EXCEPTIONS TO THE RECOMMENDATION.

19  
20 Inventor Brian Hageman developed the Thermal Hydraulic Engine and  
21 patented the technology in 40 countries. The patent offices in these  
22 40 countries scrutinized the technology and all countries agreed to  
23 allow patents.

24  
25 Hageman, knowing that the process of research, development and  
26 commercialization of a new technology takes money to accomplish, hired  
27 legal and accounting experts in the securities industry to assemble  
28 the documents required for selling stock in the corporations founded  
29 by Hageman. Hageman relied on the advice of experts and found

1 additional advice from local securities attorneys who liked to help  
2 entrepreneurs. After sales of stock started Hageman brought auditors  
3 into the company on three occasions to confirm that practices and  
4 policies conform to all rules in the securities industry. Hageman used  
5 the investment for research and development projects and built over 20  
6 engines for use in many applications including water pumping, electric  
7 generation, crude oil pumping, Freon compression and desalination.  
8 Hageman's current focus is in the desalination industry and working  
9 hard for current shareholders to implement this green environmental  
10 solution for making clean drinking water.

11  
12 Hageman managed the company without realizing the pending economic  
13 cycles would greatly affect the progress of development. Three  
14 economic recessions happened without notice, and our second auditor,  
15 Arthur Anderson went out of business. These events are counter-  
16 constructive to all businesses in the US and many companies did not  
17 survive. The Respondent companies have survived due to the continued  
18 support of the shareholders and Hageman's efforts.

19  
20 An investigation of Hageman's companies was started by the Arizona  
21 Corporation Commission around three years ago. Hageman responded to  
22 the ACC and worked diligently to comply with all the requests from the  
23 ACC. A hearing was requested by Hageman after being asked to sign a  
24 document that was untrue and didn't take in to consideration the  
25 experts used by Hageman to give advice on all securities issues in the  
26 companies.

27

1 Hageman volunteered to stop selling stock on the request of the ACC.  
2 Hageman did not realize that after the hearing, a delay of two years  
3 would take place before a resolution would happen. Not hearing  
4 anything from the ACC for two years Hageman initiated the request for  
5 dismissal of this lingering ACC issue that is causing the delay in  
6 moving forward on this important disruptive technology. Hageman has  
7 reviewed the Recommendations from the ACC Securities Division and  
8 looks forward to a conclusion to this process in Hageman's favor.

9  
10 An investigation by the IRS parallel to the ACC investigation ended  
11 with a letter early this year from the IRS stating they discontinued  
12 the investigation. No wrong-doing was found to move forward on.

13  
14 The following are comments and exceptions by Hageman regarding the  
15 Recommendations.

16  
17 **FINDINGS OF FACT**

18  
19 The Securities Division provided a short list of topics surrounding  
20 the respondents. Respondents do not have further topics except the  
21 work done by the IRS.

22  
23 **Mrs. Nita Killabrew shareholder**

24  
25 Mr. Harmon Killabrew had a sincere interest in Hageman's technology.  
26 Discussions between Mr. Killabrew and Hageman led to an agreement  
27 similar to many retired major league athletes who partner with  
28 commercial companies to promote products. The agreement included stock

1 for services provided, a common practice with private companies. The  
2 only event that Hageman can recall is the help from Mr. Killabrew in  
3 coordinating a company exhibit at the Bank One Ballpark in Phoenix on  
4 Veterans Day. Mr. Killabrew attended annual shareholder meetings but  
5 didn't do any other public relations activities.

6 Hageman had very few conversations with Mrs. Killabrew. All references  
7 in the Securities Division statements by Mrs. Killabrew were not in  
8 the presence of Hageman. We cannot verify these statements. It should  
9 also be noted that Mrs. Killabrew verified she profited from the sale  
10 of a portion of her late husband's stock.

11

12 **William Santee undercover witness and Annalisa Weiss employee of ACC**  
13 **substantiated the compliant behavior of Hageman and the companies**

14

15 William and Annalisa posed as potential investors while being a team  
16 doing undercover work making inquiries with the Respondents. Out of the  
17 thousands of inquiries by interested investors in the technology, the  
18 Respondents never experienced as many red flags during this screening  
19 process. William claimed to be on disability with a potential  
20 inheritance coming in the near future. Hageman advised him that he  
21 would not qualify as an accredited investor based on his income.  
22 Hageman advised that his inheritance may change his accredited  
23 investor status but he should consult an attorney and accountant.  
24 Williams then introduced his family member Annalisa posing as a person  
25 in the horse racing industry. Annalisa insisted she was accredited and  
26 wanted to invest. The screening process continued until Annalisa  
27 insisted that Hageman give her bank account numbers or the "deal is  
28 off". Hageman declined to give out bank account numbers based on

1 company policy not permitting that type of disclosure. No further  
2 screening continued.

3

4 **John Rhodes shareholder**

5

6 John is an example of many of the 800 shareholders with the  
7 Respondents. Hageman and Rhodes talked about progress with the  
8 technology during many telephone conversations. During the hearing  
9 Rhodes read from the subscription agreement he signed when purchasing  
10 stock that states "INVESTORS SHOULD NOT INVEST ANY FUNDS IN THIS  
11 OFFERING UNLESS THEY CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT" All  
12 shareholders understood this risk as provided in the investment  
13 documents provided to shareholders.

14

15 **Mr. Sean Callahan expert witness**

16

17 Mr. Callahan testified that during the course of his review of the  
18 Respondents, he never looked at the financial reports of the  
19 Respondents companies. The profit and loss report and balance sheets  
20 were available but he didn't request to review these reports. Mr.  
21 Callahan also testified that he has never worked with a company that  
22 has intellectual property in the core value of a company. At the  
23 hearing, Hageman was required to agree that Mr. Callahan was an expert  
24 witness before Mr. Callahan testimony without Hageman reviewing any of  
25 his credentials prior to the hearing. Hageman now disagrees that Mr.  
26 Callahan is an expert with the type of companies the Respondents  
27 operate.

28

1 **IRS**

2  
3 The United States Department of Revenue Internal Revenue Service  
4 conducted an investigation during the same period the ACC Securities  
5 Division was investigating the Respondents. The IRS did an extensive  
6 audit of securities sales by the Respondents. The IRS field agent  
7 subpoenaed many of the shareholders and conducted interviews to  
8 question the shareholders about the investments made in the  
9 Respondents companies. The IRS also examined corporate documents  
10 including business to business agreements. The IRS also examined  
11 Hageman's personal cash flow surrounding the Respondents. In November  
12 2015 the IRS sent a letter to Hageman informing that he is no longer  
13 being investigated.

14  
15 **CONCLUSION OF LAW**

16  
17 Hageman conducted business following the advice of securities  
18 attorneys, accounts and auditors. No violations of the rules were  
19 present during operations of the Respondents.

20  
21 **ORDER**

22  
23 The Respondents need to continue to commercialize the technology to be  
24 able to pay the shareholders. The suggested order is unfair to the  
25 shareholders. The possibility of profits from investment is not  
26 allowed in this order. The incentive to stay in business is seriously  
27 challenged by the order suggested by ACC.

1 **RECOMENDATIONS BY HAGEMAN**

2  
3 The Respondents request that this issue be dismissed. The Respondent  
4 companies need to be allowed to continue the development of this  
5 important disruptive energy technology. Upon dismissal the companies  
6 will be restored to good standing status and continue progress towards  
7 profitability. The companies should be allowed to pursue good standing  
8 status and continue progress towards profitably for all shareholders.

9  
10 Dated this 6th day of October, 2016

11 

12  
13 **Brian Hageman**  
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15 Surprise, Arizona 85378  
16 Respondent In Pro Per