

STATE OF NORTH DAKOTA

BEFORE THE

COUNTY OF BURLEIGH

SECURITIES COMMISSIONER

In the Matter of I2U, Inc. and )  
Harold Richard Mladek, )  
Respondents. )

**DEFAULT ORDER**

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**SUMMARY OF RELEVANT FACTS**

Respondent, I2U, Inc. (I2U) is a North Dakota corporation which was formed on July 22, 2005 and is currently incorporated in North Dakota.

Respondent, Harold Richard Mladek (Mladek) is the founder of I2U and served as the president and CEO of I2U for all times relevant to this matter.

I2U, Inc. of Georgia (Georgia I2U) was a Georgia corporation that was dissolved in or around March of 2005. It appears that the business of Georgia I2U was substantially the same as the planned business of I2U. Mladek was the founder and chief executive officer of Georgia I2U.

From June through November of 2005, the Respondents, in association with other officers of I2U, solicited several people to invest in stock issued by I2U. The stock was not registered with the Securities Department, and had not filed for any exemption from registration. No registration exemption applies to the stock offering of I2U. Respondents made a filing under N.D.C.C. § 10-04-08.4(2), however that filing was not timely and is ineffective because the offering of I2U stock was conducted by use of a general solicitation. General solicitation is not permitted under N.D.C.C. § 10-04-08.4(2).

I2U was not registered as a broker-dealer with the Securities Department. Mladek was not registered as an agent with the Securities Department, nor was any other officer of I2U registered as an agent with the Securities Department.

The solicitations described above were conducted largely in person based on presentations made by Mladek and other officers of the company. Several versions of a prospectus were distributed in connection with the solicitations. Several of the people solicited were not previously known to Mladek or other officers of the company.

While soliciting investors and while communicating with officers of the company who in turn solicited investors, Mladek made several misrepresentations of material fact.

One version of the prospectus that was distributed to several investors was dated June, 2005. (This version of the prospectus will be referred to as the June Prospectus.) After a brief review of the June Prospectus, the Securities Department corresponded with Mladek about some apparent misrepresentations and omissions in the June Prospectus. In response to this correspondence, Mladek created a prospectus dated September, 2005. (This version of the prospectus will be referred to as the September Prospectus.)

Both prospectuses were distributed to investors and/or potential investors. Both of these prospectuses contained false statements of material fact, and omitted to make material statements necessary to the offering. Some of these statements are as follows:

1. Both the June Prospectus and the September Prospectus indicated that advertising for the products of I2U would be distributed free of charge by

the US Postal Service under the "Free Matter for the Blind" program. That program, however, is not available for distribution of advertising materials.

2. Both the June Prospectus and the September Prospectus indicate that United States Senator Saxby Chambliss has assisted or has promised to assist I2U with the procurement of federal grants. On information and belief, neither Senator Saxby Chambliss nor his staff has assisted Mladek or I2U with grants, or has promised any such assistance in the future. On information and belief, neither Senator Saxby Chambliss nor his staff have ever discussed federal grants with Mladek or any other representative of I2U.
3. Both the June Prospectus and the September Prospectus suggest that I2U will have its warehouse in the foreign trade zone in south Bismarck. As of the writing of those prospectuses, no foreign trade zone had been established in south Bismarck. Though an application for a foreign trade zone had been made, it had not been approved, nor had its prospective boundaries been firmly established. On information and belief, I2U did not have a contract or a preliminary contract to use any foreign trade zone that might eventually be created. It is not clear what costs would be associated with the use of a foreign trade zone. These factors were not disclosed in either prospectus, both of which instead suggested that the foreign trade zone had been established and that I2U would use that zone.

4. The prospectuses projected unrealistic returns to investors and substantially guaranteed returns to investors.
5. Neither prospectus discussed the risk factors involved in the start-up of a new business, including the following risks:
  - a. Risks associated with the development of products.
    - i. The prospectuses did not disclose that I2U did not have any patents on any existing products that were shown to prospective investors.
    - ii. The prospectus did not disclose that none of the people then with the company were engineers, and that they may not find staff that could engineer the products for distribution.
  - b. The prospectuses did not disclose the risk associated with the loss of key personnel.
  - c. The prospectuses did not disclose the risks associated with finding qualified personnel.
  - d. The prospectuses did not disclose the risks associated with potential disputes involving manufacturers or distributors.
  - e. The prospectuses did not disclose the risks associated with law changes involving grants, incentives, import tariffs, or other legal changes that may affect the business.
6. The prospectuses did not describe the stock being offered.
7. The prospectuses did not disclose the financial condition of the company, which is generally required in prospectuses.

In addition to the statements made and not made in the prospectuses, Mladek made statements to potential investors and the public which misled potential investors and investors about the nature of the business venture and the merits of the investment. In particular, Mladek informed investors, other officers of I2U, and the public, that relatives of Mladek's wife, Hepsiba (Dolly) Kolati (hereinafter "Kolati"), owned many factories throughout Asia, and that those factories would be used to manufacture the products that I2U would develop and distribute. On information and belief, Kolati's family does not own any factories in Asia or anywhere else.

From June through August of 2005, six North Dakota residents invested in the stock of I2U, and in total paid \$150,000 for these investments. The sole assets of I2U were derived from these investor funds, as the company never sold a product or service. All sales were completed by August 11, 2005.

On or around July 26, Mladek transferred \$35,000 from an I2U bank account to the bank account that he owned jointly with Kolati. This transfer was made without the knowledge of the investors, or the approval of the board of directors of I2U.

Mladek has asserted that this payment was a reimbursement for expenses that he incurred in the establishment of I2U, or that he incurred while with Georgia I2U. The June Prospectus did not disclose that I2U owed any debt to Mladek for any reason, and that obligation was not disclosed to I2U investors.

Mladek has not provided any evidence that Georgia I2U was a successor corporation to I2U, nor does it appear that I2U and Georgia I2U entered into any contract or agreement whereby I2U agreed to accept any of the liabilities of Georgia I2U. If any such contract or agreement existed, it would have been a material fact that

would have needed to be provided to investors. Neither the June Prospectus nor the September Prospectus disclosed any such contract.

#### RELATED LEGAL MATTERS

On November 23, 2005, Judge Burt Riskedahl issued an Ex Parte Order for Preliminary Injunction and Order for Writ of Attachment in the matter of North Dakota Securities Department v. I2U, Inc. and Harold Richard Mladek. A writ of attachment was issued and assets of I2U and Mladek have been attached by the Burleigh County Sheriff.

Mladek has received notice of his right to request a hearing with respect to this matter. To date, Mladek has not requested a hearing, and no hearing has yet been set.

On November 25, 2005, law enforcement officials executed a search warrant of the residence of Mladek and Kolati. Several documents and two computers were seized. No criminal charges have been filed. Law enforcement officials and the Securities Department continue to conduct a criminal investigation involving Mladek.

#### PROCEDURAL HISTORY

Based on the facts summarized above, the North Dakota Securities Department issued an order entitled "Cease and Desist Order, Order of Rescission, Notice of Civil Penalty, and Notice of Right to Request a Hearing" in the above-captioned matter on November 22, 2005.

On December 1, 2005, Mladek wrote a letter addressed to several parties including the Securities Commissioner and several employees of the North Dakota

Securities Department. In that letter, Mladek requested a hearing and indicated his interest in representing himself in the proceeding.

It appears that Mladek intended to request a hearing on behalf of I2U as well as on his own behalf. No attorney has made a request for hearing on behalf of I2U, nor has any attorney made an appearance on behalf of I2U.

On January 18, 2006, a prehearing conference was held in the above-referenced matter, wherein the scheduling of a hearing has been discussed. I2U was not represented by counsel at the prehearing conference.

Mladek did participate in the telephonic prehearing conference. Approximately 30 minutes into the prehearing conference, Mladek appeared angry at the proceedings and loudly expressed his discontent with the prehearing conference and counsel for the Securities Department. Mladek then terminated his participation in the prehearing conference by hanging up on the telephone call. Mladek did not participate for the remainder of the prehearing conference.

On January 27, 2006, a second prehearing conference was held in the above-referenced matter. I2U was not represented by counsel at the prehearing conference. During this prehearing conference, Mladek made it clear that he intended to move from Bismarck, North Dakota. He did not inform the Administrative Law Judge at this time when he intended to move or the address to which he intended to move. The Administrative Law Judge advised Mladek that he was required to inform the Office of Administrative Hearings of his new address when he moved from Bismarck, ND. The Administrative Law Judge also notified all parties that the Respondent, I2U, would be

required to make an appearance in this matter within 20 days or would be subject to default.

On January 30, 2006, the Administrative Law Judge issued an Order for Indefinite Continuance and Prehearing Order. In that Order, the requirement for I2U to make an appearance was restated. I2U has not made an appearance.

Mr. Mladek has since left North Dakota, but has never informed the ALJ of his new address.

On March 27, 2006, the Administrative Law Judge issued Recommended Finding of Default, wherein the Administrative Law Judge found both of the respondents in default in this proceeding and recommended that the Securities Commissioner issue a Default Order.

#### Default Order

It is hereby Ordered that:

1. The factual assertions set forth in the Cease and Desist Order, Order of Rescission, Notice of Civil Penalty, and Notice of Right to Request a Hearing, issued in this matter on November 22, 2005, have been adopted.
2. The Respondents, Harold R. Mladek and I2U, Inc., are in default in this proceeding.
3. The Cease and Desist Order, Order of Rescission, Notice of Civil Penalty, and Notice of Right to Request a Hearing, issued in this matter on November 22, 2005, is sustained in full.



4. The Respondents are Ordered to pay a rescission of the investment amount, plus interest at the rate of 6% per annum, as calculated from August 11, 2005 to present. These funds are to be paid directly to the investors or to the Investor Restitution Fund administered by Securities Department for distribution to the investors. The investors and their original investment amounts are as follows:

- a. LuVerne Caroline                      \$15,000
- b. Marie Caroline                         \$10,000
- c. Michael Rud                             \$10,000
- d. Sheldon Rud                            \$20,000
- e. Lloyd Heid                              \$70,000
- f. DuWayne Heid                         \$25,000

5. Any and all funds collected by the Securities Department in connection with this matter shall be applied toward the Rescission ordered in this matter, and shall be disbursed to the investors on a pro rata basis.

#### NOTICES


You are hereby notified that:

- 1. Pursuant to N.D.C.C. § 28-32-08.4, you have a right to file a motion requesting that this Default Order be vacated. Any motion under this provision must be filed within seven days of the service of this Order, and must state the grounds for the motion.
- 2. Pursuant to N.D.C.C. § 28-32-42, you have the right to appeal this Order to the District Court within thirty days of the Service of this Order. This appeal

- must follow the requirements of the Administrative Agencies Practices Act (N.D.C.C. Ch. 28-32).
3. Pursuant to N.D.C.C. § 28-32-40, you have the right to file a Petition for Reconsideration of this matter. Any Petition under this provision must be made within fifteen days of service of this Order.

In testimony thereof, witness my hand and seal this 13<sup>th</sup> day of April, 2006 at Bismarck, North Dakota.



  
Karen J. Tyler, Securities Commissioner  
North Dakota Securities Department  
State Capitol – Fifth Floor  
600 East Boulevard Avenue  
Bismarck, ND 58505-0510  
(701) 328-2910

STATE OF NORTH DAKOTA

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COUNTY OF BURLEIGH

SECURITIES COMMISSIONER

In the Matter of I2U, Inc.; and its Officers, )  
Directors, Agents, and Employees, )  
Respondents. )

**AFFIDAVIT OF SERVICE  
BY MAIL**

.....  
I, Jacqui Ferderer, being first duly sworn, state that I am a citizen of the United States over the age of twenty-one years and not a party to or interested in the above-entitled proceeding.

On this 17 day of April, 2006, I deposited in the Central Mailing Bureau of the United States Post Office Department in the State Capitol in Bismarck, North Dakota, a true and correct copy of each of the following documents:

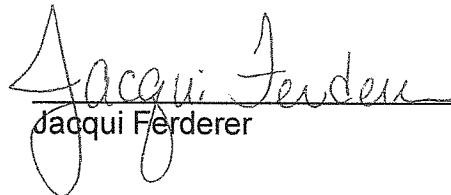
**DEFAULT ORDER**

A copy of the above document was securely enclosed in an envelope with postage duly prepaid, addressed to each of the following:

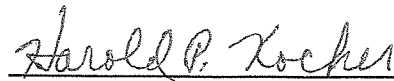
Hepsiba Kolati  
519 S 12th ST  
Bismarck, ND 58504

Harold Richard Mladek  
519 S. 12th St.  
Bismarck, ND 58501

To the best of my knowledge, information, and belief, the address given above is the last known mailing address for the party intended to be served.

  
\_\_\_\_\_  
Jacqui Ferderer

Subscribed and sworn to before me this 17 day of April, 2006.

  
\_\_\_\_\_  
Harold P. Kocher, Notary Public  
Burleigh County, North Dakota  
My commission expires 4/26/2008