

BEFORE THE COMMISSIONER OF TENNESSEE DEPARTMENT
OF COMMERCE AND INSURANCE

IN THE MATTER OF:)

TENNESSEE SECURITIES DIVISION,)
Petitioner,)

v.)

DIGITAL ENTERTAINMENT CORPORATION,)
ERNEST PAUL LAMONICA and PAT COLEMAN,)
Respondents)

DOCKET NO. 12.06-004972.J
File No. 99-006

NOTICE OF AN INITIAL ORDER BECOMING A FINAL ORDER

All parties are hereby notified that on September 23, 1999, the Initial Order entered in this matter became a Final Order pursuant to T.C.A. §4-5-318(f)(3), no party having filed a Petition for Appeal to the Agency pursuant to T.C.A. §4-5-315, within the ten (10) days permitted for such petitions, and the Agency having failed to issue a Notice of Intention to Review within the ten (10) days permitted under T.C.A. §4-5-315(b).

THE FINAL ORDER MAY BE REVIEWED IN THE FOLLOWING MANNER:

Within ten (10) days after the effective date of the Final Order, as listed above, any party may petition the Administrative Judge for reconsideration of the Final Order. If no action is taken within twenty (20) days of filing of the petition, it is deemed denied. See T.C.A. §4-5-317.

Any party may petition the Commissioner of the Department of Commerce and Insurance stay of the Final Order within seven (7) days after the effective date of the Order. See T.C.A. §4-5-316.

Any person aggrieved by this final decision may seek judicial review in a Chancery Court having jurisdiction within sixty (60) days after the date of the Final Order as listed above or, if a Petition for Reconsideration of the Final Order is granted, within sixty (60) days of the entry date of the Final Order disposing of the petition. (However, the filing of a Petition for Reconsideration does not itself act to extend the sixty-day period, if the Petition is not granted.) A reviewing court may also order a stay of the Final Order upon appropriate terms. See T.C.A. §4-5-322 and §4-5-317.

Charles C. Sullivan II
Charles C. Sullivan II, Director
Administrative Procedures Division

If any party has knowledge of an Appeal of the Initial Order or a Notice of Intention to Review the Initial Order having been filed within the required ten (10) days, contrary to the above information, please notify this office, telephone (615) 741-7008 or 741-2078, and this Notice may be set aside.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of this document has been served upon counsel and all interested parties by delivering same to them at their address of record by placing a true and correct copy of same in the United States mail, postage prepaid.

This 24th day of September, 1999.

D. Lynn Hancock
Administrative Procedures Division
Office of the Secretary of State

**BEFORE THE COMMISSIONER OF TENNESSEE DEPARTMENT
OF COMMERCE AND INSURANCE**

IN THE MATTER OF:)
)
TENNESSEE SECURITIES DIVISION,)
Petitioner,)
V.)
DIGITAL ENTERTAINMENT CORPORATION,)
ERNEST PAUL LAMONICA and PAT COLEMAN,)
Respondents

ORDER

THIS ORDER IS AN INITIAL ORDER RENDERED BY AN ADMINISTRATIVE JUDGE WITH THE ADMINISTRATIVE PROCEDURES DIVISION.

THE INITIAL ORDER IS NOT A FINAL ORDER BUT SHALL BECOME A FINAL ORDER UNLESS:

1. PARTY FILES A WRITTEN APPEAL OR PETITION FOR RECONSIDERATION WITH THE ADMINISTRATIVE PROCEDURES DIVISION NO LATER THAN September 23, 1999.

OR

2. THE AGENCY FILES A WRITTEN NOTICE OF REVIEW WITH THE ADMINISTRATIVE PROCEDURES DIVISION NO LATER THAN September 23, 1999.

YOU MUST FILE THE APPEAL, PETITION FOR RECONSIDERATION OR NOTICE OF REVIEW WITH THE ADMINISTRATIVE PROCEDURES DIVISION. THE ADDRESS OF THE ADMINISTRATIVE PROCEDURES DIVISION IS:

SECRETARY OF STATE
ADMINISTRATIVE PROCEDURES DIVISION
SUITE 1700, JAMES K. POLK BUILDING
NASHVILLE, TN 37243-0307

IF YOU HAVE ANY FURTHER QUESTIONS, PLEASE CALL THE ADMINISTRATIVE PROCEDURES DIVISION, 615/741-7008 OR 741-2078, FAX 615/741-4472. PLEASE CONSULT APPENDIX A AFFIXED TO THE INITIAL ORDER FOR NOTICE OF APPEAL PROCEDURES.

after receiving proper notice thereof. The record indicates that the Respondents, Digital Entertainment Corporation and Ernest Paul Lamonica, received notice of the hearing and were aware of the consequences of their failure to appear. After consideration of the record, it was determined that the Petitioner's motion was proper. The Respondents, Digital Entertainment Corporation and Ernest Paul Lamonica, were held in **DEFAULT**, and the Petitioner was permitted to proceed with an uncontested case. No Motion for Default was made respecting Respondent Pat Coleman, as service was not effected upon him. As such, this Notice of Default and Order does not affect Respondent Pat Coleman.

FINDINGS OF FACT

1. The Petitioner, the Tennessee Securities Division of the Department of Commerce and Insurance [hereinafter the Division], is the lawful agent through which the Commissioner administers the Act, and is authorized to bring this action for the protection of the investors and the public. The Division's official residence and place of business is in Nashville, Davidson County, Tennessee.

2. The Respondent, Digital Entertainment Corporation [hereinafter DEC], is a Nevada Corporation chartered in that state on the 25th day of September, 1995. It became authorized to do business as a corporation in the State of Tennessee by the State of Tennessee Department of State on the 5th day of November, 1997. Its principal place of business in this state is 100 North Main Street, Suite 1009, Memphis, Tennessee 38103. DEC is not now and was not, at all times pertinent to the events described herein, registered with the Division as a broker-dealer.

3. The Respondent, Ernest Paul Lamonica [hereinafter Mr. Lamonica], was formerly a citizen and resident of the State of Tennessee. He now resides in the State of North Carolina. He

is the President and Chief Executive Officer of DEC. Mr. Lamonica is not now and was not, at all times pertinent to the events described herein, registered with the Division as a broker-dealer or as an agent.

4. The Respondent, DEC, holds itself out to be a corporation engaged in the business of purchasing television broadcasting communication rights and running a television station with said rights. In particular, it has been represented by DEC that DEC has successfully purchased licenses in Federal Communication Commission [hereinafter FCC] auctions to broadcast television programming in Low Power Television frequencies in the Memphis, Tennessee and Tunica, Mississippi markets, and that plans are being made to commence broadcasting in those two television markets.

5. DEC has represented that funding for the expenses of starting up and running such a business is being accomplished through the sale of stock in DEC. Solicitations are being made from, in or into the State of Tennessee by Mr. Lamonica, to induce persons to invest in DEC stock.

6. In particular, on or about the 3d day of April, 1997, as a result of a solicitation made by Mr. Lamonica on behalf of DEC, Ernest Lee, a citizen and resident of the State of Tennessee, purchased Ten Thousand (10,000) shares of DEC stock at One Dollar (\$1.00) per share, representing a Ten Thousand Dollar (\$10,000.00) investment. Ernest Lee did not have a preexisting relationship with Mr. Lamonica or anyone else affiliated with DEC, and had never met him prior to receiving a telephone call from Mr. Lamonica requesting that he invest in DEC.

7. In particular, on or about the 25th day of March, 1998, as a result of a solicitation made by Pat Coleman [hereinafter Mr. Coleman] on behalf of DEC, Marvin R. Phillips, a citizen and resident of the State of Tennessee, purchased Two Thousand Five Hundred (2500) shares of DEC

stock at Two Dollars (\$2.00) per share, representing a Five Thousand Dollar (\$5000.00) investment.

Marvin R. Phillips did not have a preexisting relationship with Mr. Coleman or anyone else affiliated with DEC, and had never met him prior to receiving a telephone call from Mr. Coleman requesting that he invest in DEC.

8. At least two Private Placement Memoranda [hereinafter PPMs] have been prepared by DEC summarizing the stock offerings made by DEC and giving general information about the company and its business, a January 1, 1997 PPM [hereinafter the 1/1/97 PPM], and an April 1, 1997 PPM [hereinafter the 4/1/97 PPM]. Mr. Lee received the 1/1/97 PPM prior to making his decision to invest in DEC and relied on said 1/1/97 PPM when making his investment decision. In said 1/1/97 PPM, DEC states that “[t]he Memphis TV station, WLNK-TV, “The missing link in Memphis TV” will be carried on Time/Warner Cable of the Mid-South, (the local cable provider) and after ninety days (90) of on air operations will be the Memphis affiliate of the W/B TV Network. That is the Warner Bros. TV Network, The W/B, Warner Bros. Cable, the same as Time/Warner, the largest entertainment corporation in the world.” and “[t]he Tunica station, WTNA-TV, “The only station in town” will also be carried on Time/Warner Cable of the Mid-South.” Other representations are made by DEC concerning an affiliation with Time/Warner in the 1/1/97 PPM.

9. DEC has no business relationship, contractual or otherwise, with Time/Warner, Warner Bros., or any other entity or person affiliated with these entities.

10. In both the 1/1/97 and 4/1/97 PPMs, it is represented that the offering is a “Private Placement Regulation ‘D’ 505” offering.

11. No Uniform Limited Offering Exemption [hereinafter ULOE] filing has been made in the State of Tennessee with the Division by DEC, and no other notice has been filed in the State of

Tennessee with the Division by DEC. ULOE is the typical exemption used in the State of Tennessee when a Regulation D, Rule 505 offering is made.

12. DEC stock has not been registered with the Division as a security.

CONCLUSIONS OF LAW

1. The Commissioner of the Department of Commerce and Insurance for the State of Tennessee [hereinafter the Commissioner] has jurisdiction pursuant to the Tennessee Securities Act of 1980, Tenn. Code Ann. §§ 48-2-101, et seq..

2. The Act places the responsibility for the administration of its provisions upon the Commissioner.

3. Tenn. Code Ann. § 48-2-102(2) states in pertinent part that an agent means any individual, other than a broker-dealer, who is employed, appointed, or authorized by a broker-dealer to sell securities from, in, or into this state and who is paid or given a commission or other remuneration, directly or indirectly, for soliciting a sale of securities to or from any person in this state.

4. Tenn. Code Ann. § 48-2-102(3) states in pertinent part that a broker-dealer means any person engaged in the business of effecting transactions in securities for the account of others, or any person engaged in the business of buying or selling securities issued by one (1) or more other persons for such person's own account and as part of a regular business rather than in connection with such person's investment activities.

5. Tenn. Code Ann. § 48-2-102(12) defines a security to mean "any note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-

sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, certificate of interest or participation in an oil, gas, or mining title or lease or in payments out of production under such a title or lease; or, in general, any interest or instrument commonly known as a 'security,' or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.”

6. Tenn. Code Ann. § 48-2-116(a) states in pertinent part that the Commissioner may from time to time make, promulgate, amend, and rescind such rules, forms, and orders as are necessary to carry out the provisions of this part.

7. Tenn. Code Ann. § 48-2-119 states in pertinent part that whenever it appears to the Commissioner that any person has engaged or is about to engage in any act or practice constituting a violation of any provisions of the Act or any rule or order thereunder, he may enjoin the acts or practices and enforce compliance. The Commissioner has the discretion to enforce compliance in the manner in which he sees fit.

8. The Respondents, DEC and Mr. Lamonica, have marketed and sold securities, to wit, DEC stock with the knowledge that those securities have not been properly and duly registered with the Division, in violation of Tenn. Code Ann. § 48-2-104;

9. The Respondents, DEC and Mr. Lamonica, did employ a device, scheme or artifice to defraud with respect to the sale of DEC stock to Ernest Lee; and did make untrue statements of material fact or omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading with respect to the sale of DEC stock to Ernest Lee, in violation of Tenn. Code Ann. § 48-2-121.

Based upon the foregoing, it is hereby **ORDERED** that the Respondents, Digital Entertainment Corporation and Ernest Paul Lamonica, shall **CEASE AND DESIST** from selling DEC stock to any person from, in or into the State of Tennessee, and shall further **CEASE AND DESIST** from otherwise violating the Tennessee Securities Act of 1980, Tenn. Code Ann. §§ 48-2-101, et seq.

This Initial Order entered and effective this 13th day of Sept, 1999.

Margaret R. Robertson
Margaret R. Robertson
Administrative Judge

13th Filed in the Administrative Procedures Division, Office of the Secretary of State, this day of Sept, 1999.

Charles C. Sullivan, II
Charles C. Sullivan, II, Director
Administrative Procedures Division

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of this document has been served upon counsel and all interested parties by delivering same to them at their address of record by placing a true and correct copy of same in the United States mail, postage prepaid.

This 13th day of Sept, 1999.

Janet Blakemore
Administrative Procedures Division
Office of the Secretary of State