

ORIGINAL

415



WILLIAM A. MUNDELL
CHAIRMAN

JIM IRVIN
COMMISSIONER

MARC SPITZER
COMMISSIONER



2001 JUN 13 A 11:03

ARIZONA CORPORATION COMMISSION
AZ CORP COMMISSION
DOCUMENT CONTROL

EXECUTIVE SECRETARY

MARK SENDROW
DIRECTOR

SECURITIES DIVISION
1300 West Washington, Third Floor
Phoenix, AZ 85007-2996
TELEPHONE: (602) 542-4242
FAX: (602) 594-7470
E-MAIL: accsec@ccsd.cc.state.az.us

MEMORANDUM

TO: Chairman William A. Mundell
Commissioner Jim Irvin
Commissioner Marc Spitzer

OPEN MEETING ITEM
Arizona Corporation Commission
DOCKETED

FROM: Mark Sendrow *MS*
Director of Securities

JUN 13 2001

DATE: June 13, 2001

DOCKETED BY *MS*

RE: Proposed Order of Relief for Melvin Lee Cline and Why Not Entertainment,
L.L.C. (S-03431A-01-0000)

CC: Brian C. McNeil, Executive Secretary

Attached is a proposed Order regarding Melvin Lee Cline ("Cline") and Why Not Entertainment, L.L.C. ("Why Not") The Order is a default order. The Notice of Opportunity ("Notice") specified that Cline and Why Not would be afforded an opportunity for an administrative hearing on this matter upon filing a written request with Docket Control of the Commission within ten days of receipt of the Notice. Cline was served a copy of the Notice on May 16, 2001, via certified mail. Why Not was served on May 17, 2001, through its statutory agent. Neither Respondent requested a hearing.

The Order finds that beginning in February 2000, Respondents sold at least \$112,500 in shares of Why Not to at least seven investors. Cline was the president of Why Not. He created a "Confidential Private Offering Memorandum" ("POM") for Why Not, seeking to raise \$10,000,000 through the sale of common stock. Why Not ostensibly intended to use the proceeds of the offering primarily to invest in other companies. No investment was ever made by Why Not. Instead, it spent the money raised on marketing, salaries and expenses. The POM stated that the stock offering was a private offering, via an exemption under Federal Rule 506 and Regulation D and a corresponding exemption under the Securities Act of Arizona. However, no filing, as required by A.A.C. R14-4-126, was made with the Securities Division.

The POM stated that as of its offering date, 1,687,500 shares of Why Not were outstanding, including 1,625,000 owned by New Millennium, Ltd., a Antiguan company controlled by Cline. However, no shares had been issued to New Millennium nor had it purchased or paid for any shares. No disclosure was given in the POM or to investors that Cline had created the concept of New Millennium, had been its CEO or that he controlled New

Millennium through a power of attorney. The POM did not disclose, nor did Respondents inform investors that Cline had been convicted in 1986 of five felony counts of obtaining property by false pretenses and additional counts of transacting worthless checks and had been sentenced to eight years in prison.

Respondents failed to inform investors that on July 14, 1999, the state of Alaska had entered a temporary cease and desist order against Cline, fining him \$25,000, for violations of that State's securities law. That order became final on January 7, 2000.

The Order finds that Respondents violated A.R.S. §§ 44-1841, 44-1842 and 44-1991. It orders them to permanently cease and desist from all violations of the Securities Act. It orders them to pay restitution of \$112,500 and a penalty of \$25,000.

Originator: Mark Dinell

AG Assigned: Jennifer Boucek

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL
3 Chairman
4 JIM IRVIN
5 Commissioner
6 MARC SPITZER
7 Commissioner

6 In the matter of:)
7)
7 MELVIN LEE CLINE)
7812 Via de la Entrada)
8 Scottsdale, Arizona 85258)
9)
9 WHY NOT ENTERTAINMENT, L.L.C)
7229 East 1st Av., Suite C)
10 Scottsdale, Arizona 85251)
11)
11 Respondents.)

DOCKET NO. S-03431A-01-0000

DECISION NO. _____

**ORDER TO CEASE AND DESIST,
FOR RESTITUTION AND FOR
ADMINISTRATIVE PENALTIES**

12 **I.**

13 **INTRODUCTION**

14
15 On March 29, 2001, the Securities Division ("Division") of the Arizona Corporation Commission
16 ("Commission") filed a Notice of Opportunity for Hearing Regarding Proposed Order for Relief
17 ("Notice") against the above Respondents. The Notice specified that Respondents would be afforded an
18 opportunity for an administrative hearing on this matter upon filing a written request with Docket Control
19 of the Commission within ten (10) days of receipt of the Notice. MELVIN LEE CLINE was served a
20 copy of the Notice on May 16, 2001, via certified mail. WHY NOT ENTERTAINMENT, L.L.C was
21 served on May 17, 2001, through its statutory agent. Neither Respondent requested a hearing.
22

23 ..
24 ..
25 ..
26 ..

II.

FINDINGS OF FACT

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

1. MELVIN LEE CLINE ("CLINE"), whose last known Arizona address was 7812 Via de la Entrada, Scottsdale, Arizona 85258, is Chief Executive Officer of WHY NOT ENTERTAINMENT, L.L.C. At his request, CLINE was served with a copy of the Notice, via certified mail, at 222 Wilder St., Morristown, Tennessee 37813.

2. WHY NOT ENTERTAINMENT, L.L.C ("WHY NOT") is an Arizona limited liability corporation, whose last known address was 7229 East 1st Av., Suite C, Scottsdale, Arizona 85251.

3. The Respondents may be collectively referred to as "RESPONDENTS."

4. Beginning in February 2000, RESPONDENTS engaged in the offer or sale within or from Arizona of securities in the form of stock of WHY NOT to the public.

5. CLINE came up with the concept for WHY NOT and created a "Confidential Private Offering Memorandum" ("POM") for WHY NOT, seeking to raise \$10,000,000 through the sale of common stock. The POM was given to prospective investors. The POM listed CLINE as the Interim CEO and Director of WHY NOT.

6. According to RESPONDENTS, WHY NOT intended to use the proceeds of the offering primarily to invest in Touch-Tunes Music Corporation, an OTCBB company, in a joint venture with Sonic Corporation, a Nasdaq listed company, in Straightline Entertainment, Inc. and in Infant Art-in-Motion, the latter two being private companies, plus the purchase of \$1,000,000 of jukeboxes, to be located in Arizona and Hawaii.

1 7. No investment was ever made by WHY NOT. Instead, it spent the money raised on
2 marketing, salaries and expenses. The salaries paid by WHY NOT include CLINE's annual salary of
3 \$100,000.

4 8. The POM stated that the stock offering was a private offering, via an exemption under
5 Federal Rule 506 and Regulation D and a corresponding exemption under the Securities Act of
6 Arizona, A.R.S. §§ 44-1801 *et seq.* ("Securities Act"). However, no filing, as required by A.A.C.
7 R14-4-126, was made with the Securities Division.

8 9. The POM stated that as of its offering date, 1,687,500 shares of WHY NOT were
9 outstanding, including 1,625,000 owned by New Millennium, Ltd. ("New Millennium"), a Antiguan
10 company controlled by CLINE. However, no shares had been issued to New Millennium nor had it
11 purchased or paid for any shares. No disclosure was given in the POM or to investors that CLINE had
12 created the concept of New Millennium, had been its CEO or that he controlled New Millennium
13 through a power of attorney.

14 10. The POM states that CLINE "graduated with a Masters Degree in Marketing and
15 Business Management from Owens University." That information was false, as CLINE had never
16 graduated from college, much less received a master's degree.

17 11. The POM did not disclose, nor did RESPONDENTS inform investors that CLINE had
18 been convicted in 1986 of five felony counts of obtaining property by false pretenses and additional
19 counts of transacting worthless checks and had been sentenced to eight years in prison.

20 12. RESPONDENTS did not inform investors that on July 14, 1999, the state of Alaska had
21 entered a temporary cease and desist order against CLINE, fining him \$25,000, for violations of that
22 State's securities law. That order became final on January 7, 2000.

23 13. WHY NOT raised at least \$112,500 from at least seven investors in Arizona and
24 Colorado.

25 ..

26 ..

III.

CONCLUSIONS OF LAW

1 ..
2
3
4 1. Commission has jurisdiction over this matter pursuant to Article XV of the Arizona
5 Constitution and the Securities Act.

6 2. From on or about January 2000, RESPONDENTS offered or sold securities in the form of
7 stock, within or from Arizona.

8 3. The securities were not registered pursuant to the provisions of Articles 6 or 7 of the
9 Securities Act. This conduct violates A.R.S. § 44-1841.

10
11 4. RESPONDENTS offered or sold securities within or from Arizona, while not registered
12 as dealers or salesmen pursuant to the provisions of Article 9 of the Securities Act. This conduct violates
13 A.R.S. § 44-1842.

14 5. In connection with the offer or sale of securities within or from Arizona,
15 RESPONDENTS directly or indirectly: (i) employed a device, scheme or artifice to defraud; (ii) made
16 untrue statements of material fact or omitted to state material facts which were necessary in order to make
17 the statements made not misleading in light of the circumstances under which they were made; and (iii)
18 engaged in transactions, practices or courses of business which operated or would operate as a fraud or
19 deceit upon offerees and investors. RESPONDENTS' conduct includes the following:
20

21 a) Failing to disclose to investors CLINE's felony convictions.

22 b) Failing to disclose to investors that the state of Alaska had found that CLINE had
23 violated that State's securities laws and had fined him \$25,000 for the violation.

24 c) Falsely informing investors in the POM that WHY NOT's stock was exempt from
25 registration while never taking the steps necessary in order to have such exemption.
26

1
2 d) Falsely informing investors in the POM that 1,625,000 shares of WHY NOT had
3 been sold to New Mellennium, Ltd.

4 e) Failing to disclose to investors that New Mellennium, Ltd., a company listed as
5 owning the controlling interest in WHY NOT, was controlled by CLINE.

6 f) Falsely stating in the POM that CLINE "graduated with a Masters Degree in
7 Marketing and Business Management from Owens University," when CLINE had never attended
8 Owens University, much less obtain a master's degree from it.

9
10 6. This conduct violates A.R.S. § 44-1991.

11 **IV.**

12 **ORDER**

13 THEREFORE, on the basis of the Findings of Fact and Conclusions of Law, the Commission
14 finds that the following relief is appropriate, in the public interest, and necessary for the protection of
15 investors:

16
17 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that RESPONDENTS, and any of
18 RESPONDENTS' agents, employees, successors and assigns, permanently cease and desist from
19 violating the Securities Act.

20 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that RESPONDENTS shall,
21 jointly and severally, pay restitution to investors shown on the records of the Commission in the
22 amount of \$112,500, plus interest at the rate of 10% per annum from the date of each investment,
23 within thirty (30) days after entry of this Order. Payment shall be made by cashier's check or money
24 order payable to the "State of Arizona" to be placed in an interest-bearing account maintained and
25 controlled by the Arizona Attorney General. The Arizona Attorney General shall disburse the funds on
26

1 a pro rata basis to investors. Any funds that the Attorney General is unable to disburse shall revert to
2 the state of Arizona.

3 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that RESPONDENTS shall,
4 jointly and severally, pay an administrative penalty in the amount of \$25,000. Payment shall be made
5 in full by cashier's check or money order payable to the "State of Arizona" within thirty (30) days after
6 entry of this Order. Any amount outstanding shall accrue interest at the rate of 10% per annum from
7 the date of this Order until paid in full. The payment obligations for these administrative penalties shall
8 be subordinate to any restitution obligations ordered herein and shall become immediately due and
9 payable only after restitution payments have been paid in full, or if RESPONDENTS have defaulted
10 prior to fulfilling their restitution obligations.
11

12 **BY ORDER OF THE ARIZONA CORPORATION COMMISSION**

13
14
15
16 CHAIRMAN

COMMISSIONER

COMMISSIONER

17 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
18 Secretary of the Arizona Corporation Commission, have
19 hereunto set my hand and caused the official seal of the
20 Commission to be affixed at the Capitol, in the City of
21 Phoenix, this _____ day of _____, 2001.

22 _____
23 BRIAN C. McNEIL
24 Executive Secretary

25 _____
26 DISSENT

(md)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

This document is available in alternative formats by contacting Shelly M. Hood, ADA Coordinator, voice phone number 602-542-3931, E-mail shood@cc.state.az.us.

N:\ENFORCE\IO\Cline\Order.doc