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BEFORE THE ARIZONA CORPORATION COMMISSION

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RENZ D. JENNINGS
Chairman
MARCIA WEEKS
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CARL J. KUNASEK
Commissioner

In the matter of the offer and sale of securities by: INTERACTIVE TECHNOLOGIES WEST, INC. 6390-2 East Thomas Road, Suite 300 Scottsdale, Arizona 85251, LOUIS F. CONANT, III 6218 East Pinchot Avenue Scottsdale, Arizona 85251, KYLE E. GILLMAN 9624 Bain Bridge Court Manassas, Virginia 22110, Respondents.	)	DOCKET NO. S-3057-I NOTICE OF OPPORTUNITY FOR HEARING REGARDING PROPOSED ORDER TO CEASE AND DESIST, FOR RESTITUTION AND ADMINISTRATIVE PENALTIES

The Securities Division (the "Division") of the Arizona Corporation Commission alleges that Respondents INTERACTIVE TECHNOLOGIES WEST, INC., LOUIS F. CONANT, III and KYLE E. GILLMAN, singularly and in concert, have engaged in acts and practices that constitute violations of A.R.S. §§ 44-1841, 44-1842 and 44-1991 of the Arizona Securities Act.

I.

JURISDICTION

1. The Commission has jurisdiction over matters relating to securities pursuant to Article XV of the Arizona Constitution and A.R.S. § 44-1801 et seq.

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II.

RESPONDENTS

2. Respondent INTERACTIVE TECHNOLOGIES WEST, INC. ("ITW") is an Arizona corporation doing business within and from Arizona, with its principal place of business at 6390-2 East Thomas Road, Suite 300, Scottsdale, Arizona 85251. ITW has offered and sold partnership interests within and from Arizona in at least six (6) partnership groups: (i) Interactive Development Group; (ii) Interactive Development Group II; (iii) Interactive Partnership Members; (iv) Interactive Partnership Members II; (v) Interactive Partnership Members III; and (vi) Interactive Partnership Members IV.

3. Respondent LOUIS F. CONANT, III ("CONANT") is an Arizona resident, whose last known address is 6218 East Pinchot Avenue, Scottsdale, Arizona 85251. Upon information and belief, CONANT may now be residing at No. 35 County Road 2067 in Alpine, Arizona, using a mailing address of Post Office Box 779, Alpine, Arizona 85920. CONANT is and was at all relevant times the president, co-shareholder and co-director of ITW. Individually, and in concert with others, CONANT directs, controls, formulates and participates in the acts and practices of ITW and the partnerships offered by ITW. CONANT has offered and sold partnership interests within and from Arizona.

4. Respondent KYLE E. GILLMAN ("GILLMAN") is consultant and legal counsel to ITW and CONANT for FCC-related matters. Upon information and belief, GILLMAN's last known address is 9624 Bain Bridge Court, Manassas, Virginia 22110. GILLMAN has offered and sold stock in Entertainment Funding Corporation within Arizona.

5. ITW, CONANT and GILLMAN are referred to collectively as "RESPONDENTS."

III.

NATURE OF THE OFFERINGS

A. Background on Interactive Video and Data Services Licensing.

6. Paragraphs 1 through 5 are realleged.

7. In 1992, the Federal Communications Commission ("FCC") proposed licensing interactive video and data service ("IVDS"), also known as wireless interactive television. The FCC announced that it would issue two (2) IVDS licenses (an "A" and a "B") in each of seven hundred thirty four (734) markets throughout the United States. Each licensee would obtain the rights to one half of the spectrum allocated for IVDS.

8. An IVDS license covers an extremely narrow band of the radio spectrum (one-half megahertz); it has one-twelfth the capacity of a standard broadcast television station. The capabilities of IVDS are limited by the narrow width of the allocated spectrum. An IVDS license, alone, cannot broadcast a single movie or television station. It is contemplated that IVDS will be used primarily, if at all, as a "return path" for subscriber responses to advertisements, polling questions and game shows that are broadcast on either free television, cable or satellite networks.

9. The FCC has issued most of the licenses for the country's top three hundred (300) markets. In September 1993, the FCC awarded, by lottery, IVDS licenses for nine (9) of the ten (10) largest markets in the United States. The FCC auctioned the remaining licenses for the top markets to the highest bidders in July 1994. However, several of the successful bidders at the July 1994 auction defaulted on the payment of their license fees. The FCC contemplates scheduling another auction for the remaining licenses, but the FCC has not set a date for the next auction.

10. Once a license is acquired, the FCC requires that the licensees construct (or "build out") an IVDS system, which takes millions of dollars per market. As such, in addition to having sufficient funds to bid on an IVDS license, a potential licensee must have the necessary capital for build out and development of an IVDS system.

B. <u>An Overview of the Offerings</u>.

11. Since at least September 1994, ITW and CONANT have used telemarketing and other means to promote, sell and offer for sale in and from Arizona units of ownership in at least six (6)

partnerships. All three RESPONDENTS have participated in the offer and sale of stock to those partnerships.

12. ITW and CONANT formed their first two (2) partnerships for the stated purpose of applying for, bidding on and purchasing, at auction, an IVDS license from the FCC, and then developing and operating that license. ITW and CONANT engaged outside "consultants" -- including GILLMAN -- who purportedly were to perform all material aspects of the license acquisition process.

13. The first two (2) partnerships never participated in an FCC auction, and do not hold any interest in an IVDS license. Instead, RESPONDENTS implemented a scheme wherein the balance of investor proceeds intended for license acquisition at the auction were used to purchase stock in an inactive Utah company that is run by GILLMAN.

14. ITW and CONANT have formed four (4) additional partnerships for the stated purpose of acquiring a minority interest in the "B" segment Dallas, Texas IVDS license, which is owned by a third party. But, instead of acquiring a direct interest in the Dallas IVDS license, ITW and CONANT have used, or anticipate using, investor funds for unauthorized stock purchases.

15. Upon information and belief, with GILLMAN's assistance, ITW and CONANT have raised over two million dollars ($2,000,000) from more than two hundred (200) investors in at least thirty five (35) states, Canada and Italy.

16. To date, none of ITW's partnerships have acquired a direct interest in any IVDS license. None of the investors have received a return on their investment. In contrast, RESPONDENTS have received significant sales commissions and other compensation, and have used investor proceeds for unauthorized and/or undisclosed purposes.

C. <u>Conant Began Selling Ownership Units in the Broadcast Services Partnerships.</u>

17. CONANT first began promoting and selling IVDS-related partnership groups after being contacted by Broadcast Services, a self-professed IVDS consulting firm based in New Jersey.

18. At all relevant times, GILLMAN has represented Broadcast Services in connection with FCC-related matters.

19. Before the FCC's July 1994 IVDS auction, Broadcast Services had formed at least three (3) partnerships for the stated purpose of bidding on, acquiring and developing IVDS licenses (collectively the "Broadcast Services Partnerships").

20. In or about late 1993 to early 1994, Broadcast Services arranged to have CONANT promote and sell units of the Broadcast Services Partnerships. At the time, CONANT was employed as a salesman at a Scottsdale, Arizona art gallery.

21. In or about February 1994, the principals from the art gallery, along with CONANT and the other salespersons, formed a separate Arizona company named Interactive Broadcast Services ("IBS").

22. IBS functioned as a sales office for Broadcast Services, relying on Broadcast Services for information to conduct sales of the partnership interests.

23. In July 1994, Broadcast Services participated in the FCC's IVDS auction. The Broadcast Services Partnerships, through wholly owned corporations established by each of the Broadcast Services Partnerships, acquired seven (7) licenses.

D. <u>The Formation of Interactive Technologies West.</u>

24. After the July 1994 auction, in or about September 1994, CONANT left IBS and formed ITW to promote and sell new partnerships that purportedly would participate in the FCC's next IVDS auction. CONANT hired away from IBS many of the same salespersons whom he had worked with at IBS and the Scottsdale art gallery.

25. Upon information and belief, IBS ceased operations in August 1994.

26. On September 21, 1994, ITW entered into an agreement with Interactive Technologies N.E., Inc. ("ITNE"), wherein ITNE agreed to provide IVDS-related consulting services to ITW and its investors. The agreement provides that: "ITW requires that ITNE provide it . . . all information,

knowledge, contacts and technical support necessary to build and operate an interactive television system . . . ."

27. ITNE shares offices with Broadcast Services.

28. ITW and CONANT similarly relied upon Broadcast Services and GILLMAN for "consulting services," information and materials concerning IVDS. Indeed, ITW and CONANT used offering materials virtually identical to those Broadcast Services first used for the Broadcast Services Partnerships.

E. <u>The IDG Partnerships.</u>

29. ITW and CONANT initially began soliciting investors for Interactive Development Group ("IDG") and then Interactive Development Group II ("IDG II") (collectively the "IDG Partnerships").

30. ITW and CONANT offered one hundred (100) units in each of the IDG Partnerships for seven thousand nine hundred dollars ($7,900) per unit.

31. Upon information and belief, IDG consists of at least seventy three (73) investors from twenty six (26) states and Canada. Upon information and belief, IDG II consists of at least ninety (90) investors from thirty (30) states and Italy.

32. ITW and CONANT provided prospective investors with a set of offering materials entitled, "New FCC Licensing in Interactive Television" (the "IDG offering materials").

33. The IDG offering materials include five (5) appendices covering the following topics: (A) Determining Projected Worth of IVDS License; (B) The Interactive TV Market Strategy; (C) The Bain Report; (D) Markets to be Awarded; and (E) Applications. The materials espouse IVDS as the "opportunity of the 90's."

34. The IDG offering materials include a "disclosure statement," in which ITW represents to prospective investors that it "has previously acquired seven separate and distinct IVDS licenses for investment groups it acts as a consultant to . . . ."

35. The IDG offering materials also include a partnership agreement (the "IDG Agreement").

36. The IDG Agreement expressly and narrowly defines the "partnership business" as being: (i) to acquire by purchase, a license to own and/or operate an IVDS station; (ii) to acquire through contract, ownership or lease or otherwise all necessary equipment, plants, offices, or other facilities or assets necessary to operate such systems; and (iii) to carry out the business of ownership, management and operation of the acquired systems or to engage other entities to do such. No other partnership business is permitted.

37. The IDG Agreement provides that: "As soon as practicable following the formation of the Partnership, the Partnership will bid on IVDS licenses that are to be auctioned by the [FCC]."

38. The IDG Agreement further provides that: "Title to assets acquired by the partnership, including the License or rights to other licenses shall be held in the name of the Partnership."

39. Under the terms of the IDG Agreement, if a partnership does not obtain, maintain or hold an interest in an IVDS license, the partnership must dissolve and investor funds on deposit to bid on the IVDS licenses must be returned.

40. The IDG Agreement includes a schedule of fees, which generally provides that from the seven thousand nine hundred dollars ($7,900) unit price: (i) three thousand dollars ($3,000) is to be put in an escrow account to acquire an IVDS license at an FCC auction; (ii) three thousand two hundred dollars ($3,200) is to be used to cover the costs of FCC filing fees, obtaining financial assurances, agreements with technology developers, communications, post filing amendments, consulting and pre-filing legal review; and (iii) one thousand seven hundred dollars ($1,700) is for "offering costs," which are not defined.

41. ITW and CONANT also include a further breakdown of partnership costs, which include: engineering, interface studies, transmitter tower site operations, terrain studies, economic and demographic studies, topographic reports, service coverage maps, environmental impact statements,

counsel organizational costs, post filing legal amendments, FCC interface, per-filing legal reviews, application assembly time, consulting services and counsel costs relating to contracts and negotiations.

42. Most, if not all, of the disclosed costs purportedly were to be incurred by Broadcast Services and/or ITNE, as consultants to ITW and the IDG Partnerships. ITW and CONANT anticipated that Broadcast Services and/or ITNE would handle all matters concerning the FCC auction process, which would include determining which licenses to bid on and for how much.

43. The IDG Agreement provides that partnership affairs are to be managed by a five member "management committee," which is to be elected by the partners. However, even the management committee is prohibited from taking certain actions, without the prior written consent of a majority of the partners. The management committee cannot, among other things: (i) sell, transfer or dispose of the license; (ii) dissolve the partnership, except as provided; (iii) change the nature of the partnership business; (iv) continue the partnership business after the expiration of its term; (v) do any act which would make it impossible to carry on the ordinary business of the partnership; or (vi) do any act in contravention of the agreement.

44. After completion of the initial funding for the IDG Partnerships, CONANT advised the investors that each management committee would "serve a two-year term and will have the responsibility of making all decisions regarding your venture." CONANT directed the investors interested in being on the management committee to fax a biographical sketch to GILLMAN.

45. The investors in each IDG Partnership did, in fact, elect by ballots a management committee comprised of investors within the respective partnerships.

46. CONANT was elected to each of the IDG Partnership's management committees, and has served as the management committee "president" and chairman for each.

F. Conant and Gillman Engineered the Purchase of Stock in Entertainment Funding by the Partnerships, without the Investors' Authorization.

47. Beginning in August 1995, CONANT and GILLMAN implemented a scheme to: (i) divest the IDG Partnerships of their escrowed funds on deposit for the next IVDS auction; and (ii) change the nature of the IDG Partnerships' business, without the requisite written authority from the investors.

48. On August 16, 1995 and again on August 24, 1995, CONANT arranged teleconferences between GILLMAN and each of the IDG Partnerships' management committees.

49. In each teleconference, GILLMAN offered the IDG Partnerships an investment in a group of technology-based companies, which GILLMAN would control as president. During one of his presentations, GILLMAN acknowledged that the proposed transaction "screams of a conflict of interest."

50. According to GILLMAN, he intended to merge three (3) separate subsidiary companies into one company called Entertainment Finance Corporation ("Entertainment Finance"). One subsidiary would control four (4) IVDS licenses; the second subsidiary would be a joint venturer with an independent company that develops CD-ROM related products; and the third subsidiary purportedly was "nearing completion" of a home security system.

51. Entertainment Finance, of which GILLMAN purportedly is the president, and two of the purported subsidiaries were incorporated in Utah on August 11, 1995 -- only five days before the August 16th teleconference.

52. GILLMAN told the management committee members that Entertainment Finance was going to raise fifteen million dollars ($15,000,000), offering units consisting of one restricted share and one common share in Entertainment Finance over the Electronic Bulletin Board and then the NASDAQ market at an opening price of ten dollars ($10) per unit.

53. GILLMAN, however, was not offering stock in Entertainment Finance to the IDG Partnerships.

54. Instead, GILLMAN offered the IDG Partnerships an investment in a purportedly existing, but inactive, company named Entertainment Funding Corporation ("Entertainment Funding"), a Utah corporation. According to GILLMAN, under the plan of organization, Entertainment Funding was to become the holding company for Entertainment Finance and the three (3) subsidiaries.

55. GILLMAN explained that the stock in Entertainment Funding was "unrestricted" and, therefore, available to the IDG Partnerships because one of the "principal holders just wanted to unload some stock because he had too much for reporting purposes."

56. GILLMAN offered to the IDG Partnerships the "unrestricted" shares in Entertainment Funding for six dollars and fifty cents ($6.50) per share.

57. GILLMAN told the management committee members that within ninety (90) days, the IDG Partnerships could expect a three dollar and fifty cent ($3.50) profit per share of their Entertainment Funding stock once the stock in Entertainment Finance opened publicly at the price of ten dollars ($10) per share.

58. At the time, IDG purportedly had three hundred thousand dollars ($300,000) in escrow; IDG II purportedly had two hundred seventy one thousand five hundred dollars ($271,500) in escrow.

59. GILLMAN stressed to the management committee members that the investment in Entertainment Funding would be liquid, so that if the IDG Partnerships ever wanted to sell their shares "there will be a public market, where you [the IDG Partnerships] can sell the shares off," emphasizing to them that "it's anticipated you will be able to sell them off quickly at a profit."

60. After GILLMAN's presentation, CONANT led each management committee in a vote to purchase stock in Entertainment Funding with the investors' escrowed funds.

61. CONANT and GILLMAN instructed each IDG Partnerships' management committee to form wholly owned corporations. IDG formed IDG One Corporation; IDG II formed Interactive Investors Corporation (the "IDG Corporations").

62. Each IDG Partnership purchased all of the stock in their respective corporations. CONANT served as president of both IDG Corporations; and, at CONANT's suggestion, the other management committee members elected themselves to the boards of directors.

63. At CONANT's instructions, the management committees then agreed to use the escrowed funds to purchase one hundred percent (100%) of the stock in their respective IDG Corporations. CONANT then arranged to have the IDG Corporations wire their funds to the Bank of New York "for the account of BSI (Channels Island Limited)."

64. The IDG Corporations were then issued stock certificates in Entertainment Funding. Entertainment Funding purportedly issued forty four thousand three hundred eight (44,308) shares of its common stock to IDG One Corporation, and forty one thousand seven hundred seventy (41,770) shares of its common stock to Interactive Investors Corporation.

65. RESPONDENTS never provided investors in the IDG Partnerships with a prospectus or other offering document concerning the IDG Corporations' stock offerings.

66. RESPONDENTS never provided investors in the IDG Partnerships with a prospectus or other offering document concerning the Entertainment Funding stock offering.

67. RESPONDENTS did not disclose to the investors that their escrowed funds had been used to purchase stock until after the transactions were completed.

68. In a letter sent to investors after the transactions were completed, CONANT told the investors that their escrowed funds were invested in Entertainment Finance. CONANT did not tell the investors that, in fact, the escrowed funds were invested in a wholly-owned corporation, which, in turn, had then purchased stock in Entertainment Funding -- not Entertainment Finance.

69. In an April 8, 1996 memorandum to the investors, updating them on the status of the Entertainment Funding investment, the investors were told that Entertainment Finance was unsuccessful in its attempt to raise fifteen million dollars ($15,000,000), as had been anticipated.

70. The memorandum represented to investors that Entertainment Funding had entered into a letter of intent with Entertainment Finance, wherein Entertainment Finance was required to raise the fifteen million dollars ($15,000,000), just as GILLMAN had represented.

71. Despite Entertainment Finance's failure to raise the expected capital, the investors were advised that the management committees had decided that it was in the best interests of the IDG Partnerships to proceed with doing business with Entertainment Finance and GILLMAN.

72. Each IDG Partnership now purportedly owns only stock in their respective IDG Corporations; the IDG Corporations purportedly own stock in Entertainment Funding, a shell company; and the investors' balance of proceeds, which were to be returned to them if they failed to obtain and IVDS license at an FCC auction, were paid to GILLMAN and his companies.

G. <u>The IPM Partnerships</u>.

73. In addition to the IDG Partnerships, ITW and CONANT have offered and sold units in and from Arizona in four (4) more partnerships: (i) Interactive Partnership Members ("IPM"); (ii) Interactive Partnership Members II ("IPM II"); (iii) Interactive Partnership Members III ("IPM III"); and (iv) Interactive Partnership Members IV ("IPM IV") (collectively the "IPM Partnerships").

74. Upon information and belief, sometime in 1995 ITW began offering and selling units in IPM.

75. IPM's partnership agreement initially was identical in all material respects to the IDG Agreement. ITW and CONANT represented IPM's objectives as being to acquire a license at the FCC's next IVDS auction and then operate that license.

76. ITW and CONANT offered and sold units in IPM based upon the IPM's initial partnership agreement and stated business objectives.

77. Like the IDG Partnerships, IPM was to consist of a maximum of one hundred (100) units offered at seven thousand nine hundred dollars ($7,900) per unit.

78. ITW subsequently changed IPM's objectives and modified its offering materials to reflect that change.

79. ITW and CONANT represented IPM's new stated objective as being to raise funds for the acquisition of a percentage interest, not to exceed seven and one quarter percent (7.25%), in the "B" segment of the Dallas, Texas IVDS license, which had been awarded in the FCC lottery to Maritime Communications Corporation ("Maritime").

80. ITW provided subsequent potential investors in the IPM Partnerships with a "business plan" outlining the investment. The business plan includes sections entitled: (i) Executive Summary; (ii) Industry Overview; (iii) Technology; (iv) The Application; (v) Dallas at a Glance; and (vi) Principals' Backgrounds.

81. Upon information and belief, beginning in or about May, 1996, ITW and CONANT began promoting for offer and sale ownership units in IPM II. ITW and CONANT have subsequently offered and sold ownership units in IPM III and IPM IV.

82. Upon information and belief, IPM II, IPM III and IPM IV share a virtually identical structure and purpose. Each of these partnerships is to consist of a maximum of thirty three (33) units, and each unit is sold for seven thousand nine hundred dollars ($7,900).

83. ITW and CONANT represent that the "partnership business" for each of these partnerships is to purchase a percentage interest, not to exceed two and four tenth percent (2.4%), of Maritime's "B" segment Dallas IVDS license. The other material terms of these partnership agreements are the same as those set forth in the IPM partnership agreement.

84. In addition, ITW and CONANT include a "Business Plan," which illustrates the respective partnership's capitalization. ITW and CONANT represent that only thirty eight percent (38%) of each unit price is used to purchase an interest in the Dallas IVDS license. ITW and CONANT pay over twenty percent (20%) of each unit price to the sales people for commissions, bonuses and promotions. ITW and CONANT represent that the balance of funds is used for management fees (8%),

operating expenses (10.4%), consulting and legal fees (13.9%) and offering costs (7.8%). None of these categories is clearly defined.

85. None of the IPM Partnerships have acquired a direct percentage interest in the "B" segment license owned by Maritime. Instead, ITW and CONANT purportedly negotiated with Maritime to purchase stock in Maritime with the investors' proceeds.

86. With respect to IPM, upon information and belief, on or about January 30, 1996, Broadcast Services entered into a stock option agreement with Maritime, entitling Broadcast Services to purchase up to one hundred and fifty one (151) shares of Maritime common stock (the "stock option"). IPM is also a signatory to the stock option agreement.

87. ITW and CONANT purportedly negotiated to purchase another approximately seven and one quarter percent (7.25%) interest in Maritime, which ITW and CONANT then divided among IPM II, IPM III and IPM IV.

88. Neither ITW nor CONANT provided the investors with a prospectus or other offering document concerning the stock acquisition in Maritime.

89. The investors in the IPM Partnerships, as minority shareholders in Maritime, are now simply passive investors in a company that owns an interest in an IVDS license.

IV.

VIOLATION OF SECTION 44-1841 OF THE ARIZONA SECURITIES ACT

Offer and Sale of Unregistered Securities

90. Paragraphs 1 through 89 are realleged.

91. From at least September 1994 to the present, ITW and CONANT have offered and sold securities in the form of stock and investment contracts within or from the State of Arizona. Beginning in at least August 1995, GILLMAN also offered and sold securities in the form of stock within or from Arizona.

92. The securities referred to above were not registered under A.R.S. §§ 44-1871 through 44-1875, 44-1891 through 44-1990 or 44-1902; were not exempt securities under A.R.S. § 44-1843 or § 44-1843.01; were not offered or sold in exempt transactions under A.R.S. § 44-1844; and were not securities exempt under any rule or order promulgated by the Commission.

93. This alleged conduct violates A.R.S. § 44-1841.

V.

VIOLATION OF SECTION 44-1842 OF THE ARIZONA SECURITIES ACT

Transactions by Unregistered Dealer and Salesman

94. Paragraphs 1 through 93 are realleged.

95. In connection with the offers to sell and sale of securities, RESPONDENTS have acted as dealers and/or salesmen within Arizona, although not registered pursuant to the provisions of Article 9 of the Arizona Securities Act.

96. This alleged conduct violates A.R.S. § 44-1842.

VI.

VIOLATION OF SECTION 44-1991 ARIZONA SECURITIES ACT

Fraud in Connection with the Offer and Sale of Securities

97. Paragraphs 1 through 96 are realleged.

98. In connection with the offers and sales of securities, RESPONDENTS, directly or indirectly, have made untrue statements of material fact and omitted to state material facts which were necessary in order to make the statements made not misleading in light of the circumstances under which they were made. RESPONDENTS also have engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon offerees and investors within the meaning of A.R.S. § 44-1991, including, but not limited to the following:

a) ITW and CONANT misrepresented to investors that ITW had formed three (3) partnerships, which were awarded seven (7) IVDS licenses at the July 1994 FCC auction, when in fact, ITW has not formed any partnerships that have acquired IVDS licenses. CONANT did not form ITW until after the July 1994 auction.

b) ITW and CONANT misrepresented to investors that ITW "has previously acquired seven separate and distinct IVDS licenses for investment groups it acts as a consultant to . . .," when in fact, ITW had not acquired such licenses nor acted as a consultant to any such investment group.

c) With respect to the IDG Partnerships, ITW and CONANT misrepresented to investors the projected returns from an operational IVDS system.

d) With respect to the IDG Partnerships, ITW and CONANT misrepresented to investors that "fees charged are strictly for legal, FCC fees, license acquisition and other services provided in the acquisition process," when in fact, investor proceeds were used for other purposes, including substantial sales commissions, as the IDG Partnerships have never acquired an IVDS license.

e) With respect to the IDG Partnerships, ITW and CONANT misrepresented to investors that their proceeds would be used to "bid on IVDS licenses that are to be auctioned by the [FCC]," when in fact, none of the proceeds were used for bidding purposes.

f) With respect to the IDG Partnerships, ITW and CONANT misrepresented to investors that all escrowed funds would be returned in full to investors if no FCC license was acquired through the FCC auction process, when in fact, the escrowed funds were used for other purposes and not returned to investors.

g) With respect to the IDG Partnerships, ITW and CONANT misrepresented to investors that the respective management committees were prohibited from, among other things, "chang[ing] the nature of the Partnership Business" or "do[ing] any act in a contravention of [the

IDG Agreement]" without prior written consent of a majority of the partners. In fact, RESPONDENTS solicited the management committee members to invest the IDG Partnerships' respective escrowed funds in Entertainment Funding and did so without obtaining written consent from a majority of the investors.

h) With respect to the IDG Partnerships, ITW and CONANT misrepresented to investors that three thousand two hundred dollars ($3,200) of each partnership unit would go toward "FCC filing fees, cost of obtaining financial assurances, agreements with technology developers, communications, post-filing amendments, consulting and pre-filing legal review," when in fact, the IDG Partnerships did not participate in such a process and these expenses, as represented, were not incurred.

i) With respect to the IDG Partnerships, ITW and CONANT failed to disclose to investors that ITW withheld at least fifteen percent (15%) of all investor proceeds for sales commissions.

j) With respect to the IDG Partnerships, ITW and CONANT failed to disclose to investors that Broadcast Services received at least one thousand seven hundred dollars ($1,700) for each unit sold and a total of ten (10) units in each IDG Partnership at no cost.

k) With respect to the IDG Partnerships, ITW and CONANT failed to disclose to investors that the partnerships would be required to find additional financing to pay for the license and to finance the FCC's required build out, or risk losing their license.

l) With respect to the IDG Partnerships, ITW and CONANT failed to disclose to investors who would develop and then operate the licenses once obtained.

m) With respect to the IDG Partnerships, GILLMAN misrepresented to investors that ninety (90) days after investing in Entertainment Funding they would be able to sell their stock for a profit.

n) With respect to the IDG Partnerships, RESPONDENTS failed to provide the investors not on the management committees with any information concerning the investment in Entertainment Funding until after the transactions were completed.

o) With respect to the IDG Partnerships, RESPONDENTS failed to disclose to investors the risks of investing in Entertainment Funding.

p) With respect to the IDG Partnerships, RESPONDENTS failed to disclose to investors the financial condition and business history of Entertainment Funding.

q) With respect to the IDG Partnerships, RESPONDENTS failed to disclose information concerning the officers and directors of Entertainment Funding.

r) With respect to the IPM Partnerships, ITW and CONANT misrepresented to investors that investor proceeds would be used to acquire a direct interest in the "B" segment Dallas, Texas IVDS license awarded to Maritime, when in fact, the proceeds were used to make an unauthorized purchase of stock in Maritime.

s) With respect to the IPM Partnerships, ITW and CONANT claim to have "placed two partnerships, forming a corporation for each partnership, that owns three (3) major license areas Phoenix, Arizona; Orlando, Florida and Memphis, Tennessee." In fact, ITW has not "placed" or otherwise formed a single partnership that owns an IVDS license.

t) With respect to the IPM Partnerships, ITW and CONANT failed to disclose to investors that ITW had formed two (2) prior partnerships that had failed to acquire an IVDS license.

u) With respect to the IPM Partnerships, ITW and CONANT failed to provide investors with a prospectus or other offering document setting forth the material terms of the stock purchase in Maritime, including but not limited to, the business history and financial condition of Maritime.

v) With respect to the IPM Partnerships, ITW and CONANT omitted to tell investors of the risks of investing in Maritime, including the risk that the investors' stock in Maritime could become worthless.

w) With respect to the IPM Partnerships, ITW and CONANT misrepresented or otherwise failed to disclose the value of the "B" segment of the Dallas, Texas IVDS license.

x) ITW and CONANT failed to disclose to investors that an IVDS license expires five (5) years after its issuance, at which time the licensee risks losing its license if certain performance requirements are not satisfied.

y) ITW and CONANT failed to disclose to investors ITW's reliance on ITNE to provide consulting services related to IVDS matters.

z) ITW and CONANT failed to accurately disclose to investors Broadcast Services' role in the partnerships and what work, if any, Broadcast Services did as "consultant" to the partnerships.

aa) ITW and CONANT failed to disclose to investors payments made to Broadcast Services purportedly for work to be done in connection with next FCC auction for IVDS licenses.

bb) ITW and CONANT failed to provide investors with an accounting of their proceeds.

cc) ITW and CONANT failed to disclose to investors that, upon information and belief, CONANT has used investor funds for personal use, including the building of a home in Alpine, Arizona.

dd) ITW and CONANT failed to disclose to investors that the telephone salespersons hired by ITW have no training or expertise in the IVDS field upon which to base predictions and projections.

ee) ITW and CONANT failed to disclose to investors information concerning the financial condition and business history of ITW and CONANT, including the fact that CONANT filed for Chapter 11 bankruptcy protection in 1989.

ff) ITW and CONANT failed to disclose to investors that ITW and CONANT were the subject of an Order to Cease and Desist from the South Dakota Department of Commerce & Regulation, Division of Securities, dated November 2, 1995.

99. RESPONDENTS engaged in transactions, practices and courses of business which operated as fraud or deceit, as alleged herein.

100. This alleged conduct violates A.R.S. § 44-1991.

VII.

REQUESTED RELIEF

THEREFORE, RESPONDENTS are hereby notified that the Securities Division will request that the Arizona Corporation Commission grant the following relief against RESPONDENTS:

1. Order RESPONDENTS to Cease and Desist from the conduct alleged, pursuant to A.R.S. § 44-2032;

2. Order RESPONDENTS to pay administrative penalties of up to five thousand dollars ($5,000) for each violation of law alleged, pursuant to A.R.S. § 44-2036;

3. Order RESPONDENTS to take affirmative action, including but not limited to restitution, in order to correct the conditions resulting from their acts, practices or transactions, pursuant to A.R.S. § 44-2032;

IT IS ORDERED, pursuant to A.R.S. §§ 44-1971 and 44-1972 that RESPONDENTS are hereby notified that RESPONDENTS are afforded an opportunity for hearing upon written request filed with Docket Control, Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007, within ten (10) days after receipt of this Notice. The date set for the hearing shall be within five (5) to fifteen (15) days after the request for the hearing has been made, unless otherwise

agreed to by both the Commission and the RESPONDENT(S) requesting the hearing. If any RESPONDENT does not request a hearing within the time prescribed, such RESPONDENT will be deemed to have admitted the allegations and the Commission may enter an Order, containing such relief as the Commission deems appropriate, including but not limited to an order to cease and desist, and for administrative penalties and restitution.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION, this 15th day of November, 1996.

Victor Rodarte

VICTOR RODARTE
Chief Deputy Director of Securities