

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING) Order No. S-05-201-05-TO01
whether there has been a violation of the)
Securities Act of Washington by:) SUMMARY ORDER TO CEASE AND
) DESIST AND NOTICE OF INTENT TO
LionHearted Entertainment, Inc.,) ORDER RESTITUTION, IMPOSE FINES,
Mary Ann Heathman, and Kim A. Heathman,) AND CHARGE COSTS
)
)
Respondents.)

THE STATE OF WASHINGTON TO: LionHearted Entertainment, Inc.
Mary Ann and Kim A. Heathman
674 Riven Rock Road
Zephyr Cove, Nevada 89448

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, LionHearted Entertainment, Inc., Mary Ann Heathman, and Kim A. Heathman, have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 against each to cease and desist from such violations. The Securities Administrator finds that delay in ordering the Respondents to cease and desist from such violations would be hazardous to investors and to the public, and that a Summary Order to Cease and Desist should be entered immediately. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

I. RESPONDENTS

1. LionHearted Entertainment, Inc. ("LionHearted") is an active for-profit Nevada corporation authorized to do business September 23, 1998. LionHearted was formed to develop, produce, and distribute major release motion pictures based on copyrighted material owned by a sister corporation, LionHearted Publishing, Inc.

2. Mary Ann Heathman ("Mary Ann") is the President and Chief Executive Officer of LionHearted.

SUMMARY ORDER TO CEASE AND DESIST AND 1
NOTICE OF INTENT TO ORDER RESTITUTION,
IMPOSE FINES, AND CHARGE COSTS

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 3. Kim Alan Heathman (“Kim”) is the Secretary, Treasurer, Director, Chief Financial Officer, and
2 Chief Operations Officer of LionHearted.

3 *II. NATURE OF THE OFFERING*

4 4. On or about February 1, 2001, two Washington residents (“the residents”) attended an Income
5 Builders International (“IBI”) conference in Los Angeles, California. They were looking for investors in
6 their own business, as well as for potential investment or income opportunities. While there, the residents
7 became acquainted with Kim and Mary Ann, who were at the IBI conference seeking investors in
8 LionHearted. The residents sat down with Kim for approximately two hours and listened to his proposal
9 for LionHearted.

10 5. Kim stated that LionHearted was formed to develop, produce, and distribute major release motion
11 pictures based on copyrighted material owned by a sister corporation, LionHearted Publishing, Inc.
12 LionHearted was selling high-yield 12-month promissory notes paying 10% simple interest per annum to
13 fund the creation of a film development company to be known as LionHearted Development.

14 6. Kim stated that LionHearted was looking for short-term investors with a minimum of \$15,000 to
15 invest. He described the investment opportunity as a “sweet deal” for anyone wanting a quick return on
16 his or her investment. Kim claimed that in addition to the interest, investors would receive a percentage of
17 profits earned on any films.

18 7. Kim provided the residents with three documents describing the offering. The first, an unsigned
19 single-page letter dated February 15, 2001, provides a brief description of the offering and potential
20 returns to investors. LionHearted promises that “Note Holders” will receive the return of their principal
21 from a subsequent sale of limited partnership interests, plus “up to a five (5) times return of their principal
22 from movie revenues.”

1 8. The second document, a four-page letter dated February 15, 2001 and signed by Kim, describes an
2 offering in LionHearted's high-yield Corporate Promissory Notes. The letter offers participating investors
3 "five times (500%) return on the principal value of their Notes." The offering was supposedly limited to
4 accredited or qualified investors. The notes paid 10% simple interest and matured in 12 months, "or upon
5 the full funding of the development company, whichever occurs first." LionHearted claimed that the
6 development company would be fully funded within five months.

7 9. The third document, a seven-page Corporate Promissory Note Offering Memorandum
8 ("Memorandum"), included a blank promissory note. According to the Memorandum, LionHearted was
9 raising \$300,000 from accredited or qualified investors. The funds raised were "ramp up" capital for
10 LionHearted to start its first multi-picture development company. The minimum investment was listed as
11 \$30,000, secured by corporate promissory notes issued by LionHearted. The notes paid 10% simple
12 interest, and were due at the earliest of twelve months or upon the full funding of LionHearted
13 Development. In addition, note holders were promised a pro-rated 10% of pre-tax profits until investors
14 received five times their original investment.

15 10. The Memorandum included a one-page table titled "Gap Funding, Cash Flow Projection." The
16 table, dated February 1, 2001, projects full funding of the \$300,000 promissory note offering within four
17 months, and repayment of investors' entire principal, plus interest, by the end of July 2001. The table
18 projects that promissory note investors would be repaid from the proceeds of a \$5 million offering of
19 limited partnership interests. According to the table, LionHearted would raise the entire \$5 million in
20 limited partnership interests by the end of July 2001.

21 11. Though he did not inquire into the residents' financial condition or investment objectives, Kim
22 said that the investment was right for the residents. At the time, the residents were not accredited,
23

1 qualified, or sophisticated investors. Kim advised the residents that LionHearted would pay them a 5%
2 commission on any money from other investors they brought to LionHearted.

3 12. After returning to Washington, the residents decided against investing in LionHearted. However,
4 they shared the information with an elderly family member, Mrs. B. The residents provided her with
5 copies of the documents they had received from Kim, including the February 15, 2001 letters and
6 Memorandum. Mrs. B was interested in the offering, and contacted LionHearted for more information.

7 *A. First Promissory Note*

8 13. On or about March 15, 2001, LionHearted mailed a letter to Mrs. B. The letter, dated March 14,
9 2001 and signed by Mary Ann, described LionHearted's three-part strategy for raising funds:

- 10 a) Raise \$300,000 bridge capital from the sale of promissory notes to fund
11 LionHearted Development;
12 b) Raise \$5 million from the sale of limited partnership interests in LionHearted
Development to develop three movie projects to the point of filming; and
13 c) Secure movie production funding from entertainment banks.

14 14. The letter states that promissory note holders will be repaid from the \$5 million limited
15 partnership offering and will receive up to five times return of his or her investment from movie revenues.
16 Included with the letter was an original promissory note paying 10% simple interest plus a pro-rated 10%
of pre-tax profits until investors received five times their original investment.

17 15. On or about March 15, 2001, Mrs. B invested \$15,000 in the Corporate Promissory Note Offering
18 from LionHearted. At the time of her investment, Mrs. B was aged 74, recently divorced, and living on a
19 fixed income provided by Social Security and one-half of her ex-husband's retirement. At the time of her
20 investment, Mrs. B was not an accredited, qualified, or sophisticated investor.

21 16. LionHearted paid the Washington residents \$750 in commissions for Mrs. B's investment.

22 17. On or about March 15, 2002, LionHearted defaulted on the promissory note issued to Mrs. B, and
23 despite the note becoming immediately due and payable, failed to make payment.

1 18. On or about August 31, 2002, LionHearted mailed a letter to Mrs. B. The letter, dated August 30,
2 2002 and signed by both Kim and Mary Ann, was addressed to “LionHearted Investors, Lenders, Cubs
3 and Supporters.” The letter describes their continuing efforts to raise the \$300,000 bridge funding, and the
4 now \$6 million in limited partnership interests needed for development of their first three films. The letter
5 does not directly address the default on the promissory note issued to Mrs. B, but does state that
6 promissory note investors will continue to receive 10% interest until their principal is repaid.

7 19. The letter also describes a “Team Agreement” that pays existing investors for introducing new
8 investors to LionHearted. For any money invested, the introducing agent would receive a 5% commission.

9 20. The letter states that LionHearted had made a contact at an IBI conference that “might be our \$6
10 million.” The Heathmans claimed, “it looks and feels like we are just about to reach our pot of gold.”

11 *B. Second Promissory Note*

12 21. On or about September 24, 2002, LionHearted mailed another letter to Mrs. B. The letter, dated
13 September 23, 2002 and signed by Kim, states that LionHearted has one person interested in funding the
14 balance of the \$300,000 promissory note program, and another person interested in funding the entire \$6
15 million offering. Kim enclosed a replacement promissory note with the maturity date extended from 12 to
16 24 months and requested that Mrs. B replace her original promissory note with the new one. Kim stated
17 LionHearted needed the additional time “to put the other financing in place.”

18 *C. Third Promissory Note*

19 22. On or about August 8, 2003, LionHearted mailed a third letter to Mrs. B. in Washington. The
20 letter, dated August 8, 2003 and signed by Kim, describes LionHearted’s continuing efforts to raise funds
21 with which to repay investors. Included was a third promissory note with the maturity date extended from
22 24 to 48 months.

1 *D. Internet Offering*

2 23. On or about August 26, 2003, Kim posted a solicitation for investors on the Internet website
3 www.whatdoyouneednext.com. The website was a matchmaking site where entrepreneurs posted offers
4 soliciting whatever they needed to “proceed or succeed with your latest venture.” LionHearted’s posting
5 was in the section of the website for entrepreneurs needing capital, and stated that LionHearted was
6 seeking investors in a new film production company, LionHearted Entertainment, Inc. The posting
7 promised investors full return of investment principal as well as future revenue streams from films.

8 24. Neither the website or LionHearted’s posting disclosed any limitation on the offer, or indicated in
9 any way that the offer was not available to Washington residents.

10 *E. Current Offering*

11 25. On or about December 7, 2004, Kim responded to a demand letter sent by counsel for Mrs. B. In
12 his response, Kim indicated that LionHearted was continuing to raise capital, and that LionHearted would
13 pay Mrs. B out of new investor funds.

14 **III. MISREPRESENTATIONS AND OMISSIONS**

15 26. Respondents represented that investors in the corporate promissory note program would be repaid
16 in full within twelve months, and receive the 500% return within sixty months. At the time, Respondents
17 had no reasonable basis for making the claim. More than four years after investing, Mrs. B is still waiting
18 for the return of her original \$15,000 principal.

19 27. Respondents represented that the corporate promissory note offering would close when the full
20 \$300,000 was raised, or on June 30, 2001. At the time, Respondents had no reasonable basis for making
21 the claim. In fact, though they continue to seek capital, LionHearted has still not raised the \$300,000.

22 28. Respondents represented that investors in the corporate promissory note program would receive
23 up to a 500% return on their investments from films exclusively distributed by LionHearted throughout the

1 United States. In addition, Respondents represented that a consulting firm would further distribute the
2 films to premium cable and television networks. At the time, Respondents had no reasonable basis for
3 making the claim. LionHearted has failed to produce any films for distribution.

4 29. The one-page table titled "Gap Funding, Cash Flow Projection" included in the Memorandum
5 provided by Respondents projects full funding of the \$300,000 promissory note offering within four
6 months, and repayment of the entire principal, plus interest, by the end of July 2001. The table projects
7 that LionHearted would raise the entire \$5 million in limited partnership interests by the end of July 2001.
8 Respondents failed to disclose any basis for the income projections in their "Gap Funding, Cash Flow
9 Projection," or provide any audited or pro-forma financials for LionHearted.

10 30. Respondents failed to disclose any risk factors associated with the investment, including the risk
11 of being unable to raise the \$300,000 in start-up financing, their subsequent inability to raise the \$5 or \$6
12 million necessary to create LionHearted Development, and their subsequent inability to obtain production
13 financing from an entertainment bank.

14 IV. REGISTRATION STATUS

15 31. The promissory notes offered and sold by LionHearted are not currently registered in Washington
16 State and have not previously been registered.

17 32. Respondents Kim A. and Mary Ann Heathman are not currently registered as securities
18 salespersons or broker-dealers in Washington State and have not previously been registered.

19 V. SUBPOENA RESPONSE

20 33. On or about September 13, 2005, Washington State Securities Division ("the Division") served
21 LionHearted with a subpoena issued August 31, 2005. The subpoena called for the production of certain
22 documents by September 30, 2005.

1 34. On or about September 29, 2005, the Division received a facsimile response from Kim seeking a
2 60-90 day extension on the due date for production. The Division offered to two-week extension,
3 requiring production of the requested documents no later than Friday, October 14, 2005. On or about
4 October 9, 2005, Kim left a message with the Division accepting the extension to October 14, and agreed
5 to produce the requested documents by the deadline. On or about October 17, 2005, the Division received
6 a letter, dated October 12, 2005 and signed by Kim, refusing to produce the requested documents.

7 35. On or about October 20, 2005, the Nevada State Securities Division issued and served
8 LionHearted with a subpoena. The Nevada subpoena called for the production of certain documents by
9 November 18, 2005. On or about November 14, 2005, the Nevada Securities Division received a letter,
10 dated November 9, 2005 and signed by Kim and Mary Ann, refusing to produce the requested documents.

11
12 Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:

13 **CONCLUSIONS OF LAW**

14 1. The offer or sale of promissory notes described above constitutes the offer or sale of a security as
15 defined in RCW 21.20.005(10) and (12).

16 2. Respondents LionHearted Entertainment, Inc., Mary Ann Heathman, and Kim A. Heathman have
17 each violated RCW 21.20.010, the anti-fraud provision of the Securities Act of Washington, by making, in
18 connection with the offer or sale of said securities, untrue statements of material fact and by omitting to
19 state material facts necessary in order to make the statements made, in light of the circumstances under
20 which they were made, not misleading.

21 3. Respondents LionHearted Entertainment, Inc., Mary Ann Heathman, and Kim A. Heathman, have
22 each violated RCW 21.20.140, the securities registration provision of the Securities Act of Washington,
23 because no registration for the offer or sale of said securities is on file with the Securities Administrator.

1 4. Respondents LionHearted Entertainment, Inc., Mary Ann Heathman, and Kim A. Heathman, have
2 each violated RCW 21.20.040, the securities broker-dealer and salesperson registration provision of the
3 Securities Act of Washington, by offering and selling said securities while not registered as securities
4 broker-dealers or salespersons in the state of Washington.

5
6 **EMERGENCY**

7 The Securities Administrator finds that an emergency exists, that the continued violations of RCW
8 21.20.010, RCW 21.20.140, and RCW 21.20.040 constitutes a threat to the investing public, in that the
9 respondents are continuing to raise money through the sale of securities and the respondents have refused
10 comply with subpoenas issued in Washington and Nevada for information relating to the respondents'
11 offerings of securities, and that a summary order to cease and desist from those violations is in the public
12 interest and necessary for the protection of the investing public.

13
14 **SUMMARY ORDER**

15 Based upon the foregoing,

16 IT IS HEREBY SUMMARILY ORDERED that Respondents LionHearted Entertainment, Inc., Mary
17 Ann Heathman, Kim A. Heathman, their agents and employees, shall each cease and desist from offering
18 or selling securities in any manner in violation of RCW 21.20.010, the anti-fraud section of the Securities
19 Act of Washington.

20 It is further SUMMARILY ORDERED that Respondents, LionHearted Entertainment, Inc., Mary Ann
21 Heathman, Kim A. Heathman, their agents and employees, shall each cease and desist from violation of
22 RCW 21.20.140, the section of the Securities Act of Washington requiring registration of securities.

1 It is further SUMMARILY ORDERED that Respondents Mary Ann Heathman, Kim A. Heathman,
2 their agents and employees, shall each cease and desist from violation of RCW 21.20.040, the section of
3 the Securities Act of Washington requiring registration of broker-dealers and salespersons.

4 **NOTICE OF INTENT TO ORDER RESTITUTION**

5 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions of
6 Law, the Securities Administrator intends to order that Respondents, LionHearted Entertainment, Inc.,
7 Mary Ann Heathman, and Kim A. Heathman shall be jointly and severally liable for and shall pay full
8 restitution to Mrs. B. in the amount of \$15,000.

9
10 **NOTICE OF INTENT TO IMPOSE FINES**

11 Pursuant to RCW 21.20.395, and based upon the above Tentative Findings of Fact and Conclusions of
12 Law, the Securities Administrator intends to order that Respondents, LionHearted Entertainment, Inc.,
13 Mary Ann Heathman, and Kim A. Heathman, shall be jointly and severally liable for and shall pay a fine
14 of \$10,000.

15 **NOTICE OF INTENT TO CHARGE COSTS**

16 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions of
17 Law, the Securities Administrator intends to order that Respondents, LionHearted Entertainment, Inc.,
18 Kim A. Heathman, Mary Ann Heathman, shall be jointly and severally liable for and shall pay the costs,
19 fees, and other expenses incurred in the conduct of the administrative investigation, hearing or court
20 proceeding relating to this matter. As of January 3, 2006, these costs total approximately \$6,250.

21 **AUTHORITY AND PROCEDURE**

22 This Order is entered pursuant to the provisions of RCW 21.20.390 and 21.20.395 and is subject to the
23 provisions of RCW 34.05. The respondents, LionHearted Entertainment, Inc., Mary Ann Heathman, and
24

1 Kim A. Heathman may each make a written request for a hearing as set forth in the NOTICE OF
2 OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this order. If a
3 Respondent does not request a hearing, the Securities Administrator intends to adopt the above Tentative
4 Findings of Fact and Conclusions of Law as final, enter a permanent cease and desist order, order
5 restitution, and impose fines and costs as to that Respondent.

6
7 **CONTINUING INVESTIGATION**

8 In light of Respondents' continuing failure to comply with subpoenas lawfully issued by the states
9 of Washington and Nevada, the Securities Division is continuing to investigate the practices of the
10 Respondents herein to determine the full extent of the violations of the Securities Act that may have
11 occurred in this matter.

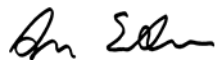
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13 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

14
15 DATED and ENTERED this 17th day of January 2006.

16
17 

18 _____
MICHAEL E. STEVENSON
Securities Administrator

19 Approved for entry by:

20 

21 _____
SUZANNE E. SARASON
Program Manager
22 Compliance & Examinations

Presented by:

23 

24 _____
ANTHONY W. CARTER
Staff Attorney
Compliance & Examinations