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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

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IN THE MATTER OF DETERMINING) Order No.: S-13-1175-13-SC01
Whether there has been a violation of the)
Business Opportunity Fraud Act of) STATEMENT OF CHARGES AND NOTICE OF INTENT
Washington by:) TO ENTER ORDER TO CEASE AND DESIST
)
Drop Zone Digital Media LLC; Lorenzo Reid ,)
)
Respondents.)

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**THE STATE OF WASHINGTON TO: Drop Zone Digital Media LLC; and
Lorenzo Reid**

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STATEMENT OF CHARGES

Please take notice that the Securities Administrator for the state of Washington has reason to believe that Respondents Drop Zone Digital Media LLC and Lorenzo Reid have violated the Business Opportunity Fraud Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 19.110.150 against the Respondents to cease and desist from such violations. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Parties

1. Respondent Drop Zone Digital Media LLC (Drop Zone Digital Media) was a Washington limited liability company formed on December 16, 2010, for the purpose of establishing a nationwide digital advertising business. During the time period relevant to this Statement of Charges, Drop Zone Digital Media maintained a principal place of business in Seattle, Washington. The Washington Secretary of State administratively dissolved Drop Zone Digital Media on April 1, 2013.
2. Respondent Lorenzo Reid served as a member and a manager of Drop Zone Digital Media, and he acted as the sole principal of the company. Lorenzo Reid resided in Washington during the time period relevant to this Statement of Charges.

Nature of the Offering

3. Drop Zone Digital Media maintained a website, until as recently as March 2013, at <http://www.dropzonenow.com>, in which it advertised the sale of licenses to an exclusive territory within the the Drop Zone Digital Media Network. Each license gave the purchaser the right to operate a digital advertising business by placing Drop Zone Digital Media television screens at third-party businesses (host business) within the licensed territory. Drop Zone Digital Media represented to purchasers that it would sell advertising space on the Drop Zone

1 Digital Media television screens located at host businesses. Drop Zone Digital Media further represented that it would
2 provide purchasers and host businesses with a portion of the advertising revenue that Drop Zone Digital Media secured
3 for the Drop Zone Digital Media television screens. From 2011 to 2012, Drop Zone Digital Media sold approximately
4 30 Territory License Agreements. The company has since closed its business without fulfilling the many
5 representations that it made to purchasers of its license agreement.

6 4. In 2011, Purchaser A learned about the opportunity to operate a digital advertising business as part of the Drop
7 Zone Digital Media Network through its website. Purchaser A called the company for additional information and
8 received a copy of a sample Drop Zone Digital Media Territory License Agreement (license agreement) and financial
9 representations outlining the potential revenue that Drop Zone Digital Media would pay to purchasers, both of which
10 Purchaser A read and relied upon before deciding to sign the license agreement.

11 5. For a \$20,000 fee, Drop Zone Digital Media offered purchasers the right to operate, within a specific territory,
12 a digital advertising business as part of the Drop Zone Digital Media Network. In addition to the \$20,000 fee,
13 purchasers also had to pay \$2,500 for five Drop Zone Digital Media television screens, and purchasers could also
14 purchase additional Drop Zone Digital Media television screens at a rate of \$2,500 per-five screens. Drop Zone
15 Digital Media also charged purchasers a yearly \$2,100 renewal fee.

16 6. In addition to a license in an exclusive territory, Drop Zone Digital Media further represented that it would
17 provide purchasers with ongoing business, marketing, technical, and IT support, and Drop Zone Digital Media also
18 claimed that it would give purchasers Drop Zone Digital Media business cards and marketing material to distribute to
19 third-party businesses.

20 7. In the financial representations that Drop Zone Digital Media provided to Purchaser A, Drop Zone Digital
21 Media stated that purchasers could earn a 100 percent return on investment in 26 weeks or less. Drop Zone Digital
22 Media further represented that Purchaser A could expect \$5,987 per-month for 5 Drop Zone Digital Media television
23 screens in operation, \$11,965 per-month for 10 Drop Zone Digital Media television screens in operation, \$17,934 per-
24 month for 15 Drop Zone Digital Media television screens in operation, and \$23,912 for 20 Drop Zone Digital Media
25 television screens in operation.

8. In October 2011, Purchaser A formed a LLC, and Purchaser A's LLC entered into a license agreement with
Drop Zone Digital Media and purchased 10 Drop Zone Digital Media television screens from the company. Purchaser
A's LLC then wired \$25,000 to the Drop Zone Digital Media bank account in Seattle, Washington. In addition to
Purchaser A, between 2011 and 2012, approximately 30 other purchasers signed a license agreement with Drop Zone
Digital Media, paying an average fee of between \$20,000 and \$40,000 to Drop Zone Digital Media, with one
purchaser paying Drop Zone Digital Media approximately \$100,000.

9. After paying Drop Zone Digital Media, Purchaser A received, after much delay, only 2 of the 10 Drop Zone
Digital Media television screens that Purchaser A paid for, and Drop Zone Digital Media made did not secure

1 advertising on the screens. Many other purchasers have not received the Drop Zone Digital Media television screens
2 that they paid for, and other purchasers have received Drop Zone Digital Media television screens with defective
3 software. Drop Zone Digital Media has ceased communication with Purchaser A and has since closed its business.

4 Other Actions

5 10. On March 24, 2011, Wayburn Digital Media, Inc. (Wayburn Digital Media) sued Drop Zone Digital Media
6 and Lorenzo Reid in King County Superior Court for injunctive relief and monetary damages, alleging breach of
7 contract, tortious interference with contractual relations, and a violation of the Washington Uniform Trade Secrets
8 Act. In its Complaint, Wayburn Digital Media alleged that Drop Zone Digital Media and Lorenzo Reid had unlawfully
9 copied Wayburn Digital Media's business model, branding technology, marketing strategies and materials, web
10 design, and graphic design.

11 11. On January 25, 2013, Judge Dean Lum entered Final Judgment and Order Granting Permanent Injunction
12 (Order), ordering Defendants Drop Zone Digital Media and Lorenzo Reid to pay Wayburn Digital Media \$325,962.00
13 and to cease and desist from operating a digital media advertising business of any kind in the USA or Canada for a
14 period of two years beginning December 20, 2012. The Defendants have since appealed this Order.

15 Failure to Provide a Disclosure Document

16 12. In connection with the offer and sale of the Drop Zone Digital Media business opportunity, Respondents Drop
17 Zone Digital Media and Lorenzo Reid both failed to provide the prospective purchaser with a disclosure document as
18 required by RCW 19.110.070.

19 Misrepresentations and Omissions

20 13. Respondents Drop Zone Digital Media and Lorenzo Reid failed to disclose to Purchaser A that Wayburn
21 Digital Media had sued Drop Zone Digital Media and Lorenzo Reid to enjoin them from operating a digital media
22 advertising business.

23 14. Respondent Drop Zone Digital Media failed to provide the basis and assumptions underlying the financial
24 representations that it made to Purchaser A.

25 15. Respondent Drop Zone Digital Media failed to disclose the basis upon which it claimed that it had the ability
and resources to provide purchasers with ongoing business, marketing, technical, and IT support.

16 16. Respondent Drop Zone Digital Media failed to disclose to Purchaser A that the Drop Zone Digital Media
television screens required specific software for Drop Zone Digital Media to display advertisements on, and, more
broadly, it failed to disclose to purchasers the risk that this software may malfunction.

Registration Status

17. Respondents Drop Zone Digital Media and Lorenzo Reid are not currently registered to sell business opportunities in the state of Washington and have not previously been so registered.

Based upon the above Findings of Fact, the following Conclusions of Law are made:

CONCLUSIONS OF LAW

1. The offer or sale of license agreements as described above constitutes the offer and sale of a business opportunity as defined in RCW 19.110.020.
2. The offer or sale of this business opportunity is in violation of RCW 19.110.050 because no registration for such offer and sale by Respondents Drop Zone Digital Media and Lorenzo Reid was on file with the Securities Administrator for the time period in which the offer and sale occurred.
3. The offer and sale of this business opportunity is in violation of RCW 19.110.070 because Respondents Drop Zone Digital Media and Lorenzo Reid failed to provide prospective purchasers with the required disclosure document.
4. The offer or sale of said business opportunities were made in violation of RCW 19.110.120 because Respondents Drop Zone Digital Media and Lorenzo Reid all made untrue or misleading statements of material fact and omitted to state material facts in connection with the offer, sale, or lease of a business opportunity in Washington.

NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST

Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondents Drop Zone Digital Media and Lorenzo Reid, and their agents and employees, each shall cease and desist from violations of RCW 19.110.050, RCW 19.110.070, and RCW 19.110.120.

AUTHORITY AND PROCEDURE

This Order is entered pursuant to the provisions of RCW 19.110.150 and is subject to the provisions of Chapter 34.05 RCW. Respondents Drop Zone Digital Media and Lorenzo Reid may make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this order. If a respondent does not request a hearing within the allowed time, the Securities Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and enter an order to cease and desist permanent as to that respondent.

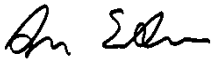
Signed and Entered this 27th day of June 2013.

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William M. Beatty
Securities Administrator

Approved by:



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