

STATE OF ALABAMA
ALABAMA SECURITIES COMMISSION

IN THE MATTER OF:)	
)	
GRAVITY ENTERTAINMENT, INC)	ADMINISTRATIVE ORDER
ENTERTAINMENT HOLDINGS, INC)	NO. OV-2005-0051
STEVEN F. GAGNON)	
MARSHALL F. CARSON)	
)	
<u>RESPONDENTS</u>)	

ORDER TO VACATE AS TO RESPONDENT STEVEN F. GAGNON

The Alabama Securities Commission ("Commission") having the power to administer and provide for the enforcement of all provisions of Title 8, Chapter 6, Code of Alabama 1975, that Alabama Securities Act, upon due consideration of the subject matter hereof, has determined as follows:

RESPONDENT STEVEN F. GAGNON

1. STEVEN F. GAGNON (GAGNON) is President/CEO of GRAVITY ENTERTAINMENT, INC. and President of ENTERTAINMENT HOLDINGS, INC. and resides at 1220 Fillmore Street, Hollywood, Florida 33019. GRAVITY ENTERTAINMENT, INC. (GRAVITY) is a Florida Corporation with a principal business address of 2500 North Federal Highway, Suite 303, Fort Lauderdale, Florida 33305. ENTERTAINMENT HOLDINGS, INC. (ENTERTAINMENT HOLDINGS) is a Florida Corporation with a principal business address of 2500 North Federal Highway, Suite 303, Fort Lauderdale, Florida 33305.

STATEMENT OF FACTS

2. This Order pertains to the Cease and Desist Order issued on November 29, 2005. The actions of GAGNON described in the Cease and Desist Order concerned GAGNON's supervision of a company employee who made an illegal offer to an Alabama investor while acting as a company representative in July 2005. As President and CEO of GRAVITY ENTERTAINMENT, INC. and President of ENTERTAINMENT HOLDINGS, INC., GAGNON has the ultimately responsibility for the actions taken by the employees of these companies.

3. MARSHALL F. CARSON (CARSON), the employee involved, was employed as Vice-President of Music Production and Audio Development for GRAVITY ENTERTAINMENT in November 2004. CARSON's activities included soliciting investments in GRAVITY. On July 12, 2005, CARSON offered an Alabama resident an investment in the development of a theatrical motion picture. The investment was described as a loan from Investor to Producer in the principal amount of One Hundred Seventy Two Thousand Dollars. Attached to the Loan Agreement were wire instructions for wiring the investor's funds to a bank account in the name of ENTERTAINMENT HOLDINGS. The Alabama resident did not purchase the investment, and contacted the Commission.

4. The Commission staff reviewed the Registration files of the Alabama Securities Commission. The review disclosed no record of registration for the securities being offered, to wit: the "Development, Production, Finance and Security Agreement", in the State of Alabama. It is unlawful for any person to offer or sell any security in the state of Alabama unless the security is registered under *Code of Alabama 1975, § 8-6-4* or exempt from registration under § 8-6-10 or § 8-6-11. The security solicited by CARSON on behalf of GRAVITY and ENTERTAINMENT HOLDINGS was not registered in the State of Alabama at the time of CARSON's offer to the Alabama investor.

5. The review conducted by staff also failed to disclose any record of registration for CARSON as a broker- dealer or agent, investment advisor, or investment

advisor representative in the state of Alabama. Further, the review disclosed no record of registration for GRAVITY or ENTERTAINMENT HOLDINGS as a broker-dealer in the state of Alabama. The offer or sale of securities within or into the state of Alabama without the benefit of registration is a violation of § 8-6-3(b), *Code of Alabama 1975*. Because CARSON was not registered as a broker-dealer or agent, investment advisor, or investment advisor representative in the state of Alabama, his offer violated the provisions of § 8-6-3(b).

6. The Cease and Desist Order dated November 29, 2005 was based upon the facts presented above.

7. When he received the Cease and Desist Order, GAGNON contacted the Commission through counsel and requested an informal meeting.

8. On March 13, 2006 GRAVITY ENTERTAINMENT, INC. filed a Form D with the SEC concerning this offering. According to that filing, GRAVITY intended to sell investments in this offering only to accredited investors. The Commission notes that the Reg D filing was not effective at the time the offer was made to the Alabama resident.

9. On April 6, 2006 GAGNON appeared before the Commission for an informal meeting. GAGNON informed the Commission that no other offering of this investment occurred in Alabama and no sale of any investment was completed in Alabama. GAGNON informed the Commission that this investment was sold only to accredited investors in accordance with the terms of the March 2006 SEC filing.

10. At the informal meeting, from consistent statements provided independently by GAGNON, CARSON and the Alabama investor, the Commission learned that in August 2005 when GAGNON became aware of possible problems with CARSON's offer, GAGNON contacted the investor himself. When GAGNON became convinced that the offer was not appropriate, he instructed CARSON to withdraw the offer in the investment and to stop all discussions with the Alabama investor. The offer was withdrawn and the discussions with the Alabama investor were terminated.

11. During the informal meeting, GAGNON learned that CARSON made representations to the Alabama investor that were outside the scope of his actual authority. GAGNON removed CARSON from his position as a Vice-President of GRAVITY. CARSON is no longer associated with the company in any capacity which

involves financing. CARSON has no authority to effect or attempt to effect sales of securities in the company. Nor is he authorized to advise others as to the value of securities or as to the advisability of investing in, purchasing or selling securities in the company.

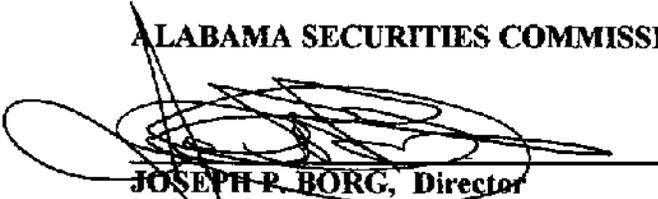
12. The Commission finds that GAGNON fully cooperated with this investigation and took appropriate remedial action when required.

13. In addition to taking the actions described above, GAGNON has agreed to enter into a Consent Order in his position as President and CEO of GRAVITY ENTERTAINMENT, INC. and ENTERTAINMENT HOLDINGS, INC to resolve other the matters set out in the original Cease and Desist Order.

14. Because of the unique circumstances set forth above in paragraphs 6-13, the November 29, 2005 Cease and Desist Order No. CD-2005-0051 is hereby vacated as against RESPONDENT STEVEN F. GAGNON only.

ENTERED AND ORDERED this 9th day of August, 2006.

ALABAMA SECURITIES COMMISSION


JOSEPH P. BORG, Director

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