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Superior Court of California, County of Los Angeles

MAR 26 2012

6 Attorneys for the People of the State of California

John A. Clarke, Executive Officer/Clerk
By: Moses Soto, Deputy

7
8 SUPERIOR COURT OF THE STATE OF CALIFORNIA
9 FOR THE COUNTY OF LOS ANGELES

10 THE PEOPLE OF THE STATE OF
CALIFORNIA, by and through the California
11 Corporations Commissioner,

12 Plaintiff,

13 v.

14 AUTHOTECQ SYSTEMS, INC., a Delaware
corporation; PAYSENTINEL, LLC, a California
15 limited liability company; SHADOWWORKS
CORP., INC., a Delaware corporation;
16 JAMES ANTHONY LITZINGER, as an
17 individual; MICHAEL R. DIAZ, a.k.a. MIKE
DIAZ, individually and doing business as MIKE
18 DIAZ ENTERPRISES and PANDY
ENTERPRISE; WALLACE E. THOMAS, a.k.a.
19 WALLY THOMAS, individually and doing
20 business as WALLY WORLD
ENTERTAINMENT; GREGORY T.
21 CHAPMAN, as an individual; and DOES 1
22 through 50, inclusive,

23 Defendants.

) CASE NO. BC481474

) COMPLAINT FOR TEMPORARY
) RESTRAINING ORDER; PRELIMINARY
) INJUNCTION; PERMANENT INJUNCTION;
) RESTITUTION; CIVIL PENALTIES;
) FREEZING OF ASSETS; APPOINTING A
) RECEIVER; AND ANCILLARY RELIEF

) VIOLATIONS OF CALIFORNIA
) CORPORATIONS CODE SECTION 25110
) **(SALE OF UNQUALIFIED SECURITIES)**

) VIOLATIONS OF CALIFORNIA
) CORPORATIONS CODE SECTION 25401
) **(SALE OF SECURITIES BY MEANS OF
) FALSE OR MISLEADING STATEMENTS)**

) VIOLATIONS OF DESIST AND REFRAIN
) ORDER ISSUED BY THE CALIFORNIA
) CORPORATIONS COMMISSIONER

) ASSIGNED FOR ALL PURPOSES TO:

24
25 The California Corporations Commissioner (“Commissioner”), acting to protect the public
26 from the unlawful sale of unqualified and fraudulent securities brings this action in the public
27 interest in the name of the People of the State of California. The People of the State of California
28 allege as follows on information and belief:

1 **JURISDICTION AND VENUE**

2 1. The Commissioner brings this action to enjoin the defendants from violating the
3 provisions of the California Corporate Securities Law of 1968 (“CSL”) (Cal. Corp. Code Sections
4 25000 et seq.) and to request necessary equitable and ancillary relief. The Commissioner is
5 authorized to administer and enforce the provisions of the CSL.

6 2. The Commissioner brings this action pursuant to California Corporations Code (“CC”)
7 Section 25530 and California Government Code Section 11180 et seq. in her capacity as head of the
8 California Department of Corporations (“Department”).

9 3. Defendants have transacted business within Los Angeles County and other counties in
10 California. Defendants’ principle places of business are mostly located in Los Angeles County and
11 also in San Diego County. The violations of law described herein have occurred and will continue to
12 occur, unless enjoined, within Los Angeles County and elsewhere within the State of California.

13 **DEFENDANTS**

14 4. Defendant Authotecq Systems, Inc. (“Authotecq”) is a Delaware corporation with its
15 principal place of business in California at 3399 E. 19th Street, Signal Hill, California 90755. On
16 April 15, 2003, Authotecq was incorporated in California as a foreign corporation.

17 5. Defendant Paysentinel, LLC (“Paysentinel”), formerly known as Valet Pay, LLC, is a
18 California limited liability company that was formed on October 29, 2004, with its principal place of
19 business at 3399 E. 19th Street, Signal Hill, California 90755. In about December 2006, Authotecq
20 renamed and trademarked its flagship payment system to Paysentinel.

21 6. Defendant Shadowworks Corp. Inc. (“Shadowworks”) is a Delaware corporation with its
22 principal place of business in California at 345 N. Maple Drive, Ste. 281, Beverly Hills, California
23 90210. On May 17, 2005, Shadowworks was incorporated in California as a foreign corporation.

24 7. Defendant James Anthony Litzinger (“Litzinger”) is an individual and believed to be a
25 resident of Los Angeles County. Litzinger is and was conducting business in the County of Los
26 Angeles and elsewhere in California. Litzinger is the President of Authotecq. Litzinger was at all
27 times relevant hereto, a “control” person of Authotecq within the meaning of CC sections 160 and
28

1 25403. Under CC section 160(a), “control” means the possession, direct or indirect, of the power to
2 direct or cause the direction of the management and policies of the corporation.

3 8. Defendant Michael R. Diaz, a.k.a. Mike Diaz (“Diaz”), individually and d.b.a. Mike
4 Diaz Enterprises and Pandy Enterprise, is an individual and a resident of San Diego County. Diaz is
5 and was conducting business in the Counties of Los Angeles, San Diego and elsewhere within
6 California. Diaz is the owner of Pandy Enterprise and Mike Diaz Enterprises, which are located at
7 222 J St. #424, San Diego, California 92101 and/or 7910 Ivanhoe Ave., Ste. 520, La Jolla, California
8 92037. Diaz received undisclosed and illegal compensation from Authotecq.

9 9. Defendant Wallace E. Thomas, a.k.a. Wally Thomas (“Thomas”), individually and
10 d.b.a. Wally World Entertainment, is an individual and a resident of San Diego, Los Angeles or
11 Santa Barbara County. Thomas is and was conducting business in the County of Los Angeles and
12 elsewhere within California. Thomas is the owner of Wally World Entertainment, which at all
13 relevant times was located at 2360 Rising Glen Way, Apt. 303, Carlsbad, California 92008, and/or
14 20322 Chapter Drive, Woodland Hills, California 91367, and/or 1050 Vallecito Road, Carpinteria,
15 California 93013. Thomas received undisclosed and illegal compensation from Authotecq.

16 10. Defendant Gregory T. Chapman (“Chapman”) is an individual and a resident of Los
17 Angeles County. Chapman is and was conducting business in the County of Los Angeles and
18 elsewhere within California. Chapman has acted in the following capacities at various times
19 relevant to this Complaint. Chapman is the President of Shadowworks and received undisclosed and
20 illegal compensation from Authotecq. Furthermore, Chapman is a member, manager, and partner of
21 Paysentinel.

22 11. Defendants Does 1 through 50 are persons, corporations, or other entities that have
23 done or will do acts otherwise alleged in this Complaint. Plaintiff is informed and believes, and on
24 such information and belief alleges, that Defendants Does 1 through 50 inclusive, at all times
25 mentioned herein have acted and are continuing to act in concert with the Defendants named herein,
26 and that each of them has participated in the acts and transactions which are the subject of this
27 Complaint. The true names and capacities of Does 1 through 50, whether individual, corporate, or
28 otherwise, are unknown to Plaintiff, who therefore sues such Defendants under such fictitious

1 names, pursuant to the provisions of section 474 of the California Code of Civil Procedure. Plaintiff
2 asks leave of the Court to amend the Complaint to allege the true names and capacities of such
3 Defendants at such time as the same have been ascertained.

4 12. Plaintiff is informed and believes and on such information and belief alleges that, at all
5 relevant times, the Defendants named as officers, agents or employees, acted in such capacities in
6 connection with the acts, practices and schemes of business set forth below.

7 13. Whenever any allegation is made in this Complaint to “Defendants” doing any act, the
8 allegation shall mean the act of each individual Defendant acting individually, jointly and severally
9 and the conspiring of these Defendants to so act. Each Defendant alleged to have committed any act
10 did so pursuant to and in furtherance of a common plan, scheme and conspiracy and as the agent for
11 each and every co-defendant. Each Defendant acted in conspiracy to violate the provisions of the
12 CSL.

13 14. Plaintiff is informed and believes and on such information and belief alleges that, at all
14 relevant times, each and every Defendant, directly or indirectly controlled other co-defendants by
15 knowingly inducing, or by knowingly providing substantial assistance to other co-defendants, to
16 violate the provisions of the CSL, as alleged in the Complaint within the meaning of CC section
17 25403.

18 15. Any allegation made in this Complaint of any act by a Defendant who is a business
19 entity (hereinafter, “business entity Defendant(s)”) shall mean an act done or authorized by the
20 officers, directors, agents, or employees of the business entity Defendant while actively engaged in
21 the management, direction, or control of the affairs of the business entity Defendants, and while
22 acting within the course and scope of their employment.

23 16. Plaintiff is informed and believes that at all times mentioned herein, business entity
24 Defendants continued in existence as alter egos of individual Defendants pursuant to a scheme to
25 offer and sell unqualified, non-exempt and fraudulent securities to obtain money from the public for
26 individual Defendants’ own personal benefit.

27 17. At all times herein mentioned, the business entity Defendants were so influenced and
28 controlled by the individual Defendants in the conduct of its business and affairs that there existed a

1 unity of interest and ownership among said parties so that adherence to the fiction of separate
2 corporate and individual existences works an injustice upon the public.

3 **STATEMENT OF FACTS**

4 18. In or about January 2006, and continuing thereafter, the Defendants and each of them,
5 their agents, representatives and affiliates have engaged in and continue to engage in business in the
6 State of California in violation of the CSL. These violations consist of offering and selling
7 unqualified, non-exempt securities to members of the public by means of fraud despite the
8 Commissioner's issuing a Desist and Refrain Order against Authotecq, Litzinger and Diaz on
9 January 4, 2006 ("Commissioner's Order"). The Order demanded that they desist and refrain from
10 offering and selling securities in California unless they obtain a permit to sell securities from the
11 Commissioner. Authotecq, Litzinger, and Diaz have never obtained a permit to sell securities in the
12 State of California nor qualified for an exemption under the CSL, and therefore continue to violate
13 the CSL.

14 19. From at least January 1, 2006 through at least April 20, 2011, Defendants offered and
15 sold in this State, unqualified securities in issuer transactions by means of fraud and in violation of
16 the Commissioner's Order, totaling approximately \$10,000,000 in Authotecq Series A preferred
17 stock. There are currently over 200 known investors in Authotecq.

18 20. Defendants are not qualified in the State of California to sell securities, yet they: a)
19 solicited investors by means of unsolicited telephone calls, commonly known as "cold calls;" b) used
20 boiler-room sales tactics to pressure members of the public to invest, such as repeatedly asking the
21 same investor to invest additional money leading to multiple subsequent transactions, commonly
22 known as "reloading;" and c) offered securities to investors on its website and distributed offering
23 materials for unqualified securities to the investing public through the mail.

24 21. Authotecq's stated business is providing an internet banking system that protects the
25 consumer's credit card or ATM bank card when being used to purchase goods and services on-line.

26 22. Authotecq's Private Placement Memoranda dated August 1, 2009 and January 15,
27 2010 ("PPMs") claim that proceeds from the offering will be used for continuing to support the
28 operation of their product, "gateway," while strengthening channel programs, brand development,

1 expanding sales and marketing efforts, and server side product enhancement. Authotecq's PPMs
2 claim that money from each of the \$2.5 million private offerings will be used to:

- 3 a) Continue to fund the secure data center where the Paysentinel gateway is housed;
- 4 b) Fund the promotion and sales of the product to credit card independent sales
5 organizations; and
- 6 c) Support general operation costs including sales and marketing of the product.

7 23. Authotecq's PPMs fail to mention the substantial amount of investor money being paid
8 to the Defendants and their employees, affiliates and/or agents.

9 24. Authotecq's January 15, 2010 PPM claims that \$7.3 million was spent on development
10 and overhead, acquisition of Valet Pay, migration, and upgrade costs from 2006 through 2008.
11 However, Authotecq's bank records show that from January 1, 2006 through April 20, 2011 only
12 \$192,213 was paid for "Paysentinel" expenditures and \$90,300 went to Valet Pay – a discrepancy of
13 \$7 million that instead went to personally benefit the Defendants.

14 25. Authotecq's January 15, 2010 PPM makes the following sales projections for gateway
15 payment systems: 1000 merchants with 24 million transactions by the end of 2011, and 75,000
16 merchants with 1.8 billion transactions by the end of 2015. However, Authotecq and/or Paysentinel
17 as of December 11, 2011, in its response to the Department's subpoena issued in November 2011,
18 claimed to have only 6 merchants, but Authotecq's records showed no revenue from merchants.

19 26. Defendants and each of them offered and sold securities in California by making
20 material misrepresentations, including, but not limited to:

- 21 a) Repeated misrepresentations in its PPMs through unreasonable sales projections for
22 gateway payment systems, including exaggerated numbers of merchants and yearly
23 transactions without a reasonable basis; in actuality, Authotecq and/or Paysentinel
24 admitted to having only 6 merchants as of December 11, 2011, and Authotecq's bank
25 records disclosed no receipts from any of those merchants;
- 26 b) Misrepresentation that \$7.3 million was spent on development and overhead,
27 acquisition of Valet Pay, migration and upgrade costs from 2006 through 2008; in
28 actuality, Authotecq's bank records show that from January 1, 2006 through April 20,

1 2011 only \$192,213 was paid for “Paysentinel” expenditures and \$90,300 was paid to
2 Valet Pay, a discrepancy exceeding \$7 million that instead went to personally benefit
3 the Defendants, its agents, employees and affiliates; and

- 4 c) Misrepresentation to some investors that the Commissioner’s Order was a minor
5 clerical issue that has been fully resolved and that Authotecq filed all the necessary
6 filings with the Commissioner; in actuality, Authotecq never filed an application for a
7 qualification or permit to sell securities or any notice of exemption with the
8 Commissioner.

9 27. Defendants offered and sold securities in California by omitting material facts,
10 including, but not limited to:

- 11 a) Omitting to disclose that Authotecq has failed significantly in its attempts to meet
12 prior projected sales of its gateway payment systems in terms of number of merchants
13 obtained and yearly transactions;
- 14 b) Omitting to disclose the Commissioner’s Order, which required Authotecq to obtain a
15 permit or qualification to sell securities; offering and selling unqualified securities to
16 investors was a violation of the Order;
- 17 c) Omitting to disclose that out of the approximately \$10 million of investor money
18 raised, Defendants made the following payments to themselves, their employees,
19 agents and/or affiliates, including but not limited to: 1) over \$2.7 million to Thomas;
20 2) over \$2.3 million to Chapman; 3) over \$1.6 million to Diaz; and 4) over \$575,000
21 to Litzinger;
- 22 d) Omitting to disclose that Chapman was misusing investor money for his own personal
23 use by keeping a separate Authotecq bank account with investor money to fund his
24 son’s band and his other companies; and
- 25 e) Omitting to disclose Litzinger’s misuse of investor money, including but not limited
26 to: 1) \$168,470 going to Litzinger’s company Pacific West Development; 2) over
27 \$100,000 to pay Litzinger’s rent on his personal residence; 3) almost \$60,000 to pay
28 Cary Conley for construction related expenses; 4) over \$90,000 to pay Rogel

1 Patawaran's rent for his personal residence; 5) \$1000 for the Long Beach Rowing
2 Association; and 6) \$4700 to Spinal Decompression Center.

3 28. On January 4, 2006, the Commissioner issued a Desist and Refrain Order against
4 Authotecq, Litzinger and Diaz for violations of CC Section 25110 for selling unqualified, non-
5 exempt securities in the form of preferred stock in Authotecq. The Commissioner ordered
6 Authotecq, Litzinger and Diaz to desist and refrain from the further offer or sale of securities in the
7 State of California, including preferred stock, unless and until qualification has been made under
8 said law. On January 10, 2006, Authotecq, Litzinger and Diaz were personally served with the
9 Desist and Refrain Order. Authotecq, Litzinger and Diaz have not obtained a permit or qualification
10 to sell securities in or from the State of California. They have not filed any notice of exemption with
11 the Commissioner, and they do not qualify for an exemption under the CSL.

12 **FIRST CAUSE OF ACTION**
13 **SALE OF UNQUALIFIED SECURITIES**
14 **IN VIOLATION OF CALIFORNIA CORPORATIONS CODE SECTION 25110**
15 **(Against All Defendants and Does 1-50)**

16 29. The Commissioner incorporates by reference paragraphs 1 through 28 of this
17 Complaint as though fully set forth herein.

18 30. CC section 25110 provides, in pertinent part, that:

19 It is unlawful for any person to offer or sell in this state any security in an issuer
20 transaction . . . unless such sale has been qualified under Section 25111, 25112, or
21 25113 . . . or unless such security or transaction is exempted or not subject to
22 qualification under Chapter 1 (commencing with section 25100) of this part.

23 31. Commencing at least as early as January 2006, the Defendants, and each of them,
24 offered and sold securities in issuer transactions in the State of California.

25 32. The investments offered and sold by Defendants and each of them, are "securities"
26 within the meaning of CC section 25019 and case law thereunder. The securities included, but are
27 not limited to, preferred stock issued by Authotecq. Since about January 2006, Authotecq and its
28 agents and affiliates have raised at least \$10 million from the sale of these unqualified securities to
over 200 known investors.

1 providing substantial assistance to other co-defendants, to make untrue statements and/or
2 misrepresentations of material facts to some or all prospective or existing investors. The
3 misrepresentations included, without being limited to, the following:

- 4 a) Repeated misrepresentations in its PPMs through unreasonable sales projections for
5 gateway payment systems, including exaggerated numbers of merchants and yearly
6 transactions without a reasonable basis; in actuality, Authotecq and/or Paysentinel
7 admitted to having only 6 merchants as of December 11, 2011, and Authotecq's bank
8 records disclosed no receipts from any of those merchants;
- 9 b) Misrepresentation that \$7.3 million was spent on development and overhead,
10 acquisition of Valet Pay, migration and upgrade costs from 2006 through 2008; in
11 actuality, Authotecq's bank records show that from January 1, 2006 through April 20,
12 2011 only \$192,213 was paid for "Paysentinel" expenditures and \$90,300 was paid to
13 Valet Pay, a discrepancy exceeding \$7 million that instead went to personally benefit
14 the Defendants, its agents, employees and affiliates; and
- 15 c) Misrepresentation to some investors that the Commissioner's Order was due to a
16 minor clerical error and was fully resolved and that Authotecq filed all the necessary
17 filings with the Commissioner; in actuality, Authotecq never filed an application for a
18 qualification or permit to sell securities or any notice of exemption.

19 41. In offering and selling the securities referred to herein, Defendants directed, made, or
20 directly or indirectly controlled other co-defendants, by knowingly inducing or providing substantial
21 assistance to other co-defendants, to omit to state material facts to some or all of the prospective or
22 existing investors. The omissions included, without being limited to, the following:

- 23 a) Omitting to disclose that Authotecq has failed significantly in its attempts to meet
24 prior projected sales of its gateway payment systems in terms of number of merchants
25 obtained and yearly transactions;
- 26 b) Omitting to disclose the Commissioner's Order, which required Authotecq to obtain a
27 permit or qualification to sell securities as of January 2006; offering and selling
28 unqualified securities to investors was a violation of the Order;

- 1 c) Omitting to disclose that out of the approximately \$10 million of investor money
2 raised, Defendants made the following payments to themselves, their employees,
3 agents and/or affiliates, including but not limited to: 1) over \$2.7 million to Thomas;
4 2) over \$2.3 million to Chapman; 3) over \$1.6 million to Diaz; and 4) over \$575,000
5 to Litzinger;
- 6 d) Omitting to disclose that Chapman was misusing investor money for his own personal
7 use by keeping a separate Authotecq bank account with investor money to fund his
8 son's band and his other companies;
- 9 e) Omitting to disclose Litzinger's misuse of investor money, including but not limited
10 to: 1) \$168,470 going to Litzinger's company Pacific West Development; 2) over
11 \$100,000 to pay Litzinger's rent on his personal residence; 3) almost \$60,000 to pay
12 Cary Conley for construction related expenses; 4) over \$90,000 to pay Rogel
13 Patawaran's rent for his personal residence; 5) \$1000 for the Long Beach Rowing
14 Association; and 6) \$4700 to Spinal Decompression Center.

15 42. The misstatements and omissions referred to herein were of "material facts" within the
16 meaning of CC section 25401 since they concerned matters that a "reasonable investor" would
17 consider important in deciding whether to invest.

18 43. Defendants' misrepresentations and omissions were "in connection with" the offer and
19 sale of securities within the meaning of CC section 25401.

20 44. Defendants' misrepresentations and omissions of material fact took place "within the
21 state" of California within the meaning of CC section 25401.

22 45. Defendants, and each of them, directly or indirectly controlled other co-defendants by
23 knowingly inducing or knowingly providing substantial assistance to other co-defendants to make
24 untrue statements and/or omit to disclose statements to investors of material facts in connection with
25 the offer and sale of securities in violation of CC section 25401.

26 46. Unless enjoined by this Court, Defendants and each of them, will continue to violate
27 CC section 25401.

1 **THIRD CAUSE OF ACTION**
2 **VIOLATIONS OF PRIOR DESIST AND REFRAIN ORDER ISSUED BY THE**
3 **COMMISSIONER**
4 **(Against Defendants Authotecq, Litzinger and Diaz)**

5 47. Plaintiff incorporates by reference paragraphs 1 through 46 of this Complaint as
6 though fully set forth herein.

7 48. Corporations Code section 25530 provides, in pertinent part, as follows:

8 (a) Whenever it appears to the commissioner that any person has engaged or is about to
9 engage in any act or practice constituting a violation of any provision of this division or any
10 rule or order hereunder, the commissioner may in the commissioner's discretion bring an
11 action in the name of the people of the State of California in the superior court to enjoin the
12 acts or practices or to enforce compliance with this law or any rule or order hereunder. . . .

13 49. On January 4, 2006 the Commissioner issued an administrative order against
14 Defendants Authotecq, Litzinger and Diaz in connection with Authotecq, ordering them to
15 immediately desist and refrain from the further offer or sale in the State of California of securities,
16 including but not limited to securities in the form of preferred stock, unless and until qualification
17 has been made under the CSL. On January 10, 2006 Authotecq, Litzinger and Diaz were personally
18 served with the Commissioner's Desist and Refrain Order.

19 50. Notwithstanding the receipt and knowledge of the Desist and Refrain Order,
20 Defendants Authotecq, Litzinger and Diaz continued to offer and sell securities in the State of
21 California in the form of Authotecq preferred stock that are not qualified under the CSL, and
22 therefore are in violation of the Commissioner's Order. Unless enjoined by this Court, Defendants,
23 and each of them, will continue to violate the Commissioner's Orders.

24 **PRAYER**

25 WHEREFORE, Plaintiff prays for judgment as follows:

26 **I. INJUNCTIVE RELIEF FOR THE VIOLATIONS:**

27 1. For a Temporary Restraining Order and Orders of Preliminary and Permanent
28 Injunctions enjoining all Defendants, and each of them, their respective officers, directors,
successors in interest, agents, employees, attorneys in fact, and all persons acting in concert or

1 participating with them, and such Does as may be subsequently named, from directly or indirectly
2 violating:

3 a) CC section 25110 by offering to sell, selling, arranging for the sale, issuing, engaging
4 in the business of selling, negotiating for the sale of, or otherwise in any way dealing or participating
5 in the offer or sale of, any security of any kind, including but not limited to the securities described
6 in this Complaint, unless such security or transaction is qualified;

7 b) CC section 25401 by offering to sell or selling any security of any kind, including but
8 not limited to, the securities described in this Complaint, by means of any written or oral
9 communication, which contains any untrue statements of any material fact or omits or fails to state
10 any material fact necessary in order to make the statements made, in the light of the circumstances
11 under which they are made, not misleading, including but not limited to the misrepresentations and
12 omissions alleged in this Complaint;

13 c) Removing, destroying, mutilating, concealing, altering, transferring, or otherwise
14 disposing of, in any manner, any books, records, computer programs, computer files, computer print-
15 outs, correspondence, brochures, manuals, or any other writings or documents of any kind as defined
16 under California Evidence Code section 250 relating to the transactions and course of conduct as
17 alleged in the Complaint in this action, unless authorized by this Court; and

18 d) Transferring, changing, disbursing, selling, dissipating, converting, conveying,
19 pledging, assigning, encumbering, or foreclosing or otherwise disposing of any real or personal
20 property or other assets in their possession or under their control, or in the possession of, or under
21 the control of, any of the Defendants, which property or other assets were derived or emanated from
22 directly, or indirectly, the sale and issuance of securities as alleged in this Complaint, without leave
23 of the Court.

24 2. For a Temporary Restraining Order and Orders of Preliminary and Permanent
25 Injunctions enjoining Defendants Authotecq, Litzinger and Diaz, and their officers, directors,
26 successors in interest, agents, employees, attorneys in fact, and all persons acting in concert or
27 participating with them, from directly or indirectly violating the Commissioner's Desist and Refrain
28 Order issued against Authotecq, Litzinger and Diaz on January 4, 2006.

1 **II. RESCISSION, RESTITUTION, AND DISGORGEMENT:**

2 1. For a Final Judgment requiring Defendants and each of them, and such Does as may be
3 subsequently named, individually, jointly and severally, to rescind each and all of the unlawful
4 transactions alleged in this Complaint, as shall be determined by this Court to have occurred, and
5 further requiring Defendants and such Does as may be subsequently named individually, jointly and
6 severally, to pay full restitution to each person determined to have been subjected to Defendants'
7 acts or practices which constitute violations of the Corporations Code, with the total amount of funds
8 being at least \$10,000,000 less the amount of any repayment of principal, or any other amount
9 according to proof. In addition, to pay the legal rate of interest on the amounts invested by the
10 clients from the dates of their investments to the date of judgment herein.

11 2. For a Final Judgment requiring all Defendants and each of them, and such Does as
12 may be subsequently named, individually, jointly and severally, to disgorge according to proof, to all
13 known persons who invested, all benefits received, including but not limited to, salaries,
14 commissions, fees and profits, derived directly or indirectly, from the acts or practices which
15 constitute violations of the CSL.

16 **III. CIVIL PENALTIES:**

17 1. For a Final Judgment requiring Defendants and each of them, and such Does as may be
18 subsequently named, to pay \$25,000 to the Department as a civil penalty for each act in violation of
19 the CSL, as authorized by CC section 25535 as follows:

20 a) As to the First Cause of Action, against Defendants Authotecq, Paysentinel, Shadowworks,
21 Litzinger, Diaz, Thomas and Chapman to be jointly and severally liable for at least
22 \$5,000,000 for at least 200 violations of CC section 25110, or any other amount
23 according to proof;

24 b) As to the Second Cause of Action, against Defendants Authotecq, Paysentinel,
25 Shadowworks, Litzinger, Diaz, Thomas and Chapman to be jointly and severally liable for
26 at least \$5,000,000 for at least 200 violations of CC section 25401, or any other amount
27 according to proof; and
28

1 c) As to the Third Cause of Action against Defendants Authotecq, Litzinger and Diaz to be
2 jointly and severally liable for at least \$5,000,000 for at least 200 violations of the Desist
3 and Refrain Order issued by the Commissioner on January 4, 2006, or any other amount
4 according to proof.

5 **IV. APPOINTMENT OF A RECEIVER**

6 For said Temporary Restraining Order and during the pendency of this action or until further
7 order of the Court, to further provide for an Appointment of a Receiver over Defendants, each of
8 them, and such Does as may be subsequently named, and their respective subsidiaries, affiliates,
9 agents, employees, representatives, successors in interest and assigns, wherever situated
10 (collectively, "Receivership Defendants"):

11 1. Good cause exists for the appointment of a Receiver and that David J. Pasternak is
12 qualified to act as such Receiver.

13 2. Receiver be authorized and directed to take sole possession of all real and personal
14 property and assets of Receivership Defendants whether directly or indirectly owned, beneficially or
15 otherwise by, or in the possession, custody or control of Receivership Defendants or to which
16 Receivership Defendants have any right of possession, custody or control, beneficially or otherwise,
17 irrespective of whosoever holds such assets, including all such assets which Receivership
18 Defendants carry or maintain, or which may be received during the pendency of this Receivership, in
19 order to obtain an adequate accounting of Receivership Defendants' assets and liabilities and to
20 secure a marshalling of said assets; and

21 3. Upon his appointment and entering upon his duties, the Receiver shall take and file an
22 oath with the Court and is authorized, empowered and directed: to marshal, collect, review,
23 observe, discover and take charge of all the real and personal property, premises and other assets of,
24 or in the possession of or under the control of Receivership Defendants, beneficially or otherwise, or
25 wherever else situated, including, but not limited to the following premises:

- 26 1) AUTHOTECQ SYSTEMS, INC. – 3399 E. 19th Street, Signal Hill, California 90755;
27 2) JAMES A. LITZINGER – 3399 E. 19th Street, Signal Hill, California 90755;
9963rd Place, Long Beach, California 90803;
28 3) PAYSENTINEL, LLC – 3399 E. 19th Street, Signal Hill, California 90755;
1113 W. Ave., M-4, Ste. D, Palmdale, California 93551;

- 1 4) MICHAEL R. DIAZ – 7885 Pipit Place, San Diego, California 92129;
2 7910 Ivanhoe Avenue, #520, La Jolla, California 92037;
3 222 J. Street, #424, San Diego, California 92101;
- 4 5) WALLACE E. THOMAS – 1050 Vallecito Road, Carpinteria, California 93013;
- 5 6) SHADOWWORKS CORP., INC. – 345N. Maple Drive, Ste. 281, Beverly Hills, CA;
- 6 7) GREGORY T. CHAPMAN – 3399 E. 19th Street, Signal Hill, California 90755;
7 345 N. Maple Drive, Ste. 281, Beverly Hills, California; and

8 all accounts or safe deposit boxes of Receivership Defendants in financial depository or other
9 institutions, whether or not anyone else is named on any such accounts or safe deposit boxes,
10 including, but not limited to the following: (a) City National Bank; (b) Bank of America; (c)
11 Citibank; (d) Centennial Bank; (e) JP Morgan Chase Bank; and (f) Citibank West, and any other
12 property in which Receivership Defendants have an interest, regardless by whom it may be held,
13 beneficially or otherwise, on an ongoing and continual basis pursuant to this Court's Order. No
14 other signatory, including spouses or relatives of Receivership Defendants, on any bank account,
15 investment account or safe deposit box may withdraw or cause to be withdrawn any amount from the
16 accounts frozen by this or any related order, except by order from the Court. Periodically, as set
17 forth in subparagraphs (8) and (9), below, the Receiver shall report to this Court the results of the
18 review, observation, discovery and abstracts resulting from the activities of the Receiver as ordered
19 by this Court, and specifically on any commingling of funds, unauthorized loans or other disposition
20 of property of whatever description between any and each of the Receivership Defendants herein
21 and/or any person, corporation, entity, sole proprietorship, affiliate, association of whatever type or
22 structure, whether or not said entities are or are not Defendants in this action;

23 4. To employ the law firm of Pasternak, Pasternak & Patton, A Law Corporation (in
24 which the Receiver and his wife are shareholders) to assist, represent and advise the Receiver in
25 carrying out his responsibilities as this Court's Receiver. The Receiver may employ such other
26 attorneys upon
27 further order of this Court to assist the Receiver in the performance of his duties and responsibilities,
28 such employment to be approved by the Court;

5. To employ other such persons, including accountants, security personnel, computer
consultants, investigators, clerical and professional personnel, and the Receiver's in-house staff and
counsel, to perform such tasks as the Receiver may reasonably believe to be necessary to aid the

1 Receiver in the performance of his duties and responsibilities, without further order of the Court.

2 6. The Receiver shall further be entitled to engage a locksmith for the purposes of gaining
3 entry to any property or assets included in this Receivership estate and through any security system,
4 in order to obtain any documents or property to which the Receiver is entitled pursuant to this Order,
5 as well as giving any notices which may be required in performing the Receiver's duties. The
6 Receiver may either have the locks changed or have a key created that will work for the locks.

7 7. To file, within thirty (30) days of his qualification and appointment hereunder, an initial
8 inventory of all property, which he shall then have reviewed, observed and/or discovered pursuant to
9 this Court's order. Additionally, the Receiver is to file one or more supplemental inventories when
10 and if he shall subsequently come into knowledge of additional items appropriate to the inventory.

11 8. To undertake an independent review into the affairs and transactions of Receivership
12 Defendants and to file with this Court, within 120 days, and every six months thereafter, a report
13 detailing the Receiver's findings of his review of the condition of Receivership Defendants, other
14 affairs and transactions of Receivership Defendants, reflecting the existence of any liabilities, both
15 those claimed by others to exist and those to which the Receiver believes to be the legal obligations
16 of each of said Receivership Defendants, including a review of any possible conflicts of interest and
17 any further information the Receiver believes may assist in an equitable disposition of this matter,
18 and to include in the report the Receiver's opinion regarding the ability of said Receivership
19 Defendants to meet their obligations as they come due, and the Receiver's recommendation
20 regarding the necessity for, and the best method of handling, preserving, or disposing of said assets;

21 9. To invest funds of the Receivership estate in any interest-bearing accounts in federally
22 insured financial institutions, without further order of the Court; and to be the signatory on all bank
23 accounts of Receivership Defendants, and each of them, including, but not limited to: (a) City
24 National Bank; (b) Bank of America; (c) Citibank; (d) Centennial Bank; (e) JP Morgan Chase Bank;
25 and (f) Citibank West; and any depository or investment account in any financial institution that the
26 Receiver may discover at a later date containing investor funds, upon presentation of this Order.

27 10. To bring such proceedings as are necessary to enforce the provisions hereof, including
28 issuance of subpoenas to compel testimony or production of documents as to the existence or

1 location of assets or any other information pertinent to the business, financial affairs, and other
2 transactions of Receivership Defendants;

3 11. To bring such proceedings as are necessary to modify the provisions hereof or to seek
4 instructions from this Court, as the Receiver deems appropriate;

5 12. To make such payments and disbursements from the funds so taken into custody,
6 control and possession of the Receiver or otherwise received by him, as may be necessary and
7 advisable in discharging his duties as Receiver, without further order of the Court, including, without
8 limitation, the payment of interim compensation to the Receiver and persons or entities under (5) and
9 (6) above, subject to the provisions of paragraphs (25) and (26) below. The Receiver and his office
10 personnel shall be paid their usual hourly billable rates, which is currently \$550 per hour for the
11 Receiver, \$225 per hour for the Receiver's Receivership Administrators, and \$50-\$175 for the other
12 non-attorney personnel in the Receiver's office;

13 13. To carry on any lawful business activity of the entities and persons or entities in
14 Receivership, to preserve investors' assets and to foreclose and/or actively seek and negotiate with
15 potential buyers, assignees or other parties who may be interested in acquiring, purchasing, leasing,
16 subleasing or renting real or personal property of Receivership Defendants and to sell, lease,
17 sublease or rent such real or personal property of Receivership Defendants, subject to Court
18 approval;

19 14. To institute, prosecute, defend, compromise, intervene in and become a party, either in
20 his own name or in the name of Receivership Defendants, to such suits, actions or proceedings as
21 may be necessary for the protection, maintenance, recoupment or preservation of the assets or
22 property of Receivership Defendants, or in his custody, in his discretion, without further order of the
23 Court; and

24 15. To divert, take possession of and secure all mail of Receivership Defendants, in order
25 to screen such mail, retaining so much as relates to the business of Receivership Defendants, and
26 forwarding to the individual or other appropriate addresses so much as is not, in the Receiver's
27 opinion, appropriate for retention by him, and to effect a change in the rights to use any and all post
28 office boxes and other mail collection facilities used by Receivership Defendants.

1 16. Upon the Receiver's appointment, the Receiver shall undertake an immediate review of
2 all readily available assets of the Receivership Defendants in order to determine the economic
3 viability of a Receivership. Upon such review, if the Receiver determines that sufficient assets are
4 readily available to fund the Receivership, then the Receiver shall file such finding with the Court,
5 and the Receivership shall continue until further order of the Court. If upon initial review the
6 Receiver determines that readily available assets are insufficient to maintain the Receivership, then
7 the Receiver shall so notify the Court, and may request that the Court dissolve the Receivership, or
8 modify the duties and responsibilities of the Receiver, and Plaintiff will not oppose such request, it
9 being understood that the Receiver and professionals employed by the Receiver shall not be
10 expected to perform services unless readily available assets exist to pay the expenses of the
11 Receivership.

12 17. The Receiver shall cooperate fully with the California Department of Corporations, and
13 any other state and federal law enforcement or other regulatory agencies having jurisdiction over
14 matters relating to the conduct or business of Receivership Defendants so as not to impair the ability
15 of said state and federal law enforcement regulatory agencies to perform their duly authorized
16 investigative and enforcement duties.

17 18. Any state or federal law enforcement or regulatory agency having jurisdiction over
18 matters relating to Receivership Defendants' business shall be permitted to review, without
19 exception, all reports of the Receiver and all books, records, and files of Receivership Defendants at
20 any time during normal business hours, with reasonable notice, and to make any abstracts or copies
21 of said documents as it desires and at its own expense, provided that nothing herein shall waive or
22 abrogate any applicable attorney-client or other legally recognized privilege.

23 19. The Receiver's powers shall be in addition to, and not by way of limitation of, the
24 powers described in CC Sections 25530(a) and 29540, and Government Code Section 13975.1 and
25 Code of Civil Procedure Sections 564, et seq.

26 20. The Receiver shall be vested with, and is authorized, directed and empowered to
27 exercise, all of the power of Receivership Defendants, their officers, directors, shareholders, general
28 partners or persons who exercise similar powers and perform similar duties; and the Receivership

1 Defendants, their officers, agents, employees, representatives, directors, successors in interest,
2 attorneys in fact and all persons acting in concert or participating with them, are hereby divested of,
3 restrained and barred from exercising any of the powers vested herein in the Receiver.

4 21. Defendants, including, but not limited to the Receivership Defendants, their officers,
5 directors, shareholders, agents, servants, employees, attorneys, salespersons, successors, assigns,
6 subsidiaries, affiliates, and other persons or entities under their control and all persons or entities in
7 active concert or participation with Defendants, and all persons owing a duty of disclosure to
8 Defendants, and each of them, shall cooperate with the Receiver in his investigation and shall
9 immediately turn over to the Receiver all documentary and electronic records, computers and
10 passwords, and/or access codes for all computers and any security systems, documentation, charts
11 and/or descriptive material of all funds, assets, property owned beneficially or otherwise, and all
12 other assets of Receivership Defendants wherever situated, and all books and records of accounts,
13 title documents and other documents in the possession or under their control, which relate, directly
14 or indirectly, to assets of Receivership Defendants. The Receivership Defendants, and each of them,
15 on receipt of this Order shall provide the Receiver with all social security and tax identification
16 numbers utilized by them in connection with the operation of any property included in the
17 Receivership estate. The Receiver shall also be entitled to utilize such social security and tax
18 identification numbers during his operation of the Receivership estate.

19 22. Except by leave of this Court and during the pendency of this Receivership, all
20 claimants, creditors, lessors and other persons seeking relief of any kind, in law or in equity, from
21 Receivership Defendants, and all others acting on behalf of any such persons, including sheriffs,
22 marshals, servants, agents attorneys and employees, are restrained and enjoined, directly or
23 indirectly, from:

- 24 a. Commencing, prosecuting, continuing or enforcing any suit or proceeding, except by
25 motion before this Court;
- 26 b. Executing or issuing or causing the execution or issuance of any court
27 attachment, subpoena, replevin, execution or other process for the purpose of impounding
28 or taking possession of or interfering with or creating or enforcing a lien upon any

1 property owned or in the possession of Receivership Defendants, their subsidiaries or
2 affiliates, or the Receiver appointed herein, wherever situated;

- 3 c. Commencing or continuing judicial or non-judicial foreclosure proceedings or
4 proceedings for the appointment of a Receiver for any property owned or claimed by
5 Receivership Defendants in this action;
- 6 d. Creating, perfecting, or enforcing any lien or encumbrance against any real or personal
7 property;
- 8 e. Accelerating the due date of any obligation or claimed obligation;
- 9 f. Exercising any right of set-off;
- 10 g. Taking, retaining, retaking or attempting to retake possession of any real or personal
11 property;
- 12 h. Withholding or diverting any rent or other obligation; and
- 13 i. Doing any act or thing whatsoever to interfere with the possession of or management by
14 the Receiver herein and of the property and assets owned, controlled or in the possession
15 of Receivership Defendants or to, in any way, interfere with the Receiver or to interfere
16 in any manner during the pendency of this proceeding with the exclusive jurisdiction of
17 this Court over Defendants.

18 23. Any and all provisions of any agreement entered into by and between any third party and
19 Receivership Defendants, including, by way of illustration, but not limited to, the following types of
20 agreements (as well as any amendments or modifications thereto): mortgages, partnership
21 agreements, financial guarantee bonds, joint venture agreements, promissory notes, remarketing
22 agreements, loan agreements, security agreements, indemnification agreements, subrogation
23 agreements, subordination agreements, deeds of trust, pledge agreements, assignments of rents and
24 other collateral, financing statements, letters of credit, leases, insurance policies, guarantees, escrow
25 agreements, management agreements, real estate brokerage and rental agreements, servicing
26 agreements, consulting agreements, easement agreements, license agreements, franchise agreements,
27 construction contracts, or employment contracts that provide in any manner that the selection,
28 appointment, or retention of a receiver or trustee by any court, or the entry of an order such as

1 hereby made, shall be deemed to be, or otherwise operate as a breach, violation, event of default,
2 termination, event of dissolution, event of acceleration, insolvency, bankruptcy, or liquidation, shall
3 be stayed, and the assertion of any and all rights, remedies relating thereto shall also be stayed and
4 barred, except as otherwise ordered by this Court, and this Court shall retain jurisdiction over any
5 causes of action that have arisen or may otherwise arise under any such provision.

6 24. The Receiver, the Receiver's employees and agents, and professionals employed by the
7 Receiver, are entitled to monthly payment of interim compensation for services rendered, at their
8 normal hourly rates, and monthly reimbursement for all expenses incurred by them on behalf of the
9 Receivership estate, and the Receiver is authorized to make such payments without further order of
10 the Court. Within 10 days after such monthly payments, the Receiver shall serve written notice upon
11 the counsel of record for Receivership Defendants of the amount paid to each payee, with an
12 itemization of the services rendered or expenses incurred.

13 25. Interim monthly fees paid shall be subject to review and approval by this Court, on a
14 quarterly basis. This Court retains jurisdiction to award a greater or lesser amount as the full, fair
15 and final value of such services. In the event that extraordinary services are performed by the
16 Receiver, or any professionals employed by the Receiver, the Court may approve extraordinary
17 compensation to such persons.

18 26. Neither Plaintiff, the Commissioner, the State of California, the Department of
19 Corporations, nor any officer, employee or agent of the Department, shall have any liability for the
20 payment, at any time, for any such fees or expenses in connection with said Receivership. Any and
21 all expenses of the operation of the Receivership estate are the risk of the Receivership, and not the
22 personal obligation of the Receiver.

23 27. Receivership Defendants and their officers, agents, servants, employees and attorneys,
24 and any other persons who are in custody, possession or control of any assets, collateral, books,
25 records, computers, papers or other property of Receivership Defendants shall forthwith give access
26 to and control of such property to the Receiver.

27 28. No officer, agent, servant, employee, or attorney of Authotecq, Paysentinel, Shadowworks,
28 Litzinger, Diaz, Thomas, and or their subsidiaries or affiliates, shall take any action or purport to

1 take any action, in the name of or on behalf of any Receivership Defendant or any of their
2 subsidiaries and affiliates, without the written consent of the Receiver or order of this Court.

3 29. Except by leave of this Court, during the pendency of this Receivership, all clients,
4 investors, trust beneficiaries, note holders, creditors, claimants, lessors, and all other persons or
5 entities seeking relief of any kind, in law or equity, from Defendants and all persons acting on behalf
6 of any such investor, trust beneficiary, note holder, creditor, claimant, lessor, or other person,
7 including sheriffs, marshals, servants, agents, employees, and attorneys, are hereby restrained and
8 enjoined from, directly or indirectly with respect to Receivership Defendants:

9 A. Using self-help or executing or issuing or causing the execution or issuance of
10 any court attachment, subpoena, replevin, execution or other process for the purpose of impounding
11 or taking possession of or interfering with or creating or enforcing a lien upon any property or
12 property interest owned by or in the possession of Receivership Defendants and any partnerships or
13 joint ventures for which Receivership Defendants are the Managing General Partner, wherever
14 situated; and

15 B. Doing any act or thing whatsoever to interfere with taking control, possession
16 or management by the Receiver appointed hereunder of the property and assets owned, controlled or
17 in the possession of Receivership Defendants or in any way to interfere with or harass the temporary
18 Receiver or to interfere in any manner with the discharge of his or her duties and responsibilities
19 hereunder.

20 30. Receivership Defendants and their subsidiaries and affiliates and their officers, agents,
21 servants, employees and attorneys, shall cooperate with and assist the Receiver and shall take no
22 action, directly or indirectly, to hinder, obstruct, or otherwise interfere with the Receiver in the
23 conduct of his duties or to interfere in any manner, directly or indirectly, with the custody,
24 possession, management, or control by the Receiver of the funds, assets, collateral, premises, and
25 chooses in action described above.

26 31. Each Defendant named herein shall, within ten (10) days of the entry of this Order,
27 prepare and deliver to the Receiver a detailed and complete schedule of all of his personal assets,
28 including a description of the source of funds for the purchase of such assets. For purposes of this

1 Order, the term “assets” shall include income/compensation or right of income/compensation from
2 any source, and any financial or controlling interest in any business entity, including, but not limited
3 to, a partnership, trust, corporation, or limited liability company. Such accounting shall be filed with
4 the Court and a copy shall be delivered to the Receiver. After completion of the accounting, each
5 Defendant named herein shall produce to the Receiver at a time agreeable to the Receiver, all books,
6 records and other documents supporting or underlying the accountings.

7 32. Within ten (10) days from the date of this Order, all Receivership Defendants shall
8 transfer to a trust account fund of the Receiver all assets, funds, and other property that is presently
9 held in foreign locations in the name of any Receivership Defendant or for the benefit of or under the
10 control of any of them, or over which any of them exercise actual investment or other authority,
11 including signatory authority.

12 33. Receiver shall determine upon taking possession of the Property/estate whether in the
13 Receiver’s judgment there is sufficient insurance coverage. With respect to any insurance coverage
14 in existence or obtained, the Receiver shall be named as an additional insured on the policies for the
15 period that the Receiver shall be in possession of the Property/estate. If sufficient insurance
16 coverage does not exist, the Receiver shall immediately notify the parties to this lawsuit and shall
17 have thirty (30) calendar days to procure sufficient all-risk and liability insurance on the Property
18 (including earthquake and flood insurance) provided, however, that if the Receiver does not have
19 sufficient funds to do so, the Receiver shall seek instructions from the Court with regard to whether
20 insurance shall be obtained and how it is to be paid for. If consistent with existing law, the Receiver
21 shall not be responsible for claims arising from the lack of procurement or inability to obtain
22 insurance.

23 **V. FREEZING OF ASSETS**

24 1. For a freeze to be placed on all funds, negotiable instruments and/or assets held in any
25 bank, savings or checking, brokerage or other accounts, certificates of deposit, safe deposit box, or
26 otherwise, without limitation, in the name of Authotecq, Paysentinel, LLC (“Paysentinel”),
27 Shadowworks Corp., Inc., (“Shadowworks”), Litzinger, Diaz, as an individual and d.b.a. Mike Diaz
28 Enterprises and Pandey Enterprise (“Diaz”), Wallace E. Thomas, a.k.a. Wally Thomas, as an

1 individual and d.b.a. Wally World Entertainment (“Thomas”), and Gregory T. Chapman
2 (“Chapman”), and Does 1 through 50, inclusive, or for the benefit of Defendants directly or
3 indirectly, and each of them, including, but not limited to: (a) City National Bank; (b) Bank of
4 America; (c) Citibank; (d) Centennial Bank; (e) JP Morgan Chase Bank; and (f) Citibank West, and
5 any depository or investment account in any financial institution that the Receiver may discover at a
6 later date containing investor funds, upon presentation of this Order.

7 2. The banks and financial institutions listed above shall not notify the account holders of
8 this Order, unless further ordered to do so by this Court.

9 **VI. OTHER RELIEF:**

10 1. For an Order that this Court will retain jurisdiction of this action in order to implement
11 and carry out the terms of all orders and decrees that may be entered herein or to entertain any
12 suitable application or motion by Plaintiff for additional relief within the jurisdiction of this Court.

13 2. For such other and further relief as the Court deems necessary and proper.

14 Dated: March 23, 2012
15 Los Angeles, California

Respectfully submitted,

16 JAN LYNN OWEN
17 California Corporations Commissioner

18 By: _____
19 MICHELLE LIPTON
20 Senior Corporations Counsel
21 Attorney for Plaintiff