

NO SUMMONS ISSUED
NO ANSWERS FILED

State of California - Department of Corporations

1 WILLIAM P. WOOD
California Corporations Commissioner
2 WAYNE STRUMPFER
Acting Deputy Commissioner
3 ALAN WEINGER
Supervising Counsel
4 KIRK E. WALLACE (SBN 129953)
Corporations Counsel
5 71 Stevenson Street, Suite 2100
San Francisco, CA 94105
6 Telephone: (415) 972-8546
Attorneys for the State of California,
7 Department of Corporations

**ELECTRONICALLY
FILED**
SUPERIOR COURT OF CALIFORNIA
COUNTY OF ORANGE
CIVIL COMPLEX CENTER

Jan 27 2005

ALAN SLATER, Clerk of the Court
by N. PERAZA

8 SUPERIOR COURT OF THE STATE OF CALIFORNIA

9 FOR THE COUNTY OF ORANGE

10 THE PEOPLE OF THE STATE OF
11 CALIFORNIA, by and through the
12 CALIFORNIA CORPORATIONS
COMMISSIONER,

13 Plaintiff

14 v.

15 RONALD EDWARD REISWIG,
16 JANET SUE REISWIG,
FEP INC.,
17 FIDELITY INSURED DEPOSITS, INC.,
18 RICK ANDREW LEON,
PAUL GREWAL, and
DONALD ANTHONY FRACCHIA,
19 US CD SERVICES CORPORATION,
LARRY ALLEN PHILLIPS,
20 DASH INSURANCE SERVICES
INCORPORATED AND DOES 1 through 100;

21 Defendants.

Case No.: 05CC00010

FIRST AMENDED COMPLAINT FOR
INJUNCTION, ANCILLARY RELIEF AND
CIVIL PENALTIES (Violation of Corporate
Securities Law)

CORPORATIONS CODE SECTION 25110
(Qualification Requirement)

CORPORATIONS CODE SECTION 25210
(Unlicensed Broker-Dealer Activity)

CORPORATIONS CODE SECTION 25401
(Fraud in Connection with the Offer and Sale
of Securities)

CORPORATIONS CODE SECTION 25532
(Violation of an Order of the Commissioner)

Judge: Dunning
Dept.: CX104

22
23 THE PEOPLE OF THE STATE OF CALIFORNIA, by and through William P. Wood,
24 California Corporations Commissioner, allege as follows on information and belief:

25 **JURISDICTION AND VENUE**

26 1. The California Corporations Commissioner ("Commissioner") brings this action to enjoin
27 the defendants from violating the Corporate Securities Law of 1968 (California Corporations Code
28 section 25000, et seq.), ("CSL"), and to request necessary ancillary relief and civil penalties.

1 all times herein mentioned, he was also authorized to transact insurance business on behalf of FEP,
2 Inc.

3 10. Donald Anthony Fracchia (“Fracchia”) is an individual licensed by the Department of
4 Insurance as a life agent, with the business address at 364 Muirfield Drive, Palm Desert, California
5 92211. At all times herein mentioned, he was also authorized to transact insurance business on
6 behalf of FEP, Inc.

7 11. US CD Services Corporation (“US CD”) is a California Corporation that was filed on
8 August 6, 2003. Its business address is 2020 South Juniper Street, Escondido, California 92025.

9 12. Larry Allen Phillips is an individual licensed by the Department of Insurance as a life
10 agent whose business address is 2020 South Juniper Street, Escondido, California 92025. At all
11 times herein mentioned, he was the president of US CD Services Corporation and is also authorized
12 to transact insurance business on behalf of FEP, Inc., and Dash Insurance Services, Incorporated.

13 13. Dash Insurance Services Incorporated, is a California Corporation that was filed on
14 October 23, 2002. Its business address is 1026 El Norte Parkway, Suite 195, Escondido, California
15 92026. Its registered agent for service is Larry Allen Phillips.

16 14. Defendants DOES 1 through 100 are persons, corporations, partnerships, limited liability
17 companies, or other entities that have done acts alleged in this Complaint. Plaintiff alleges that DOE
18 defendants, at various times mentioned herein, have acted and are continuing to act in concert with
19 the defendants named herein; that each DOE defendant participated in the alleged acts and
20 transactions; and that each DOE defendant is responsible therefore. Their true names and capacities,
21 whether individual, corporate, associate or otherwise, are unknown to plaintiff and are named herein
22 pursuant to section 474 of the Code of Civil Procedure as DOES 1 through 100. Plaintiff will amend
23 this Complaint to show their true names and capacities when they have been determined.

24 15. Whenever any allegation is made in this Complaint to “Defendants” doing any act, the
25 allegation shall mean the act of each defendant and each fictitiously named defendant, acting
26 individually, jointly and severally, and in conspiracy to violate the CSL. Each defendant herein
27 alleged to have committed any act, did so pursuant to and in furtherance of a common plan, scheme
28 and conspiracy and as an agent for each and every co-defendant.

1 Inc. Then a so-called “bonus check” is issued to the person for an amount representing the difference
2 between the actual yield of the legitimate FDIC-insured CD and the false rate advertised. The
3 transactions are sometimes evidenced by a one-page “Bonus Application” which is a form to be filled
4 out by the person seeking the CD. In the “Bonus Application” the application represents that:
5 “Upon applicant’s qualification, Fidelity Insured Deposits, Inc., (the Company) hereby agrees to pay
6 to the below-identified applicant a Bonus in the amount stated herein within 7 working days of
7 below-identified due date.”

8 21. Fidelity Insured Deposits, Inc. does not have and never has had any source of business
9 revenue. The bonus money it pays out is all provided to it by FEP, Inc.

10 22. The investment that is being offered by means of the advertisements in the name of US
11 CD and Fidelity Insured Deposits, Inc., consisting of an FDIC-insured CD plus a “bonus”, constitutes
12 a security in the form of an investment contract. The Department of Corporations has not issued a
13 permit or other form of qualification authorizing any person to offer and sell these securities in this
14 State.

15 23. The Department issued a Desist and Refrain Order against Ronald Edward Reiswig, Janet
16 Sue Reiswig, FEP, Inc., doing business as Family Estate Insurance Services, Fidelity Insured
17 Deposits, Inc., Rick Andrew Leon, Paul Grewal and Donald Anthony Fracchia on July 20, 2004. The
18 Desist And Refrain Order prohibited the further offer or sale in California of any security, including,
19 but not limited to, those in the form of investment contracts consisting of FDIC-insured CDs which
20 are bundled with “bonus” payments by Fidelity Insured Deposits, Inc., or any other security, in
21 violation of the qualification requirement in CSL section 25110. In spite of the Desist and Refrain
22 Order, defendants, and each of them, continue to place advertisements in newspapers offering the
23 same type of investment CD with the “bonus” payment, as described herein.

24 24. Ronald Edward Reiswig, Janet Sue Reiswig, and Larry Phillips, individually and while
25 doing business as US CD, FEP, Inc., Fidelity Insured Deposits, Inc. and Dash Insurance Services
26 Corporation, Leon, Grewal, Fracchia and all Does, are engaged in the offer and sale of securities in
27 the form of investment contracts consisting of FDIC-insured CDs which are bundled with “bonus”
28 payments. Those securities are being offered by unlicensed persons in transactions that have not

1 been qualified under the California Corporate Securities Law of 1968, in violation of section 25110
2 of the Corporations Code.

3 25. Ronald Edward Reiswig, Janet Sue Reiswig, and Larry Phillips, individually and while
4 doing business as US CD, FEP, Inc., Fidelity Insured Deposits, Inc. and Dash Insurance Services
5 Corporation, Leon, Grewal, Fracchia and Does 1- 100, by offering and selling securities in the form
6 of investment contracts consisting of FDIC-insured CDs which are bundled with “bonus” payments,
7 have effected and are effecting transactions in securities as broker-dealers without having first
8 applied for and secured from the Commissioner a certificate authorizing them to do so, in violation of
9 section 25210 of the Corporate Securities Law of 1968.

10 26. Ronald Edward Reiswig, Janet Sue Reiswig, and Larry Phillips, individually and while
11 doing business as US CD, FEP, Inc., Fidelity Insured Deposits, Inc. and Dash Insurance Services
12 Corporation Leon, Grewal, Fracchia and Does 1- 100 are engaged in offering and selling the
13 investment contracts by means of written and oral communications which include untrue statements
14 of material fact and which omit to state material facts necessary in order to make the statements
15 made, in the light of the circumstances under which they were made, not misleading, in violation of
16 section 25401 of the Corporations Code.

17 **FIRST CAUSE OF ACTION**

18 **OFFER AND SALE OF UNQUALIFIED, NON-EXEMPT SECURITIES IN VIOLATION OF**
19 **CSL SECTION 25110 (ALL DEFENDANTS)**

20 27. Plaintiff incorporates by reference paragraphs 1 through 26 of this Complaint as though
21 fully set forth herein.

22 28. CSL section 25110 provides in relevant part:

23 “It is unlawful for any person to offer or sell in this state any security in an issuer
24 transaction . . . whether or not by or through underwriters . . . unless such sale has
25 been qualified . . . or unless such security or transaction is exempted or not subject to
26 qualification under Chapter 1 (commencing with Section 25100)...”

27 Corporations Code §25535 states:
28

1 “(a) Any person who violates any provision of this law, or who violates any rule or
2 order under this law, shall be liable for a civil penalty not to exceed twenty-five
3 thousand dollars (\$25,000) for each violation, which shall be assessed and recovered
4 in a civil action brought in the name of the people of the State of California by the
5 commissioner in any court of competent jurisdiction.”

6 29. The investment that is being offered by defendants by means of the advertisements in the
7 names of US CD and Fidelity Insured Deposits, Inc., consisting of an FDIC-insured CD plus a
8 “bonus”, constitutes a security in the form of an investment contract.

9 30. The Defendants offer for sale and sell the securities within the State of California within
10 the meaning of CSL sections 25008 and 25017 by making offers within California or by having
11 money paid for those securities mailed, wired or otherwise sent to or received by Defendants while
12 geographically within California.

13 31. The securities referred to herein are issued, offered and sold without Defendants
14 obtaining qualification from the Department.

15 32. The securities referred to herein are not exempt from the requirement of qualification.

16 33. In selling these securities without qualification, Defendants offer and sell or substantially
17 assist the offer and sale of such unqualified, non-exempt securities, in violation of CSL section
18 25110. Since defendants have blatantly continued to offer these investments, unless enjoined by this
19 Court, it is likely that Defendants will continue to violate CSL section 25110.

20 34. Defendants’ pattern of conduct, as set forth above, demonstrates the necessity for
21 granting preliminary and permanent injunctive and ancillary relief restraining such and similar acts in
22 violation of §25110, and providing restitution or disgorgement to investors, as well as imposition of
23 appropriate civil penalties under §25535.

24 **SECOND CAUSE OF ACTION**

25 **MISREPRESENTATIONS OR OMISSIONS OF MATERIAL FACTS IN THE OFFER AND**
26 **SALE OF SECURITIES IN VIOLATION OF CSL SECTION 25401**

27 **(ALL DEFENDANTS)**
28

1 35. Plaintiff realleges and incorporates by reference paragraphs 1 through 34 of this
2 Complaint as though fully set forth herein.

3 36. CSL section 25401 states as follows:

4 “It is unlawful for any person to offer or sell a security in this state or buy or offer to
5 buy a security in this state by means of any written or oral communication which
6 includes an untrue statement of a material fact or omits to state a material fact
7 necessary in order to make the statements made, in the light of the circumstances
8 under which they were made, not misleading.”

9 37. These securities are marketed to the public by the Defendants as described herein. The
10 Defendants place advertisements and provide prospective investors with written offering materials
11 describing the investment opportunity and the issuer.

12 38. In offering and selling the securities, Defendants make, or substantially assist the making
13 of, specific untrue statements and/or misrepresentations concerning material facts to prospective
14 investors. In offering and selling the securities referred to herein, Defendants also omit to state, or
15 substantially assist the omission of, material facts to prospective investors. The misrepresentations or
16 omissions include, but are not limited to, the following:

17 A. The advertisements by US CD and Fidelity Insured Deposits, Inc. and the oral
18 communications made in connection with those advertisements represent that they are FDIC-insured
19 institutions or that they are affiliated with an FDIC-insured institution when in fact they are not.

20 B. Defendants represent that the yield rates appearing in the advertisements of US CD and
21 Fidelity Insured Deposits, Inc. are FDIC-insured when they are not.

22 C. Defendants omit the fact that the CD offer is a mere ruse to sell annuities and that the
23 “bonus” money which comprises a substantial portion of the promised CD yield is being paid by an
24 insurance agency.

25 D. Investors purchasing after July 20, 2004 were not advised of the Department’s Desist and
26 Refrain Order described in paragraph 20 herein prohibiting the sale of such securities.

27
28

1 E. Some investors have been led to believe by the ads and the salesmen that they were
2 purchasing FDIC insured CD's with maturity dates of 1, 2, or 5 years, when they had, in fact,
3 purchased non-FDIC insured annuities with maturity dates of 10 and 15 years.

4 39. The misstatements and omissions referred to herein are of material facts within the
5 meaning of CSL section 25401 because they concern matters a reasonable investor would consider in
6 deciding whether to invest.

7 40. Defendants' misrepresentations and omissions are in connection with the offer and sale of
8 securities.

9 41. Defendant's misrepresentations and omissions are in violation of CSL section 25401.
10 Defendants have continued to offer these securities based on the above-mentioned misrepresentations
11 and omissions in spite of the Desist and Refrain Order dated July 20, 2004 and unless enjoined,
12 Defendants will continue to violate CSL section 25401.

13 42. Defendants' pattern of conduct, as set forth above, demonstrates the necessity for granting
14 preliminary and permanent injunctive and ancillary relief restraining such and similar acts in
15 violation of §25401, and providing restitution or disgorgement to investors, as well as imposition of
16 appropriate civil penalties under §25535.

17 **THIRD CAUSE OF ACTION**

18 **UNLICENSED BROKER-DEALER ACTIVITY IN VIOLATION OF CSL SECTION 25210**

19 **(ALL DEFENDANTS)**

20 43. Plaintiff realleges and incorporates herein by reference paragraphs 1 through 42, inclusive,
21 as though set forth at length herein.

22 44. Corporations Code § 25210(a) sets forth the securities broker-dealer licensure requirement
23 as follows:

24 "Unless exempted under the provisions of Chapter 1 (commencing with Section
25 25200) of this part, no broker-dealer shall effect any transaction in, or induce or
26 attempt to induce the purchase or sale of any security in this state unless the broker-
27 dealer has first applied for and secured from the commissioner a certificate, then in
28 effect, authorizing that person to act in that capacity."

1
2 45. Defendants, Ronald Edward Reiswig, Janet Sue Reiswig, and Larry Phillips, individually
3 and while doing business as US CD, FEP, Inc., Fidelity Insured Deposits, Inc. and Dash Insurance
4 Services Corporation, Leon, Grewal, Fracchia and all Doe defendants, are not licensed to offer or sell
5 securities by the Corporations Commissioner or any other similar licensing entity. Defendants, and
6 each of them, unlawfully engaged in the business of effecting transactions in the State of California
7 by acting in such capacity without securing from the Corporations Commissioner or any similar
8 licensing entity an authorizing broker-dealer certificate. Defendants' unlawful acts include, but are
9 not limited to, engaging in a course of business of offering and selling unqualified and nonexempt
10 securities in the form of an FDIC-insured CD plus a "bonus" funded by FEP, Inc.

11 46. Defendants' pattern of conduct, as set forth above, demonstrates the necessity for
12 granting preliminary and permanent injunctive and ancillary relief restraining such and similar acts in
13 violation of §25210, and providing restitution or disgorgement to investors, as well as imposition of
14 appropriate civil penalties under §25535.

15 **FOURTH CAUSE OF ACTION**
16 **VIOLATION OF AN ORDER OF THE COMMISSIONER**
17 **CSL SECTION 25532**
18 **(ALL DEFENDANTS)**

19 47. Plaintiff realleges and incorporates by reference paragraphs 1 through 46 of this Complaint
20 as though fully set forth herein.

21 48. Corporations Code § 25532 authorizes the Commissioner of the Department of
22 Corporations to issue orders directing the recipients to desist and refrain from the further offer and
23 sale of securities when, in the opinion of the Commissioner, they have been offered and sold 1) in
24 violation of the qualification requirement in CSL section 25110; 2) by persons who are not licensed
25 broker dealers in violation of CSL section 25210; or 3) by means of misrepresentations or omissions
26 of material fact in violation of CSL section 25401. Corporations Code § 25530 authorizes entry of
27
28

1 injunctive and ancillary relief when "any person has engaged" "in any practice constituting a
2 violation of any provision of this division or any rule or order hereunder".
3

4 49. The Department issued a Desist and Refrain Order against Ronald Edward Reiswig, Janet
5 Sue Reiswig, FEP, Inc., doing business as Family Estate Insurance Services, Fidelity Insured
6 Deposits, Inc., Rick Andrew Leon, Paul Grewal and Donald Anthony Fracchia on July 20, 2004. The
7 Desist and Refrain Order prohibited 1) the further offer or sale in California of any security,
8 including, but not limited to, those in the form of investment contracts consisting of FDIC-insured
9 CDs which are bundled with "bonus" payments by Fidelity Insured Deposits, Inc., in violation of the
10 qualification requirement in CSL section 25110; 2) the offering or selling or buying or offering to
11 buy any security, including, but not limited to, those in the form of investment contracts consisting of
12 FDIC-insured CDs which are bundled with "bonus" payments by Fidelity Insured Deposits, Inc., in
13 the State of California, by means of any written or oral communication which includes an untrue
14 statement of a material fact or omits to state a material fact necessary in order to make the statements
15 made, in the light of the circumstances under which they were made, not misleading, in violation of
16 CSL section 25401; and 3) effecting any transaction in, or inducing or attempting to induce the
17 purchase or sale of, any security, including, but not limited to, those in the form of investment
18 contracts consisting of FDIC-insured CDs which are bundled with "bonus" payments by Fidelity
19 Insured Deposits, Inc., in this state, by Leon, Grewal and Fracchia, unless and until they have applied
20 for and secured from the Commissioner a certificate authorizing them to act in that capacity, in
21 violation of CSL section 25210 (a).

22 50. In spite of the Desist and Refrain Order, defendants, and each of them, continue to place
23 advertisements in newspapers offering the same type of investment CD with the "bonus" payment, as
24 described herein and continue to sell those investments to persons who respond to the ads in a manner
25 that is fraudulent and misleading, and without obtaining the required broker dealer license. In doing
26 so, defendants violated, or aided and abetted the violation of an order of the Corporations
27 Commissioner.
28

1 51. Unless enjoined, defendants will continue to violate the Commissioner's Desist and Refrain
2 Order.

3
4 **PRAYER FOR RELIEF**

5 WHEREFORE, plaintiff prays for judgment as follows as to all Causes of Action:

6 1. For injunctive relief preliminarily, and permanently restraining and enjoining defendants
7 Ronald Edward Reiswig, Janet Sue Reiswig, and Larry Phillips, individually and while doing
8 business as US CD, FEP, Inc., Fidelity Insured Deposits, Inc. and Dash Insurance Services
9 Corporation, Leon, Grewal, Fracchia and such Does as may be subsequently named, and each of
10 them, their officers, directors, successors in interests, agents, employees, attorneys-in-fact, and all
11 persons acting in concert or participation with any of them, from violating Corporations Code section
12 25110, or aiding and abetting or substantially assisting the violations thereof, by directly or indirectly
13 offering to sell or selling securities, including but not limited to, those in the form of investment
14 contracts consisting of FDIC-insured CDs which are bundled with "bonus" payments.

15 2. For injunctive relief, preliminarily, and permanently restraining and enjoining defendants
16 Ronald Edward Reiswig, Janet Sue Reiswig, and Larry Phillips, individually and while doing
17 business as US CD, FEP, Inc., Fidelity Insured Deposits, Inc. and Dash Insurance Services
18 Corporation, Leon, Grewal, Fracchia and such Does as may be subsequently named, and each of
19 them, their officers, directors, successors in interests, agents, employees, attorneys-in-fact, and all
20 persons acting in concert or participation with any of them, from violating Corporations Code section
21 25401, or aiding and abetting or substantially assisting the violations thereof, by directly or indirectly
22 offering to sell or selling securities, including but not limited to, those in the form of investment
23 contracts consisting of FDIC-insured CDs which are bundled with "bonus" payments or any other
24 security, in this State, by means of any written or oral communication which contains untrue
25 statements of any material facts or omits or fails to state any material facts necessary to make the
26 statements made, in light of the circumstances under which they were made, not misleading,
27 including but not limited to, the misrepresentations and omissions complained of herein.

1 3. For injunctive relief, preliminarily, and permanently restraining and enjoining defendants
2 Ronald Edward Reiswig, Janet Sue Reiswig, and Larry Phillips, individually and while doing
3 business as US CD, FEP, Inc., Fidelity Insured Deposits, Inc. and Dash Insurance Services
4 Corporation Leon, Grewal, Fracchia, and such Does as may be subsequently named, and each of
5 them, their officers, directors, successors in interests, agents, employees, attorneys-in-fact, and all
6 persons acting in concert or participation with any of them, from violating Corporations Code section
7 25210, by directly or indirectly offering to sell or selling securities without a license, including but
8 not limited to those securities in the form of investment consisting of FDIC-insured CDs which are
9 bundled with “bonus” payments, or aiding and abetting or substantially assisting the violation thereof.

10 4. For injunctive relief, preliminarily, and permanently restraining and enjoining defendants
11 Ronald Edward Reiswig, Janet Sue Reiswig, and Larry Phillips, individually and while doing
12 business as US CD, FEP, Inc., Fidelity Insured Deposits, Inc. and Dash Insurance Services
13 Corporation Leon, Grewal, Fracchia, and such Does as may be subsequently named, and each of
14 them, their officers, directors, successors in interests, agents, employees, attorneys-in-fact, and all
15 persons acting in concert or participation with any of them from violating the Desist and Refrain
16 Order of the Commissioner issued July 20, 2004, or aiding and abetting or substantially assisting the
17 violation thereof.

18 5. For injunctive relief, preliminarily, and permanently restraining and enjoining
19 defendants Ronald Edward Reiswig, Janet Sue Reiswig, and Larry Phillips, individually and while
20 doing business as US CD, FEP, Inc., Fidelity Insured Deposits, Inc. and Dash Insurance Services
21 Corporation Leon, Grewal, Fracchia, and such Does as may be subsequently named, and each of
22 them, their officers, directors, successors in interests, agents, employees, attorneys-in-fact, and all
23 persons acting in concert or participation with any of them, from removing, destroying, mutilating,
24 concealing, altering, transferring, or otherwise disposing of, in any manner, any books, records,
25 documents, correspondence, brochures, manuals, or other documentation of any kind in the
26 possession, custody or control of any of the Defendants.

27
28

