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FILED
CIVIL BUSINESS OFFICE 4
CENTRAL DIVISION
2011 DEC 30 PM 12:36
CLERK-SUPERIOR COURT
SAN DIEGO COUNTY, CA

9 SUPERIOR COURT OF THE STATE OF CALIFORNIA
10 FOR THE COUNTY OF SAN DIEGO

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

14 Plaintiff,

15 vs.

16 RMC CAPITAL MANAGEMENT, INC., a
California corporation; BURGESS
17 NATHANIEL HALLUMS, an individual;
18 INNOVATION FUND 2000, LLC, a
California limited liability company; and
19 DOES 1-10, inclusive,

20 Defendants,

21 and

22 IMMCAPNMOTION, INC., a Delaware
corporation; MISTNET MEDICAL
23 DEVICES, INC., aka, MIST NET, INC., a
Delaware corporation; THORNTON
24 CAPITAL ADVISORS, INC., a California
corporation; SEGUE CAPITAL, INC., a
25 California corporation; and RELIEF DOES 1-
26 10, inclusive,

27 Relief Defendants.
28

Case No.: 37-2011-00103198-CU-MC-CTL

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

(Corporations Code §§ 25235, 25238, 25241, and
25404, and California Code of Regulations, Title
10, §§ 260.237, 260.238, and 260.241.3)

1 Jan Lynn Owen, California Corporations Commissioner, acting to protect the public from
2 unlawful and fraudulent investment advisers, brings this action in the public interest, in the name of
3 the People of the State of California. The People of the State of California allege:

4 **JURISDICTION AND VENUE**

5 1. Plaintiff, the California Corporations Commissioner (“Commissioner”), in the name
6 of the People of the State of California and in his capacity as head of the California Department of
7 Corporations (“Department”), brings this action to protect the public by enjoining the defendants
8 from engaging in unlawful and fraudulent investment advisory activities, in violation of the
9 California Corporate Securities Law of 1968 (“CSL”) (Corp. Code, § 25000 *et seq.*), and to request
10 appointment of a receiver, a freeze of all assets, civil penalties, and ancillary relief.

11 2. This court has jurisdiction pursuant to Corporations Code sections 25530 and 25535.
12 Venue is proper in this Court because the violations of the CSL described below have occurred and
13 will continue to occur within the County of San Diego and throughout this state unless enjoined.

14 3. At all relevant times, Defendants RMC Capital Management, Inc., Burgess Nathaniel
15 Hallums, and Innovation Fund 2000, LLC (collectively, “Defendants”) maintained a principal place
16 of business at 1140 Main Street, Suite 115, Ramona, California 92065.

17 4. At all relevant times, Relief Defendants, Immcapnmotion, Inc. (“IMMCAP”), Mistnet
18 Medical Devices, Inc., also known as, Mist Net, Inc. (“MISTNET”), and Segue Capital, Inc.
19 (“SEGUE”), maintained a principal place of business at 1140 Main Street, Suite 115, Ramona,
20 California 92065.

21 5. At all relevant times, Relief Defendant Thornton Capital Advisors, Inc.
22 (“THORNTON”) maintained a principal place of business at 9710 Scranton Road, Suite 160, San
23 Diego, CA 92121.

24 **SUMMARY**

25 6. This matter involves fraudulent, manipulative, and deceptive investment advisory
26 activities perpetrated by Defendants.

27 7. From 2000 to 2010, Defendants raised approximately \$10.8 million from at least fifty
28 nine clients of the Innovation Fund 2000, LLC.

1 8. Defendants engaged in multiple violations of the CSL, including violations of: (a)
2 Corporations Code section 25235, by employing fraudulent, deceptive and manipulative practices to
3 the detriment of clients; and operating a Ponzi-like scheme, where money from new clients is used to
4 pay off existing clients; (b) Corporations Code section 25238, by engaging in investment advisory
5 activities in an unfair, inequitable and unethical manner; (c) Corporations Code section 25241, by
6 maintaining false and inaccurate books and records; and (d) Corporations Code section 25404, by
7 misleading the Commissioner during his investigation.

8 9. Plaintiff is informed and believes that Defendants used Relief Defendants IMMCAP,
9 MISTNET, THORNTON and SEGUE (collectively, "Relief Defendants") to perpetrate their fraud.
10 Relief Defendants received ill-gotten gains resulting from Defendants' violations of the CSL.

11 10. The Commissioner brings this action, in the name of the People, in order to obtain
12 (a) a Temporary Restraining Order restraining and enjoining Defendants from violating the CSL; (b)
13 Locating and Freezing Defendants and Relief Defendants' business and personal assets; and (c)
14 Appointing a Receiver to take custody and control over Defendants and Relief Defendants' business
15 and assets until an accounting can be performed by the receiver and recommendations made to the
16 court, to preserve any remaining assets and allow the receiver to determine the extent to which
17 Defendants defrauded clients. Defendants have custody or possession of client funds and securities
18 and allowing client funds and securities to remain under the custody or possession of Defendants
19 puts these funds and securities in further jeopardy.

20 **DEFENDANTS**

21 11. RMC Capital Management, Inc. ("RMC"), a California corporation, is a licensed
22 investment adviser that provides investment adviser services to the investing public.

23 12. Burgess Nathaniel Hallums ("HALLUMS"), an individual, is an investment adviser
24 representative who provides investment adviser services, through RMC, to clients.

25 13. Innovation Fund 2000, LLC ("INNOVATION FUND"), a California limited liability
26 company, is a pooled investment vehicle where client funds are deposited, and is controlled by
27 HALLUMS and RMC.

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RELIEF DEFENDANTS

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2 14. IMMCAP is a Delaware corporation registered to do business in California. At all
3 relevant times, HALLUMS was the Secretary, Chief Financial Officer, and Agent for Service of
4 Process of IMMCAP.

5 15. MISTNET is a Delaware corporation registered to do business in California. At all
6 relevant times, HALLUMS was the Secretary, Chief Financial Officer, and Agent for Service of
7 Process of MISTNET.

8 16. THORNTON, a California corporation, had its powers, rights, and privileges
9 suspended by the California Franchise Tax Board as of September 2, 2008. At all relevant times,
10 HALLUMS was the Secretary and a Director of THORNTON.

11 17. SEGUE is a California corporation. At all relevant times, HALLUMS was the Chief
12 Executive Officer, Chief Financial Officer, President, Secretary and Agent for Service of Process of
13 SEGUE.

FACTUAL BACKGROUND

14
15 18. RMC is, and was at all relevant times, an Investment Adviser licensed by the
16 Commissioner, pursuant to California Corporations Code section 25230.

17 19. HALLUMS is, and was at all relevant times, a licensed Investment Adviser
18 Representative, Chief Executive officer, Chief Financial Officer and President of RMC.

19 20. An investment adviser and its representative owe a fiduciary duty to their clients.
20 HALLUMS on behalf of Defendant RMC signed licensing forms agreeing to be familiar and to
21 comply with the statutes and regulations governing investment advisers.

22 21. In or about February 2011, the Department conducted an examination of Defendants.
23 The Department discovered that INNOVATION FUND is one of two pooled investment vehicles
24 that HALLUMS and RMC manage, and use to invest client funds.

25 22. In response to the Department’s request for information to Defendants, they mainly
26 provided INNOVATION FUND’s books and records. The books and records provided to the
27 Department were incomplete. According to Defendants, some of their records were destroyed in a
28 fire.

1 23. The Department reviewed and analyzed these limited books and records, including,
2 but not limited to, financial statements, HALLUMS' oral and written statements, correspondence,
3 and private holding documents. In addition, the Department reviewed and analyzed licensing
4 disclosure documents filed by RMC and HALLUMS. A review and analysis of these documents and
5 HALLUMS' statements reveals the following:

6 **A. OPERATING A PONZI-LIKE SCHEME**

7 24. Defendants operated a Ponzi-like scheme by using funds from new clients of
8 INNOVATION FUND to cover withdrawals of funds made by existing clients of INNOVATION
9 FUND.

10 25. For example, in September 2010, INNOVATION FUND's Bank of America
11 checking account ("BOA"), where clients' funds are maintained, had a balance of \$331.05.
12 Defendants used deposits from two new clients, in an amount of \$190,000, to pay withdrawals of
13 funds made by existing clients, in the amount of \$40,085.89, and to pay withdrawal of funds made
14 by Relief Defendant SEGUE, in the amount of \$2,500.

15 26. As stated previously, HALLUMS is the Chief Executive Officer, Chief Financial
16 Officer, President, Secretary and Agent for Service of Process of Relief Defendant SEGUE, which
17 shares the same place of business as Defendants.

18 27. HALLUMS exercises control over Relief Defendant SEGUE, an investor in the
19 INNOVATION FUND.

20 **B. MISUSE OF CLIENTS' FUNDS**

21 28. In 2010, Defendants used clients' funds to make at least two loans to the detriment of
22 their clients: (1) a promissory note in the amount of \$35,000 paid to AGC Capital Inc. and Troy
23 Wilkinson; and (2) a promissory note in the amount of \$74,000 paid to Relief Defendant MISTNET.

24 29. As stated previously, HALLUMS is the Chief Financial Officer, Secretary, and Agent
25 for Service of Process of Relief Defendant MISTNET, which maintains the same principal place of
26 business as Defendants.

27 30. Both promissory notes contain the same illusory promise, and are detrimental to
28 Defendants' clients because the loans will not be paid back unless there is a positive cash flow from

1 the borrowers. There is no record of any payment or income coming back to clients, as the result of
2 these loans.

3 31. In addition to the two loans, INNOVATION FUND's Balance Sheet shows six
4 unexplained payments to Relief Defendant MISTNET, in the total amount of \$42,600, from June
5 2010 to November 2010. Three out of the six payments are listed as loans in the sum of \$19,700.
6 Defendants failed to provide the Department with loan documents corresponding to the three loans
7 and any other record explaining the reason for the payments to Relief Defendant MISTNET.

8 **C. OVERSTATING VALUE OF THE PRIVATELY HELD SECURITIES**

9 32. Defendants invested clients' funds in privately held securities that are affiliated
10 and/or controlled by HALLUMS, including, Relief Defendants MISTNET, THORNTON, and
11 IMMCAP.

12 33. HALLUMS is also the Chief Financial Officer, Secretary, and Agent for Service of
13 Process of Relief Defendant IMMCAP. Relief Defendant IMMCAP maintains the same principal
14 place of business as Defendants.

15 34. HALLUMS was also the Secretary and Director of Relief Defendant THORNTON.

16 35. In response to the Department's inquiry about the amount of investments in privately
17 held securities made by the INNOVATION FUND, Defendants produced four versions of a one-
18 page document titled Innovation Fund Pricing ("IFP"). Each IFP version shows a different value
19 assigned by Defendants to these privately held companies, for the same time period in 2010.
20 Defendants valued Relief Defendant IMMCAP at \$1,200,000, \$1,400,000 or \$2,000,000; Relief
21 Defendant MISTNET at \$2,400,000 or \$2,900,000; and Relief Defendant THORNTON at
22 \$1,750,000 or \$2,900,000. Defendants failed to produce documents substantiating the actual
23 amounts invested in these privately held securities.

24 36. Records produced by Defendants contradict the value assigned to Relief Defendant
25 THORNTON. In 2008, Defendants sent correspondence to a third party custodian and clients stating
26 that Relief Defendant THORNTON was worthless and had no value.

27 37. In response to the Department's examination addressing the valuation of Relief
28 Defendant THORNTON, HALLUMS claims that Relief Defendant THORNTON still has a value of

1 \$2,900,000. Despite Relief Defendant THORNTON's worthless value, the December 31, 2010
2 statements sent to clients reflected that Relief Defendant THORNTON had value.

3 38. The IFP documents show that Defendants invested clients' funds in other privately
4 held securities, such as EAGENCY, INC. ("EAGENCY"), a Delaware corporation. Defendants
5 valued EAGENCY at \$300,000, as of December 31, 2010.

6 39. Based on EAGENCY's Balance Sheet dated June 30, 2010, its current liabilities
7 exceeded its current assets by \$916,055. EAGENCY's financial statements reflect negative retained
8 earnings and equity, and the \$300,000 value reported by Defendants is false.

9 40. An analysis of records produced by Defendants reveals that INNOVATION FUND's
10 value at cost is overstated by at least \$3,500,000.

11 **D. INFLATED ADVISORY FEES**

12 41. The overvaluation of the INNOVATION FUND's value resulted in inflated advisory
13 fees being charged to clients for management of the INNOVATION FUND.

14 42. RMC is the manager of the INNOVATION FUND, and also an investor in the
15 INNOVATION FUND.

16 43. RMC, as the manager of the INNOVATION FUND, charges a fee for its
17 management of the INNOVATION FUND.

18 44. The advisory fees for RMC's management of the INNOVATION FUND, in the
19 amount of \$499,089, were never deducted from the INNOVATION FUND and instead only added
20 to RMC's position, as an investor in the INNOVATION FUND. Because the added advisory fees
21 were not actual growth or increase in the INNOVATION FUND's value, as of 2008, the
22 INNOVATION FUND's value is overstated in the amount of \$499,089.

23 **E. FALSE STATEMENTS SENT TO CLIENTS**

24 45. Falsely leading clients to presume that their investment in the INNOVATION FUND
25 were worth more than its actual value, the December 2010 statements sent to clients reflect a price
26 per share of \$43. According to HALLUMS, the reported \$43 per share is based on the
27 INNOVATION FUND's value being \$15,000,000.

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1 46. In response to the Department's examination, HALLUMS admits that there was a
2 problem with the \$43 share price and INNOVATION FUND probably should have been valued at
3 approximately \$7,500,000 instead of \$15,000,000.

4 **F. FALSE AND INACCURATE RECORD KEEPING**

5 47. Defendants maintained false and inaccurate books and records.

6 48. The following are examples of Defendants failure to maintain true and accurate books
7 and records: (a) Contrary to the reported assets, in the amount of \$7,503,306, INNOVATION
8 FUND's Balance sheet, Income Statement and General Ledger, as of December 31, 2010, reflect
9 assets in the amount of \$111,821; (b) Contrary to the IFP documents, Relief Defendants and
10 EAGENCY's value were not reported on Defendant INNOVATION FUND's Balance Sheet and
11 General Ledger as of December 31, 2010; (c) The IFP documents, valuing Relief Defendant
12 THORNTON at \$1,750,000 and \$2,900,000, are contrary to correspondence sent to a third party
13 custodian and clients; (d) The IFP documents, valuing EAGENCY at \$300,000, are contrary to
14 EAGENCY's negative retained earnings and equity; (e) The IFP documents show conflicting values
15 for Relief Defendants IMMCAP and MISTNET, for the same time period in 2010; (f) The
16 discrepancies between INNOVATION FUND's Balance Sheet, Spreadsheet and the IFP documents
17 are irreconcilable; (g) INNOVATION FUND's brokerage trading account at BrokersXpress, LLC
18 was not reported on INNOVATION FUND's Balance Sheet and General Ledger as of December 31,
19 2010; (h) Six unexplained payments to Relief Defendant MISTNET for the period of June 2010 to
20 November 2010 in the sum of \$42,600 are not reconciled to the IFP documents. Three out of six
21 payments are listed as loans; yet, there are no loan documents substantiating these payments; (i) An
22 unexplained mortgage payment, in an amount of \$2,363.54, and a payment to Impulsive Profit, Inc.,
23 in an amount of \$50,000, are recorded on the General Ledger; (j) Unverified continual increase in
24 assets and price per share - Defendants' books and records do not include any accounting or
25 schedule that keeps track of any gains or losses to demonstrate how the assets or the price per share
26 have increased over the years; (k) There is a discrepancy, in the amount of \$1,070,304, between
27 INNOVATION FUND's 2010 schedule of investments and its 2010 balance sheet, for RMC's
28

1 position as an investor; and (l) Lack of documentation substantiating the amount of clients' funds
2 being invested in Relief Defendants MISTNENT and IMMCAP, in the amount of \$3,600,000.

3 **G. FAILURE TO HAVE CLIENT FUNDS AND SECURITIES AUDITED**

4 49. RMC, an investment adviser, has custody and possession of client funds and
5 securities and is subject to an annual audit.

6 50. HALLUMS admitted that there has never been an annual audit or verification of
7 clients' funds or securities, nor has any filing of these types of reports ever been made with the
8 Department. Defendants failed to have clients' funds and securities audited by an independent
9 Certified Public Accountant or a public accountant from 2000 to 2010.

10 **H. FAILURE TO PROVIDE ITEMIZED STATEMENTS TO CLIENTS**

11 51. HALLUMS admitted that Defendants did not provide itemized statements to clients
12 from 2000 to 2010.

13 52. INNOVATION FUND's statements sent to clients only reflect each client's share of
14 the fund, the price per share, and the total dollar value of the client's investment. Statements sent to
15 clients were not itemized.

16 **FIRST CAUSE OF ACTION**
17 **FRAUD BY INVESTMENT ADVISER**
18 **(Violations of Corp. Code § 25235)**
19 **(AGAINST ALL DEFENDANTS)**

20 53. Plaintiff incorporates by reference paragraphs 1 through 52 of this Complaint as
21 though fully set forth herein.

22 54. Corporations Code section 25235, in pertinent part, states that it is unlawful for any
23 investment adviser, directly or indirectly, in this state:

24 (a) To employ any device, scheme, or artifice to defraud any client or prospective
25 client.

26 (b) To engage in any transaction, practice, or course of business which operates or
27 would operate as a fraud or deceit upon any client or prospective client.

28 55. Operating a Ponzi-like scheme, and in violation of Corporations Code section 25235,
subdivisions (a) and (b), Defendants employed a scheme to defraud and engaged in transactions that

1 operated as a fraud by using funds from INNOVATION FUND's new clients to cover withdrawals
2 of funds made by INNOVATION FUND's existing clients.

3 56. For example, in September 2010, INNOVATION FUND's BOA had a balance of
4 \$331.05. Defendants used deposits from two new clients, in an amount of \$190,000, to pay
5 withdrawals of funds made by existing clients, in the amount of \$40,085.89. Defendants also used
6 the deposits from the two new clients to pay withdrawals of funds made by Relief Defendant
7 SEGUE, HALLUMS' corporation, in the amount of \$2,500.

8 57. In violation of Corporations Code section 25235(a) and (b), Defendants employed a
9 scheme to defraud and engaged in transactions that operated as a fraud by using clients' funds for
10 loans that contained illusory terms to the detriment of Defendants' clients, where the borrowers
11 would perform only if the borrowers have a positive cash flow.

12 58. Defendants loaned \$74,000 to HALLUMS' corporation, Relief Defendant MISTNET,
13 which will not be paid back unless Relief Defendant MISTNET has a positive cash flow. The other
14 promissory note in the amount of \$35,000 to AGC Capital Inc. and Troy Wilkinson contains the
15 same illusory promise as Relief Defendant MISTNET's promissory note. Neither Relief Defendant
16 MISTNET or AGC Capital Inc. and Troy Wilkinson are required to pay the loan back unless they
17 have a positive cash flow. There is no record of any payment or income coming back to clients, as
18 the result of these loans.

19 59. In violation of Corporations Code section 25235(a) and (b), Defendants employed a
20 scheme to defraud and engaged in transactions that operated as a fraud by making unexplained and
21 unsubstantiated payments to Relief Defendant MISTNET.

22 60. From June 2010 to November 2010, Defendants made six payments, in the total
23 amount of \$42,600, to Relief Defendant MISTNET. Three out of the six payments are listed as
24 loans, in the sum of \$19,700. Yet, there are no promissory notes corresponding to the three loans
25 and no other record explaining the reason for these payments to Relief Defendant MISTNET.

26 61. In violation of Corporations Code section 25235(a) and (b), Defendants employed a
27 scheme to defraud and engaged in transactions that operated as a fraud by overstating the value of
28 investments in privately held securities, three of which are affiliated and/or controlled by HALLUM.

1 The investment amounts in the privately held securities, reported in the IFP documents, varied for
2 the same time period.

3 62. As stated earlier, Defendants valued Relief Defendant IMMCAP at \$1,200,000,
4 \$1,400,000 or \$2,000,000; Relief Defendant MISTNET at \$2,400,000 or \$2,900,000; and Relief
5 Defendant THORNTON at \$1,750,000 or \$2,900,000, for the same time period. Defendants failed
6 to produce documents substantiating the actual amounts invested in these privately held securities.

7 63. Records produced by Defendants contradict the value assigned to Relief Defendant
8 THORNTON. 2008 correspondence from HALLUMS to a third party custodian and clients show
9 Relief Defendant THORNTON was valued at zero and considered worthless. Despite Relief
10 Defendant THORNTON's worthless value, the statements sent to clients reflected that Relief
11 Defendant THORNTON had value.

12 64. Defendants further value EAGENCY at \$300,000. As of June 30, 2010,
13 EAGENCY's Balance Sheet showed its current liabilities exceeded its current assets by \$916,055.
14 EAGENCY had negative retained earnings and equity, and the \$300,000 value reported by
15 Defendants is false.

16 65. In violation of Corporations Code section 25235(a) and (b), Defendants employed a
17 scheme to defraud and engaged in transactions that operated as a fraud by overstating
18 INNOVATION FUND's value by at least \$3,500,000.

19 66. In violation of Corporations Code section 25235(a) and (b), Defendants employed a
20 scheme to defraud and engaged in transactions that operated as a fraud by adding inflated advisory
21 fees to the value of INNOVATION FUND.

22 67. The overvaluation of INNOVATION FUND resulted in inflated advisory fees being
23 charged to clients for RMC's management of the INNOVATION FUND. As stated before, RMC's
24 advisory fees, in an amount of \$499,089, were never deducted from INNOVATION FUND and
25 instead added only to RMC's position, as an investor in the INNOVATION FUND. Because the
26 added advisory fees were not actual growth or increase in the INNOVATION FUND's value, as of
27 2008, INNOVATION FUND's value is overstated, in the amount of \$499,089.

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1 the nature of the advisory services being offered or fees to be charged for such service, or omitting to
2 state a material fact necessary to make the statements made regarding the services or fees, in light of
3 the circumstances under which they are made, not misleading.

4 75. In violation of California Code of Regulations section 260.238 (h), Defendants
5 misrepresented or omitted to state material facts about fees for the advisory services. As stated
6 above, Defendants calculated advisory fees based on an overstated Defendant INNOVATION
7 FUND value.

8 76. The advisory fees were never deducted from INNOVATION FUND and instead
9 added only to RMC's position, as an investor in the INNOVATION FUND. Because there was
10 never an actual growth or increase in the INNOVATION FUND, as of 2008, INNOVATION
11 FUND's value was overstated in the amount of \$499,089.

12 77. Defendants' pattern of conduct, as set forth above, demonstrates the necessity for
13 granting injunctive relief restraining such and similar acts, appointment of a receiver, and for
14 ancillary relief.

15 **THIRD CAUSE OF ACTION**
16 **MAINTAINING FALSE AND INACCURATE RECORDS**
17 **(Violations of Corp. Code § 25241 and Cal. Code Regs. §260.241.3)**
18 **(AGAINST ALL DEFENDANTS)**

19 78. Plaintiff incorporates by reference paragraphs 1 through 77 of this Complaint as
20 though fully set forth herein.

21 79. Corporations Code section 25241 authorizes the Commissioner to prescribe rules for
22 investment advisers to make and keep certain specified records and accounts. The Commissioner
23 has done so by specifying, among other requirements, that investment advisers must make and keep
24 true, accurate and current books and records relating to the person's investment advisory business.
25 Those regulations are contained in California Code of Regulations section 260.241.3.

26 80. In violation of Corporations Code section 25241 and California Code of Regulations
27 section 260.241.3, Defendants maintained false and inaccurate books and records.

28 81. The Department discovered numerous inaccuracies in Defendants' books and records.
The following are examples of Defendants failure to maintain true and accurate books and records:

1 (a) Contrary to the reported assets, in the amount of \$7,503,306, INNOVATION FUND's Balance
2 sheet, Income Statement and General Ledger, as of December 31, 2010, reflect assets in the amount
3 of \$111,821; (b) Contrary to the IFP documents, Relief Defendants and EAGENCY's value were not
4 reported on the INNOVATION FUND's Balance Sheet and General Ledger as of December 31,
5 2010; (c) The IFP documents, valuing Relief Defendant THORNTON at \$1,750,000 and \$2,900,000,
6 are contrary to correspondence sent to a third party custodian and clients; (d) The IFP documents,
7 valuing EAGENCY at \$300,000, are contrary to EAGENCY's negative retained earnings and
8 equity; (e) The IFP documents show conflicting values for Relief Defendants IMMCAP and
9 MISTNET, for the same time period in 2010; (f) The discrepancies between INNOVATION
10 FUND's Balance Sheet, Spreadsheet and the IFP documents are irreconcilable; (g) INNOVATION
11 FUND's brokerage trading account at BrokersXpress, LLC was not reported on Defendant
12 INNOVATION FUND's Balance Sheet and General Ledger as of December 31, 2010; (h) Six
13 unexplained payments to Relief Defendant MISTNET for the period of June 2010 to November
14 2010 in the sum of \$42,600 are not reconciled to the IFP documents. Three out of six payments are
15 listed as loans; yet, there are no loan documents substantiating these payments; (i) An unexplained
16 mortgage payment, in an amount of \$2,363.54, and a payment to Impulsive Profit, Inc., in an amount
17 of \$50,000, are recorded on the General Ledger; (j) Unverified continual increase in assets and price
18 per share - Defendants' books and records do not include any accounting or schedule that keeps
19 track of any gains or losses to demonstrate how the assets or the price per share have increased over
20 the years; (k) There is a discrepancy, in the amount of \$1,070,304, between INNOVATION FUND's
21 2010 schedule of investments and its 2010 balance sheet, for RMC's position as an investor; and (l)
22 Lack of documentation substantiating the amount of clients' funds being invested in Relief
23 Defendants MISTNET and IMMCAP, in the amount of \$3,600,000.

24 82. Defendants' pattern of conduct, as set forth above, demonstrates the necessity for
25 granting injunctive relief restraining such and similar acts, appointment of a receiver, and for
26 ancillary relief.

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FOURTH CAUSE OF ACTION
KNOWINGLY MAKING UNTRUE STATEMENTS TO THE COMMISSIONER
(Violations of Corp. Code § 25404)
(AGAINST DEFENDANTS RMC AND HALLUMS)

83. Plaintiff incorporates by reference paragraphs 1 through 82 of this Complaint as though fully set forth herein.

84. Corporations Code section 25404, subdivision (b), states, in pertinent part, that it is unlawful for any person to knowingly make an untrue statement to the commissioner during the course of investigation or examination, with the intent to impede, obstruct, or influence the administration or enforcement of this division.

85. In violation of Corporations Code section 25404, subdivision (b), HALLUMS made an untrue statement to the Commissioner during the course of an examination with the intent to impede, obstruct or influence the administration or enforcement of this division. As stated above, in 2010, Defendants valued Relief Defendant THORNTON at \$1,750,000 or \$2,900,000.

86. As an officer and director of Relief Defendant THORNTON, HALLUMS knew or should have known that Relief Defendant THORNTON was worthless and had no value. Defendants' records contradict the value assigned to Relief Defendant THORNTON. Yet, in response to the Department's examination, HALLUMS told the Department's examiner that Relief Defendant THORNTON is valued at \$2,900,000.

87. Defendant HALLUMS' pattern of conduct, as set forth above, demonstrates the necessity for granting injunctive relief restraining such and similar acts, appointment of a receiver, and for ancillary relief.

FIFTH CAUSE OF ACTION
FRAUD BY INVESTMENT ADVISER
(Violations of Corp. Code § 25235 and Cal. Code of Regs. § 260.237)
(AGAINST DEFENDANTS RMC and HALLUMS)

88. Plaintiff incorporates by reference paragraphs 1 through 87 of this Complaint as though fully set forth herein.

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1 89. California Code of Regulations section 260.237 contains rules, and specifies conduct
2 by investment advisers that constitutes fraudulent, deceptive and manipulative practices under
3 Corporations Code section 25235.

4 90. California Code of Regulations section 260.237, in pertinent part, states that it is
5 considered fraudulent, deceptive and manipulative conduct for investment advisers to have custody
6 and control over client funds unless:

- 7 (d) the investment adviser sends to each client, not less frequently than once every
8 three months, an itemized statement showing the funds and securities in the custody
9 or possession of the investment adviser at the end of the period, and all debits, credits
10 and transactions in the client's account during the period; and
- 11 (e) all funds and securities of clients are verified by actual examination at least once
12 during each calendar year by an independent certified public accountant or public
13 accountant at a time which shall be chosen by the accountant without prior notice to
14 the investment adviser. A certificate of the accountant stating that such person has
15 made an examination of the funds and securities, and describing the nature and extent
16 of the examination, shall be filed with the Commissioner promptly after each
17 examination.

18 91. As stated previously, Defendants have custody and control of client funds.
19 Defendants failed to have clients' funds and securities audited by an independent Certified Public
20 Accountant or a public accountant from 2000 to 2010.

21 92. Defendant HALLUMS admits that there has never been an annual audit or
22 verification of client funds or securities, nor has any filing of these types of reports ever been made
23 with the Department.

24 93. Defendant HALLUMS further admits that Defendants did not provide itemized
25 financial statements to clients from 2000 to 2010.

26 94. Defendants RMC and HALLUMS' pattern of conduct, as set forth above,
27 demonstrates the necessity for granting injunctive relief restraining such and similar acts,
28 appointment of a receiver, and for ancillary relief.

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SIXTH CAUSE OF ACTION
UNJUST ENRICHMENT
(AGAINST ALL RELIEF DEFENDANTS)

95. Plaintiff incorporates by reference paragraphs 1 through 94 of this Complaint as though fully set forth herein.

96. In the manner described above, Relief Defendants received ill-gotten gains, in an amount that could be as much as \$7.5 million, resulting from Defendants unlawful activities.

97. Relief Defendants have obtained the funds alleged above under circumstances in which it is not just, equitable or conscionable for them to retain the funds. As a consequence, Relief Defendants have been unjustly enriched.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for judgment against Defendants RMC Capital Management, Inc, a California corporation; Burgess Nathaniel Hallums, an individual; Innovation Fund 2000, LLC, a California limited liability company; and Does 1-10, inclusive, and Relief Defendants Immcapnmotion, Inc., a Delaware corporation; Mistnet Medical Devices, Inc., also known as, Mist Net, Inc., a Delaware corporation; Thornton Capital Advisors, Inc., a California corporation; Segue Capital Inc., a California corporation; and Relief Does 1-10, as follows:

I. INJUNCTIVE RELIEF FOR THE VIOLATIONS

Plaintiff seeks a Temporary Restraining Order, issued upon ex parte application without notice, and eventually an Order of Preliminary Injunction and ultimately, a Permanent Injunction, pursuant to Corporations Code section 25530, subdivision (a), restraining and enjoining Defendants from:

1. Violating Corporations Code section 25235 by directly or indirectly, engaging in any act, practice, or course of business which is fraudulent, deceptive, or manipulative, including but not limited to, operating a Ponzi scheme, misusing clients funds, and employing fraudulent practices and engaging in transactions that operated as a fraud to the detriment of clients;

2. Violating Corporations Code section 25238 and California Code of Regulations section 260.238 by engaging in investment advisory activities in an unfair, inequitable and unethical manner, including but not limited to charging clients inflated advisory fees based on an overstated

1 fund value;

2 3. Violating Corporations Code section 25241 and California Code of Regulations
3 section 260.241.3 by maintaining false and inaccurate and books and records;

4 4. Violating Corporations Code section 25404 by knowingly making an untrue
5 statement to the Commissioner during the course of his investigation and examination, with the
6 intent to impede, obstruct, or influence the administration or enforcement of CSL; and

7 5. Violating California Code of Regulations section 260.237, by failing to have clients'
8 funds and securities audited and failing to provide itemized statements to clients.

9 **II. CONSTRUCTIVE TRUST**

10 For a Final Judgment imposing a constructive trust on all funds and properties of Relief
11 Defendants, which are the proceeds, or traceable to the proceeds, of the unlawful activities of
12 Defendants as set forth herein.

13 **III. RESCISSION, RESTITUTION, AND DISGORGEMENT**

14 For a Final Judgment requiring Defendants to:

15 1. Rescind each and all of the unlawful transactions alleged in this Complaint, pursuant
16 to Corporations Code section 25530, subdivision (b), as shall be determined by this Court to have
17 occurred;

18 2. To pay full restitution to each person determined to have been subject to acts,
19 practices, or transactions which constitute violations of the CSL, in the amount of \$15,000,000 or
20 according to proof;

21 3. To disgorge any profits and proceeds gained as a result of the unlawful transactions
22 alleged in this Complaint, in the amount of \$15,000,000 or according to proof; and

23 4. To pay the legal rate of interest on the principal amount invested by each and every
24 investor from the date of their investments to the date of judgment herein.

25 **IV. CIVIL PENALTIES**

26 For a Final Judgment requiring Defendants to pay the Department \$25,000 as a civil penalty
27 for each act in violation of the CSL, pursuant to Corporations Code section 25535, in the amount of
28 \$750,000 or according to proof.

1 **V. APPOINTMENT OF A RECEIVER**

2 For said Temporary Restraining Order to further provide for an Appointment of a Receiver
3 over Defendants and Relief Defendants and such Does as may be subsequently named, and their
4 respective subsidiaries, affiliates, agents, employees, representative, successor in interest and
5 assigns, wherever situated (collectively, “Receivership Defendants and Relief Defendants”):

6 1. The receiver, prior to entry of his duties, shall take an oath to support the
7 constitutions of the United States and the State of California and shall be bonded according to law.

8 2. The receiver shall be authorized, empowered and directed:

9 a. To take possession of all “Receivership Assets,” defined as:

10 i. Any and all real and personal property, investor funds, client funds,
11 collateral, premises, choses of action and other assets, books, records and papers in the possession,
12 custody or control of Receivership Defendants and Relief Defendants, or to which Receivership
13 Defendants and Relief Defendants have any right of possession, custody or control, beneficially or
14 otherwise, irrespective of whosoever holds such assets, including all such assets which Receivership
15 Defendants and Relief Defendants carry or maintain, or which may be received during the pendency
16 of this receivership;

17 ii. Distributions, salaries, bonuses, funds, or other forms of compensation
18 which were derived from client funds, in the possession, custody or control of Receivership
19 Defendants and Relief Defendants to which Defendants have any right of possession, custody or
20 control, beneficially or otherwise, irrespective of whosoever holds such assets, including all such
21 assets which Receivership Defendants and Relief Defendants carry or maintain, or which may be
22 received during the pendency of this receivership;

23 iii. All funds, negotiable instruments and/or assets held in Bank of
24 America, N.A., account number 24679-01067, in the name of Defendants; and

25 iv. All funds, negotiable instruments and/or assets held in Bank of
26 America, N.A., account numbers ending in 5431, 5971, 4999, 1249, 0561, 6538, and 6595, in the
27 name of Defendants and Relief Defendants, in the name of Defendants and Relief Defendants,
28 directly or indirectly, and each of them.

1 b. Except for an act of gross negligence, the Receiver shall not be liable for any
2 loss or damage incurred by any of the Receivership Defendants and Relief Defendants, and their
3 owners, officers, directors, shareholders, agents, employees, representatives, salespersons,
4 successors in interest, attorneys, assigns, subsidiaries, affiliates, or any other person, by reason of
5 any act performed or omitted to be performed by the Receiver in connection with the discharge of
6 his duties and responsibilities. For good cause appearing, the receiver's bond is hereby waived.

7 c. The Receiver shall have full power to marshal, collect, receive, review,
8 observe, discover and take charge of all Receivership Assets and all accounts or safe deposit boxes
9 held in the name of Receivership Defendants and Relief Defendants in any financial depositories or
10 other institutions, including, but not limited to all Bank of America accounts, on an ongoing and
11 continual basis pursuant to this Court's order.

12 d. The Receiver may employ other such persons, including accountants,
13 investigators, clerical and professional personnel, and the Receiver's law firm's in-house staff,
14 counsel, paralegals and attorneys, to perform such tasks as may be necessary to aid the Receiver in
15 the performance of his duties and responsibilities, without further order of the court.

16 e. The Receiver may employ outside attorneys upon further order of this Court
17 to assist the Receiver in the performance of his duties and responsibilities, such employment to be
18 approved by the Court upon ex parte application of the Receiver.

19 f. Periodically, as set forth in paragraphs (g) and (h), below, the Receiver shall
20 report to this Court the results of the collection, receiving, review, observation, discovery and
21 abstracts resulting from the activities of the Receiver as ordered by this Court, and specifically on
22 any commingling of funds, unauthorized use of, or other disposition of assets of whatever
23 description by and between any and each of the Receivership Defendants and Relief Defendants
24 and/or any person, corporation, entity, sole proprietorship, affiliate, association of whatever type of
25 structure, whether or not said entities are or are not defendants or relief defendants in this action.

26 g. The Receiver shall file, within 30 days of his appointment, an initial inventory
27 of all Receivership Assets, which he shall then have collected, received, reviewed, observed and/or
28 discovered pursuant to this Court's order. Additionally, the Receiver is to file one or more

1 supplemental inventories when and if he shall subsequently come into knowledge of additional items
2 appropriate to the inventory.

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

15 i. The Receiver shall invest the funds of the Receivership Assets in any interest-
16 bearing obligations of the United States or in any interest-bearing accounts in financial institutions
17 approved by the United States Trustee as an authorized depository for funds of bankruptcy estates,
18 without further order of the Court, and will be the signatory on the bank accounts of Receivership
19 Defendants and Relief Defendants, and each of them, including, but not limited to all of
20 Receivership Defendants and Relief Defendants' Bank of America accounts and any depository or
21 investment account in any financial institution that the Receiver may discover at a later date
22 containing Receivership Assets.

23 j. The Receiver shall bring such proceedings as are necessary to enforce the
24 provisions hereof, including issuance of subpoenas to compel testimony or production of documents
25 as to the existence or location of Receivership Assets or any other information pertinent to the
26 business, financial affairs, or other transactions of Receivership Defendants and Relief Defendant.

27 k. If the Receiver discovers that funds have been transferred from Receivership
28 Defendants and Relief Defendants to other persons or entities, and deems it advisable, the Receiver

1 may extend and expand the receivership over any person or entity holding such funds, without
2 further order of the Court.

3 l. The Receiver shall bring such proceedings as are necessary to modify the
4 provisions hereof, as the Receiver deems appropriate.

5 m. The Receiver shall make such payments and disbursements from the funds of
6 the Receivership Assets so taken into possession, custody and control of the Receiver or otherwise
7 received by him, as may be necessary and advisable in discharging his duties as receiver, without
8 further order of the Court, including, without limitation, the payment of interim compensation to the
9 Receiver and persons or entities under paragraphs (d) and (e), above, subject to the provisions of
10 paragraphs (z) and (aa), below.

11 n. The Receiver shall carry on any lawful business activities of Receivership
12 Defendants and Relief Defendants, to preserve Receivership Assets, and to foreclose and/or actively
13 seek and negotiate with potential buyers, assignees or other parties who may be interested in
14 acquiring, purchasing, leasing, subleasing or renting Receivership Assets and to sell, lease, sublease
15 or rent Receivership Assets, subject to Court approval.

16 o. The Receiver shall institute, prosecute, defend, compromise, intervene in and
17 become a party, either in his own name or in the name of Receivership Defendants and Relief
18 Defendants, to such suits, actions or proceedings as may be necessary for the protection,
19 maintenance, recoupment or preservation of the Receivership Assets in his custody, in his discretion,
20 without further order of the Court.

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

27 q. Upon the Receiver's appointment, the Receiver shall undertake an immediate
28 review of all readily available Receivership Assets in order to determine the economic viability of a

1 receivership. Upon such review, if the Receiver determines that sufficient Receivership Assets are
2 readily available to fund the receivership, then the Receiver shall file such finding with the Court,
3 and the receivership shall continue until further order of the Court. If upon initial review the
4 Receiver determines that readily available funds are insufficient to maintain the receivership, then
5 the Receiver shall so notify the Court, and may request that the Court dissolve the receivership, or
6 modify the duties and responsibilities of the Receiver and Receivership Defendants and Relief
7 Defendants, and Plaintiff will not oppose such request, it being understood that the Receiver and
8 professionals employed by the Receiver shall not be expected to perform services unless readily
9 available assets exist to pay the expenses of the receivership.

10 r. The Receiver shall cooperate fully with the California Department of
11 Corporations or other regulatory agencies having jurisdiction over matters relating to the conduct of
12 business of Receivership Defendants and Relief Defendants so as not to impair the ability of said
13 regulatory agencies to perform their duly authorized investigative and enforcement duties.

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

20 t. The Receiver's powers shall be in addition to, and not by way of limitation of,
21 the powers described in California Corporations Code section 25530, subdivision (a), California
22 Government Code section 13975.1 and California Code of Civil Procedure section 564 *et seq.*

23 u. The Receiver shall be vested with, and is authorized, directed and empowered
24 to exercise, all of the powers of Receivership Defendants and Relief Defendants, their owners,
25 officers, directors, shareholders, general partners or persons who exercise similar powers and
26 perform similar duties; and that Receivership Defendants and Relief Defendants, their owners,
27 officers, directors, shareholders, agents, employees, representatives, successors in interest, attorneys
28

1 in fact and all persons acting in concert or participating with them, are hereby divested of, restrained
2 and barred from exercising any of the powers vested herein in the Receiver.

3 v. Receivership Defendants and Relief Defendants, including, but not limited to
4 their owners, officers, directors, shareholders, agents, employees, representatives, salespersons,
5 successors in interest, attorneys, assigns, subsidiaries, affiliates, and any other persons or entities
6 under their control and all persons or entities in active concert or participation with Receivership
7 Defendants and Relief Defendants, and all persons owing a duty of disclosure to Receivership
8 Defendants and Relief Defendants, and each of them, shall cooperate with the Receiver in his
9 investigation and shall immediately turn over to the Receiver Receivership Assets, books, records,
10 papers, documentations, charts and/or descriptive material of all Receivership Assets, owned
11 beneficially or otherwise, and wherever situated, and all books and records of accounts, title
12 documents and other documents in the possession or under their control, which relate, directly or
13 indirectly, to the Receivership Assets.

14 x. Except by leave of this Court and during the pendency of this receivership, all
15 clients, investors, trust beneficiaries, note holders, creditors, claimants, lessors and all other persons
16 or entities seeking relief of any kind, in law or in equity, from Receivership Defendants and Relief
17 Defendants and Receivership Assets, and all others acting on behalf of any such persons, including
18 sheriffs, marshals, agents, employees, and attorneys are hereby restrained and enjoined, directly or
19 indirectly, with respect to Receivership Defendants and Relief Defendants and Receivership Assets,
20 from:

- 21 i. Commencing, prosecuting, continuing or enforcing any suit or
22 proceeding, including arbitration, except by motion before this Court;
- 23 ii. Executing or issuing or causing the execution or issuance of any court
24 attachment, subpoena, replevin, execution or other process for the
25 purpose of impounding or taking possession of or interfering with or
26 creating or enforcing a lien;
- 27 iii. Commencing or continuing judicial or non-judicial foreclosure
28 proceedings or proceedings for the appointment of a receiver;

- 1 iv. Creating, perfecting, or enforcing any lien or encumbrance;
- 2 v. Accelerating the due date of any obligation or claimed obligation;
- 3 vi. Exercising any right of set-off;
- 4 vii. Taking, retaining, retaking or attempting to retake possession;
- 5 viii. Withholding or diverting any rent or other obligations;
- 6 ix. Using self-help or executing or issuing or causing the execution or
- 7 issuance of any court attachment, subpoena, replevin, execution or
- 8 other process for the purpose of impounding or taking possession of or
- 9 interfering with or creating or enforcing a lien; and
- 10 x. Doing any act or thing whatsoever to interfere with the control of, the
- 11 possession of, or management by, the Receiver herein, or to, in any
- 12 way, interfere with or harass the Receiver or to interfere in any manner
- 13 during the pendency of this proceeding, the discharging of the
- 14 Receiver's duties and responsibilities, and with the exclusive
- 15 jurisdiction of this Court.
- 16 y. Any and all provisions of any agreement entered by and between any third
- 17 party and Receivership Defendants and Relief Defendants, including, by way of illustration, but not
- 18 limited to, the following types of agreements (as well as any amendments or modifications thereto),
- 19 mortgages, partnerships agreements, financial guarantee bonds, joint venture agreements,
- 20 promissory notes, remarketing agreements, loan agreements, security agreements, indemnification
- 21 agreements, subrogation agreements, subordination agreements, deeds of trust, pledge agreements,
- 22 assignments of rents and other collateral, financing statements, letters of credit, leases, insurance
- 23 policies, guarantees, escrow agreements, management agreements, real estate brokerage and rental
- 24 agreements, servicing agreements, consulting agreements, easement agreements, license agreements,
- 25 franchise agreements, construction contracts, or employment contracts that provide in any manner
- 26 that the selection, appointment, or retention of a Receiver or trustee by any court, or the entry of an
- 27 order such as hereby made, shall be deemed to be, or otherwise operate as a breach, violation, event
- 28 of default, termination, event of dissolution, event of acceleration, insolvency, bankruptcy, or

1 liquidation, shall be stayed, and the assertion of any and all rights and remedies relating thereto shall
2 also be stayed and barred, except as otherwise ordered by this Court, and this Court shall retain
3 jurisdiction over any causes of action that have arisen or may otherwise arise under any such
4 provision.

5 z. Receivership Defendants and Relief Defendants are responsible for the
6 payment of costs, fees and expenses of Receiver incurred in connection with the performance of his
7 duties, including the costs, fees and expenses of those persons who may be engaged or employed by
8 the Receiver to assist him in carrying out his duties and obligations. The Receiver, the Receiver's
9 employees and agents, and professionals employed by the Receiver, are entitled to monthly payment
10 of interim compensation for services rendered, at their normal hourly rate, and monthly
11 reimbursement for all expenses incurred by them on behalf of the receivership estate, and the
12 Receiver is authorized to make such payments without further order of the Court. Within 10 days
13 after such monthly payments, the Receiver shall serve written notice upon the counsel of record for
14 Receivership Defendants and Relief Defendants and Plaintiff of the amount paid to each payee, with
15 an itemization of the services rendered or expenses incurred.

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

21 ab. Neither Plaintiff, the State of California, the California Corporations
22 Commissioner, the California Department of Corporations, nor any officer, employee or agent
23 thereof shall have any liability for the payment, at any time, for any such fees or expenses in
24 connection with said receivership.

25 ac. That Receivership Defendants and Relief Defendants, their owners, officers,
26 directors, shareholders, agents, employees, representatives, successors in interest, attorneys, and any
27 other persons shall not take any action or purport to take any action, in the name of or on behalf of
28

1 any Receivership Defendants and Relief Defendants or any of their subsidiaries and affiliates,
2 without the written consent of the Receiver or order of this Court.

3 ad. That Receivership Defendants and Relief Defendants and their subsidiaries
4 and affiliates and their owners, officers, directors, shareholders, agents, employees, representatives,
5 successors in interest, and attorneys, shall cooperate with and assist the Receiver and shall take no
6 action, directly or indirectly, to hinder, obstruct, or otherwise interfere with the Receiver in the
7 conduct of his duties or interfere in any manner, directly or indirectly, with the custody, possession,
8 management, or control by the Receiver of the Receivership Defendants and Relief Defendants and
9 Receivership Assets, as described above.

10 ae. Receivership Defendant and Relief Defendant shall, within 10 days of the
11 entry of the appointment, prepare and deliver to the Receiver and Plaintiff a detailed and complete
12 schedule of all of their real and personal properties, and other assets, with a minimum value of
13 \$1,000, including a description of the source of funds for the purchase of such assets. For purposes
14 of this Order, the term “assets” shall include, but is no way limited to, income/compensation or right
15 of income/compensation from any source, and any financial or controlling interest in any business
16 entity, including, but not limited to, a partnership, trust, corporation, or limited liability company.
17 Such accounting shall be filed with the Court and a copy shall be delivered to the Receiver. After
18 completion of the accounting, each Receivership Defendant and Relief Defendant shall produce to
19 the Receiver at a time agreeable to the Receiver, all books, records and other documents supporting
20 or underlying his accountings.

21 af. Receivership Defendants and Relief Defendants, within 20 days from the date
22 of entry of the appointment, all shall transfer to a trust account of the Receiver all Receivership
23 Assets that are presently held in domestic and foreign locations, to the extent said assets are
24 transferable.

25 ag. The Receiver shall determine upon taking possession of all real property of
26 the Receivership Assets whether in the Receiver’s judgment there is sufficient insurance coverage.
27 With respect to any insurance coverage in existence or obtained, the Receiver shall be named as an
28 additional insured on the policies for the period that the Receiver shall be in possession of the real

1 property of the Receivership Assets. If sufficient insurance coverage does not exist, the Receiver
2 shall immediately notify the parties to this lawsuit and shall take reasonable measures, within 30
3 days, to procure sufficient all-risk and liability insurance on all real property (excluding earthquake
4 and flood insurance) provided, however, that if the Receiver does not have sufficient funds to do so,
5 the Receiver shall seek instructions from the Court with regard to whether insurance shall be
6 obtained and how it is to be paid for. The Receiver shall not be responsible for claims arising from
7 the lack of procurement or inability to obtain insurance.

8 **V. FREEZING OF ASSETS**

9 For a freeze to be placed on all funds, negotiable instruments and/or assets held in any bank,
10 savings or checking, brokerage or other accounts, certificates of deposit, safe deposit box, or
11 otherwise, without limitation, in the name of Defendants and Relief Defendants, or for the benefit of
12 Defendants and Relief Defendants directly or indirectly, and each of them, and any depository or
13 investment account in any financial institution that the Receiver may discover at a later date
14 containing clients' funds.

15 **VI. OTHER RELIEF**

16 For such and further relief as the Court may deem just and proper.

17 Dated: December 30, 2011

JAN LYNN OWEN
California Corporations Commissioner

19 By: _____
20 AFSANEH EGHBALDARI
21 Corporations Counsel
22 Attorney for the People of California