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7 Attorneys for Respondents.

8 HECTOR SERRANO and ESN INSURANCE SERVICES NETWORK, INC.

9 STATE OF CALIFORNIA  
10 BEFORE THE CALIFORNIA DEPARTMENT OF CORPORATIONS

11 In The Matter of the Commissioner of  
12 Corporations of the State of California,

13 Complainant,

14 v.

15 HECTOR P. SERRANO, an individual, and  
16 ESN INSURANCE SERVICES  
17 NETWORK, INC., dba INSURANCE  
18 SERVICES NETWORK, INC., a California  
19 Corporation,

20 Respondent.

) Agency Case No. (ALPHA)

) OAH No.

) STIPULATED SETTLEMENT AND  
ORDER

21 IT IS HEREBY STIPULATED AND AGREED to by and between the parties to the  
22 above-entitled proceeding that the following matters are true:

23 PARTIES

24 1. William P. Wood (Complainant) is the Commissioner of the California  
25 Department of Corporations. He brought this action solely in his official capacity and is  
26 represented in the matter by Daniel P. O'Donnell, Esq., counsel for the California Department of  
27 Corporations Enforcement & Legal Services.

28 2. Hector Serrano and ESN Insurance Services Network, Inc. (dba Insurance  
Services Network, Inc. and known as "ISN"), a California corporation, (Respondents) are

1 represented in the proceeding by Christopher J. Zopatti of Callahan, McCune & Willis APC, 111  
2 Fashion Lane, Tustin, California, and Richard M. Horn, Esq., of Richard M. Horn & Associates,  
3 1850 Fifth Avenue, San Diego, California.

4 **JURISDICTION**

5 3. On December 24, 2002, the California Corporations Commissioner acting in his  
6 official capacity as Commissioner of Corporations, issued a Desist and Refrain Order against  
7 Respondents. The Order was issued without hearing pursuant to California Corporations Code<sup>1</sup>  
8 Section 25532. The order was properly served on Respondents.

9 4. On December 19, 2003, Respondents made a timely request for an administrative  
10 hearing pursuant to California Corporations Code §25532(d). The Complainant acknowledges  
11 receipt of this request. Respondents dispute the allegations and findings in the Desist and  
12 Refrain Order of December 24, 2002.

13 5. The parties hereto have agreed to resolve the matter through this Stipulated  
14 Settlement and Order rather than proceeding with an administrative hearing.

15 **ADVISEMENT AND WAIVERS**

16 6. Respondents have carefully read, fully discussed with counsel, and understand the  
17 allegations in the Desist and Refrain Order of December 24, 2002. Respondents have also  
18 carefully read, fully discussed with counsel, and understand the effects of this Stipulated  
19 Settlement and Order.

20 7. Respondents are fully aware of their legal rights to a hearing on the charges,  
21 allegations, and findings of fact in the Desist and Refrain Order of December 24, 2002; the right  
22 to be represented by counsel at their own expense; the right to confront and cross-examine  
23 witnesses against them; the right to present evidence and to testify on their own behalf; the right  
24 to the issuance of subpoenas to compel the attendance of witnesses in production of documents;  
25 the right to reconsideration and court review of an adverse decision; and all of the rights  
26 accorded by the California Administrative Procedures Act and other applicable laws.

27 \_\_\_\_\_  
28 <sup>1</sup> All statutory references are to the California Corporations Code unless otherwise indicated.

1 8. By entering into this Stipulated Settlement and Order, Respondents voluntarily,  
2 knowingly and intelligently waive and give up their right to a hearing as provided for in the  
3 California Administrative Procedures Act.

4 **STIPULATED FACTS:**

5 9. From 1998 to October 5, 2000, TLC Investment & Trade Company, TLC  
6 America, Inc., dba Brea Development Company, TLC Brokerage, Inc. dba TLC Marketing; TLC  
7 Development, Inc., and/or TLC Real Properties RLLP-1, (hereinafter collectively referred to as  
8 "TLC"), issued investment instruments in the form of promissory notes, real estate investment  
9 agreements and/or investment contracts all of which were subsequently determined to be  
10 "securities" by the Commissioner of Corporations. TLC offered and sold these investment  
11 instruments through three distinct investment programs: (1) tax lien certificates; (2) opportunity  
12 properties; and (3) RRLP-1. Respondents were not and have never been owners or part of the  
13 management of TLC.

14 10. TLC represented that these investments had a one-year term, carried an interest  
15 rate of return between 8 and 15 percent, and that the principal investment would be repaid at the  
16 annual maturity date. The investments were offered and sold by a network of independent sales  
17 agents recruited by TLC. Each sales agent had an agreement with TLC relating to the terms of  
18 sales and commissions for each TLC product sold by the individual sales agents. TLC raised  
19 more than \$156 million nationwide from more than 1,800 investors.

20 11. In 1998, Respondent Hector Serrano became a sales agent of TLC and entered  
21 into a written agreement with TLC. At all relevant times, Hector Serrano was the managing  
22 director of Respondent ESN Insurance Services Network, Inc., dba Insurance Services Network  
23 (ISN). All acts by Hector Serrano were performed in his capacity of managing director of ISN.  
24 In 1999, ISN informed its network of independent agents of the availability of TLC tax lien  
25 certificates for sale as an investment opportunity in the State of California. Respondents Hector  
26 Serrano and ISN did not sell any TLC investments directly to any third-party investor.

1 Respondent Hector Serrano's only sale of TLC investments were sales to himself for the total  
2 TLC investment of \$150,000.

3 12. ISN performed certain administrative services for TLC acting as a conduit  
4 between approximately forty (40) TLC independent sales agents and TLC. For its administrative  
5 services, Respondent ISN received override commissions from TLC between ½ to 1 percent of  
6 the sale of TLC investments made by the various independent agents whose sales were credited  
7 to ISN. In the event investors reinvested their initial investment (i.e., "rolled over" their  
8 investments), ISN received another ½ to 1 percent override commission. From 1998 through  
9 2000, the total amount of net override commissions received from TLC by ISN amounted to  
10 approximately \$700,000.

11 13. On October 5, 2000, the Securities & Exchange Commission obtained a  
12 restraining order against TLC and its President, Edward F. "Frank" Cossey, among others. The  
13 SEC froze the assets of TLC. The SEC asserted that the products sold by TLC were securities  
14 and that the principals of TLC, Edward F. "Frank" Cossey and Gary Williams, were engaged in  
15 an illegal "Ponzi" scheme developed by them to defraud investors. Between 1998 and 2000 TLC  
16 lost at least \$15 million. In order to make interest payments to its current investors, TLC used  
17 money from new investors creating a classic "Ponzi" scheme.

18 14. In 2000, the United States District Court, Central District of California, placed  
19 TLC into receivership and appointed Mr. Robb Evans as Receiver. Pursuant to his authority as  
20 Receiver, Robb Evans caused to be filed an action for disgorgement of commissions against all  
21 of sales agents of TLC and included Respondents in such action. The Receiver settled the action  
22 against Respondents by agreeing to have ISN return the majority share of the override  
23 commissions ISN received from TLC. In addition, Hector Serrano agreed to forego any future  
24 distributions/returns on the principal investment of \$150,000 which may have been forthcoming  
25 from the Receiver. All terms of the settlement with the Receiver have been complied with by  
26 Respondents.

27 15. The United States Attorney General also brought a criminal complaint against  
28 Edward F. "Frank" Cossey, TLC's Chief Executive Officer, and Gary Williams, TLC's Chief

1 Financial Officer. Frank Cossey and Gary Williams subsequently pled guilty to tax evasion and  
2 mail fraud based on their illegal activities at TLC.

3 16. As of October 5, 2000, ISN and Serrano ceased performance of the administrative  
4 services it provided to TLC and the independent sales agents.

5 17. It has subsequently been determined by the Commissioner of Corporations for the  
6 State of California that the TLC investments were "securities" within the meaning of California  
7 Corporate Securities Law of 1968, Corporations Code 25000 *et seq.* ("CSL"). The TLC  
8 securities were not qualified with the State of California nor were there any exemptions from  
9 qualification available under the CSL. Neither Serrano nor ISN held securities licenses during  
10 the period ISN received override commissions.

11 18. In consideration of the foregoing admissions and stipulations, the parties agree  
12 that the Commissioner may, without further notice or formal proceeding, issue and enter the  
13 following Order:

14 **ORDER**

15 IT IS HEREBY ORDERED that Hector Serrano and Insurance Services Network will  
16 desist and refrain from the offer or sale in the State of California of investment interest  
17 instruments in the form of promissory notes, real estate investment agreements and/or investment  
18 contracts issued by TLC or of any other security in violation of CSL §25110, for the reason that,  
19 in the opinion of the Commissioner of Corporations of the State of California ("Commissioner"),  
20 the sale of such investment instruments is subject to prior qualification under the CSL as  
21 securities and such investments were offered for sale without first being qualified.

22 IT IS FURTHER ORDERED that Hector P. Serrano and Insurance Services Network  
23 desist and refrain from effecting any transaction in, or inducing or attempting to induce the  
24 purchase or sale of any security in the State of California unless or until they apply for and  
25 secure from the Commissioner a certificate that in effect authorizes them to act in that capacity,  
26 for the reason that, in the opinion of the Commissioner, the sale of the TLC products require  
27 Hector Serrano and ISN to act as a broker-dealer and, as such, Hector Serrano and ISN are  
28 subject to licensing as a broker-dealer pursuant to CSL §25210, and Hector Serrano and ISN are

1 not currently licensed as a broker-dealer in the State of California.

2 IT IS FURTHER ORDERED that Hector P. Serrano and Insurance Services Network  
3 desist and refrain from offering or selling any investment interests and/or contracts issued by  
4 TLC which includes an untrue statement of a material fact or omits to state a material fact  
5 necessary in order to make the statement made, in light of the circumstances under which they  
6 are made, not misleading in violation CSL §25401.

7 Nothing in this Order prohibits Hector P. Serrano and/or ISN from engaging in any sales  
8 or administrative activity that is in compliance with all applicable securities laws.

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10 DATED: \_\_\_\_\_, 2004

11 Sacramento, California

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WILLIAM P. WOOD

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California Corporation Commissioner

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**ACCEPTANCE**

I have carefully read the above Stipulated Settlement and Order and fully discussed it with my attorneys. I understand the Stipulation and the effect it will have on me individually and on ISN as a corporate entity. I enter into this Stipulated Settlement and Order voluntarily, knowingly, and intelligently, and agree on behalf of myself and ISN to be bound by the Stipulated Settlement and Order of the Commissioner of the Department of Corporations.

DATED: \_\_\_\_\_, 2004 By: HECTOR P. SERRANO, Individually and HECTOR P. SERRANO, CEO OF ESN INSURANCE SERVICES NETWORK

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