

State of California - Department of Corporations

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Attorneys for the People of the State of California,

**SUPERIOR COURT OF THE STATE OF CALIFORNIA  
FOR THE COUNTY OF SAN DIEGO**

GIC 788607

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

Plaintiff,

v.

WILLIAM O. WASHBURN; MASTERS PARTNERS, LP; SOUTHERN PACIFIC CAPITAL, LLC; SOUTHERN PACIFIC EQUITIES, LLC; PACIFIC INCOME FUND II, LLC; MASTERS ADMINISTRATORS, LLC; WEST CAPITAL, LLC; PACIFIC CAPITAL MANAGEMENT II, LLC; ATLANTIC CAPITAL CORPORATION; MERIDIAN CAPITAL CORP.; WILLIAM O. WASHBURN d/b/a SOUTHERN PACIFIC GROUP; and DOES 1 through 150, inclusive,

Defendants.

CASE NO. )  
COMPLAINT FOR PRELIMINARY INJUNCTION; PERMANENT INJUNCTION; CIVIL PENALTIES AND ANCILLARY RELIEF )  
[VIOLATIONS OF CALIFORNIA CORPORATIONS CODE SECTION 25110 and 25210]

Demetrios A. Boutris, California Corporations Commissioner ("Commissioner"), acting to protect the public from unlawful offers and sales of unqualified securities and unlicensed broker-dealer activity by corporations and individuals, brings this action in the public interest in the name of the People of the State of California. The People of the State of California allege as follows:

**JURISDICTION AND VENUE**

1 1. The Commissioner brings this action to enjoin the Defendants from violating the  
2 Corporate Securities Law of 1968 (California Corporations Code section Corporations Code 25000,  
3 et seq.) and to request necessary equitable and ancillary relief.

4 2. The Commissioner brings this action pursuant to Corporations Code section 25530 and  
5 California Government Code section 11180, et seq., in his capacity as head of the California  
6 Department of Corporations.

7 3. The Defendants, and each of them, have transacted and continue to transact business  
8 within San Diego County and other counties of California. The violations of law described herein  
9 have occurred and will continue to occur within San Diego County and elsewhere in California unless  
10 enjoined.

11 **DEFENDANTS**

12 **Individual Defendant**

13 4. Defendant William O. Washburn and Does 1 through 10, inclusive (hereafter  
14 collectively referred to as "Washburn") is an individual and believed to be a resident of the State of  
15 Nevada. Washburn was formerly a resident of the State of California and conducted business in San  
16 Diego County and elsewhere within the state. Washburn is the sole managing member of West  
17 Capital, LLC. Washburn is a managing member of Masters Administrators, LLC. Washburn is the  
18 sole officer and director of Atlantic Capital Corporation and Meridian Capital Corporation.

19 5. Washburn is the sole signatory on all known bank accounts held by each and every  
20 Entity Defendant.

21 6. Washburn also is a managing member, officer, director, principal or primary control  
22 person of each and every of the following "Entity Defendants".

23 **Entity Defendants**

24 7. Defendant Masters Partners, LP, and Does 11 through 20, inclusive, (hereafter  
25 collectively referred to as "Masters Partners") is a Delaware limited partnership and the issuer of  
26 promissory notes. The general partner of Masters Partners is Masters Administrators, LLC.

27 8. Defendant Masters Administrators, LLC, and Does 21 through 30, inclusive,  
28 (hereafter collectively referred to as "Masters Administrators") is a California limited liability

1 company. Washburn and Defendant Atlantic Capital Corporation are the sole members of Masters  
2 Administrators.

3 9. Defendant Atlantic Capital Corporation, and Does 31 through 40, inclusive (hereafter  
4 collectively referred to as "Atlantic") is a California corporation. Washburn is the sole officer and  
5 director of Atlantic.

6 10. Defendant Southern Pacific Capital, LLC, and Does 41 through 50, inclusive, (hereafter  
7 collectively referred to as "Southern Pacific Capital") is a Delaware limited liability company and the  
8 issuer of promissory notes. Washburn and Defendant West Capital, LLC are the sole members of  
9 Southern Pacific Capital.

10 11. Defendant Southern Pacific Equities, LLC, and Does 51 through 60, inclusive, (hereafter  
11 collectively referred to as "Southern Pacific Equities") is a Delaware limited liability company and  
12 the issuer of promissory notes. Washburn is the sole and managing member of Southern Pacific  
13 Equities.

14 12. Defendant Pacific Income Fund II, LLC, and Does 61 through 70, inclusive, (hereafter  
15 collectively referred to as "Pacific Income Fund") is a Nevada limited liability company and the  
16 issuer of promissory notes. Washburn and Defendant Pacific Capital Management II, LLC are the  
17 sole members of Pacific Income Fund.

18 13. Defendant West Capital, LLC, and Does 71 through 80, inclusive, (hereafter collectively  
19 referred to as "West Capital") is a Nevada limited liability company and a managing member of  
20 Southern Pacific Capital. Washburn is the sole and managing member of West Capital.

21 14. Defendant Pacific Capital Management II, LLC, and Does 81 through 90, inclusive,  
22 (hereafter collectively referred to as "Pacific Capital Management") is a Delaware limited liability  
23 company and a managing member of Pacific Income Fund. Washburn is the sole and managing  
24 member of Pacific Capital Management.

25 15. Defendant Meridian Capital Corp., and Does 91 through 100, inclusive ("Meridian Capital  
26 Corp.") is a Nevada corporation that marketed and sold nine-month promissory notes issued by non-  
27 defendant McCarn's Allstate Finance, Inc. (hereafter referred to as "McCarn's Allstate"). Washburn  
28 is the sole officer, director and control person of Meridian Capital Corp.

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1           16. Defendant William O. Washburn d/b/a Southern Pacific Group, and does 101 through  
2 110, inclusive, (hereafter collectively referred to as "Southern Pacific Group") is a fictitious business  
3 name for Washburn and at times has been used as the name of the administrator, principal and control  
4 person of all Entity Defendants.

5           17. Each and every Defendant has maintained offices within the State of California at: 4225  
6 Executive Drive, San Diego, California, 92121 and 4365 Executive Drive, Suite 740, San Diego,  
7 California 92121. The Defendants have and continue to maintain an office within the State of  
8 Nevada at: 2241 Park Place, Suite A-2, Minden, Nevada 89423. The Defendants, and each of them,  
9 have transacted business within San Diego County and other counties in California. The violations of  
10 law described herein have occurred and will continue to occur, unless enjoined, within San Diego  
11 County and elsewhere within the State of California.

12           18. The Commissioner is informed and believes, and on such information and belief alleges  
13 that, at all relevant times, each Defendant is, and at all times was, the agent, servant, employee,  
14 partner, and/or joint venturer of the other Defendants, and that each Defendant, in performing the acts  
15 alleged in this complaint, was acting within the scope of such agency, service, employment,  
16 partnership, or joint venture, and with the knowledge, permission, and/or consent of each and every  
17 other Defendant.

18           19. The Commissioner is informed and believes, and on such information and belief alleges  
19 that each Defendant alleged to have committed any act, did and committed the same pursuant to a  
20 common plan and scheme among all named Defendants, and did so as the agent for each and all of  
21 his co-Defendants and pursuant to and in furtherance of such common plan and scheme.

22           20. Defendants Does 1 through 150, inclusive, are persons, corporations, partnerships or other  
23 entities who have done or will do acts otherwise alleged in this Complaint. The Commissioner is  
24 informed and believes and on such information and belief alleges that Defendants Does 1 through  
25 150, inclusive, at all relevant times, have acted and are continuing to act in concert with the  
26 Defendants named in this complaint, and each of them has participated in the acts and transactions  
27 which are the subject of this Complaint. The true names and capacities of Does 1 through 50,  
28 whether individual, corporate or otherwise, are unknown to the Commissioner, who therefore sues

1 such Defendants under such fictitious names, pursuant to the provisions of Section 474 of the Code of  
2 Civil Procedure. The Commissioner will seek leave of the court to amend the complaint to allege the  
3 true names and capacities of such Defendants at such time as the same have been ascertained.

4 21. The Commissioner is informed and believes and on such information and belief alleges  
5 that at all relevant times herein, all the Entity Defendants named in paragraphs 7 through 16,  
6 inclusive, were the alter egos of Defendant Washburn.

7 22. The Commissioner is informed and believes and on such information and belief alleges  
8 that at all relevant times, the Defendants named as officers, directors, agents, members or managing  
9 members, acted in such capacities in connection with the acts, practices and schemes of business set  
10 forth below.

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

17 24. The Commissioner is informed and believes and on such information and belief alleges  
18 that at all relevant times, each and every Defendant, directly or indirectly controlled other Defendants  
19 by knowingly inducing, or by knowingly providing substantial assistance to other Defendants, to  
20 violate provisions of the Corporate Securities Law of 1968, as alleged in this Complaint within the  
21 meaning of Corporations Code section 25403.

22 25. Whenever any allegation is made in this Complaint to any Entity Defendant doing any  
23 act, the allegations shall mean acts done or authorized by the officers, directors, agents, members or  
24 managing members of the Entity Defendants while actively engaged in the management, direction or  
25 control of the affairs of the Entity Defendants, and while acting within the course and scope of their  
26 employment.

27 26. The Commissioner is informed and believes, and on such information and belief alleges  
28 that at all relevant times, the Entity Defendants were mere instrumentalities and/or conduits through

1 which Washburn carried on business; that the Entity Defendants were so influenced and controlled by  
2 Washburn in the conduct of their business and affairs, that there exists a unity of interest and  
3 ownership among said parties, so that adherence to the fiction of separate corporate and individual  
4 existences would sanction a fraud and serve an injustice upon the public.

#### 5 STATEMENT OF FACTS

6 27. The Commissioner re-alleges and incorporates by reference paragraphs 1 through 26 of  
7 this complaint as though fully set forth herein.

8 28. Beginning in 1997 and through 2001, each and every Defendant offered and sold  
9 unqualified securities in the form of promissory notes in violation of Corporations Code section  
10 25110. Specifically, each and every Defendant was substantially involved in the offer and sale of  
11 unqualified securities in the form of promissory notes issued by Masters Partners, Southern Pacific  
12 Capital, Southern Pacific Equities, Pacific Income Fund and McCarn's Allstate.

13 29. Beginning in 2000 and through 2001, Washburn and Meridian Capital Corp. engaged in  
14 unlicensed broker-dealer activity in violation of Corporations Code section 25210. Specifically,  
15 Washburn and Meridian Capital Corp. effected transactions in the sale securities by offering to sell  
16 and selling McCarn's Allstate promissory notes.

17 30. Washburn worked up until 1997 as a registered representative of First Allied  
18 Securities("First Allied"), a licensed broker-dealer of the Commissioner. While employed by First  
19 Allied, Washburn had access to the names, telephone numbers, addresses and financial information  
20 of hundreds of clients with the now defunct Orange County, California company, Alliance For  
21 Mature Americans.

22 31. In July 1996, Alliance for Mature Americans was sued by the California Attorney  
23 General for Business and Professions Code and Civil Code violations. The Attorney General alleged  
24 that Alliance for Mature Americans had engaged in the unlawful practice of law, breached its  
25 fiduciary duty to its customers, and engaged in unfair competition. The suit prayed for \$200,000,000  
26 in restitution for investors. A final judgment was entered against Alliance for Mature Americans on  
27 April 4, 1997, for \$1,400,000.

28 32. Washburn gained access to AMA client information while he was in the employ of

1 First Allied due to the close business relationship between First Allied and Alliance for Mature  
2 Americans.

3 33 Washburn left First Allied in or approximately 1997 and began forming the Entity  
4 Defendants. Washburn then hired sales agents to sell promissory notes issued by Masters Partners,  
5 Southern Pacific Capital, Southern Pacific Equities, and Pacific Income Fund (hereafter "the  
6 Southern Pacific Group note programs").

7 34. In 2000, Washburn also instructed the sales agents to offer and sell McCarn's Allstate  
8 notes through his company Meridian Capital Corp..

9 35. Washburn provided the names and contact information that he acquired from AMA to  
10 his sales agents. These former Alliance for Mature Americans clients were then contacted and were  
11 then offered and sold investment opportunities.

12 36. According to offering materials used by Defendants, Masters Partners was the  
13 purveyor of art reproductions and engaged in speculative investment activities; Southern Pacific  
14 Capital invested in government obligations, corporate debt and mezzanine financing; Southern  
15 Pacific Equities utilized hedging strategies; and Pacific Income Fund made short-term to  
16 intermediate-term loans secured by real property.

17 37. McCarn's Allstate is a company based in Florida and not owned or controlled by  
18 Washburn or any other Defendant named in this Complaint. According to its offering materials, it  
19 financed auto loans. The State of Florida's Department of Banking and Finance filed an  
20 administrative complaint against McCarn's Allstate. The states of Alabama, Arizona and Illinois also  
21 have issued regulatory orders against McCarn's Allstate to cease and desist from further offers and  
22 sales of securities within their respective states.

23 38. Upon a visit to the homes of the elderly persons, the sales agents would advise the  
24 investor to purchase promissory notes issued by the Defendants, and later, notes issued by McCarn's  
25 Allstate. The typical duration on these notes was between three and five years, with interest to be  
26 paid monthly on the notes. The sales agent promised investors annual interest rates of up to 11.25%  
27 to be paid monthly.

28 39. In many cases, the funds used to purchase the notes represented large portions of the

1 investor's retirement savings. Many investors depended upon the promised monthly interest to  
2 finance the basic necessities of life.

3 40. The Masters Partners, Southern Pacific Capital, Southern Pacific Equities, and Pacific  
4 Income Fund note programs were newly formed with no operating history and were extremely  
5 speculative and risky. Many of the investors were unsophisticated in financial matters and unable to  
6 fully appreciate the risk of investing in the Defendants' high-risk investment note programs.

7 41. From 1997 to 2001, the Defendants raised no less than \$30 million from at least 150  
8 investors for the Southern Pacific Group note programs. From 1997 until the fall of 2000, investors  
9 in the Southern Pacific Group note program received regular monthly interest payments from the  
10 Defendants.

11 42. In or around September of 2000, the Defendants bounced interest checks to every  
12 investor in all of the Southern Pacific Group note programs. The Defendants explained to investors  
13 that the checks were dishonored due a mistake by their bank. Later, the Defendants were able to  
14 issue replacement interest checks to investors that were honored by the bank.

15 43. In or around August 2001, the Defendants again bounced interest checks to every  
16 investor in all of the Southern Pacific Group note programs. As of the date of this complaint, the  
17 Defendants have not issued any replacement checks, and have offered investors a myriad of excuses  
18 for non-payment.

19 44. During 2000 through 2001, Washburn and Meridian Capital Corp. sold no less than \$  
20 1.4 million in the McCarr's Allstate notes to no less than 30 investors.

21 45. Washburn recently relocated his operations to the Minden, NV office.

#### 22 **FIRST CAUSE OF ACTION**

#### 23 **UNQUALIFIED OFFER AND SALE OF NON-EXEMPT SECURITIES** 24 **IN VIOLATION OF CORPORATIONS CODE SECTION 25110** **(ALL DEFENDANTS)**

25 46. Plaintiff realleges and incorporates by reference paragraphs 1 through 45 of this  
26 Complaint as though fully set forth herein.

27 47. California Corporations Code section 25110 states, in pertinent part:

28 It is unlawful for any person to offer or sell in this state any security in



an issuer transaction . . . whether or not by or through underwriters . . . unless such sale has been qualified under Section 25111 . . . or unless such security or transaction is exempted under Chapter 1 (commencing herein, with Section 25100) of this part.

48. Beginning in 1997 and through 2001, the Defendants and each of them, offered and sold, or conspired with other co-defendants, directly or indirectly controlled other co-defendants by knowingly inducing, or by knowingly providing assistance to other co-defendants to offer and sell securities in issuer transactions.

49. The promissory notes issued by the Defendants, and each of them, in the various Southern Pacific Group note programs and those sold by Washburn and Meridian Capital Corp. in McCarn's Allstate notes are "securities" within the meaning of Corporations Code section 25019 and the case law thereunder.

50. Defendants, and each of them, "offered and sold" Southern Pacific Group note program promissory notes and/or McCarn's Allstate promissory notes "within the state" of California within the meaning of Corporations Code sections 25008 and 25017.

51. The sales of the Southern Pacific Group note program and McCarn's Allstate promissory notes were "issuer transactions" within the meaning of Corporations Code sections 25010 and 25011.

52. The Commissioner has not issued a permit or other form of qualification authorizing the Defendants, and each of them, to offer and sell securities referred to herein in the State of California. The offer and sale of securities referred to herein are not exempt from the requirement of qualification under Corporations Code section 25110.

53. Defendants' pattern of conduct, as set forth above, demonstrates the necessity for granting permanent injunctive and ancillary relief restraining such and similar acts in violation of §25110, and providing restitution or disgorgement to investors, as well as imposition of appropriate civil penalties.

WHEREFORE, Plaintiff prays for judgment against defendants, and each of them, as set forth below.

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SECOND CAUSE OF ACTION

ENGAGING IN THE BUSINESS OF A BROKER-DEALER  
WITHOUT A LICENSE IN VIOLATION OF CORPORATIONS CODE SECTION 25210  
(DEFENDANTS MERIDIAN CAPITAL CORP., WASHBURN)

54. Plaintiff realleges and incorporates by reference paragraphs 1 through 53 of this Complaint as though fully set forth herein.

55. Corporations Code section 25210 states, in pertinent part:

...[N]o broker-dealer shall effect any transaction in, or induce or attempt to induce the purchase or sale of, any security in this state unless the broker-dealer has first applied for and secured from the commissioner a certificate, then in effect, authorizing that person to act in that capacity.

56. Corporations Code section 25004 states, in pertinent part:

“Broker-dealer” means any person engaged in the business of effecting transactions in securities in this state for the account of others or for his own account...

57. Defendants Meridian Capital Corp. and Washburn effected transactions in, or induced or attempted to induce the purchase or sale of McCarn’s Allstate promissory notes.

58. The McCarn’s Allstate promissory notes were securities as defined by Corporations Code section 25109.

59. Defendants Meridian Capital Corp. and Washburn conducted business as broker-dealers in this state.

60. Defendants Meridian Capital Corp. and Washburn did not apply for and secure from the Commissioner, any certificates authorizing them to conduct business as broker-dealers.

61. By conducting business as broker-dealers without first applying for and securing any certificates to do so, Defendants Meridian Capital Corp. and Washburn violated, or aided and abetted in violations of Corporations Code section 25210.

62. Defendants’ pattern of conduct, as set forth above, demonstrates the necessity for granting permanent injunctive and ancillary relief restraining such and similar acts in violation of

1 §25210, and providing restitution or disgorgement to investors, as well as imposition of appropriate  
2 civil penalties.

3 WHEREFORE, Plaintiff prays for judgment against defendants, and each of them, as set forth  
4 below.

5 **PRAYER FOR RELIEF**

6 WHEREFORE, the Commissioner prays for judgment as follows:

7 1. For an order of preliminary injunction and for a judgment of permanent injunction  
8 enjoining all Defendants and each of them, and their officers, directors, successors-in-interest, agents,  
9 employees, attorneys-in-fact, and all persons acting in concert or participating with them, or any of  
10 them, from directly or indirectly offering or selling in the state of California, any security in an issuer  
11 transaction, whether or not by or through underwriters, unless such sale has been qualified or unless  
12 such security or transaction is exempted or not subject to qualification pursuant to Corporations Code  
13 section 25110;

14 2. For an order of preliminary injunction and a judgment of permanent injunction  
15 enjoining Defendants Meridian Capital Corp. and Washburn and their officers, directors, successors-  
16 in-interest, agents, employees, attorneys-in-fact, and all persons acting in concert or participating with  
17 them, or any of them, from directly or indirectly effecting any transaction in, or inducing, or attempt  
18 to induce the purchase or sale of, any security in the state of California unless they first apply for and  
19 secure from the commissioner a certificate, then in effect, authorizing them to act in that capacity, or  
20 unless exempt, pursuant to Corporations Code section 25210 ;

21 3. For a final judgment requiring the Defendants, and each of them, and such Does as  
22 may be subsequently named, individually, jointly and severally, to rescind each and all of the  
23 unlawful transactions alleged in this Complaint, as shall be determined by the Court to have occurred,  
24 and further requiring Defendants and such Does as may be subsequently named individually, jointly  
25 and severally, to make full restitution to each person determined to have been subjected to  
26 Defendants' unlawful acts or practices which constitute a violation of the Corporate Securities Law of  
27 1968, in an amount of at least \$30,000,000 and in a manner provided for by law, or according to  
28 proof;

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1 4. For a final judgment requiring Defendants, and each of them, and such Does as may be  
2 subsequently named, individually, jointly and severally, to disgorge to all known persons who  
3 invested, all benefits received, including by not limited to salaries, commissions, fees and profits,  
4 derived directly or indirectly from the acts or practices which constitute violations of the Corporate  
5 Securities Law of 1968.

6 5. For a final judgment requiring the Defendants, and each of them, to pay \$25,000 for  
7 each violation of the Corporate Securities Law of 1968, as authorized by Corporations Code section  
8 25535, in an amount up to \$3,750,000, for at least one hundred and fifty violations of Corporations  
9 Code section 25110 or any other amount according to proof;

10 6. For a final judgment requiring Washburn and Meridian Capital Corp., jointly and  
11 severally, to pay \$25,000 for each violation of the Corporate Securities Law of 1968, as authorized by  
12 Corporations Code section 25535, in an amount up to \$750,000, for at least thirty violations of  
13 Corporations Code section 25210 or any other amount according to proof;

14 7. For an order of preliminary injunction and a judgment of permanent injunction  
15 enjoining the Defendants, and each of them, and such Does as may be subsequently named, and their  
16 directors, officers, agents, servants, employees, attorneys in fact, and all other persons acting in  
17 concert or participating with them, from directly or indirectly:

18 a. Removing, destroying, mutilating, concealing, altering, transferring, or otherwise  
19 disposing of, in any manner, any books, records, computer programs, computer files,  
20 computer print outs, correspondence, brochures, manuals, or any other writings or  
21 documents of any kind as defined under California Evidence Code section 250 relating  
22 to the transactions and course of conduct as alleged in the Complaint in this action;  
23 and

24 b. Transferring, changing, disbursing, selling, dissipating, converting, conveying,  
25 pledging, assigning, encumbering, or foreclosing or otherwise disposing of any real or  
26 personal property or any assets un their possession or under their control, or in the  
27 possession of, or under the control of, any of the Defendants, which property or other  
28 assets were derived or emanated from directly, or indirectly, the sale and issuance of

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securities as alleged in this Complaint, without leave of the Court.

8. For an order requiring the Defendants, and each of them, to pay the fees and costs reasonably incurred by the Commissioner herein, pursuant to Corporations Code section 25608(r).

9. For this Court to retain jurisdiction of this action in order to implement and carry out the terms of all orders and decrees that may be entered herein or to entertain any suitable application or motion by the Commissioner for additional relief within the jurisdiction of this Court.

10. For such other and further relief as this Court may deem necessary and proper.

DATED: May 10, 2002

Respectfully submitted,  
DEMETRIOS A. BOUTRIS  
California Corporations Commissioner

By: \_\_\_\_\_  
SEAN M. ROONEY  
Corporations Counsel  
Attorney for the People of the State of  
California