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

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. GIC 788607 **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. The Commissioner brings this action to enjoin the Defendants from violating the Corporate Securities Law of 1968 (California Corporations Code section Corporations Code 25000, et seq.) and to request necessary equitable and ancillary relief.

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

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

DEFENDANTS

Individual Defendant

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

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

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

Entity Defendants

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

STATEMENT OF FACTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FIRST CAUSE OF ACTION

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

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

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

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

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> 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

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§25210, 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.

PRAYER FOR RELIEF

WHEREFORE, the Commissioner prays for judgment as follows:

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

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

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

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

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

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

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

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

b. Transferring, changing, disbursing, selling, dissipating, converting, conveying, pledging, assigning, encumbering, or foreclosing or otherwise disposing of any real or personal property or any assets un their possession or under their control, or in the possession of, or under the control of, any of the Defendants, which property or other 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

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