WILLIAM KENEFICK (59588)
Acting Commissioner of Corporations
G. W. McDONALD (55907)
Assistant Commissioner
MARK BRECKLER (81577)
Supervising Counsel
W. RICHARD SINTEK (134894)
Corporations Counsel
R. MICHAEL LLEWELLYN (186154)
Corporations Counsel
980 Ninth Street, 5th Floor
Sacramento, CA 95814
Telephone: (916) 322-6998
Attorneys for Commissioner

SUPERIOR COURT OF THE STATE OF CALIFORNIA

FOR THE COUNTY OF SACRAMENTO

SUMMONS ISSUED

KEYD 3

THE PEOPLE OF THE STATE OF CALIFORNIA, by and through the COMMISSIONER OF CORPORATIONS, Plaintiff, v. HAPJACK MARKETING, INC.; INNOVATIVE BUSINESS SOLUTIONS, LLC; HOTEL CONNECT, LLC; WORLD CASH NETWORK, LLC; BILLY RAY SMITH; CLAUDE D. SMITH; MARK L.EHRLICH; BRIAN T. GRIGGS; GARY M. APPELBLATT; DAVID D. FARRELL; HAROLD P. COFFIN; AND DOES 1 through 100, Defendants.	Case No. 00AS00776 COMPLAINT FOR INJUNCTION AND ANCILLARY RELIEF (VIOLATION OF CORPORATE SECURITIES LAW) CORPORATIONS CODE §25110 (Qualification Requirement) CORPORATIONS CODE §25401 (Disclosure Requirement)

THE PEOPLE OF THE STATE OF CALIFORNIA, by and through William Kenefick, California Corporations Acting Commissioner and head of the California Department of Corporations ("DOC"), allege as follows on information and belief:

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JURISDICTION AND VENUE

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

2. The Commissioner brings this action pursuant to CSL section 25530 and Government Code section 11180 in his capacity as head of the DOC.

3. Defendants have transacted and continue to transact business within Sacramento County and other counties of California. The violations of law described herein have occurred and will continue to occur within Sacramento County and elsewhere within California unless enjoined.

DEFENDANTS

4. Hapjack Marketing, Inc.("Hapjack") is a California corporation, incorporated on or about August 1, 1994. Its principal place of business is 3649 West Beechwood, Fresno, California 93711. At all relevant times herein, Hapjack is controlled by Billy Ray Smith, Claude Smith, Brian Griggs and David Farrell.

5. Hotel Connect, LLC ("HC") is a California limited liability company organized to conduct business in California on or about March 27, 1997. Its principal place of business is 3649 West Beechwood, Fresno, California 93711.

6. Innovative Business Solutions, LLC ("IBS") is a California limited liability company organized to do business in California on or about July 19, 1996. Its principal place of business is 3649 West Beechwood, Fresno, California 93711. At all relevant times herein, IBS is controlled by Hapjack.

7. World Cash Network, LLC ("WCN") was a Nevada limited liability company qualified to do business in Nevada on or about October 23, 1997. The Nevada Secretary of State revoked WCN's limited liability company status on or about July 1, 1999. Its principal place of business at all relevant times herein is 3649 West Beechwood, Fresno, California 93711. At all relevant times herein, WCN is controlled by Hapjack.

8. Billy Ray Smith is an individual residing in Fresno County. At various times pertinent hereto, he was an officer, director, member, manager or shareholder for Hapjack, HC, IBS, and WCN. He was at all times pertinent hereto, a controlling person providing substantial assistance to Hapjack, HC, IBS, and WCN.

9. Claude D. Smith, brother of Billy Ray Smith, is an individual residing in Fresno County. At various times pertinent hereto, he was an officer, shareholder, member, manager or director for Hapjack, HC, IBS, and WCN. He was, at all times pertinent hereto, a controlling person providing substantial assistance to Hapjack, HC, IBS and WCN.

10. Mark L. Ehrlich ("Ehrlich") is an individual residing in Fresno County. At various times pertinent hereto, he was an officer, member, manager or director for HC, IBS and WCN. He was, at all times pertinent hereto, a controlling person providing substantial assistance to HC, IBS and WCN.

11. Brian T. Griggs ("Griggs") is an individual residing in Fresno County. At various times, pertinent hereto, he was an officer, shareholder, director, member or manager for Hapjack, HC, IBS, and WCN. He was, at all times pertinent hereto, a controlling person providing substantial assistance to Hapjack, HC, WCN, and IBS.

12. Gary M. Appelblatt ("Appelblatt") is an individual residing in Sacramento County. At all times herein, he acted as trustee in connection with promissory notes issued by HC, WCN and IBS. In connection with the promissory notes, he was at all times pertinent hereto, an offeror within the meaning of CSL sections 25008 and 25017, and he was providing substantial assistance to the co-defendants violating the CSL provisions alleged herein, all within the meaning of CSL section 25403(b).

13. David D. Farrell ("Farrell") is an individual residing in Fresno County. At various times pertinent hereto, he was a director, officer, shareholder, member, or manager for Hapjack, HC, IBS, and WCN. He was, at all times pertinent hereto, a controlling person providing substantial assistance to Hapjack, HC, WCN, and IBS.

14. Harold P. Coffin ("Coffin") is an individual residing in Fresno County. At various times pertinent hereto, he was the Chief Financial Officer, director, officer, shareholder,

member, or manager for Hapjack, HC, IBS, and WCN. In 1992 the California Board Of Accountancy revoked Coffin's license to practice as a certified public accountant in California. He was, at all times pertinent hereto, a controlling person providing substantial assistance to Hapjack, HC, WCN, and IBS.

15. Defendants DOES 1 through 100 are persons, corporations, partnerships, limited liability companies, or other entities that have done acts alleged in this Complaint. Plaintiff alleges that said defendants, Does 1 through 100, at various times mentioned herein, have acted and are continuing to act in concert with the defendants named in paragraphs 4-14; that each of said Does participated in the alleged acts and transactions; and that each is responsible therefore. Their true names and capacities, whether individual, corporate, associate or otherwise, are unknown to plaintiff and are named herein pursuant to section 474 of the Code of Civil Procedure as Does 1 through 100. Plaintiff hereby asks leave to amend this complaint to show their true names and capacities when they have been determined.

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

17. Whenever any allegation is made in this Complaint of the act of any company defendant, the allegation shall mean acts done or authorized by the officers, directors, managing partners, and the agents and employees of said company defendant while acting within the course and scope of their employment.

STATEMENT OF FACTS

18. In sum, for approximately three years Defendants have been fraudulently marketing unqualified securities in the form of short-term promissory notes. Defendants have obtained an estimated $20 million from the issuance, offer and sale of these unqualified securities to hundreds of investors, many of whom are elderly California residents.

IBS SHORT-TERM PROMISSORY NOTES

19. IBS is a start-up business with no operating history and no financial statements. IBS was organized by Billy Ray Smith, Claude Smith, and Griggs to locate sites for the sale, installation and maintenance of automated teller machines ("ATMs") and cash ticket machines (CTMs").

20. To raise funds, IBS issues nine-month promissory notes in denominations of $25,000 totaling $5 million. The offer and sale of IBS promissory notes is effected in part through the use of a written offering statement dated December 1, 1996 ("IBS Offering Statement"). The IBS Offering Statement was prepared or authorized by Defendants.

21. At all times herein, attorney Gary M. Appelblatt of Sacramento, California, acted as trustee for the IBS promissory note issuance pursuant to the IBS Offering Statement. As such, IBS investors and prospective investors correspond with trustee Appelblatt's Sacramento office on a regular basis.

22. IBS investors are initially promised a 13.35% annual rate of return, paid quarterly. However, principal is seldom repaid at the end of the first nine month promissory note term because investors are repeatedly offered and sold a replacement IBS promissory note for an additional nine month term at the increased annual rate of return of 15%.

23. From late 1996 to the present, at least $5 million of IBS promissory notes have been offered and sold to at least 50 investors scattered throughout the United States, including California.

24. Approximately $2 million of IBS notes remain outstanding and unpaid, accruing interest at the promised rate of 13.35% - 15% per annum.

HC SHORT TERM PROMISSORY NOTES

25. HC is a start-up business with no operating history and no financial statements. HC was organized by Billy Ray Smith, Claude Smith, and Griggs to locate sites for the sale, installation, and maintenance of telephone service in economy motel rooms.

26. To raise funds, HC issues nine-month promissory notes in denominations of $25,000 totaling $10 million. The offer and sale of HC promissory notes is effected in part

through the use of written offering statements dated March 31, 1997 ("HC Offering Statements"). The HC Offering Statements were prepared or authorized by Defendants.

27. At all times herein, attorney Gary M. Appelblatt of Sacramento, California, acted as trustee for the HC promissory note issuance pursuant to the HC Offering Statements. As such, HC investors and prospective investors correspond with trustee Appelblatt's Sacramento office on a regular basis.

28. HC investors are initially promised a 13.35% annual rate of return, paid quarterly. However, principal is seldom repaid at the end of the first nine month promissory note term because investors are repeatedly offered and sold a replacement HC promissory note for an additional nine month term at the increased annual rate of return of 15%.

29. From mid-1997 to the present, approximately $10 million of HC promissory notes have been offered and sold to at least 200 investors scattered throughout the United States, including California.

30. Approximately $8 Million of HC notes remain outstanding and unpaid, accruing interest at the promised rate of 13.35% - 15% per annum.

WCN SHORT-TERM PROMISSORY NOTES

31. WCN is a start-up business with no operating history and no financial statements. WCN was organized by Billy Ray Smith, Claude Smith, Griggs, and Ehrlich to locate sites for the sale, installation, and maintenance of ATMs and CTMs.

32. To raise funds, WCN issues nine-month promissory notes in denominations of $25,000 totaling $5 million. The offer and sale of WCN promissory notes is effected in part through the use of a written offering statement dated September 1, 1997 ("WCN Offering Statement"). The WCN Offering Statement was prepared or authorized by Defendants.

33. At all times herein, attorney Gary M. Appelblatt of Sacramento, California, acted as trustee for the WCN promissory note issuance pursuant to the WCN Offering Statement. As such, WCN investors and prospective investors correspond with trustee Appelblatt's Sacramento office on a regular basis.

34. WCN investors are initially promised a 13.35% annual rate of return, paid quarterly. However, principal is seldom repaid at the end of the first nine month promissory note term because investors are repeatedly offered and sold a replacement WCN promissory note for an additional nine month term at the increased annual rate of return of 15%.

35. From late 1997 to the present, at least $5 million of WCN promissory notes have been offered and sold to at least 100 investors scattered throughout the United States, including California.

36. Approximately $4 million of WCN notes remain outstanding and unpaid, accruing interest at the promised rate of 13.35% - 15% per annum.

HAPJACK MARKETS THE PROMISSORY NOTES

37. Promissory notes issued by IBS, HC, and WCN are offered and sold to the investing public by sales agents organized and paid monetary commissions by Hapjack.

38. Hapjack acts as master agent by locating, recruiting and purportedly training these sales agents to raise funds for IBS, HC, and WCN by offering and selling promissory notes as more fully described in the offering statements.

39. On occasion, Hapjack uses the services of P. Michael Goodman doing business as GAC Marketing to locate, recruit, and train sales agents. P. Michael Goodman has been permanently barred from working in the securities industry since April of 1996.

40. Many of the sales agents located by Hapjack are life and health insurance salespersons who target the elderly as prospective investors. Most of these sales agents are not licensed to offer and sell securities such as the promissory notes issued by IBS, HC and WCN.

FIRST CAUSE OF ACTION

OFFER AND SALE OF UNQUALIFIED SECURITIES IN VIOLATION OF CSL SECTION 25110 (ALL DEFENDANTS)

41. Plaintiff incorporates by reference paragraphs 1 through 40 of this Complaint as though fully set forth herein.

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42. CSL section 25110 provides in relevant part as follows:

> 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 . . . or unless such security or transaction is exempted or not subject to qualification under Chapter 1 (commencing with Section 25100) of this part. . . .

43. The nine-month promissory notes issued by IBS, HC, and WCN are securities within the provisions of the CSL.

44. The Defendants offered for sale and sold the securities within the state of California within the meaning of CSL sections 25008 and 25017 by making offers within California or by having money paid for those securities mailed, wired or otherwise sent to and received by Defendants while geographically within California.

45. The securities referred to herein are issued by IBS, HC, and WCN. Thus, the sales referred to herein are "issuer transactions" within the meaning of CSL sections 25010 and 25011.

46. The securities referred to herein are issued, offered and sold without Defendants obtaining qualification by the Commissioner.

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

48. In selling these securities without qualification, Defendants offer and sell, or direct or aid and abet, or substantially assist, the offer and sale of such unqualified, non-exempt securities in violation of CSL section 25110. Unless enjoined by this Court, Defendants will continue to violate CSL section 25110.

SECOND CAUSE OF ACTION

MISREPRESENTATION OR OMISSION OF MATERIAL FACTS IN VIOLATION OF CSL SECTION 25401 (ALL DEFENDANTS)

49. Plaintiff realleges and incorporates by reference paragraphs 1 through 48 of this Complaint as though fully set forth herein.

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50. CSL section 25401 states as follows:

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

51. The marketing of these securities is conducted by Hapjack as described herein. Agents recruited and purportedly trained by Hapjack are instructed to provide prospective investors with the IBS Offering Statement, the HC Offering Statements, and/or the WCN Offering Statement.

52. In offering and selling the IBS nine-month promissory note securities referred to herein, Defendants make, aid and abet, or substantially assist the making of, specific untrue statements and/or misrepresentations concerning material facts to some or all prospective investors. In offering and selling the IBS nine month promissory note securities referred to herein, Defendants also omit to state, aid and abet, or substantially assist the omission of, material facts to some or all prospective investors. The misrepresentations or omissions include, but are not limited to, the following:

A. Investors were falsely told that audited annual financial statements and unaudited quarterly financial statements for IBS are available to investors.

B. Investors were not told that IBS no longer has the services of its experienced key executive, Jeffrey McKay.

C. Investors were falsely told that trustee Gary Appelblatt controls investor funds.

D. Investors were falsely told that the IBS securities offering will close as of September 1, 1997.

E. Investors were falsely told that investors can receive principal and interest for a maximum of two terms totaling 18 months.

F. Investors were falsely told that a major source of repayment of principal and interest to investors is income/profit from processing merchant transactions for use of the ATMs and CTMs.

G. Investors were falsely told that the maximum sales commission payable from investor proceeds is 7% of the investment.

H. Investors were not told that investor funds have been and are being transferred to different entities controlled by Defendants.

I. Investors were not told that some of the collateral allegedly securing the promissory notes is no longer in existence.

J. Investors were not told that superior site locations for ATMs or CTMs were allocated to different entities controlled by Defendants, thereby leaving inferior site locations to investors.

53. In offering and selling the HC nine month promissory note securities referred to herein, Defendants make, aid and abet, or substantially assist the making of, specific untrue statements and/or misrepresentations concerning material facts to some or all prospective investors. In offering and selling the HC securities referred to herein, Defendants also omit to state, aid and abet, or substantially assist the omission of, material facts to some or all prospective investors. The misrepresentations or omissions include, but are not limited to, the following:

A. Investors were falsely told that audited annual financial statements and quarterly unaudited financial statements for HC are available to investors.

B. Investors were not told that HC no longer uses the services of experienced key executive, William Yotty.

C. Investors were falsely told that trustee Gary Appelblatt controls investor funds.

D. Investors were falsely told that the offering will close December 1, 1997.

E. Investors were falsely told that the offering is for a maximum of $5 million.

F. Investors were falsely told that a major source of repayment of principal and interest to investors is income/profit from telephonic equipment placed in motel rooms.

G. Investors were falsely told that investors can receive principal and interest for a maximum of two terms totaling 18 months.

H. Investors were falsely told that the maximum sales commission payable from investor proceeds is 7% of the investment.

I. Investors were not told that investor funds have been and are being transferred to different entities controlled by Defendants.

J. Investors were not told that some of the collateral allegedly securing the promissory notes is no longer in existence.

54. In offering and selling the WCN nine month promissory note securities referred to herein, Defendants make, aid and abet, or substantially assist the making of, certain untrue statements and/or misrepresentations concerning material facts to some or all prospective investors. In offering and selling the WCN securities referred to herein, Defendants also omit to state, aid and abet, or substantially assist the omission of, material facts to some or all prospective investors. The misrepresentations or omissions include, but are not limited to, the following:

A. Investors were falsely told that audited annual financial statements and unaudited quarterly financial statements for WCN are available to investors.

B. Investors were falsely told that trustee Gary Appelblatt controls investor funds.

C. Investors were falsely told that the offering will close June 1, 1998.

D. Investors were falsely told that investors can receive principal and interest for a maximum of two terms totaling 18 months.

E. Investors were falsely told that a major source of repayment of principal and interest to investors is income/profits generated from processing merchant transactions for use of the ATMs or CTMs.

F. Investors were not told that some of the collateral initially securing the promissory notes is no longer in existence.

G. Investors were not told that investor funds have been and are being transferred to different entities controlled by Defendants.

H. Investors were not told that superior site locations for ATMs or CTMs were allocated to different entities controlled by Defendants, thereby leaving inferior site locations to investors.

I. Investors were falsely told that the maximum sales commission payable from investor proceeds is 7% of the investment.

55. The misstatements and omissions referred to herein are of material facts within the meaning of CSL section 25401 as construed by pertinent case law because they concern matters which a reasonable investor would consider in deciding whether to invest.

56. Defendants' misrepresentations and omissions are in connection with the offer and sale of securities.

57. Defendants' misrepresentations and omissions are in violation of CSL section 25401. Unless enjoined, Defendants will continue to violate CSL section 25401.

WHEREFORE, plaintiff prays for:

1. Orders of preliminary and permanent injunction enjoining defendants Hapjack Marketing, Inc., Innovative Business Solutions, LLC, Hotel Connect, LLC, World Cash Network, LLC, Billy Ray Smith, Claude D. Smith, Mark L. Ehrlich, Brian T. Griggs, Gary M. Appelblatt, David D. Farrell, and Harold P. Coffin, and such Does as may be subsequently named, from violating Corporations Code section 25110, or aiding and abetting or substantially assisting the violations thereof, by directly or indirectly offering to sell or selling securities including but not limited to those in the form of nine month promissory notes issued by Innovative Business Solutions, LLC, Hotel Connect, LLC, and World Cash Network, LLC.

2. Orders of preliminary and permanent injunction enjoining defendants Hapjack Marketing, Inc., Innovative Business Solutions, LLC, Hotel Connect, LLC, World Cash Network, LLC, Billy Ray Smith, Claude D. Smith, Mark L. Ehrlich, Brian T. Griggs, Gary M. Appelblatt, David D. Farrell, and Harold P. Coffin, and such Does as may be subsequently named, from violating Corporations Code section 25401, or aiding and abetting or substantially assisting the violations thereof, by directly or indirectly offering to sell or selling securities in the form of nine month promissory notes issued by Innovative Business Solutions, LLC, Hotel

Connect, LLC, and World Cash Network, LLC, or any other security, in this state by means of any written or oral communication which contains untrue statements of any material fact or omits or fails to state any material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, including but not limited to the misrepresentations and omissions complained of herein;

3. The appointment of an independent auditor or other designated fiduciary or officer of the Court ("Auditor"), pursuant to and subject to the rights, duties, protections and privileges provided in Corporations Code section 25530 and such additional rights, privileges, duties and responsibilities as this Court may order. Said Auditor shall be provided complete access to all assets, bank accounts, personnel, books and records of defendants Hapjack Marketing, Inc., Innovative Business Solutions, LLC, Hotel Connect, LLC, and World Cash Network, LLC, for the purpose of: (a) confirming collateral pledged to investors; (b) preparing current financial statements including but not limited to balance sheets, income statements and statements of changes in financial condition; and (c) tracing investor proceeds; all at the expense of these entities.

4. Judgment requiring defendants Hapjack Marketing, Inc., Innovative Business Solutions, LLC, Hotel Connect, LLC, and World Cash Network, LLC and such Does as may be subsequently named to be jointly and severally liable to pay full restitution to all known investors who have not been repaid principal and/or interest as promised;

5. Judgment requiring all defendants and such Does as may be subsequently named to be jointly and severally liable to pay civil penalties to the California Corporations Commissioner for each specific violation, according to proof, pursuant to Corporations Code section 25535.

6. Judgment requiring all defendants and such Does as may be subsequently named to disgorge all ill-gotten gains in connection with the offer and sale of securities.

7. This Court to retain jurisdiction of this action 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 plaintiff for additional relief within the jurisdiction of this Court; and

8. Such other and further relief as this Court may deem necessary and proper.

Dated: 2/10/00

WILLIAM KENEFICK
Acting Commissioner of Corporations

By: W. Richard Sintek

W. RICHARD SINTEK
Corporations Counsel
Attorney for Plaintiff