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Los Angeles Superior Court
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John A. Clarke, Executive Officer/Clerk
By D. Garcia, Deputy

SUPERIOR COURT OF THE STATE OF CALIFORNIA

FOR THE COUNTY OF LOS ANGELES

THE PEOPLE OF THE STATE OF CALIFORNIA, by and through the CALIFORNIA CORPORATIONS COMMISSIONER, Plaintiff, v. CALIFORNIA HEALTH SCAN, LLC; JAMES A. WEST; BOB BABANIAN; LOREN G. MORRIS III; and DOES 1-100, inclusive, Defendants.	CASE NO. BC366026 COMPLAINT FOR PRELIMINARY INJUNCTION, PERMANENT INJUNCTION, CIVIL PENALTIES AND ANCILLARY RELIEF VIOLATIONS OF CORP. CODE § 25110 **(UNQUALIFIED SALES OF SECURITIES)** VIOLATIONS OF CORP. CODE § 25401 **(FRAUD IN CONNECTION WITH THE OFFER AND SALE OF SECURITIES)** VIOLATIONS OF CORP. CODE § 25532 **(VIOLATION OF DESIST & REFRAIN ORDER)**

Preston DuFauchard, California Corporations Commissioner ("Commissioner"), acting to protect the public from the unlawful and fraudulent sale of unqualified securities 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:

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JURISDICTION AND VENUE

1. The Commissioner brings this action on behalf of the Plaintiff, the People of the State of California, to enjoin the defendants from violating the provisions of the California Corporate Securities Law of 1968 ("CSL")(Corp. Code §§ 25000 et seq.) and to request necessary equitable and ancillary relief.

2. The Commissioner is authorized to administer and enforce the provisions of the CSL and the regulations thereunder at Title 10, California Code of Regulations. The Commissioner brings this action pursuant to Corporations Code Sections 25530 and 25535 and Government Code Sections 11180 et seq. in his capacity as head of the California Department of Corporations.

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

DEFENDANTS

4. California Health Scan, LLC ("CHS"), at all relevant times hereto, was a Nevada Limited Liability Company, incorporated on September 10, 2001, with its principal place of business at 2034 Cotner Avenue, Suite 400, Los Angeles, CA 90025

5. Defendant James A. West is an individual residing and doing business in Los Angeles County, and at all relevant times hereto, was the president, chief executive officer, and founder of CHS, and in control of CHS within the meaning of Corporations Code Sections 160 and 25403.

6. Defendant Bob Babanian is an individual residing and doing business in Los Angeles County, and at all relevant times hereto, was the Executive Vice President of CHS, and in control of CHS within the meaning of Corporations Code Sections 160 and 25403.

7. Defendant Loren G. Morris III is an individual residing and doing business in Los Angeles County, and at all relevant times hereto, was the chief financial officer and secretary of CHS, and in control of CHS within the meaning of Corporations Code Sections 160 and 25403.

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8. Plaintiff is informed and believes and on such information and belief alleges that, at all relevant times, those defendants named as officers, directors, agents or employees, acted in such capacities in connection with the acts, practices and schemes of business set forth below.

9. 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 or her co-defendants and pursuant to and in furtherance of such common plan and scheme.

10. Plaintiff is informed and believes that at all times herein mentioned, the business entity defendants, continue in existence as alter egos of the individual defendants pursuant to a scheme to obtain money from the public through the offer and sale of securities to the public, and are shells, frameworks and conduits used to transmit investors' money for their own benefit and for the benefit of their affiliates named herein.

11. At all times mentioned herein, the business entity defendants were so influenced and controlled by the individual defendants 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 serve to work an injustice upon the public.

12. Defendants Does 1 through 100 are persons, corporations, partnerships or other entities who have done or will do acts otherwise alleged in this Complaint. Plaintiff is informed and believes, and on such information and belief alleges, that Defendants Does 1 through 100 inclusive, at all times mentioned herein have acted and are continuing to act in concert with the Defendants named herein, and that each of them has participated in the acts and transactions which are the subjects of this Complaint. The true names and capacities of Does 1 through 100, whether individual, corporate or otherwise, are unknown to plaintiff, who therefore sues such Defendants under such fictitious names, pursuant to the provisions of Section 474 of the Code of Civil Procedure. Plaintiff asks 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. When there is reference to "Defendants" in this Complaint, it should be understood to include Does 1 though 100 in addition to the named defendants.

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13. 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 these defendants to so act.

14. Whenever any allegation is made in this Complaint to any of the business entity defendants doing any act, the allegation shall mean acts done or authorized by the officers, directors, agents, and employees of the business entity defendant while actively engaged in the management, direction or control of the affairs of the business entity defendant, and while acting within the course and scope of their employment.

STATEMENT OF FACTS

15. Beginning in September 2001, Defendants James A. West, Bob Barbanian, Loren G. Morris III organized and became officers of Defendant CHS, a Nevada LLC. Defendants CHS, James A. West, Bob Barbanian, and Loren G. Morris III will be referenced hereinafter collectively as the "Issuer Defendants".

16. The purpose of CHS was to establish, market and operate health scan centers in California and Nevada that would use full body C.T. Scans for early detection of various health problems whether of not the customer had physical symptoms.

17. Beginning in October 2001 up through approximately January 2003 the Issuer Defendants offered or sold securities, in the form of investment contracts, specifically 5 million Class "A" Membership Units in CHS at $1.00 per Unit, seeking total proceeds of $5,000,000 if all units were sold.

18. The Issuer Defendants solicited prospective investors by means of general solicitations, unsolicited phone calls and mailings, and used boiler-room sales tactics to pressure members of the public to invest in Class "A" Membership Units. Investors were provided with offering documents, including but not limited to brochures, a private placement memorandum for Class "A" Membership Units, subscription documents, and news articles. Approximately $1,997,313, less than one half the funds sought, was raised through the sale of these Class "A" Membership Units from 118 investors.

19. Following the receipt of complaints from persons offered Class "A" Membership Units, on December 23, 2002 the Commissioner issued a Desist and Refrain Order to defendant CHS,

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defendant James West, and a sales agent Reginald Moore, finding that these Class "A" Membership Units were securities in the form of investment contracts and that they had been offered and sold without qualification and through general solicitation by means of unsolicited telephone calls and unsolicited mailings in violation of Corp. Code section 25110. Pursuant to Corp. Code section 25532, defendant California Health Scan, LLC, defendant James West, and a sales agent Reginald Moore were ordered by the Commissioner to desist and refrain from the further offer or sale of securities in the form of membership units, unless and until qualification has been made or unless exempt.

20. Commencing on December 1, 2002, shortly before the issuance of the Desist and Refrain Order on December 23, 2002, the Issuer Defendants began to seek additional funding through the offer of Notes and Class "B" Membership Interests. Following the date of the issuance of the Desist and Refrain Order and up through at least June 2003, the Issuer Defendants continued to offer and sell securities, in the form of notes, membership interests, and investment contracts, and specifically 200 Revenue Participating Units. Each Unit consisted of one $5,000 Note and 1,000 Class "B" Membership Interests in CHS. The cost to the investor was $5,000 per Unit and the total offering was for $1,000,000. The offer and sale of these Units and Class "B" Membership Interests were still not qualified, were not exempt, and violated the Desist & Refrain Order issued by the Commissioner on December 23, 2002.

21. Following the date of the issuance of the Desist and Refrain Order, the Issuer Defendants again solicited prospective investors by means of general solicitations, unsolicited phone calls and mailings, and used boiler-room sales tactics to pressure members of the public to invest in the notes, membership interests, and investment contracts. Investors were provided with offering documents, including but not limited to brochures, a private placement memorandum for the notes, membership interests, and investment contracts, subscription documents, and news articles. Approximately $250,000, was raised through the sale of these unqualified Units and Class "B" Membership Interests from 12 investors, and of this amount $150,000 was raised from 11 investors following the issuance of the Desist and Refrain Order on December 23, 2002.

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22. Beginning in July 2003 and through at least July 2004, the Issuer Defendants offered and sold securities, in the form of notes, membership interests, and investment contracts, specifically a Promissory Note at 12% interest, and/or a quantity of Class "B" Membership Interests in CHS, and/or one or more Membership Units in a company called Medical Imaging Media Fund, LLC sold by CHS for various monetary amounts. Approximately $275,800 of the $500,000 sought was raised in this manner from 26 investors. The offer and sale of these notes, membership interests, and investment contracts were not qualified, were not exempt, and also in violation of the Desist & Refrain Order issued by the Commissioner on December 23, 2002.

23. In total, from October 2001 and continuing through at least July 2004, CHS received more than $2,550,000 dollars in the state of California from approximately 162 investors located in California and other states in violation of Corp. Code section 25110, and of this amount approximately $425,800 was raised from 37 investors in violation of the Desist and Refrain Order issued on December 23, 2002.

24. Some or all of the purchasers and offerees of securities in the form of notes, membership interests, and investment contracts issued by CHS, were solicited to invest by misrepresentations or omissions of "material" facts. In particular, the following misrepresentations or omissions were made to some or all prospective investors:

a) Defendants failed to disclose that in 2002 CHS made a large payout to I-Web in the amount of $270,000 and that thereafter a large payout was made to National Health Scan in the amount of $384,616, and defendants failed to disclose the reason these payouts were made;

b) Defendants failed to disclose the relationship between CHS, I-Web, National Health Scan, and MedFocus, failed to disclose that these companies shared owners, officers and managing and controlling members, and the extent thereof, and failed to disclose conflicts of interests and the extent thereof;

c) Following December 1, 2002 Defendants failed to disclose that less than one half the offering of $5,000,000, only about $1,997,313, was raised through the sale of Class "A" Membership Units, and they failed to disclose how the Class "A" funding was used;

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d) Defendants falsely represented to some prospective investors that their investment was low risk when in fact it was high risk;

e) Defendants failed to provide some investors with a private placement memorandum and failed to provide some investors with a private placement memorandum before their investment;

f) Notwithstanding receipt and knowledge, Defendants failed to disclose to prospective investors following December 23, 2002 that a Desist and Refrain Order had been issued by the Commissioner finding that the Class "A" Membership Units were securities and that these securities had been offered and sold without qualification and through general solicitations by means of unsolicited telephone calls and unsolicited mailings in violation of Corp. Code section 25110, and that defendant California Health Scan, LLC, defendant James West, and a sales agent Reginald Moore were ordered by the Commissioner to desist and refrain from the further offer or sale of securities in the form of membership units, unless and until qualification has been made or unless exempt.

g) Defendants failed to disclose to prospective investors, both before and after the issuance of the December 23, 2002 Desist and Refrain Order that the notes, membership interests, and investment contracts were unqualified and non-exempt securities and subject to qualification by the state of California.

FIRST CAUSE OF ACTION

OFFER AND SALE OF UNQUALIFIED, NON-EXEMPT SECURITIES IN VIOLATION OF CORPORATIONS CODE SECTION 25110

(ALL DEFENDANTS)

25. Plaintiff incorporates by reference paragraphs 1 through 24 of this Complaint as though fully set forth herein.

26. Corporations Code 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 . . . unless such sale has been qualified under Section 25111, 25112 or

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25113 . . . or unless such security or transaction is exempted or not subject to qualification under Chapter 1 (commencing with Section 25100) of this part.

27. Commencing at least as early as October 2001 and continuing thereafter, Defendants, and each of them, have offered and sold securities in issuer transactions in the state of California.

28. The investments offered and sold by Defendants, and each of them, were "securities" within the meaning of Corporations Code Section 25019 and case law thereunder. The securities were in the form of notes, membership interests, and investment contracts.

29. The sales referred to herein were "issuer transactions" within the meaning of Corporations Code Sections 25010 and 25011.

30. The Defendants "offered and sold" said securities "within the state" of California within the meaning of Corporations Code Sections 25008 and 25017.

31. The Commissioner has not issued a permit or other form of qualification authorizing the Defendants to offer and sell the securities referred to herein in the state of California.

32. The offer and sale of securities referred to herein were not exempt from the requirement of qualification under Corporations Code Section 25110.

33. Defendants, and each of them, offered and sold, or directly or indirectly controlled other co-defendants, by knowingly inducing or by knowingly providing substantial assistance to other co-defendants, to engage in the offer and sale of unqualified, non-exempt, securities in violation of Corporations Code Section 25110.

34. Unless enjoined by this Court, Defendants will continue to violate Corporations Code Section 25110.

SECOND CAUSE OF ACTION

MISREPRESENTATION OR OMISSION OF MATERIAL FACTS IN VIOLATION OF CORPORATIONS CODE SECTION 25401

(ALL DEFENDANTS)

35. Plaintiff re-alleges and incorporates by reference paragraphs 1 through 34 of this Complaint as though fully set forth herein.

36. Corporations Code Section 25401 states as follows:

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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.

37. In offering and selling the securities referred to herein, Defendants made, or caused to be made, by directly or indirectly controlling other co-defendants and knowingly inducing or providing substantial assistance to other co-defendants, untrue statements and/or misrepresentations, or omissions of material facts to some or all of the prospective investors. The misrepresentations or omissions included, without necessarily being limited to, the following:

a) Defendants failed to disclose that in 2002 CHS made a large payout to I-Web in the amount of $270,000 and that thereafter a large payout was made to National Health Scan in the amount of $384,616, and defendants failed to disclose the reason these payouts were made;

b) Defendants failed to disclose the relationship between CHS, I-Web, National Health Scan, and MedFocus, failed to disclose that these companies shared, owners, officers and managing and controlling members, and the extent thereof, and failed to disclose conflicts of interests and the extent thereof;

c) Following December 1, 2002 Defendants failed to disclose that less than one half the offering of $5,000,000, only about $1,997,313, was raised through the sale of these Class "A" Membership Units, and they failed to disclose how the Class "A" funding was used;

d) Defendants falsely represented to some prospective investors that their investment was low risk when in fact it was high risk;

e) Defendants failed to provide some investors with a private placement memorandum and failed to provide some investors with a private placement memorandum before their investment;

f) Notwithstanding receipt and knowledge, Defendants failed to disclose to prospective investors following December 23, 2002 that a Desist and Refrain Order had been issued by the Commissioner finding that the Class "A" Membership Units were securities and that these

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securities had been offered and sold without qualification and through general solicitations by means of unsolicited telephone calls and unsolicited mailings in violation of Corp. Code section 25110, and that defendant California Health Scan, LLC, defendant James West, and a sales agent Reginald Moore were ordered by the Commissioner to desist and refrain from the further offer or sale of securities in the form of membership units, unless and until qualification has been made or unless exempt.

g) Defendants failed to disclose to prospective investors, both before and after the issuance of the December 23, 2002 Desist and Refrain Order that the Membership Units and notes were unqualified and non-exempt securities and subject to qualification by the state of California.

38. The misstatements and omissions referred to herein were "material facts" within the meaning of Corporations Code Section 25401 since they concerned matters which a "reasonable investor" would consider in deciding whether to invest.

39. Defendants' misrepresentations and omissions were in connection with the offer and sale of securities within the meaning of Corporations Code Section 25401.

40. Some or all of Defendants' misrepresentations and omissions of material fact took place "within the state" of California within the meaning of Corporations Code Section 25008.

41. Defendants, and each of them, directly or indirectly controlled other co-defendants by knowingly inducing, or by knowingly providing substantial assistance to other co-defendants to make untrue statements and/or omit to disclose statements, to some or all of the investors, of material facts in connection with the offer and sale of securities in violation of Corporations Code section 25401.

42. Unless enjoined, Defendants will continue to violate Corporations Code Section 25401.

THIRD CAUSE OF ACTION

VIOLATIONS OF PRIOR DESIST AND REFRAIN ORDER ISSUED BY THE COMMISSIONER

CORPORATIONS CODE SECTION 25532

(ALL DEFENDANTS)

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43. Plaintiff incorporates by reference paragraphs 1 through 42 of this Complaint as though fully set forth herein.

44. Corporations Code section 25532 provides, in pertinent part, as follows:

> (a) If, in the opinion of the commissioner, (1) the sale of a security is subject to qualification under this law and it is being or has been offered or sold without first being qualified, the commissioner may order the issuer or offeror of the security to desist and refrain from the further offer or sale of the security until qualification has been made under this law....

45. On December 23, 2002 the Commissioner issued a Desist and Refrain Order to defendant CHS, defendant James West, and a sales agent Reginald Moore, finding that the Class "A" Membership Units issued by CHS were securities and that they had been offered and sold without qualification and through general solicitation by means of unsolicited telephone calls and unsolicited mailings in violation of Corp. Code section 25110. Pursuant to Corp. Code section 25532, defendant California Health Scan, LLC, defendant James West, and a sales agent Reginald Moore were ordered by the Commissioner to desist and refrain from the further offer or sale of securities in the form of membership units, unless and until qualification has been made or unless exempt.

46. Notwithstanding the receipt and knowledge of the Desist and Refrain Order, the Defendants and Does 1 through 100, and each of them, have continued to offer and sell securities, in the form of notes, membership interests, and investment contracts, specifically Units of Class "B" Membership Interests and Notes issued by CHS, and these offers and sales were still not qualified, were not exempt, and violate the Desist & Refrain Order issued by the Commissioner on December 23, 2002, and therefore Defendants and Does 1 through 100, and each of them, should be enjoined from doing so.

PRAYER

WHEREFORE, plaintiff prays for judgment against defendants and each of them as follows:

1. Pursuant to Corporations Code section 25530, for an order of preliminary injunction and a judgment of permanent injunction enjoining Defendants California Health Scan, LLC, James A. West, Bob Barbanian, Loren G. Morris III, and such Does as may be subsequently named, and

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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:

a. Violating Corporations Code Section 25110, by offering to sell, selling, arranging for the sale of, issuing, engaging in the business of selling, negotiating for the sale of, or otherwise in any way dealing or participating in the offer or sale of, any security of any kind, including but not limited to the securities described in this Complaint, unless such security or transaction is qualified or exempted or not subject to qualification;

b. Violating Corporations Code Section 25401, by offering to sell or selling any security of any kind, including but not limited to the securities described in this Complaint, by means of any written or oral communication which includes any untrue statement of material fact or omits or fails to state any material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, including but not limited to the misrepresentations and omissions alleged in this Complaint;

c. Violating the Desist and Refrain Order issued by the Commissioner on December 23, 2002, by offering to sell, selling, arranging for the sale of, issuing, engaging in the business of selling, negotiating for the sale of, or otherwise in any way dealing or participating in the offer or sale of securities in the form of notes, membership interests, and investment contracts, unless and until qualification has been made or unless exempt or not subject to qualification;

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

e. Transferring, changing, disbursing, selling, dissipating, converting, pledging, assigning, foreclosing or otherwise disposing of any real property or personal property in 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 securities as alleged in this Complaint, without leave of the Court; and

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f. Withdrawing, transferring, changing, disbursing, dissipating, converting, pledging, or assigning any funds or other assets which were derived or emanated, directly or indirectly, from the offer or sale of securities as alleged in this Complaint, from any accounts at any bank, savings and loan association, broker-dealer or any other financial institution in the name of any of the Defendants, or controlled by any of the Defendants, without leave of the Court.

2. For a Final Judgment requiring Defendants California Health Scan, LLC, James A. West, Bob Barbanian, Loren G. Morris III, 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 this Court to have occurred, and further requiring Defendants and such Does as may be subsequently named, individually, jointly and severally, to pay full restitution to each person determined to have been subject to Defendants acts or practices which constitute violations of the California Corporate Securities Law with the total of amount of funds being at least $2,550,000, or any other amount according to proof. In addition, to pay either the contracted rate of interest or the legal rate of interest on the amounts invested by the investors from the dates of their investments to the date of judgment herein.

3. For a Final Judgment requiring Defendants California Health Scan, LLC, James A. West, Bob Barbanian, Loren G. Morris III, and such Does as may be subsequently named, individually, jointly and severally, to disgorge to all known investors all benefits received, including but not limited to, salaries, commissions, fees, profits and any other remuneration, derived directly or indirectly, from the actions or practices which constitute violations of the California Corporate Securities Law.

4. For a Final Judgment requiring Defendants California Health Scan, LLC, James A. West, Bob Barbanian, Loren G. Morris III, and such Does as may be subsequently named, individually, jointly and severally, to pay to the Department of Corporations $25,000 as a civil penalty for each act in violation of the Corporate Securities Law, as authorized by Corporations Code Section 25535 as follows:

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a. As to the First Cause of Action, to be individually, jointly and severally liable for at least $4,050,000 for at least one hundred and sixty two (162) violations of Corporations Code Section 25110, or any other amount according to proof;

b. As to the Second Cause of Action, to be individually, jointly and severally liable for at least $4,050,000 for at least one hundred and sixty two (162) violations of Corporations Code Section 25401, or any other amount according to proof; and

c. As to the Third Cause of Action, to be individually, jointly and severally liable for at least $925,000 for at least thirty-seven (37) violations of Corporations Code Section 25530, or any other amount according to proof

5. For an order that this court will 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 plaintiff for additional relief within the jurisdiction of this Court;

6. For cost of suit herein, including costs of investigation; and

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

Dated: February 7, 2007

PRESTON DuFAUCHARD
California Corporations Commissioner

By:
EDWARD KELLY SHINNICK
Enforcement Division
Attorneys for Plaintiff

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