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11

12 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
13 **FOR THE COUNTY OF SANTA CLARA**

14 **CEMETERY AND FUNERAL BUREAU,**
15 **DEPARTMENT OF CONSUMER AFFAIRS,**

16 Plaintiff,

17 v.

18 **FUNERAL DIRECTORS SERVICE**
CORPORATION, a California corporation;
19 **THE CALIFORNIA FUNERAL DIRECTORS**
ASSOCIATION, a California corporation;
20 **COMERICA BANK, a national bank;**
MECHANICS BANK, a California corporation;
21 **ASSOCIATION RESOURCE CENTER, a**
California corporation;
22 **DAMORE, HAMRIC & SCHNEIDER, INC.,**
CERTIFIED PUBLIC ACCOUNTANTS, a
23 **California corporation;**
24 **BURNETT AND COMPANY, LLP, a California**
CPA partnership; JAMES E. DRAPER,
25 **individually and as a director of FDSC;**
26 **MARK E. KUHN, individually and as an**
officer and director of FDSC and d.b.a
27 **Hillview Funeral Chapels, a sole**
proprietorship (Funeral Establishment
28 **License Number FD 527); LESLIE D.**

Judicial Council Coordination Proceeding No.
4686

Superior Court of California
County of Santa Clara
No. 109PR165181

Superior Court of California
County of Los Angeles
No. BC459862

**FIRST AMENDED COMPLAINT FOR
INJUNCTIVE RELIEF, RESTITUTION,
AND OTHER EQUITABLE REMEDIES**

Date Action Filed: April 8, 2011
Trial Date: None Set
Coordination Trial Judge: Hon. James P.
Kleinberg, Santa Clara Superior Court
Dept.: 1

1 **PETERS, individually and as a director of**
2 **FDSC; GEORGE F. PRATHER, individually**
3 **and as a director of FDSC; WARREN BRUSIE,**
4 **INC. D.B.A. BRUSIE FUNERAL HOME, a**
5 **California corporation (Funeral**
6 **Establishment License Number FD 371);**
7 **FAIRHAVEN MEMORIAL PARK, INC. D.B.A.**
8 **FAIRHAVEN MEMORIAL PARK & MORTUARY,**
9 **a California corporation (Funeral**
10 **Establishment License Number FD 1313);**
11 **HAYWARD MORTUARY, INC., D.B.A. HOLY**
12 **ANGELS FUNERAL & CREMATION CENTER, a**
13 **California corporation (Funeral**
14 **Establishment License Number FD 1456);**
15 **WELCH-RYCE-HAIDER FUNERAL CHAPELS, a**
16 **general partnership (Funeral Establishment**
17 **License Number FD 303); and DOES 1**
18 **THROUGH 1000, inclusive,**

19 **Defendants.**

20 **Coordination Proceeding**
21 **Special Title (Rules 3.501 CRC et seq.)**

22 **CALIFORNIA MASTER TRUST CASES**

23 Coordinated Actions:

24 Cemetery and Funeral Bureau, Department of
25 Consumer Affairs v. California Master Trust,
26 et al.

27 In the Matter of California Master Trust

28 Funeral Directors Service Corporation v.
Department of Consumer Affairs, Cemetery
and Funeral Bureau

TABLE OF CONTENTS

1				
2				Page
3	Authority/Purpose			1
4	Jurisdiction and Venue.....			1
5	Defendants.....			3
6	Introduction			8
7	References			11
8	Statutes Governing Preneed Funeral Arrangements (Short Act).....			12
9	Regulations Governing Preneed Funeral Arrangements.....			14
10	First Cause of Action			18
11	(Violation of Bus. & Prof. Code, § 7736)			
12	(Unlawful Control of Preneed Funeral Trust)			
13	(Against Defendants CFDA, FDSC, COMERICA BANK			
14	MECHANICS BANK, KUHN, and DOES 1 through 1000)			
15	Second Cause of Action.....			22
16	(Violation of Bus. & Prof. Code, § 7735 and Cal. Code Regs., tit. 16, § 1265)			
17	(Unauthorized Payments of Administrative fees)			
18	(Against Defendants CFDA, FDSC, MECHANICS BANK, COMERICA BANK,			
19	ARC, KUHN, , DRAPER, PETERS, PRATHER,			
20	DAMORE, BURNETT, And DOES 1 through 1000)			
21	Third Cause of Action.....			30
22	(Violation of Bus. & Prof. Code, § 7735 and Cal. Code Regs., tit. 16, § 1265)			
23	(Illegal Kickbacks)			
24	(Against Defendants CFDA, FDSC, COMERICA BANK, MECHANICS BANK,			
25	TRUST, KUHN, , BRUSIE FD 371, FAIRHAVEN FD 1313,			
26	HAYWARD FD 1456, and WELCH FD 303, and DOES 1 through 1000)			
27	Fourth Cause of Action			34
28	(Violation of Bus. & Prof. Code, § 7735)			
29	(Improper Payments for Non-Trust Related Expenses)			
30	(Against Defendants CFDA, FDSC, COMERICA BANK			
31	MECHANICS BANK, KUHN, and DOES 1 through 1000)			
32	Fifth Cause of Action.....			38
33	(Violation of Bus. & Prof. Code, § 7737)			
34	(Failure to Deliver Trust Corpus and Accumulated Income)			
35	(Against Defendants CFDA, FDSC, COMERICA BANK, MECHANICS BANK,			
36	KUHN, and DOES 1 through 1000)			
37	Sixth Cause of Action			39
38	(Violation of Cal. Code Regs., tit. 16, § 1274)			
39	(Unlawfully Retaining Funds Owed to Trustor after Funeral Establishment			
40	Not Able to Perform Contracted Funeral Services)			
41	(Against defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1			
42	through 1000)			

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

TABLE OF CONTENTS
(continued)

	Page
Seventh Cause of Action..... (Cal. Code Regs., tit. 16, § 1264) (Failure to Timely Return Funds Owed to Trustors upon Trust Revocation) (Against Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000)	42
Eighth Cause of Action..... (Cal. Code Regs., tit. 16, § 1263) (Failure to Properly Invest Trust Funds) (Against Defendants FDSC, CFDA, COMERICA BANK, KUHN, and DOES 1 through 1000)	43
Ninth Cause of Action (Violation of Cal. Code Regs., tit. 16, § 1267) (Unlawfully Maintained Financial Records Out-of-state) (Against defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000)	47
Tenth Cause of Action (Violation of Cal. Code Regs., tit. 16, § 1267) (Unlawfully Withheld Trust Records from the Bureau) (Against defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000)	48
Prayer for Relief.....	50

TABLE OF AUTHORITIES

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Page

CASES

American Funeral Concepts v. Bd. of Funeral Directors and Embalmers
(1982) 136 Cal.App.3d 303 31

Crocker-Citizens Nat'l Bank v. Younger
(1971) 4 Cal. 3d 202 36

Moeller v. Superior Court
(1997) 16 Cal. 4th 1124 21

Mount Vernon Memorial Park v. Board of Funeral Directors and Embalmers
(1978) 79 Cal.App.3d 874 1

Silver v. United States Postal Service
(9th Cir. 1991) 951 F.2d 1033 19

STATUTES

California Business and Professions Code

§ 125.5, subd. (a) 1, 52

§ 125.5, subd. (b) 2, 53

§ 125.5, subd. (c) 2, 53

§ 7685 15

§ 7685.2 15

§ 7735 1, 9, 12, 13, 14, 22-23, 30-36, 50

§ 7736 9, 12-13, 18-19, 21, 50

§ 7737 9, 12-13, 20, 30-31, 38-39, 50-51

§ 7737.3 13, 28

§ 7737.5 13, 45-46

§ 7737.7 13, 45-46

§ 7740 1, 14

California Code of Civil Procedure

§ 395.5 2

§ 995.220 1

§ 1500 *et seq.* 54

California Financial Code

§ 1001 *et seq.* 46

California Government Code

§ 11180 *et seq.* 10

TABLE OF AUTHORITIES
(continued)

		<u>Page</u>
3	California Probate Code	
4	§ 15000	21
4	§ 15001	14, 45
5	§ 16002	21, 36, 52
5	§ 16004, subd. (a)	35
6	§ 16006	21, 37
6	§ 16012	21
7	§ 16045	46
8	§ 16047	20, 46
8	§ 16049	20
9	§ 16220	20
9	§ 16246	20
10	§ 16247	20
10	§ 17200	21
11		
12	California Revenue and Taxation Code	
12	§ 17760.5	12
13		
14	United States Internal Revenue Code	
14	§ 162(c)(2)	29
15	OTHER AUTHORITIES	
16	California Code of Regulations, Title 16,	
17	§ 1261	1
17	§ 1263	14-15, 43-46
18	§ 1264	9, 14, 42, 51
18	§ 1265	14-15, 22-23, 30-36
19	§ 1267	9, 15-16, 27, 47-49, 52
20	§ 1269	16-17, 27-28, 49
20	§ 1274	9, 17-18, 39-41, 51
21	§ 1275	17-18, 42
21	§ 1277	1
22		
23	Restatement 2nd of Trusts,	
23	§ 175	21
24		
25		
26		
27		
28		

1 THE CEMETERY AND FUNERAL BUREAU, DEPARTMENT OF CONSUMER
2 AFFAIRS, is informed and believes and thereupon alleges as follows:

3 **AUTHORITY/PURPOSE**

4 1. Plaintiff, the Cemetery and Funeral Bureau (Bureau), is a state agency of legislative
5 origin, within the Department of Consumer Affairs, State of California, and under the supervision
6 and control of the Director of Consumer Affairs (the Director). It is charged with administering
7 and enforcing the laws and regulations relating to, inter alia, the funeral business as set forth in
8 Chapter 12 of Division 3 of the Business and Professions Code, known and cited as the Funeral
9 Directors and Embalmers Law, and in Division 12 of Title 16 of the California Code of
10 Regulations.

11 2. The Bureau is expressly charged by the Legislature with regulating preneed funeral
12 arrangements for consumer protection. Business and Professions Code Section 7735 *et seq.*
13 govern “preneed funeral arrangements.”¹ (These statutes will collectively be referred to in this
14 First Amended Complaint as the Short Act.)² Business and Professions Code Section 7740
15 grants the Bureau the power to enforce preneed funeral arrangement laws and to adopt
16 implementing rules and regulations. The Short Act’s implementing regulations are set forth in
17 California Code of Regulations, Title 16, Section 1261 *et seq.*

18 **JURISDICTION AND VENUE**

19 3. Business and Professions Code Section 125.5, subdivision (a), authorizes Plaintiff to
20 petition with the approval of the Director, without the requirement of an undertaking,³ for
21 issuance of an injunction or other appropriate order restraining the conduct at issue against any
22

23 _____
24 ¹ “‘Preneed arrangement,’ ‘preneed agreement’ or ‘preneed’ is written instruction
25 regarding goods or services or both goods and services for final disposition of human remains
when the goods or services are not provided until the time of death, and may be either unfunded
or paid for in advance of need.” (Cal. Code Regs., tit. 16, § 1277.)

26 ² *See Mount Vernon Memorial Park v. Board of Funeral Directors and Embalmers* (1978)
79 Cal.App.3d 874, 879 (“In 1965, the Legislature enacted what is commonly termed the ‘Short
27 Act,’ which added certain provisions to the Business and Professions Code and thereby placed
restrictions upon preneed funeral contract.”)

28 ³ Code Civ. Proc., § 995.220 (undertaking not required of public entity or officer).

1 person who has engaged in or who is about to engage in any act which constitutes a violation of
2 the Funeral Directors and Embalmers Law.

3 4. Business and Professions Code Section 125.5, subdivision (b), authorizes Plaintiff to
4 petition with the approval of the Director, for an order of restitution against any person who has
5 engaged in any act which constitutes a violation of the Funeral Directors and Embalmers Law to
6 persons injured as a result of such violation.

7 5. Business and Professions Code Section 125.5, subdivision (c), authorizes Plaintiff to
8 petition for an order requiring persons subject to an injunction, restraining order, or restitution
9 order to reimburse the Plaintiff for expenses incurred in its investigation relating to this petition.

10 6. Plaintiff has filed this First Amended Complaint with the approval of the Director.

11 7. Business and Professions Code Section 321 also authorizes the Director, her
12 designee, or the Attorney General to seek injunctive or appropriate relief on behalf of California
13 consumers whenever those consumers' are being damaged or may be damaged by acts or
14 practices in violation of any law of this state.

15 8. Defendants at all times mentioned herein have transacted business within and
16 throughout the State of California. The violations hereinafter described have been carried out in
17 whole or in part within the State of California, including within Los Angeles County. The actions
18 of defendants, individually, jointly and severally, as set out below, are in violation of the laws and
19 public policy of the State of California.

20 9. The chair of the Judicial Council has ordered that Santa Clara Superior Court shall be
21 the site for coordination trial proceedings. Venue is also appropriate in the Superior Court of
22 California, County of Los Angeles under Code of Civil Procedure Section 395.5 because
23 defendants Comerica Bank and Funeral Directors Service Corporation (among others), which are
24 corporations or associations, have made contracts in Los Angeles County, have contracts whose
25 performance is due in Los Angeles County, have breached these contracts, and have violated
26 obligations or liabilities that arose in Los Angeles County. Comerica Bank and Funeral Directors
27 Service Corporation have contracts with multiple funeral establishments in Los Angeles County
28 to hold millions of dollars in trust on behalf of consumers throughout the County. They and other

1 defendants have squandered a significant portion of these funds, or aided and abetted other
2 defendants in doing so, violating their contractual obligations, the Short Act, and the Bureau's
3 regulations.

4 **THE TRUST**

5 10. California Master Trust (TRUST) is, and at all times mentioned in this First Amended
6 Complaint, was, a large commingled preneed funeral trust, which pools preneed funeral trusts of
7 individual purchasers throughout California. The TRUST was created in or about 1985 by The
8 California Funeral Directors Association (CFDA). The TRUST is operated pursuant to a master
9 trust agreement between defendant Funeral Directors Service Corporation, CFDA's wholly-
10 owned subsidiary, and a trustee. The TRUST's current trustee is defendant Comerica Bank. The
11 place of trust administration for the TRUST is in Santa Clara County, California.

12 **DEFENDANTS**

13 11. Defendant The California Funeral Directors Association (CFDA), is, and at all times
14 mentioned in this First Amended Complaint was, a non-profit mutual benefit corporation,
15 incorporated under the laws of the State of California, with its principal place of business in
16 Sacramento County, California. CFDA is an association of funeral directors and funeral
17 establishments. CFDA is the sole shareholder of Funeral Directors Service Corporation (FDSC), a
18 for-profit corporation. The funeral establishments that have enrolled in the TRUST program are
19 or were members of CFDA (referred to herein as the enrolled funeral establishments).

20 12. Defendant Funeral Directors Service Corporation (FDSC), formerly known as
21 California Funeral Funding, Inc., is, and at all times mentioned in this First Amended Complaint
22 was, a for-profit corporation, incorporated under the laws of the State of California. FDSC's
23 current principal place of business is in Beaverton, Oregon. FDSC is, and at all times mentioned
24 in this First Amended Complaint was, engaged in the business of operating the TRUST on behalf
25 of its non-profit corporate parent, CFDA. FDSC derives its income from the fees it withdraws
26 from the TRUST. In its tax returns, FDSC refers to itself as Funeral Directors Service
27 Corporation d.b.a. California Master Trust. FDSC is governed by its seven member board of
28 directors. Its officers are directors. It does not have any staff. From in or about 1994 to in or

1 about June 2003, Robert Pierce, now deceased, was the President of FDSC. From in or about
2 July 2003 to the present, defendant Mark E. Kuhn has been the President of FDSC.

3 13. Defendant Comerica Bank (COMERICA BANK) is, and at all times mentioned in
4 this First Amended Complaint was, a national banking association chartered or incorporated
5 under the laws of the United States, engaged in doing business in the State of California. Plaintiff
6 is informed and believes that Comerica Bank is a fictitious name and/or a subsidiary of Comerica
7 Incorporated, a Delaware corporation. From February 15, 2002, to the present, COMERICA
8 BANK has been the duly appointed trustee of the TRUST. The principal place of administration
9 of the TRUST is in Santa Clara County, California.

10 14. Defendant Mechanics Bank (MECHANICS BANK) is, and at all times mentioned in
11 this First Amended Complaint was, a corporation, incorporated under the laws of the State of
12 California, with its principal place of business in Contra Costa County, California. From on or
13 about September 1, 1995, to February 15, 2002, MECHANICS BANK was the duly appointed
14 trustee of the TRUST.

15 15. Defendant Association Resource Center (ARC), is, and at all times mentioned in this
16 First Amended Complaint was, a corporation, incorporated under the laws of the State of
17 California, with its principal place of business in Sacramento County, California. ARC provided
18 administrative services for the TRUST from in or about 1985, to on or about January 31, 2007,
19 pursuant to several Management Services Agreements it entered into with FDSC. ARC received
20 substantial revenue as the TRUST's provider of administrative services.

21 16. Defendant Damore, Hamric & Schneider, Inc., Certified Public Accountants
22 (DAMORE), is, and at all times mentioned in this First Amended Complaint was, a corporation,
23 incorporated under the laws of the State of California, with its principal place of business in
24 Sacramento County, California. DAMORE's shareholders are California licensed Certified Public
25 Accountants. DAMORE provided accounting services to the TRUST and prepared the TRUST's
26 annual audit reports for 1985 through 2000, which were submitted to the Bureau. From 2001 to
27 2007, DAMORE provided accounting services for the TRUST.

1 17. Defendant Burnett and Company, LLP (BURNETT), is a partnership of California
2 licensed Certified Public Accountants, with its principal place of business in Sacramento County,
3 California. BURNETT performed the TRUST's annual audit reports for 2001 through 2005,
4 which were submitted to the Bureau.

5 18. Defendant James E. Draper (DRAPER) is an individual. DRAPER is named as a
6 defendant in this First Amended Complaint as an individual and in his capacity as a director of
7 FDSC. DRAPER has a delinquent California funeral director's license (Funeral Director License
8 Number FDR 230), with an address of record with the Bureau in San Bernardino County.
9 DRAPER has been a member of the FDSC Board of Directors from a date unknown to Plaintiff,
10 but from no later than 1998 to the present. From in or about 1998 through June 2003, DRAPER
11 was the Secretary of FDSC. From in or about July 2003 to the present, DRAPER has been the
12 Recording Secretary of FDSC. DRAPER was the President of CFDA in 1993 and was a member
13 of the CFDA Board of Directors.

14 19. Defendant Mark E. Kuhn (KUHN) is an individual. KUHN is named as a defendant
15 in this First Amended Complaint as an individual and in his capacity as an officer and a director
16 of FDSC. He is a California licensed funeral director and embalmer (Funeral Director license
17 number FDR 980 and Embalmer License Number EMB 7084), with an address of record with the
18 Bureau in Stanislaus County, California. KUHN has been the president of FDSC from 2003 to the
19 present. He is also FDSC's current agent for service of process. KUHN has been a member of the
20 FDSC Board of Directors from in or about July 2001 to the present and in 1998. KUHN was the
21 President of CFDA in 1998 and was a member of the CFDA Board of Directors. KUHN is the
22 owner of three California licensed funeral establishments. . One of these establishments is
23 Hillview Funeral Chapels, which is a California licensed funeral establishment (Funeral
24 Establishment License Number FD 527), in Stanislaus County, California. Hillview Funeral
25 Chapels is the same legal entity as Mr. Kuhn, since it is his sole proprietorship and he is its
26 owner. Through his funeral establishments, KUHN enrolled customers in the TRUST and
27 received significant "participation distributions" from it, as more fully described herein below.
28

1 20. Defendant Leslie D. Peters (PETERS) is an individual. PETERS is named as a
2 defendant in this First Amended Complaint as an individual and in his capacity as a director of
3 FDSC. PETERS is a California licensed funeral director and embalmer (Funeral Director License
4 Number FDR 1132 and Embalmer License Number EMB 6894), with an address of record with
5 the Bureau in Kern County, California. From in or about July 2000 through June 2002, PETERS
6 was a member of the FDSC Board of Directors. PETERS was the President of CFDA in 2001 and
7 was a member of the CFDA Board of Directors.

8 21. Defendant George F. Prather (PRATHER) is an individual. PRATHER is named as a
9 defendant in this First Amended Complaint as an individual and in his capacity as a director of
10 FDSC. PRATHER is a California licensed funeral director and embalmer (Funeral Director
11 License Number FDR 42 and Embalmer License Number EMB 5681), with an address of record
12 with the Bureau in Sacramento County, California. From in or about 1985 to 2003, PRATHER
13 was a member of the FDSC Board of Directors. In 2002, PRATHER was President of CFDA and
14 was a member of the CFDA Board of Directors.

15 22. Defendant Warren Brusie, Inc. d.b.a. Brusie Funeral Home (BRUSIE FD 371), is, and
16 at all times mentioned in this First Amended Complaint was, a corporation, incorporated under
17 the laws of the State of California, and is a California licensed funeral establishment (Funeral
18 Establishment License Number FD 371), in Butte County, California. BRUSIE FD 371
19 participated in the TRUST and received substantial "participation distributions" therefrom, as
20 more fully described herein below.

21 23. Defendant Fairhaven Memorial Park, Inc. d.b.a. Fairhaven Memorial Park &
22 Mortuary (FAIRHAVEN FD 1313), is, and at all times mentioned in this First Amended
23 Complaint was, a corporation, incorporated under the laws of the State of California, and is a
24 California licensed funeral establishment (Funeral Establishment License Number FD 1313), in
25 Orange County, California. FAIRHAVEN FD 1313 participated in the TRUST and received
26 substantial "participation distributions" therefrom, as more fully described herein below.

27 24. Defendant Hayward Mortuary, Inc., d.b.a. Holy Angels Funeral and Cremation
28 Center and formerly known as Machado's Hillside Chapel (HAYWARD FD 1456), is, and at all

1 times mentioned in this First Amended Complaint was, a corporation, incorporated under the laws
2 of the State of California, and is a California licensed funeral establishment (Funeral
3 Establishment License Number FD 1456), in Alameda County, California. John Machado is or
4 was an owner of HAYWARD FD 1456. In or about July 2003 through June 2009, John Machado
5 was a member of the FDSC Board of Directors. John Machado was the President of CFDA in
6 1996 and was a member of the CFDA Board of Directors. HAYWARD FD 1456 participated in
7 the TRUST and received substantial "participation distributions" there from, as more fully
8 described herein below.

9 25. Defendant Welch-Ryce-Haider Funeral Chapels (WELCH FD 303), a general
10 partnership between John W. Alderson, J. Stephen Gibson, Roland R. Jurgens, James D. Nelson,
11 and William L. Sweda, is a California licensed funeral establishment (Funeral Establishment
12 License Number FD 303), in Santa Barbara County, California. WELCH FD 303 participated in
13 the TRUST and received substantial "participation distributions" there from, as more fully
14 described herein below.

15 26. The true names and capacities, whether individual, corporate, associate, or otherwise,
16 of the defendants named herein as DOES 1 through 1000, inclusive, are unknown to Plaintiff at
17 this time, who therefore brings suit against said defendants by such fictitious names. Plaintiff will
18 ask leave of this Court to amend this First Amended Complaint to reflect the true names and
19 capacities of said defendants when they have been ascertained. Plaintiff is informed and believes
20 and thereon alleges that each of the fictitiously named defendants is responsible in some manner
21 for the occurrences herein alleged, and that said defendants participated in and/or aided and
22 abetted the other defendants in committing the statutory and regulatory violations herein alleged.

23 27. Plaintiff is informed and believes and thereon alleges that at all times mentioned in
24 this First Amended Complaint, defendants, including the DOE defendants, acted as the agent or
25 representative of each of the named defendants, in the course and scope of their employment,
26 agency, or authority in doing the acts alleged herein and did so with the prior authority or
27 subsequent ratification of their principals or managing agents. Petitioner alleges that the
28 defendants, and each of them, knew of the acts of each other and accepted the benefits from the

1 acts with knowledge of all material facts, and therefore ratified each of the acts of the other
2 defendants, during each defendant's involvement with the TRUST.

3 **INTRODUCTION**

4 28. In or about 1985, Defendant CFDA and its board members concocted a plan to pool
5 the preneed funeral arrangement trust funds of tens of thousands of California consumers into one
6 master trust. Rather than having individual funeral establishments entrust their customers' trust
7 funds to individual banks, CFDA planned to pool funds from hundreds of funeral establishments
8 around the state and to take charge of the management of those funds.

9 29. In forming what would come to be called the California Master Trust (TRUST),
10 CFDA had to overcome two legal obstacles: (1) as a non-profit organization, it could not
11 substantially profit from the operation of the TRUST without facing tax consequences and
12 jeopardizing its non-profit status; and (2) since it was run by funeral directors or owners or
13 employees of funeral establishments, it could not serve as the primary trustee of consumers'
14 preneed trust funds without violating the Short Act, as more fully described herein below.

15 30. To avoid tax problems, in or about 1985 CFDA incorporated defendant FDSC, a for-
16 profit corporation, to manage the TRUST and to funnel funds from the TRUST to support
17 CFDA's activities and agenda. FDSC is CFDA's alter ego: it is a wholly-owned subsidiary of
18 CFDA; CFDA appoints its directors; and its directors and corporate officers are or were CFDA
19 officers, directors, or both.

20 31. In or about 1985, the TRUST, under FDSC's management, began operations and
21 started pooling funds from funeral establishments around the state.

22 32. From 1985 to the present, thousands of California consumers have entrusted funds
23 with the TRUST for their own or their loved ones' funeral services.⁴ These consumers
24 collectively will be referred to as trustor-beneficiaries. The average age of trustor-beneficiaries is

25 _____
26 ⁴ As of December 31, 2009, approximately 27,000 California consumers, the customers of
27 more than 300 funeral establishments, had their money entrusted in the TRUST. The balance of
28 the TRUST's corpus was reported to be approximately \$63.5 million as of December 31, 2009.
FDSC advertises that "[o]ver 100,000 people have pre-funded their funerals with the California
Master Trust."

1 over sixty-five years old when they purchase their preneed funeral arrangements. As such, the
2 majority of preneed funeral purchasers are among California's most vulnerable and trusting
3 consumers. Preneed funeral contracts are usually paid in installments. On average, seven years
4 lapse between consumers' purchase of their preneed contracts and the beneficiaries' death.

5 33. FDSC is the TRUST's de facto trustee. It refers to itself as the Funeral Directors
6 Service Corporation d.b.a. California Master Trust or as the sponsor of the California Master
7 Trust.

8 34. To conceal the scope of FDSC's control over the TRUST and to circumvent the Short
9 Act, as more fully described herein below, FDSC hired so-called trustees, banks that would serve
10 as the TRUST's duly appointed trustees to satisfy the Short Act's requirements. In practice, these
11 banks delegated actual control of the TRUST and decision-making power over the TRUST to
12 FDSC and its parent company, CFDA.

13 35. From approximately 2000 to the present, the defendants' collective acts or omissions
14 have led to the violation of numerous provisions of the Short Act and its implementing
15 regulations, including, but not limited to: enabling FDSC to impose improper control over the
16 trustee of the TRUST, in violation of Business and Professions Code 7736; paying unauthorized
17 fees to FDSC and making unauthorized withdrawals from the trust's corpus, in violation of
18 Business and Professions Code Section 7735; failing to return the corpus to the funeral
19 establishments or trustors as required by Business and Professions Code Section 7737; paying
20 illegal kickbacks to enrolled funeral establishments in violation of Business and Professions Code
21 Section 7735; retaining funds owed trustors after a funeral establishment became unable to
22 perform contracted funeral services, in violation of California Code of Regulations, Title 16,
23 Section 1274; failing to make refunds to trustors within 15 days of receipt of a written request for
24 contract revocation, in violation of California Code of Regulations, Title 16, Section 1264; failing
25 to maintain preneed trust records in California, in violation of California Code of Regulations,
26 Title 16, Section 1267; and failing to make records available for inspection by the Bureau, in
27 violation of California Code of Regulations, Title 16, Section 1267.

1 36. On or about November 9, 2007, the Bureau requested records from defendants FDSC
2 and COMERICA BANK to perform an audit of the preneed funeral trust funds held in the
3 TRUST. Despite this request and several subsequent requests, FDSC and Comerica refused or
4 failed to provide sufficient records for the Bureau to perform its audit.

5 37. In or about March 2009, a funeral industry whistleblower gave the Bureau certain
6 TRUST records. These records included a partial copy of the Disparity Resolution Plan, a plan
7 (discussed in the Second Cause of Action of this First Amended Complaint) by defendants to
8 conceal imprudent investment losses and to conceal the other violations of law alleged herein.

9 38. On or about August 1, 2009, after realizing the Bureau had a partial copy of the
10 Disparity Resolution Plan it had endeavored to conceal, FDSC turned over its own partial copy of
11 the Plan to the Bureau and, for the first time, disclosed the Promissory Note discussed in the
12 Second Cause of Action of this First Amended Complaint. Notably, the Bureau has never
13 received a copy of Exhibit B of the Plan, which allegedly contains an explanation of the
14 accounting practices to be used to account for gains and losses in the individual trustors' accounts

15 39. On or about March 22, 2010, the Bureau completed its initial audit of the TRUST
16 records for the period of 2000 through 2009.⁵ On or about June 2010, the Bureau issued a revised
17 audit report. Because defendants FDSC and Comerica Bank still had not provided all the records
18 necessary to completely perform the audit, some amounts in the audit had to be estimated.

19 40. On or about January 19, 2010, pursuant to its authority under Government Code
20 Section 11180 *et seq.*, the Department of Consumer Affairs and the California Department of
21 Justice issued Joint Subpoenas to Answer Interrogatories and Produce Documents, which were
22 served on defendants COMERICA BANK, MECHANICS BANK, FDSC, ARC, DAMORE,
23 BURNETT and others. In or about October 2010, in response to the joint subpoena, FDSC
24 finally produced approximately 61 boxes of TRUST documents that it had been storing in
25 Oregon, as discussed in the Tenth Cause of Action of this First Amended Complaint.

26
27 _____
28 ⁵ The TRUST records provided to the Bureau covered periods from 2000 through 2008,
May 2009, or throughout 2009.

1 contracts purchase them for their own funeral services, they are both the trustors and beneficiaries
2 of their respective individual preneed trust accounts within the TRUST.

3 48. Whenever in this First Amended Complaint reference is made to enrolled funeral
4 establishments, the reference refers to funeral establishments in California who have placed their
5 client's preneed funeral trust funds into the TRUST.

6 **STATUTES GOVERNING PRENEED FUNERAL ARRANGEMENTS (SHORT ACT)**

7 49. Business and Professions Code Section 7735 provides that funds for preneed funeral
8 arrangements be placed and held in trust and provides rules for the payment of trust
9 administrative fees:

10 No funeral establishment licensed under the laws of the State of California, or the
11 agents or employees of a funeral establishment, shall enter into or solicit any preneed
12 arrangement, contract, or plan, hereinafter referred to as "contract," requiring the
13 payment to the licensee of money or the delivery to the licensee of securities to pay
14 for the final disposition of human remains or for funeral services or for the furnishing
15 of personal property or funeral merchandise, wherein the use or delivery of those
16 services, property or merchandise is not immediately required, unless the contract
17 requires that all money paid directly or indirectly and all securities delivered under
18 that agreement or under any agreement collateral thereto, shall be held in trust for the
19 purpose for which it was paid or delivered until the contract is fulfilled according to
20 its terms; provided, however, that any payment made or securities deposited pursuant
21 to this article shall be released upon the death of the person for whose benefit the trust
22 was established as provided in Section 7737. The income from the trust may be used
23 to pay for a reasonable annual fee for administering the trust, including a trustee fee
24 to be determined by the bureau, and to establish a reserve of not to exceed 10 percent
25 of the corpus of the trust as a revocation fee in the event of cancellation on the part of
26 the beneficiary. The annual fee for trust administration may be recovered by
27 withdrawals from accumulated trust income, provided that total withdrawals for this
28 purpose shall not exceed the amount determined by the bureau. In no case shall the
total amount withdrawn in a year for trust administration exceed the total amount of
posted trust income for the immediate 12 preceding months. In addition to annual fees
and reserves authorized by this Section, a trustee may, at its election, pay taxes on the
earnings on any trust pursuant to Section 17760.5 of the Revenue and Taxation Code.
In no event, however, shall taxes paid on the earnings of any trust be considered part
of the fees or reserves authorized by this Section. All remaining income shall be
accumulated in trust.

None of the corpus of the trust shall be used for payment of any commission nor shall
any of the corpus of the trust be used for other expenses of trust administration, or for
the payment of taxes on the earnings of the trust.

50. Business and Professions Code Section 7736 defines the terms trustee, trustor,
beneficiary, and corpus of the trust:

For the purposes of this article the term "trustee" shall mean any banking institution
or trust company legally authorized and empowered by the State of California to act

1 as trustee in the handling of trust funds or not less than three persons one of whom
2 may be an employee of the funeral establishment; the word "trustor" shall mean any
3 person who pays the money or deposits the securities used for those preneed
4 arrangements; the term "beneficiary" shall be the person for whom the funeral
5 services are arranged; the words "corpus of the trust" shall include all moneys paid
6 and securities delivered by the trustor pursuant to the provisions of the article.

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51. Business and Professions Code Section 7737 governs the placement, handling, and
delivery of trust funds:

All securities purchased by the trustor for deposit in trust and all money received
from the trustor for deposit in trust shall be placed in trust with a trustee within 30
days of their receipt by the funeral establishment pursuant to a trust agreement
executed by the funeral establishment, the trustor and trustee which shall provide that
the trustee shall hold the money or securities in trust for the purposes for which
deposited and that the trustee, upon the signature of a majority of such trustees, shall
deliver the corpus of the trust to the funeral establishment upon the filing of a
certified copy of the death certificate or other satisfactory evidence of the death of the
beneficiary, together with satisfactory evidence that the funeral establishment has
furnished the merchandise and services, provided, however, that (1) in the case of a
trust agreement between any of the trustees set forth in Section 7736 and a recipient
of public assistance, under the provisions of subdivision (a) of Section 11158 or
paragraph (1) of subdivision (e) of Section 12152 of the Welfare and Institutions
Code, and provided the value limitations of those Sections are not exceeded, such
trust agreement may further provide that it is irrevocable, and (2) in all other cases
such trust agreement shall further provide that at any time before the funeral
establishment has furnished the merchandise and services provided for in the contract
the trustor or the legally appointed representative may in writing demand and receive
the return of the corpus of the trust, together with any income accrued in the trust, less
the revocation fee provided for in Section 7735; provided, however, that if and when
the trustor becomes otherwise eligible, or in order to become eligible, for public
social services, as provided in Division 9 (commencing with Section 10000) of the
Welfare and Institutions Code, he or she may agree, at his or her option, that the trust
shall be irrevocable in order to avail himself or herself of the provisions of Section
11158 or Section 12152 of the Welfare and Institutions Code. The delivery of the
corpus of the trust and the accumulated income to the funeral establishment
performing the services, trustor or beneficiary pursuant to the terms of this article and
the trust agreement herein referred to, shall relieve the trustee of any further liabilities
with regard to those funds or income there from.

52. Business and Professions Code Section 7737.3 provides audit rules for commingled
trust funds:

All commingled preneed trust funds held by a funeral establishment shall be subject
to an annual, independent certified financial audit with a copy of the audit to be
submitted to the bureau for review within 120 days of the close of the fund's fiscal
year. Any findings of noncompliance with existing law regarding preneed trust funds
shall be identified by the auditor in a separate report for review and action by the
bureau. Audits and reports of noncompliance shall be filed simultaneously.

53. Business and Professions Code sections 7737.5 and 7737.7 provide that trust funds
may be deposited in insured bank accounts: they provide, respectively, "[a] trustee may deposit

1 the corpus of the trust in any financial institution insured by the Federal Deposit Insurance
2 Corporation” or “in any credit union which is insured by the National Credit Union Share
3 Insurance Fund.”

4 54. Business and Professions Code Section 7740 grants the Bureau authority to enforce
5 the Short Act and to adopt necessary rules and regulations:

6 The bureau is authorized to enforce of its own initiative the provisions of this article
7 [Preneed Funeral Arrangements] and may adopt such rules and regulations as in its
8 opinion may be necessary to perform such duties and to safeguard the trust funds
subject to this chapter [Funeral Directors and Embalmers Law].

9 **REGULATIONS GOVERNING PRENEED FUNERAL ARRANGEMENTS**

10 55. California Code of Regulations, Title 16, Section 1263 provides additional investment
11 rules for trust funds:

12 (a) The trust funds shall be invested and reinvested, and kept invested in:

13 (1) Bonds of or securities guaranteed by the United States or an Agency thereof or
this State, or of any County, City, or City and County in this State.

14 (2) Bonds which are legal investments for commercial banks in this State.

15 (3) Certificates of deposit or other interest-bearing accounts in any bank in this
16 State insured by the Federal Deposit Insurance Corporation.

17 (4) Investment certificates or shares in any state or federally chartered savings
institution insured by the Federal Savings and Loan Insurance Corporation.

18 (5) Investments of the type and in the manner as provided in Section 15001 *et seq.*
19 of the Probate Code.

20 (b) No loan shall be made to any licensed funeral establishment; nor to any owner,
21 director, officer, partner or stockholder of any licensed funeral establishment; or to
trustees of the trust funds; or to partners, relatives, agents, or employees of any
licensed funeral establishment or of such trustees.

22 56. California Code of Regulations, Title 16, Section 1264 provides, “[a]ll written
23 requests for revocation, by the trustor, of a trust shall be honored within fifteen (15) days of
24 receipt thereof.”

25 57. California Code of Regulations, Title 16, Section 1265 provides limits on fees for
26 trust administration:

27 The annual fee for administering a trust, as provided in Business and Professions
28 Code, Division 3, Chapter 12, Article 9, Section 7735, may be recovered by
withdrawals from current trust income, but total withdrawals in any year shall not
14

1 exceed four percent (4%) of the trust balance on December 31 of that year, or on the
2 cancellation or maturity date during that year, of all payments deposited into trust,
3 plus all prior years accumulated income. Any remaining current income shall be
4 accumulated in trust.

5 58. California Code of Regulations, Title 16, Section 1267 provides, in part, rules for
6 trust recordkeeping:

7 Each funeral establishment charged with the reporting of preneed funds hereunder
8 shall at all times maintain or cause the trustee of the preneed trust to maintain in
9 California and available for inspection by the Board during reasonable working hours,
10 complete financial records of all preneed contracts and arrangements, which records
11 shall be established and maintained in accordance with generally accepted accounting
12 principles. Such records shall include the following, provided, however, that records
13 may otherwise be established and maintained in accordance with generally accepted
14 accounting principles:

15 ...

16 (b) An individual trustor or beneficiary ledger account which shall set forth the
17 amount of the contract, all payments received, all income prorated in accordance with
18 the ratio which the trust corpus of the account bears to the entire corpus invested as
19 set forth in Section 1265.

20 (c) A cash receipts journal which shall show each payment received and shall be
21 totaled monthly.

22 (d) A cash disbursement journal which will show each withdrawal for an investment
23 in compliance with 1263 and each disbursement to the funeral establishment for a
24 serviced account or to the individual trustor on a canceled account, and all
25 withdrawals for documented expenses.

26 ...

27 (f) A general ledger which shall be posted monthly with respect to all accounts
28 controlling the fiduciary relationship with the individual trustors. Such postings shall
occur within 90 days after the close of each business month.

...

(h) Records for serviced accounts shall include but not be limited to:

(1) A copy of the death certificate or other satisfactory evidence of the death;
copies of all documents required as specified under Sections 7685 and 7685.2,
Division 3, Chapter 12, Article 5.5 of the Business and Professions Code; a
copy of the final arrangements (itemized); and a copy of the final statement to
the family.

(2) All monies received from the trust; all monies received from the family;
and all monies received from the Veterans Administration or Social Security
or any other source to be applied to the final bill.

(3) A record showing credit for each of the above.

1 (i) Records for canceled accounts shall include but not be limited to:

2 (1) A record of all income earned and documented expenses taken including a
3 revocation fee as stated in Section 7735, Division 3, Chapter 12, Article 9, of
the Business and Professions Code.

4 (2) A copy of the final accounting to the family with the canceled check or
5 withdrawal slip showing the amount refunded to the trustor.

6 (j) All of the foregoing records shall be retained for a period of one year after the
7 account has been canceled or serviced and audited by the State Board and compliance
with all recommendations made and audit exceptions resolved or 7 years from the
8 date of service or cancellation, whichever comes first.

8 The required books and records for more than one licensed funeral establishment may
9 be centrally maintained at a single location in California with notification to the
Board or the main office as defined in Section 1204(c)(2), provided that a monthly
10 summary of all financial transactions pertaining to each individual trust account for
each licensed funeral establishment is available, at each such establishment during
11 reasonable working hours, to the Board or its authorized representatives; and provides
further that the monthly summary contains sufficient information from which the
12 current balance of each individual trustor's account or each individual trustor's share
of any commingled trust account may be identified.

13 59. California Code of Regulations, Title 16, Section 1269 requires, in part, disclosure to
14 the Bureau of the details of preneed arrangements:

15 (a) Each licensed funeral establishment and licensed funeral director who enters into
16 any pre-need arrangements, contracts or plans described in and subject to the
provisions of Article 9, Chapter 12, Division 3 of the Business and Professions Code
17 shall file with the Board annually on or before May 1 of each year and upon transfer
of license or cessation of business, a written, verified or audited report, on form 21 P-
18 4A (1/94) prescribed and furnished by the Board, pertaining to funds received and
held under such arrangements, contracts or plans. Firms utilizing a fiscal year
19 accounting system may request permission, in writing to the Executive Officer, to file
said report on a fiscal year basis and, if permission is granted, said report shall then be
20 filed with the Board no later than 120 days from the date of the close of said fiscal
year.

21 . . .

22 (d) In cases where trust funds have been commingled for purposes of investment, the
23 Board may require, in addition to the written report required by subsection (a) of this
Section, an independent audit report prepared and signed by a Certified Public
24 Accountant or Public Accountant, currently licensed in the State of California, which
certifies compliance with the provisions of Article 9, Chapter 12, Division 3 of the
25 Business and Professions Code and the provisions of this Article.

26 . . .

27 (f) Two or more funeral establishments who utilize a common trust fund to hold and
28 administer payments received under pre-need contracts may cause the trustee of that
common trust fund to file one combined annual report regarding all such pre-need
contracts, provided each funeral establishment's information is disclosed separately.

1 60. California Code of Regulations, Title 16, Section 1274 requires the repayment of trust
2 funds and income when funeral providers are unable to perform:

3 If, for any reason, a licensed funeral establishment or licensed funeral director is
4 unable to perform the funeral services prior to or upon the death of the beneficiary of
5 a preneed trust agreement, then the trustees shall pay all trust corpus and net income
6 to the beneficiary, trustor or the legal representative of either the beneficiary or trustor
7 without the imposition of any revocation charge.

8 61. California Code of Regulations, Title 16, Section 1275 provides, in part, detailed
9 requirements for the contents of preneed trust contracts:

10 A preneed trust contract within the meaning of Article 9, Chapter 12, Division 3, of
11 the Business and Professions Code shall include but not be limited to the following
12 information:

13 ...

14 (g) A statement that earned annual income is being credited to the account and that
15 administrative expenses, if charged, are paid from income only.

16 (h) A statement, in clear nontechnical language, that the contract is either a
17 guaranteed preneed contract or that it is a nonguaranteed preneed contract, and, if
18 guaranteed only in part, the services or merchandise included in the guarantee shall be
19 specified. This statement shall be printed in bold face type and shall be located on the
20 first page of the contract.

21 (1) If the contract is guaranteed, there shall be included in the contract a
22 complete explanation of all the terms and conditions limiting the guarantee.

23 (2) If the contract is not guaranteed, there shall be included in the contract a
24 complete explanation of how the trust balance will be applied to pay for
25 services and merchandise provided at the beneficiary's death and that there
26 may be additional payments required or a refund due.

27 (i) A statement that the trustees of the trust will deliver the corpus of the trust and net
28 income to the funeral establishment filing a certified copy of the Death Certificate
and evidence that said funeral establishment has furnished the merchandise and
services. (Corpus of the Trust means all monies paid and all securities delivered
pursuant to this prearrangement contract.)

 (j) A statement that the amount of revocation fee to be charged in the event of
revocation, shall in no event exceed ten percent (10%) of the paid-in corpus and is
chargeable against earned income only; and a statement that no revocation fee may be
charged if the funeral establishment is unable to perform substantially according to
the terms of the agreement.

 (k) In immediate proximity to the space reserved for the purchaser's signature, in a
size equal to at least ten point (10-point) bold type, the following statement: "All
funds received will be deposited with the trustees within thirty (30) days and held in a
trust which is fully refundable upon fifteen (15) days' written notice except when the
beneficiary is the recipient of public assistance, as provided in the Welfare and

1 Institutions Code and this trust agreement has been designated as being irrevocable
2 thereunder.

3 **FIRST CAUSE OF ACTION**

4 **(VIOLATION OF BUS. & PROF. CODE, § 7736)**

5 **(UNLAWFUL CONTROL OF PRENEED FUNERAL TRUST)**

6 **(AGAINST DEFENDANTS CFDA, FDSC, COMERICA BANK,**

7 **MECHANICS BANK, KUHN, AND DOES 1 THROUGH 1000)**

8 62. Plaintiff realleges and incorporates by reference paragraphs 10 through 61, above, of
9 the First Amended Complaint as though fully set forth herein.

10 63. Defendants CFDA, FDSC, COMERICA BANK, MECHANICS BANK, KUHN, and
11 DOES 1 through 1000 have knowingly and willingly entered into a conspiracy, common
12 enterprise, or common course of conduct to enable defendant FDSC, an unauthorized entity, to
13 operate a preneed funeral trust as the de facto trustee in violation of Business and Professions
14 Code⁶ Section 7736, and unless restrained and permanently enjoined from doing so by order of
15 this Court, defendant FDSC will continue to operate a preneed funeral trust as the de facto trustee
16 and defendants CFDA, COMERICA BANK, KUHN, and DOES 1 through 1000 will continue to
17 aid and abet FDSC in engaging in said practice, in violation of Section 7736, as follows:

18 64. The first overt act of this conspiracy was CFDA's incorporation of FDSC on May 13,
19 1985. In furtherance of the conspiracy, FDSC has controlled the TRUST as its de facto trustee, as
20 described herein below.

21 65. Under Section 7736, trustee of a preneed funeral trust must be "any banking
22 institution or trust company legally authorized and empowered by the State of California to act as
23 trustee in the handling of trust funds or not less than three persons one of whom may be an
24 employee of the funeral establishment." Since FDSC is not a banking institution or a trust
25 company and its board at all times mentioned in this First Amended Complaint have had more
26

27 ⁶ All subsequent statutory references are to the Business and Professions Code unless
28 otherwise noted.

1 than one representative of a funeral establishment, it cannot legally be a trustee of a preneed
2 funeral trust.

3 66. To evade the restrictions of Section 7736, FDSC appointed as the trustee entities that
4 satisfied the statutory requirements but which agreed to delegate actual control of the TRUST to
5 FDSC. Specifically, on or about September 1, 1995, FDSC appointed MECHANICS BANK, a
6 banking institution authorized to act as trustee of a preneed funeral trust, to be the trustee of the
7 TRUST. Pursuant to the trust agreement, MECHANICS BANK accepted the appointment as the
8 trustee of the TRUST and then delegated actual control of the TRUST to FDSC. In exchange,
9 FDSC paid MECHANICS BANK an annual trustee fee and MECHANICS BANK was able to
10 deposit the trust funds that were not otherwise invested in its bank. From in or about 1995 to
11 February 15, 2002, MECHANICS BANK was the duly appointed trustee of the TRUST.

12 67. Likewise, on or about February 15, 2002, the effective date of MECHANICS
13 BANK's resignation as trustee, FDSC appointed defendant COMERICA BANK, a banking
14 institution authorized to act as trustee of a preneed funeral trust, as the trustee of the TRUST.
15 Pursuant to the trust agreement, COMERICA BANK accepted the appointment as the trustee and
16 then delegated actual control of the TRUST to FDSC. In exchange, FDSC has paid COMERICA
17 BANK an annual trustee fee and COMERICA BANK has been able to deposit the TRUST's
18 funds that were not otherwise invested in its bank. From February 15, 2002, to the present,
19 COMERICA BANK has been the duly appointed trustee of the TRUST.

20 68. In the aforementioned agreements, MECHANICS BANK and COMERICA BANK,
21 respectively, granted FDSC the sole power to remove the trustee, which gave FDSC ultimate
22 control over the trustee.⁷ FDSC was also given the power to determine how much to pay the
23 trustee. In addition, MECHANICS BANK and COMERICA BANK, respectively, transferred
24 critical trustee decision-making powers to FDSC, including the power to hire, fire and monitor all
25 agents to the TRUST, including administrators, accountants, attorneys, auditors, investment
26

27 ⁷ "The power to remove is the power to control." *Silver v. United States Postal Service*
28 (9th Cir. 1991) 951 F.2d 1033, 1039.

1 advisors, and other consultants;⁸ the power to determine the investment policy of the TRUST and
2 when to hold or sell investments;⁹ and the power to decide how the funds are received, invested,
3 and dispersed.¹⁰ In contrast, the trustee was allowed to hold trust funds, to disburse those funds
4 pursuant to FDSC's directions, and to observe the performance of the investment advisors and
5 report its observations to FDSC.

6 69. Furthermore, Section 7737 restricts who may be a party to a preneed funeral
7 agreement to the funeral establishment, the trustor, and the trustee(s). The TRUST's preneed trust
8 agreements are between the funeral establishment, the trustor, the trustee, and FDSC. However,
9 FDSC is not a permitted party to a preneed funeral trust agreement. FDSC with the assistance of
10 CFDA, COMERICA BANK, MECHANICS BANK, KUHN, AND DOES 1 – 1000 have violated
11 Section 7737 by making FDSC a party to the TRUST's preneed funeral agreements. By being a
12 party to these trust agreements, FDSC has obtained an improper level of control of the TRUST.

13 70. Consequently, from a date unknown to Plaintiff but no later than 2000 and continuing
14 to the present, FDSC has exercised control over almost all aspects of the operation of the TRUST.
15 Trustee control over the TRUST has been almost nonexistent. Thus, with the passive approval of
16 MECHANICS BANK and COMERICA BANK, CFDA via FDSC has operated the TRUST for
17 the primary benefit of CFDA and not solely in the interest of the trustor-beneficiaries. In so
18 doing, CFDA was able to advance the fundamental objective of the conspiracy, which was and is
19 to use the assets of the TRUST to fund CFDA's activities and agenda. To achieve this objective,
20 the defendants named in this First Amended Complaint and DOES 1 through 1000 and others
21 have violated or aided and abetted others in violating the Short Act, its implementing regulations,
22

23 ⁸ See Prob. Code, § 16247 (trustee's power to hire).

24 ⁹ See Prob. Code, §§ 16047 (trustee's duty to invest and manage trust assets as a prudent
25 investor would, by considering the purposes, terms, other circumstances of the trust, and the law
26 and to evaluate investments as a part of an overall investment strategy having risk and return
objectives reasonably suited to the trust), 16049 (trustee's duty to make and implement decisions
concerning the retention and disposition of assets, in order to bring the trust portfolio into
compliance with the purposes, terms, other circumstances of the trust, and the governing laws).

27 ¹⁰ See Prob. Code, §§ 16220 (trustee's power to collect, hold, retain, and dispose of trust
28 property), 16246 (power to effect distribution of property and money in divided or undivided
interests and to adjust resulting differences in valuation).

1 and California's Trust Law,¹¹ as well as breached the TRUST's preneed funeral contracts, as
2 described herein below.

3 71. MECHANICS BANK's and COMERICA BANK's imprudent and improper
4 delegation of control of the TRUST to FDSC and FDSC's operation of the TRUST as the de facto
5 trustee with the assistance of CFDA and KUHN and DOES 1 - 1000 violates Section 7736 and
6 breaches their respective fiduciary duties toward the trustor-beneficiaries of the TRUST.¹²
7 Importantly, MECHANICS BANK and COMERICA BANK are held to a higher standard of care
8 as professional trustees.¹³

9 72. The violations of section 7736 by CFDA, FDSC, COMERICA BANK,
10 MECHANICS BANK, KUHN, and DOES 1 through 1000 caused damage to California
11 consumers who placed assets in the TRUST, resulting in the misuse, misexpenditure, and
12 mismanagment of millions of their dollars. . As a result of the foregoing, CFDA, FDSC,
13 COMERICA BANK, MECHANICS BANK, KUHN, and DOES 1 through 1000 owe restitution
14 to the trustor-beneficiaries and enrolled funeral establishments who have participated in the
15 TRUST.¹⁴

16 73. Plaintiff is informed and believes and thereon alleges that this conspiracy, common
17 enterprise, and common course of conduct continue to the present date.

18 74. Probate Code section 17200 provides for the modification by the Court of the terms
19 of the TRUST in order to comply with applicable law. Modification of the TRUST's trust
20 agreements by removing FDSC as a party and by eliminating terms that require or permit the
21 TRUST to pay fees to FDSC or CFDA or any party related thereto is necessary in order to
22

23
24 ¹¹ Prob. Code, § 15000, *et seq.*

25 ¹² See Prob. Code, §§ 16002, subd. (a) (duty of loyalty; trustee's duty to administer the
26 trust solely in the interest of the beneficiaries), 16012 (trustee's duty not to delegate), 16006
27 ("The trustee is under a duty to the beneficiary to take reasonable steps to take and keep control of
28 the trust property.") See Restat. 2d. of Trusts, § 175 ("The duty of the trustee is not only to take
and keep control, but to take and keep exclusive control.")

¹³ *Moeller v. Superior Court* (1997) 16 Cal. 4th 1124, 1134.

¹⁴ The full amount of restitution that defendants owe the trustor-beneficiaries, TRUST,
and/or the State (escheatment) will be determined by proof at trial.

1 address the inordinate level of control that FDSC has over the acts of this preneed funeral trust
2 and to comply with the Funeral Directors and Embalmers Law.

3 75. Unless restrained and permanently enjoined, defendants CFDA, FDSC, COMERICA
4 BANK, KUHN, and DOES 1 through 1000 will continue to engage in or will resume said
5 aforementioned practices and acts in violation of the law, as hereinabove set forth.

6 76. Plaintiff, trustor-beneficiaries, and enrolled funeral establishments, will be irreparably
7 injured in that defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through
8 1000 will continue to engage in or will resume acts and practices in violation of law, as
9 hereinabove set forth.

10 77. Plaintiff has no adequate remedy at law to prevent defendants CFDA, FDSC,
11 COMERICA BANK, KUHN, and DOES 1 through 1000 from engaging in the aforementioned
12 alleged acts and practices.

13 **SECOND CAUSE OF ACTION**

14 **(VIOLATION OF BUS. & PROF. CODE, § 7735 AND**

15 **CAL. CODE REGS., TIT. 16, § 1265)**

16 **(UNAUTHORIZED PAYMENTS OF ADMINISTRATIVE FEES)**

17 **(AGAINST CFDA, FDSC, MECHANICS BANK, COMERICA BANK, ARC,**

18 **KUHN, DRAPER, PETERS, PRATHER, DAMORE, BURNETT, AND DOES 1**

19 **THROUGH 1000)**

20 78. Plaintiff realleges and incorporates by reference paragraphs 10 through 77 of the First
21 Amended Complaint as though fully set forth herein.

22 79. Defendants CFDA, FDSC, MECHANICS BANK, COMERICA BANK, ARC,
23 KUHN, , DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through 1000
24 have knowingly and willingly entered into a conspiracy, common enterprise, or common course
25 of conduct to defraud the trustor-beneficiaries and the enrolled funeral establishments by causing
26 the TRUST to make unauthorized payments of administrative fees of approximately \$5 million
27 dollars in 2001 and 2002 to pay themselves (CFDA, FDSC, MECHANICS BANK, COMERICA
28 BANK, ARC, KUHN, DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1

1 through 1000) and others, in violation of Section 7735 and California Code of Regulations, Title
2 16, Section 1265, as follows:

3 80. Section 7735 permits income from a preneed funeral trust to be used to pay for a
4 “reasonable annual fee for administering the trust.” However, under Section 7735, “[i]n no case
5 shall the total amount withdrawn in a year for trust administration exceed the total amount of
6 posted trust income for the immediate 12 preceding months.” In other words, if a preneed funeral
7 trust does not have any income for a given year, it may not pay administrative fees that year.

8 81. In 2001, the TRUST realized losses of \$9,790,996.50 from high risk investments, as
9 described in further detail in the Eighth Cause of Action of this First Amended Complaint, *infra*.
10 Because of these losses, the TRUST did not earn any income in 2001. Since the TRUST had no
11 income that year, Section 7735 barred it from paying administrative fees that year. Nevertheless,
12 for the year 2001, FDSC, aided and abetted by CFDA, MECHANICS BANK, ARC, KUHN,
13 DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through 1000, took
14 approximately \$2,330,807 from the TRUST assets to pay CFDA, FDSC, MECHANICS BANK,
15 ARC, KUHN, DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through
16 1000 and others administrative fees in violation of Section 7735. MECHANICS BANK made the
17 last payment of administrative fees for the year 2001 in January 2002 prior to its resignation.
18 Defendant COMERICA BANK aided and abetted FDSC by fraudulently concealing the
19 wrongdoing after the fact, as described below in this Second Cause of Action.

20 82. The TRUST suffered a net loss again the following year, 2002. Yet, for the year
21 2002, FDSC, aided and abetted by CFDA, FDSC, COMERICA BANK, ARC, KUHN, DRAPER,
22 PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through 1000 took approximately
23 \$2,506,485 from the assets of the TRUST to pay CFDA, FDSC, COMERICA BANK, ARC,
24 KUHN, DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through 1000
25 administrative fees in violation of Section 7735. Although MECHANICS BANK resigned as
26 trustee in February 2002, it aided and abetted the wrongful payment of administrative fees for the
27 year 2002 by failing to disclose the foregoing to the Bureau and trustor-beneficiaries.

1 83. The funds illegally withdrawn from the TRUST as administrative fees were entrusted
2 to MECHANICS BANK or COMERICA BANK by the trustor-beneficiaries.

3 84. CFDA, FDSC, ARC, KUHN, DRAPER, PETERS, PRATHER, DAMORE,
4 BURNETT, and DOES 1 through 1000 conspired to create, adopt, and implement a fraudulent
5 scheme to conceal the \$9.8 million dollar loss. The purpose of this scheme was to justify the
6 continued withdrawal of administrative fees to pay themselves and others and to avoid disclosure
7 of and potential liability for the loss. The scheme was called the "Disparity Resolution Plan," and
8 it was memorialized as an agreement between FDSC and ARC. The Disparity Resolution Plan
9 provided that FDSC would "purchase" the loss by executing a non-interest bearing Promissory
10 Note in favor of the TRUST in the amount of \$9,790,996.50, which was the amount of the loss as
11 of June 30, 2001. The plan was to have the Promissory Note accounted for in such a way in the
12 TRUST's annual audits that it would appear to offset the loss, even though said defendants knew
13 or should have known that the Promissory Note was not enforceable and had dubious value. By
14 offsetting the loss in this manner, the TRUST would appear to have earned sufficient income to
15 pay administrative fees, when, in fact, it had not.

16 85. On or about October 16, 2001, the FDSC Board adopted the Disparity Resolution
17 Plan. It was given an effective date of June 30, 2001. FDSC Board members KUHN, PETERS,
18 DRAPER and PRATHER voted in favor of adopting the Disparity Resolution Plan, and Ronald
19 Day, who had been on the Board Task Force's investigating solutions to the disparity, voted
20 against approving the Plan and requested that the minutes so reflect.¹⁵ Based on what the
21 directors knew at that time or should have known by reasonable diligence, an ordinary prudent
22 person would not have authorized the Plan.

23 86. Defendant MECHANICS BANK, the trustee at the time the Disparity Resolution
24 Plan was adopted, allowed the other defendants to adopt and implement this scheme and failed to
25 disclose the terms of the plan, aiding the conspiracy. It also allowed CFDA, FDSC, ARC,
26 KUHN, DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through 1000 to

27 _____
28 ¹⁵ The other directors from that time, Robert Pierce and Barry Berlin, are now deceased.

1 conceal the terms of the Disparity Resolution Plan, a material transaction, from the trustor-
2 beneficiaries, the enrolled funeral establishments, and the Bureau, aiding the conspiracy. The Plan
3 itself provided that its terms were to be kept secret and not disclosed to anyone other than the co-
4 conspirators, i.e., the trustee and participating attorneys, accountants, and auditors of the TRUST.
5 Section I.9. of the Disparity Resolution Plan states: "FDSC and ARC agree that the following
6 elements are incorporated into this Plan: a) FDSC and ARC agree not to seek a ruling on this Plan
7 from the Department of Consumer Affairs."

8 87. In furtherance of the scheme to defraud, FDSC, MECHANICS BANK, COMERICA
9 BANK chose not to provide a copy of the Disparity Resolution Plan to the trustor-beneficiaries,
10 the enrolled funeral establishments, or the Bureau. As fiduciaries, FDSC, MECHANICS BANK,
11 and COMERICA BANK had a duty to disclose the Disparity Resolution Plan and the Promissory
12 Note, which represented a material transaction of the TRUST, to the trustor-beneficiaries. In
13 addition, a copy of the plan was not submitted to the Bureau with the TRUST's annual self-
14 reporting audits from 2001 to 2009. Furthermore, despite the Bureau's request for financial
15 records from FDSC and COMERICA BANK during the Bureau's audit of the TRUST, FDSC and
16 COMERICA BANK chose not to provide a copy of the Plan or even a partial copy of the Plan to
17 the Bureau until August 2009, which was only after they learned that the Bureau had obtained a
18 partial copy of the plan from another source. In August 2009, FDSC and COMERICA provided
19 the Bureau with a partial copy of the Plan.

20 88. In furtherance of the conspiracy, CFDA, FDSC, ARC, COMERICA BANK, KUHN,
21 DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through 1000deliberately
22 designed or authorized others to design the TRUST's audited financial statements for 2001 and
23 2002 to deceive the financial statement user.

24 89. To disguise the fact that the auditor(s) did not believe that the Disparity Resolution
25 Plan's Promissory Note had any value, CFDA, FDSC, ARC, COMERICA BANK, KUHN,
26 DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through 1000 changed the
27 TRUST's basis of accounting for its self-reporting audits. First, they changed the method of
28 accounting purportedly used on the 2001 and 2002 audit reports from a generally accepted

1 accounting principles (GAAP) basis to what they called a federal income tax basis. Second, they
 2 failed to properly apply these accounting principles and standards in order to deliberately deceive
 3 financial statement users. Third, they failed to follow other generally accepted auditing standards.

4 90. The TRUST's 2001 audit report submitted to the Bureau was false and misleading,
 5 had material omissions, and was incomplete. To offset approximately \$10 million in losses in
 6 2001 CFDA, FDSC, COMERICA BANK, ARC, KUHN, DRAPER, PETERS, PRATHER,
 7 DAMORE, BURNETT, and DOES 1 through 1000 represented that the TRUST earned
 8 approximately \$9.4 million of income, called "disparity resolution income." This representation
 9 was false. The TRUST had not earned any such income in 2001.

10 91. By claiming the fictitious income for 2001, CFDA, FDSC, COMERICA BANK,
 11 ARC, KUHN, DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through
 12 1000 avoided reporting a net loss for the year of approximately \$7 million and made the financial
 13 statements appear to have the required net income, which it did not have, to pay approximately
 14 \$2.3 million in administrative fees. The following chart sets forth the fraudulent representation of
 15 income in the Statement of Revenue and Expenses in the TRUST's 2001 audit report and also
 16 shows what should have been reported:

	As Reported By TRUST	Actual
REVENUE		
Interest	\$886,064	\$886,064
Dividends	\$1,735,352	\$1,735,352
Loss on sale of investments	(\$9,509,221)	(\$9,509,221)
Disparity resolution income	\$9,462,430	-----
Total revenue	\$2,574,625	(\$6,887,805)
EXPENSES		
Administrative fees	\$2,330,807	Not permitted
Net revenue over expenses	\$241,818	None

25 92. In addition, CFDA, FDSC, COMERICA BANK, ARC, KUHN, DRAPER, PETERS,
 26 PRATHER, DAMORE, BURNETT, and DOES 1 through 1000 chose not to file a separate report
 27 of noncompliance with preneed funeral arrangement laws, as required by Section 7737.3. The
 28 TRUST was not in compliance based on the facts set forth above and because the TRUST's

1 records had not been maintained in accordance with generally accepted accounting principles as
 2 required by California Code of Regulations, Title 16, Section 1267. CFDA, FDSC, COMERICA
 3 BANK, ARC, KUHN, DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1
 4 through 1000 also chose not to file a completed Preneed Funeral Trust Fund Report, form 21 P-
 5 4A, as required by California Code of Regulations, title 16, section 1269, which would have
 6 disclosed a summation of the corpus (accumulated and current amount received and paid) and
 7 income (accumulated and current income received and paid). The TRUST's audited financial
 8 statements do not provide the corpus balances or the accumulated income balance. As this
 9 information was never provided, the Bureau's ability to regulate the TRUST was hindered.

10 93. Similarly, the TRUST's 2002 audit report that was submitted to the Bureau was false
 11 and misleading, had material omissions, and was incomplete. Pursuant to the audited financial
 12 statements, which were prepared by BURNETT and submitted to the Bureau, the TRUST realized
 13 a loss of approximately \$6.4 million from the sale of investments. To offset the loss in the
 14 TRUST's 2002 audit report, CFDA, FDSC, COMERICA BANK, ARC, KUHN, DRAPER,
 15 PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 - 1000 fraudulently represented that
 16 the TRUST earned approximately \$6.8 million of income, referred to therein as "disparity
 17 resolution income." This representation was false. The TRUST had not earned any such income.

18 94. By claiming the fictitious income for 2002, CFDA, FDSC, COMERICA BANK,
 19 ARC, KUHN, DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 - 1000
 20 avoided reporting a net loss for the year of approximately \$3 million and made the financial
 21 statements appear to have the required net income to pay approximately \$2.5 million in
 22 administrative fees. The following chart sets forth the fraudulent representation of income in the
 23 Statement of Revenue and Expenses in its 2002 audit report and shows what they should have
 24 reported:

	As Reported by Defendants	Actual
REVENUE		
Interest	\$2,296,033	\$2,296,033
Dividends	\$822,928	\$822,928
Loss on sale of investments	(\$6,445,778)	(\$6,445,778)

Disparity resolution income	\$6,796,361	-----
Total revenue	\$3,469,544	(\$3,326,817)
EXPENSES		
Administrative fees	\$2,506,485	Not permitted
Net revenue over expenses	\$963,059	None

95. In addition, for year 2002, CFDA, FDSC, COMERICA BANK, ARC, KUHN, DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through 1000 chose not to file a separate report of noncompliance with preneed funeral arrangement laws, as required by Section 7737.3. CFDA, FDSC, COMERICA BANK, ARC, KUHN, DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through 1000 also chose not to file a completed Preneed Funeral Trust Fund Report, form 21 P-4A, as required by California Code of Regulations, title 16, section 1269.

96. In sum, CFDA, FDSC, COMERICA BANK, ARC, KUHN, DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through 1000 reported \$16,258,791 of income in the TRUST's audit reports for 2001 and 2002 that did not exist. Based on this fictitious income, MECHANICS BANK and FDSC wrongfully paid approximately \$2.3 million of administrative fees for 2001 to CFDA, FDSC, MECHANICS BANK, ARC, KUHN, DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through 1000 and others that they were not legally entitled to receive. Based on this fictitious income, FDSC, COMERICA BANK wrongfully paid approximately \$2.5 million of administrative fees for 2002 to CFDA, FDSC, MECHANICS BANK, COMERICA BANK, ARC, KUHN, DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through 1000 and others that they were not legally entitled to receive.

97. The TRUST's audit report for year 2001 was dated May 15, 2002, and submitted to the Bureau on June 17, 2002. The 2002 audit report was submitted to the Bureau on April 30, 2003. When the 2001 and 2002 fraudulent audit reports were submitted to the Bureau and disseminated to the enrolled funeral establishments, said defendant COMERICA BANK was the duly appointed trustee of the TRUST.

1 98. The audited financial statements for 2001 and 2002 were prepared and certified by
2 BURNETT. BURNETT knowingly and willingly made material misrepresentations in these
3 audited financial statements, and falsely certified that in its opinion, "the financial statements
4 referred to [therein] . . . present fairly, in all material respects, the assets, liabilities and net assets
5 of the California Master Trust as of December 31, 2001 [and as of December 31, 2002], and its
6 revenue and expenses and changes in net assets for the year then ended, on the basis of
7 accounting described [therein]."

8 99. DAMORE who had been the TRUST's auditor previously chose not to perform the
9 TRUST's audit in 2001 and thereafter, but instead aided and abetted BURNETT in preparing the
10 BURNETT's unqualified opinions and the TRUST's fraudulent audit reports.

11 100. Also, in accordance with the Disparity Resolution Plan, said defendants have "paid"
12 the Note, in part, by applying the TRUST's capital gains from 2001 to at least 2009 to the balance
13 of the Note, rather than allocating the gains to the individual trust accounts and reporting the
14 gains as taxable income. By making withdrawals from the TRUST to make payments on the
15 Note, CFDA, FDSC, COMERICA BANK, ARC, KUHN, DRAPER, PETERS, PRATHER,
16 DAMORE, BURNETT, and DOES 1 through 1000 used trust funds to repay the TRUST.

17 101. CFDA, FDSC, MECHANICS BANK, COMERICA BANK, ARC, KUHN,
18 DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1 through 1000 have
19 proximately caused the resulting distortions in the TRUST's accounting that has been carried
20 forward to the present.

21 102. As a result of the foregoing, CFDA, FDSC, MECHANICS BANK, COMERICA
22 BANK, ARC, KUHN, DRAPER, PETERS, PRATHER, DAMORE, BURNETT, and DOES 1
23 through 1000 owe restitution to the trustor-beneficiaries, TRUST, and enrolled funeral
24 establishments who have participated in the TRUST.

25 ///

26 ///

27 ///

28 ///

1 **THIRD CAUSE OF ACTION**

2 **(VIOLATION OF BUS. & PROF. CODE, § 7735 AND CAL. CODE REGS., TIT. 16, §**
3 **1265)**

4 **(ILLEGAL KICKBACKS)**

5 **(AGAINST DEFENDANTS CFDA, FDSC, COMERICA BANK, MECHANICS BANK,**
6 **TRUST, KUHN, BRUSIE FD 371, FAIRHAVEN FD 1313,**
7 **HAYWARD FD 1456, AND WELCH FD 303, AND DOES 1 THROUGH 1000)**

8 103. Plaintiff realleges and incorporates by reference paragraphs 10 through 102,
9 inclusive, of the First Amended Complaint as though fully set forth herein.

10 104. Defendants CFDA, FDSC, COMERICA BANK, MECHANICS BANK, KUHN,
11 BRUSIE FD 371, FAIRHAVEN FD 1313, HAYWARD FD 1456, and WELCH FD 303, and
12 DOES 1 through 1000 have knowingly and willingly entered into a conspiracy, common
13 enterprise, or common course of conduct to pay or receive kickbacks from the TRUST, have paid
14 or received kickbacks from the TRUST, and unless restrained and permanently enjoined from
15 doing so by order of this Court, defendants CFDA, FDSC, COMERICA BANK, KUHN, and
16 DOES 1 through 1000 will continue to pay kickbacks¹⁶ from the TRUST's assets to enrolled
17 funeral establishments, in violation of Section 7735 and California Code of Regulations, Title 16,
18 Section 1265, as follows:

19 105. Section 7735 prohibits funeral establishments from receiving any income from
20 preneed funeral trusts before the contracted services are rendered. Section 7735 states that "all
21 money paid" under a preneed funeral agreement "shall be held in trust for the purpose for which it
22 was paid or delivered until the contract is fulfilled according to its terms" and "any payment made
23 ... [for a preneed funeral arrangement] shall be released [to the funeral establishment] upon the
24 death of the person for whose benefit the trust was established as provided in Section 7737."

25 [Emphasis added.] Section 7735 prohibits funeral establishments from receiving trust income for
26

27 ¹⁶ "A kickback includes a payment in consideration of the referral of a client . . . or
28 customer." Int.Rev. Code, § 162(c)(2).

1 uses other than funeral services, barring them from receiving payments for funeral establishment
2 expenses such as commissions to sales personnel, operating costs, or a return on investment.¹⁷

3 106. Section 7737 provides that a funeral establishment may be paid the trust funds after it
4 has provided the trustee with a certified death certificate of the beneficiary and satisfactory
5 evidence that the funeral establishment provided the goods and services as stated in the contract.

6 107. As an inducement to refer the customers of the enrolled funeral establishments to the
7 TRUST, CFDA, FDSC, COMERICA BANK (from February 15, 2002 to approximately 2010),
8 MECHANICS BANK (from 2000 to February 15, 2002), KUHN, and DOES 1 through 1000
9 have made payments from trust funds (kickbacks)¹⁸ to Funeral Establishment Defendants and
10 other enrolled funeral establishments of 1% to 1.5%¹⁹ of the annual balances of the firms'
11 individual trust accounts in the TRUST. These payments have been made on a quarterly basis.
12 These funeral establishments are given an annual option to receive these payments. If the election
13 is not made, the money remains in the individual trust accounts and earns income. The majority
14 of enrolled funeral establishments have elected to receive these payments.

15 108. These payments violate Section 7735 and California Code of Regulations, Title 16,
16 Section 1265, as Defendants CFDA, FDSC, COMERICA BANK, MECHANICS BANK, KUHN,
17 and DOES 1 through 1000 have paid from the TRUST and Funeral Establishment Defendants
18 have collected and kept for themselves a portion of their own clients' trust funds each year,
19 despite the fact that the preneed funeral contracts have not been fulfilled according to their terms.
20 In other words, these payments are made at a time when the beneficiary has not died and the
21

22 ¹⁷ See *American Funeral Concepts v. Bd. of Funeral Directors and Embalmers* (1982) 136
23 Cal.App.3d 303, 313 (“[t]he Short Act sets out an elaborate plan for the control of funds accruing
24 under preneed funeral contracts. Its obvious purpose is to recognize the utility of a preneed
25 funeral arrangement and at the same time assure its performance by requiring that all
26 consideration paid pursuant thereto be held in trust until the need materializes . . . This purpose is
unattainable if cosmetic manipulation of the form of the transaction allows the funeral director to
tap its proceeds to pay expenses such as commissions to sales personnel, operating costs, and a
return on investment.”)[Internal citations and quotations omitted, emphasis in original.]

26 ¹⁸ The defendants call these payments or kickbacks “participation distributions.”

27 ¹⁹ Prior to 2001, the Trust paid the funeral establishments 1.5% of the trust balances. With
28 the adoption of the Disparity Resolution Plan, the kickback amount was reduced to 1% of the
trust balances.

1 funeral establishment has not provided the funeral services and merchandise pursuant to the
2 agreement.

3 109. In addition, CFDA, FDSC, MECHANICS BANK, COMERICA BANK, KUHN, and
4 DOES 1 through 1000 have made or have authorized others to make explicit and implicit
5 misrepresentations to consumers in the TRUST's individual trust agreements and the TRUST's
6 advertisements, which state that the trustor's funds will be held in trust until the funeral
7 establishment provides the agreed upon goods and services.

8 110. Section 8 (Delivery of Funds) of the TRUST's standard consumer preneed contract
9 states that, "[t]he Trustee shall hold the funds transferred to it for the purpose for which they are
10 deposited until this Agreement is fulfilled according to its terms. The Funeral Establishment shall
11 file with FDSC a certified copy of the Beneficiary's death certificate and evidence that the
12 Funeral Establishment has furnished the merchandise and services as provided in this Agreement
13 and shall forward such documents to Trustee. Trustee will then direct disbursement of the funds
14 in the Trustor's account, less any fees provided for herein [administrative fees], to the Funeral
15 Establishment." The agreement does not authorize nor contemplate kickbacks, rebates,
16 participation distributions, dividends, or any other payments to the contracting funeral
17 establishment until services are rendered.

18 111. Likewise, defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1
19 through 1000 have prepared or authorized the misrepresentations set forth in the TRUST's
20 brochures, which have been given to enrolled funeral establishments to sell preneed trusts to
21 prospective consumers and mailed to prospective consumers upon request, and posted on the
22 TRUST's website. These advertisements indicate that the funeral establishments will not be paid
23 from the consumers' funds before the agreed upon services are rendered.

24 112. Moreover, in the TRUST's financial reports and the four annual preneed trust audit
25 reports filed with the Bureau,²⁰ Defendants CFDA, FDSC, MECHANICS BANK, COMERICA

26 ²⁰ Prior to 2007, defendants filed with the Bureau only audited financial statements of the
27 TRUST, but failed to file a Preneed Funeral Trust Fund Report. In or about April 2007,
28 defendants FDSC and COMERICA BANK filed the TRUST's first Preneed Funeral Trust Fund
Report for year ending December 31, 2006. Subsequently, defendants filed Preneed Funeral Trust

(continued...)

1 BANK, KUHN, and DOES 1 through 1000 misrepresented the 1% payments to funeral
2 establishments as administrative expenses of the TRUST. However, the enrolled funeral
3 establishments do not provide any administrative services to the TRUST. Therefore, these
4 payments to the funeral establishments are not trust administration costs and violate Section 7735
5 and California Code of Regulations, Title 16, Section 1265.

6 113. By and through their conspiracy, CFDA, FDSC, COMERICA BANK, MECHANICS
7 BANK, KUHN, BRUSIE FD 371, FAIRHAVEN FD 1313, HAYWARD FD 1456, and WELCH
8 FD 303, and DOES 1 through 1000 violated Section 7735 and California Code of Regulations,
9 Title 16, Section 1265, which has caused harm to California consumers. The amounts paid in
10 kickbacks and lost income from failure to invest the funds are not refunded to the trustor-
11 beneficiary in the event that a trust is revoked, canceled, the contracting funeral establishment
12 goes out of business, or the trustor-beneficiary entered into a non-guaranteed preneed agreement.
13 Approximately twenty percent of the TRUST's contracts written are non-guaranteed.

14 114. From 2000 through 2009, CFDA, FDSC, COMERICA BANK (from February 15,
15 2002 to approximately 2010), MECHANICS BANK (from 2000 to February 15, 2002), KUHN,
16 and DOES 1 through 1000 have paid to enrolled funeral establishments illegal kickbacks from
17 their own clients' trust funds from the TRUST. While MECHANICS BANK and COMERICA
18 BANK are responsible for payments made during their tenure as trustee, these kickbacks totaled
19 over \$4 million during this time. From January 1, 2000, through June 30, 2009, defendants
20 BRUSIE FD 371, FAIRHAVEN FD 1313, HAYWARD FD 1456, and WELCH FD 303 each
21 collected more than \$100,000 in illegal kickbacks. Specifically, defendant BRUSIE FD 371
22 collected approximately \$115,831; defendant FAIRHAVEN FD 1313 collected approximately
23 \$188,467; defendant HAYWARD FD 1456 collected approximately \$106,197; and defendant
24 WELCH FD 303 collected approximately \$112,763.

25
26 _____
(...continued)

27 Fund Report with the TRUST's audited financial statements for 2007, 2008, and 2009. The
28 TRUST's four Preneed Funeral Trust Fund Reports were verified by Defendant KUHN and
Robert Gajewski, Senior Vice President, of Defendant COMERICA BANK.

1 115. The members of the FDSC and/or CFDA Board of Directors are owners, officers,
2 and/or funeral directors of enrolled funeral establishments that have elected to collect the
3 kickbacks, and as such, have received a financial benefit by authorizing the kickbacks. From
4 January 1, 2000 through June 30, 2009, defendant KUHN collected approximately \$31,911.95.
5 During this time, KUHN was a member of the CFDA Board and/or the FDSC Board. John
6 Machado, an owner of defendant HAYWARD FD 1456, was a member of FDSC's and CFDA's
7 Board of Directors and has authorized these kickbacks.

8 116. As a result of the foregoing, CFDA, FDSC, COMERICA BANK, MECHANICS
9 BANK, KUHN, BRUSIE FD 371, FAIRHAVEN FD 1313, HAYWARD FD 1456, and WELCH
10 FD 303, and DOES 1 through 1000 owe restitution to the trustor-beneficiaries and the TRUST.

11 117. Unless restrained and permanently enjoined, CFDA, FDSC, COMERICA BANK,
12 KUHN, and DOES 1 through 1000 will continue to engage in or will resume said aforementioned
13 practices and acts in violation of the law as hereinabove set forth.

14 118. Plaintiff and trustor-beneficiaries will be irreparably injured in that CFDA, FDSC,
15 COMERICA BANK, KUHN, and DOES 1 through 1000 will continue to engage in or will
16 resume acts and practices in violation of law, as hereinabove set forth.

17 119. Plaintiff has no adequate remedy at law to prevent CFDA, FDSC, COMERICA
18 BANK, KUHN, and DOES 1 through 1000 from engaging in the aforementioned alleged acts and
19 practices.

20 **FOURTH CAUSE OF ACTION**

21 **(VIOLATION OF BUS. & PROF. CODE, § 7735)**

22 **(IMPROPER PAYMENTS FOR NON-TRUST RELATED EXPENSES)**

23 **(AGAINST DEFENDANTS CFDA, FDSC, COMERICA BANK,**

24 **MECHANICS BANK, KUHN, AND DOES 1 THROUGH 1000)**

25 120. Plaintiff realleges and incorporates by reference paragraphs 10 through 119,
26 inclusive, of the First Amended Complaint as though fully set forth herein.

27 121. Defendants CFDA, FDSC, COMERICA BANK, MECHANICS BANK, KUHN, and
28 DOES 1 through 1000 have knowingly and willingly entered into a conspiracy, common

1 enterprise, or common course of conduct to cause the TRUST to pay, have caused the TRUST to
2 pay, and unless restrained and permanently enjoined from doing so by order of this Court,
3 defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000 will continue
4 to cause the TRUST to pay for expenses that are not ordinary and necessary expenses to
5 administer a preneed funeral trust, in violation of Section 7735, as follows:

6 122. Section 7735 states, "[t]he income from the trust may be used to pay for a reasonable
7 annual fee for administering the trust, including a trustee fee to be determined by the bureau." It
8 also states "nor shall any of the corpus of the trust be used for other expenses of trust
9 administration." California Code of Regulations, title 16, Section 1265 restricts the recovery of
10 administrative fees to a ceiling of 4% of the trust balance.

11 123. For the period of January 1, 2000, through December 31, 2008, CFDA, FDSC,
12 COMERICA BANK (from February 15, 2002 to approximately 2010), MECHANICS BANK
13 (2000 to February 15, 2002), KUHN, and DOES 1 through 1000 allowed or helped FDSC take
14 approximately \$22,290,614 from the TRUST in purported trust administration fees. FDSC then
15 doled out payments to itself and others. Some of these payments were to service providers for
16 purportedly providing actual trust administration services. Other payments were to FDSC or its
17 board members for travel costs and board meetings. And approximately \$14,313,455²¹ was
18 diverted to expenses clearly unrelated to administering the TRUST, including, but not limited to,
19 lobbying fees, dividends to CFDA, sponsorship of CFDA conventions, settlement costs in
20 litigation that did not benefit the TRUST, kickbacks to enrolled funeral establishments (who are
21 CFDA members), unidentified and undocumented attorneys' fees and marketing expenses, and
22 the continued repayment of investment losses under the Disparity Resolution Plan discussed in
23 the Second Cause of Action, supra. Defendants CFDA, FDSC, COMERICA BANK,
24 MECHANICS BANK, KUHN, and DOES 1 through 1000 have violated Section 7735 and
25 California Code of Regulations, Title 16, Section 1265, by using income and corpus from the
26 TRUST to make unreasonable expenditures unrelated to trust administration.

27 _____
28 ²¹ This amount includes the \$4,837,292 paid for administrative fees in 2001 and 2002.

1 124. Moreover, Defendants CFDA, FDSC, COMERICA BANK, MECHANICS BANK,
2 KUHN, and DOES 1 through 1000 have made or authorized others to make explicit and implicit
3 misrepresentations to consumers with regard to the payment of administrative fees. Section 9 of
4 the California Master Trust Agreement between FDSC and MECHANICS BANK, which is
5 incorporated into the TRUST's Preneed Trust Agreements with the individual trustors, defines
6 fees as the trustee fee and fees to be paid to FDSC and its agents for "administrative services
7 rendered to the Trust and Trustee and all costs related-thereto," and states further that, "[a]ll
8 remaining net income per annum shall be credited to the individual accounts of depositors in
9 proportion to the amounts of their respective corpus. None of the Trust corpus or any remaining
10 net income earned on the corpus shall be used for payment of any sales commission, rent or
11 salary."

12 125. Similarly, the Master Trust Agreement of the TRUST between FDSC and
13 COMERICA BANK, effective as of February 15, 2002, which is incorporated into the Preneed
14 Trust Agreements with the individual trustors, defines "Administrative Fees" to collectively mean
15 "the FDSC Fee, the Trustee Fee, and the Investment Advisor Fee." The "FDSC fee" is described
16 as the fee paid to FDSC for the administrative services rendered to the TRUST by FDSC and
17 FDSC's Trust Accounts Administrator, Consultants, Accountant, Legal Counsel, and Auditor and
18 all other costs related thereto."

19 126. Thus, the TRUST's preneed trust agreements with consumers do not permit trustor-
20 beneficiaries' money to be used for the aforementioned extraordinary expenditures for the benefit
21 of CFDA and FDSC.

22 127. Furthermore, by committing violations of Section 7735 and California Code of
23 Regulations, Title 16, Section 1265, as set forth hereinabove, MECHANICS BANK,
24 COMERICA, and FDSC, as fiduciaries of the TRUST,²² violated numerous provisions of the
25 Trust Law, including, but not limited to, the fiduciary's duty to administer the trust solely in the

26
27 ²² Since Defendant FDSC has powers of direction with regard to the TRUST, it assumes
28 and owes fiduciary duties toward the TRUST and the trustor-beneficiaries. See *Crocker-Citizens
Nat'l Bank v. Younger* (1971) 4 Cal. 3d 202, 211.

1 interest of the beneficiaries²³; its duty not to use trust property for the trustee's own profit or for
2 any other purpose unconnected with the trust²⁴; and its duty to take reasonable steps to preserve
3 the trust property²⁵.

4 128. These violations of law have harmed the trustor-beneficiaries in the approximate
5 amount of \$14,313,455 plus lost income. As a result, Defendants CFDA, FDSC, COMERICA
6 BANK, MECHANICS BANK, KUHN, and DOES 1 through 1000 owe restitution to the trustor-
7 beneficiaries, TRUST, and enrolled funeral establishments who have participated in the TRUST.

8 129. By and through their conspiracy Defendants CFDA, FDSC, COMERICA BANK,
9 MECHANICS BANK, KUHN, and DOES 1 through 1000 have conspired to continue these
10 improper payments, which dissipate trust assets and thus harm the consumers.

11 130. Unless restrained and permanently enjoined, defendants CFDA, FDSC, COMERICA
12 BANK, KUHN, and DOES 1 through 1000 will continue to engage in or will resume said
13 aforementioned practices and acts in violation of the law as hereinabove set forth.

14 130. Plaintiff, trustor-beneficiaries, and enrolled funeral establishments, will be irreparably
15 injured in that Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through
16 1000 will continue to engage in or will resume acts and practices in violation of law, as
17 hereinabove set forth.

18 131. Plaintiff has no adequate remedy at law to prevent Defendants CFDA, FDSC,
19 COMERICA BANK, KUHN, and DOES 1 through 1000 from engaging in the aforementioned
20 alleged acts and practices.

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26 ²³ Prob. Code §16002, subd. (a).

27 ²⁴ Prob. Code § 16004, subd. (a).

28 ²⁵ Prob. Code, § 16006.

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FIFTH CAUSE OF ACTION

(VIOLATION OF BUS. & PROF. CODE, § 7737)

(FAILURE TO DELIVER TRUST CORPUS AND ACCUMULATED INCOME)

**(AGAINST DEFENDANTS CFDA, FDSC, COMERICA BANK, MECHANICS BANK,
KUHN, AND DOES 1 THROUGH 1000)**

132. Plaintiff realleges and incorporates by reference paragraphs 10 through 131, inclusive, of the First Amended Complaint as though fully set forth herein.

133. Defendants CFDA, FDSC, COMERICA BANK, MECHANICS BANK, KUHN, and DOES 1 through 1000 have knowingly and willingly entered into a conspiracy, common enterprise, or common course of conduct to cause and have caused the TRUST to systematically underpay certain trust beneficiaries and funeral establishments to whom repayments were due.

134. Defendant MECHANICS BANK allowed CFDA, FDSC and KUHN to adopt this policy of systemic underpayments in 2001. Further, MECHANICS BANK failed to disclose the foregoing to the Bureau or the trustor-beneficiaries.

135. When beneficiaries die, Section 7737 requires trustees to repay the trust corpus plus accumulated income to the funeral establishments performing the beneficiaries' funeral services: "the trustee . . . shall deliver the corpus of the trust to the funeral establishment upon the filing of a certified copy of the death certificate or other satisfactory evidence of the death of the beneficiary . . . together with any income accrued in the trust."

136. However by and through the collective actions of Defendants CFDA, FDSC, COMERICA BANK, MECHANICS BANK, KUHN, and DOES 1 through 1000, beginning in or about 2001 and continuing to the present, when certain beneficiaries have died, the TRUST has failed to deliver the full amount of those beneficiaries' trust corpus and income accrued.

137. Defendants CFDA, FDSC, COMERICA BANK, MECHANICS BANK, KUHN, and DOES 1 through 1000 instituted this policy of systematic underpayments because they had depleted the TRUST through investment losses, inappropriate diversions of trust funds, excessive administrative fees, and inappropriate expenditures. In effect, they made unwitting trustor-

1 beneficiaries or the funeral establishments providing services to these individuals bear the losses
2 from their misconduct.

3 138. Trustor-beneficiaries and enrolled funeral establishments who have participated in the
4 TRUST have been harmed as a result of these violations, and Defendants CFDA, FDSC,
5 COMERICA BANK, MECHANICS BANK, KUHN, and DOES 1 through 1000 owe restitution
6 to the trustor-beneficiaries, TRUST, and enrolled funeral establishments who have participated in
7 the TRUST.

8 139. Unless restrained and permanently enjoined from doing so by order of this Court,
9 Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000 will
10 continue to unlawfully withhold the entire corpus and accumulated income from funeral
11 establishments providing services to beneficiaries or from trustors in violation of Section 7737.

12 140. Plaintiff, trustor-beneficiaries, and enrolled funeral establishments, will be irreparably
13 injured in that Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through
14 1000 will continue to engage in or will resume acts and practices in violation of law, as
15 hereinabove set forth.

16 141. Plaintiff has no adequate remedy at law to prevent Defendants CFDA, FDSC,
17 COMERICA BANK, KUHN, and DOES 1 through 1000 from engaging in the aforementioned
18 alleged acts and practices.

19 **SIXTH CAUSE OF ACTION**

20 **(VIOLATION OF CAL. CODE REGS., TIT. 16, § 1274)**

21 **(UNLAWFULLY RETAINING FUNDS OWED TO TRUSTOR**

22 **AFTER FUNERAL ESTABLISHMENT**

23 **NOT ABLE TO PERFORM CONTRACTED FUNERAL SERVICES)**

24 **(AGAINST DEFENDANTS CFDA, FDSC, COMERICA BANK,**

25 **KUHN, AND DOES 1 THROUGH 1000)**

26 142. Plaintiff realleges and incorporates by reference paragraphs 10 through 141 of the
27 First Amended Complaint as though fully set forth herein.

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1 143. Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000
2 have knowingly and willingly entered into a conspiracy, common enterprise, or common course
3 of conduct to cause and have caused the TRUST to unlawfully retain funds that are owed to
4 beneficiaries when licensed funeral establishments or licensed funeral directors are unable to
5 perform contracted funeral services, in violation of California Code of Regulations, Title 16,
6 Section 1274, as follows.

7 144. Beginning at dates unknown to the Plaintiff, but no later than in or about 2000, and
8 continuing to the present, Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1
9 through 1000 either willfully or negligently retained the trust funds of customers of funeral
10 establishments or funeral directors who had become unable to perform funeral services.

11 145. California Code of Regulations, Title 16, Section 1274 requires trustees to return trust
12 funds and net income to beneficiaries or trustors when funeral establishments or funeral directors
13 cannot perform preneed funeral service contracts: “[i]f, for any reason, a licensed funeral
14 establishment or licensed funeral director is unable to perform the funeral services prior to or
15 upon the death of the beneficiary of a preneed trust agreement, then the trustees shall pay all trust
16 corpus and net income to the beneficiary, trustor or the legal representative of either the
17 beneficiary or trustor without the imposition of any revocation charge.”

18 146. From 2002 to the present, certain funeral establishments and funeral directors
19 participating in the TRUST have become unable to perform trust beneficiaries’ funeral services
20 for a variety of reasons: their businesses may have closed, they may have moved, they may have
21 retired, or they may have had their licenses revoked or suspended.

22 147. The TRUST and Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES
23 1 through 1000 have failed to develop a system for effectively identifying and repaying customers
24 who can no longer have their funeral services performed by the establishment or director with
25 whom they contracted. They have not regularly monitored enrolled funeral establishments to
26 verify whether enrolled establishments or funeral directors are still in business. Nor have they
27 regularly checked the Bureau’s web site to verify whether enrolled funeral establishments or
28 directors still have active licenses.

1 148. Even for certain establishments that Defendants CFDA, FDSC, COMERICA BANK,
2 KUHN, and DOES 1 through 1000 knew or should have known went out of business, they have
3 failed to notify and repay trustors or beneficiaries as required by law.

4 149. Instead of repaying all trustors or beneficiaries as required by law, in some cases
5 Defendants CFDA, FDSC, COMERICA BANK, MECHANICS BANK, KUHN, and DOES 1
6 through 1000 have assigned or sold the assignment of performance of preneed contracts to other
7 enrolled funeral establishments, without the trustors' knowledge or consent. As a result, trustors
8 who purchased a contract for funeral services at establishments they selected may find their
9 contract assigned or sold to another funeral establishment that they did not choose to be in
10 business with for reasons of convenience, familiarity, price, reputation, or location.

11 150. There is no provision in California Code of Regulations, Title 16, Section 1274 or
12 other laws or regulations permitting the assignment, sale, or purchase of existing preneed funeral
13 contracts without the customer's consent.

14 151. The assignment, sale or purchase of existing preneed funeral contracts without the
15 customer's consent also violates the provisions of the TRUST's standard consumer contracts,
16 which provide in section 10 (entitled "Inability of the Funeral Establishment to Perform"): "[i]f
17 for any reason the Funeral Establishment becomes unable to substantially perform this Agreement
18 prior to or upon the death of the Beneficiary, the trustee shall return to the funeral establishment
19 for delivery to the trustor or beneficiary, as applicable, or to the trustor's or beneficiary's
20 representative ... all funds in the trustor's account, less any fees."

21 152. In some instances, instead of refunding the monies to the trustor or beneficiary, or
22 their estates, or their heirs, or to the state if these funds go unclaimed, Defendants CFDA, FDSC,
23 COMERICA BANK, KUHN, and DOES 1 through 1000 have conspired, engaged in a common
24 scheme, or a common purpose to keep the trust funds from clients of defunct funeral
25 establishments in the TRUST.

26 153. Unless restrained and permanently enjoined, defendants CFDA, FDSC, COMERICA
27 BANK, KUHN, and DOES 1 through 1000, and each of them, will continue to engage in or will
28 resume said aforementioned practices and acts in violation of the law as hereinabove set forth.

1 154. Trustor-beneficiaries have been harmed as a result of the aforementioned violations,
2 and are owed restitution.

3 155. Plaintiff, trustor-beneficiaries, and enrolled funeral establishments, will be irreparably
4 injured in that Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through
5 1000 will continue to engage in or will resume acts and practices in violation of law, as
6 hereinabove set forth.

7 156. Plaintiff has no adequate remedy at law to prevent Defendants CFDA, FDSC,
8 COMERICA BANK, KUHN, and DOES 1 through 1000 from engaging in the aforementioned
9 alleged acts and practices.

10 **SEVENTH CAUSE OF ACTION**

11 **(CAL. CODE REGS., TIT. 16, § 1264)**

12 **(FAILURE TO TIMELY RETURN FUNDS OWED TO TRUSTORS**

13 **UPON TRUST REVOCATION)**

14 **(AGAINST DEFENDANTS CFDA, FDSC, COMERICA BANK,**

15 **KUHN, AND DOES 1 THROUGH 1000)**

16 158. Plaintiff realleges and incorporates by reference paragraphs 10 through 156 of the
17 First Amended Complaint as though fully set forth herein.

18 157. Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000
19 have knowingly and willingly entered into a conspiracy, common enterprise, or common course
20 of conduct to unlawfully retain funds, have unlawfully retained funds, and/or unless restrained
21 and permanently enjoined from doing so by order of this Court, defendants CFDA, FDSC,
22 COMERICA BANK, KUHN, and DOES 1 through 1000 will continue to unlawfully retain funds
23 owed to trustors beyond the payment deadline, in violation of California Code of Regulations,
24 Title 16, Section 1264, as follows:

25 158. Beginning at dates unknown to the Plaintiff, yet no later than in or about 2002,
26 Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000 caused the
27 TRUST to unlawfully retain trustors' corpus and accumulated earnings for more than fifteen days
28 after cancellation or revocation of a contract.

1 159. Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000
2 have established a practice of causing the TRUST to issue refunds to trustors upon trust
3 revocation over 30 days late, despite the requirements of California Code of Regulations, Title 16,
4 Section 1275 and the TRUST's own contract language, which require that the trust funds be
5 returned within 15 days.

6 160. Unless restrained and permanently enjoined, Defendants CFDA, FDSC, COMERICA
7 BANK, KUHN, and DOES 1 through 1000 and each of them will continue to engage in or will
8 resume said aforementioned practices and acts in violation of the law as hereinabove set forth.

9 161. Trustor-beneficiaries and enrolled funeral establishments have been harmed as a
10 result of the aforementioned violations and are owed restitution.

11 162. Plaintiff, trustor-beneficiaries, and enrolled funeral establishments, will be irreparably
12 injured in that Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through
13 1000 will continue to engage in or will resume acts and practices in violation of law, as
14 hereinabove set forth.

15 163. Plaintiff has no adequate remedy at law to prevent Defendants CFDA, FDSC,
16 COMERICA BANK, KUHN, and DOES 1 through 1000 from engaging in the aforementioned
17 alleged acts and practices.

18 **EIGHTH CAUSE OF ACTION**

19 **(CAL. CODE REGS., TIT. 16, § 1263)**

20 **(FAILURE TO PROPERLY INVEST TRUST FUNDS)**

21 **(AGAINST DEFENDANTS FDSC, CFDA, COMERICA BANK,**

22 **KUHN, AND DOES 1 THROUGH 1000)**

23 164. Plaintiff realleges and incorporates by reference paragraphs 10 through 163,
24 inclusive, of the First Amended Complaint as though fully set forth herein.

25 165. Defendants FDSC, CFDA, COMERICA BANK, KUHN, and DOES 1 through 1000
26 have knowingly and willingly entered into a conspiracy, common enterprise, or common course
27 of conduct to improperly invest preneed funeral trust funds, have improperly invested preneed
28 funeral trust funds, and unless restrained and permanently enjoined from doing so by order of this

1 Court, Defendants FDSC, CFDA, COMERICA BANK, KUHN, and DOES 1 through 1000, will
2 continue to improperly invest preneed funeral trust funds in violation of California Code of
3 Regulations, title 16, section 1263, as follows:

4 166. On or about October 1997, FDSC and CFDA, with MECHANICS BANK's passive
5 approval, adopted and implemented an investment policy of accepting increased risk to
6 potentially increase earnings and invested some or all of the TRUST corpus in risky mutual fund
7 investments.

8 167. The TRUST's investment manager during the period 1998 to 2001 was Philip Pauze,
9 a mutual fund manager with connections to the funeral home industry, including creating and
10 managing a mutual fund called the Pauze Tombstone Fund, which invested only in companies
11 associated with the funeral industry, and which collapsed after losing much of its value in only a
12 few years.

13 168. From approximately 1994 to 2003, Robert Pierce was FDSC's President. From 1996
14 to 2001, Mr. Pierce also served as a trustee for Mr. Pauze's bond funds. Mr. Pierce was paid
15 \$12,500 a year for being a trustee for the Pauze Funds, at the same time he was approving
16 TRUST investments in these funds and approving compensation of more than \$200,000 a year
17 from the TRUST to Mr. Pauze's company.

18 169. With the consent of FDSC, CFDA, KUHN, and MECHANICS BANK, from 1998 to
19 2001 Mr. Pauze invested a significant portion of the TRUST's investment portfolio in zero
20 coupon government bonds, an investment that did not pay yearly coupons or dividends and which
21 was highly-sensitive to changes in interest rate fluctuations. He also invested the TRUST's
22 portfolio in the Pauze Total Return Fund, a bond fund that also held significant investments in
23 zero coupon government bonds. During this time, the Pauze Total Return Fund -- whose assets
24 were almost entirely comprised of the TRUST's investments -- dramatically underperformed
25 long-term and short-term U.S. Treasury Bonds and as similar bond funds while incurring far
26 greater risk and charging higher fees than these comparable investments.

27 170. From 1998 to 2001, the TRUST experienced substantial investment losses as a result
28 of Mr. Pauze's imprudent investments.

1 171. On or about June 30, 2001, the TRUST sold all of its investments in Pauze bond
2 funds and in zero coupon bonds and fired Mr. Pauze as its investment manager.

3 172. In 2001, Defendants CFDA, FDSC, MECHANICS BANK, KUHN, and DOES 1
4 through 1000 changed the TRUST's investment policy, which was subsequently adopted by
5 COMERICA BANK. Their goal was to increase the rate of return of the TRUST's investments
6 (thereby accepting more risk) in order to offset investment losses.

7 173. Sometime in 2001 and continuing to the present, the Trust has been invested in
8 corporate asset-backed securities. Based on financial disclosure reports filed by FDSC, these
9 securities appear to be bundles of securities based largely on consumer credit card debt and auto
10 loans.

11 174. Sometime in 2006, two years before the housing market collapsed, and continuing to
12 the present, the TRUST has been invested in privately-issued mortgage backed securities and
13 collateralized mortgages.

14 175. Sometime in 2006 and continuing to the present, the TRUST has been invested in
15 foreign bonds and notes.

16 176. Sometime in 2007 and continuing to the present, the TRUST has been invested in
17 foreign stocks and stocks of foreign companies listed on domestic stock exchanges.

18 177. The TRUST's investments in corporate asset-backed securities, in privately-issued
19 mortgage backed securities, in privately-issued collateralized mortgages, in foreign bonds and
20 notes, and in foreign stock, do not comply with Business and Professions Code sections 7737.5 or
21 7737.7, which allow for the investment of the trust corpus in insured bank or credit union
22 accounts, and do not comply with California Code of Regulations, title 16, section 1263
23 subdivision (a), which, in part, requires preneed funeral arrangement trust funds to invest,
24 reinvest, and keep trust assets invested in (1) federal, state or local bonds or securities; (2) bonds
25 which are legal investments for commercial banks; (3) FDIC insured CDs or interest bearing
26 accounts; (4) investment certificates or shares in state or federally chartered savings institution
27 insured by the Federal Savings and Loan Insurance Corporation, or, in the alternative, (5) in
28 investments that comply with the Section 15001 *et seq.* (Division 9) of the Probate Code, which

1 includes the Uniform Prudent Investor Act. These types of investments are not insured bank
2 accounts, are not bonds that are legal investments for commercial banks (sections 1001 *et seq.* of
3 the Financial Code lists certain legal investments for commercial banks), are not government
4 bonds, and do not comply with the Uniform Prudent Investor Act (as discussed below).

5 178. The TRUST's investments in corporate asset-backed securities, in privately-issued
6 mortgage backed securities, in privately-issued collateralized mortgages, in foreign bonds and
7 notes, and in foreign stock, fail to comply with the Uniform Prudent Investor Act, Probate Code
8 section 16045 *et seq.*, also known as the prudent investor rule, and therefore do not comply with
9 regulation 1263 subdivision (a)(5). Section 16047 of the Probate Code requires trustees to "invest
10 and manage trust assets as a prudent investor would, by considering the purposes, terms,
11 distribution requirements, and other circumstances of the trust" and to have an "overall
12 investment strategy having risk and return objectives reasonably suited to the trust." FDSC's
13 investments of funeral service trust funds in assets that could result – and in some cases, have
14 resulted – in the substantial loss of trust principal are ill-suited to the purpose, terms, distribution
15 requirements and risk and return objectives of beneficiaries of preneed funeral trust arrangements.

16 179. Funds for preneed funeral arrangements are put into trust so beneficiaries can have
17 the funeral services they have contracted for when their time comes. The investments listed in
18 Business and Professions Code sections 7737.5 and 7737.7 and California Code of Regulations,
19 title 16, section 1263 reflect this conservative purpose: they include insured accounts protected
20 from principal loss and government bonds with little likelihood of default. These types of
21 conservative investments generally minimize risk and principal loss, have low administrative
22 costs, and allow for some appreciation of the principal in order to protect these investments from
23 inflation. This is appropriate for trust beneficiaries who need to have their trust funds invested
24 safely for the term between their purchase of a preneed funeral arrangement and their death.

25 180. In contrast, the TRUST's investments in corporate asset-backed securities, in
26 privately-issued mortgage backed securities, in privately-issued collateralized mortgages, in
27 foreign bonds and notes, and in foreign stock, were and are unsuited to the needs of preneed trust
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1 purchasers: they have high levels of risk, jeopardizing the principal of trust beneficiaries. They
2 can lose, and, in some cases, have lost, their value.

3 181. Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000
4 determined the risk and return objective of the TRUST's investments based on their own needs --
5 including their needs to recoup and to hide past investment losses, to take excessive
6 administrative fees, and to fund inappropriate expenditures -- or based on the needs of
7 participating funeral establishments, not the needs of the trust beneficiaries.

8 182. Unless restrained and permanently enjoined, defendants CFDA, FDSC, COMERICA
9 BANK, KUHN, and DOES 1 through 1000 will continue to engage in or will resume said
10 aforementioned practices and acts in violation of the law as hereinabove set forth.

11 183. Plaintiff, trustor-beneficiaries, and enrolled funeral establishments, will be irreparably
12 injured in that Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through
13 1000 will continue to engage in or will resume acts and practices in violation of law, as
14 hereinabove set forth.

15 184. Plaintiff has no adequate remedy at law to prevent Defendants CFDA, FDSC,
16 COMERICA BANK, KUHN, and DOES 1 through 1000 from engaging in the aforementioned
17 alleged acts and practices.

18 **NINTH CAUSE OF ACTION**

19 **(VIOLATION OF CAL. CODE REGS., TIT. 16, § 1267)**

20 **(UNLAWFULLY MAINTAINED FINANCIAL RECORDS OUT-OF-STATE)**

21 **(AGAINST DEFENDANTS CFDA, FDSC, COMERICA BANK,**

22 **KUHN, AND DOES 1 THROUGH 1000)**

23 185. Plaintiff realleges and incorporates by reference paragraphs 10 through 184,
24 inclusive, of the First Amended Complaint as though fully set forth herein.

25 186. Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000
26 have knowingly and willingly entered into a conspiracy, common enterprise, or common course
27 of conduct to conceal and have concealed evidence of their unlawful conduct and will continue to
28 conceal evidence of their unlawful conduct by keeping the TRUST's financial records out of

1 state, and unless restrained and permanently enjoined from doing so by order of this Court,
2 defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000 will continue
3 to keep the TRUST's records out of state and out of reach of the Bureau, in violation of California
4 Code of Regulations, Title 16, Section 1267, as follows:

5 187. In or about 2006, FDSC hired Charter Management Associates, which later changed
6 its name to Essential Planning Group (EPG), as the TRUST's administrator, replacing the
7 TRUST's prior administrator, Association Resource Center (ARC). EPG's offices are located in
8 Beaverton, Oregon. From in or about 2006 to the present, the TRUST's records have been kept by
9 EPG in Oregon.

10 188. Unless restrained and permanently enjoined, Defendants CFDA, FDSC, COMERICA
11 BANK, KUHN, and DOES 1 through 1000 and each of them will continue to engage in or will
12 resume said aforementioned practices and acts in violation of the law as hereinabove set forth.

13 189. Plaintiff, trustor-beneficiaries, and enrolled funeral establishments, will be irreparably
14 injured in that Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through
15 1000 will continue to engage in or will resume acts and practices in violation of law, as
16 hereinabove set forth.

17 190. Plaintiff has no adequate remedy at law to prevent Defendants CFDA, FDSC,
18 COMERICA BANK, KUHN, and DOES 1 through 1000 from engaging in the aforementioned
19 alleged acts and practices.

20 **TENTH CAUSE OF ACTION**

21 **(VIOLATION OF CAL. CODE REGS., TIT. 16, § 1267)**

22 **(UNLAWFULLY WITHHELD TRUST RECORDS FROM THE BUREAU)**

23 **(AGAINST DEFENDANTS CFDA, FDSC, COMERICA BANK,**

24 **KUHN, AND DOES 1 THROUGH 1000)**

25 191. Plaintiff realleges and incorporates by reference paragraphs 10 through 190,
26 inclusive, of the First Amended Complaint as though fully set forth herein.

27 192. Defendants CFDA, FDSC, COMERICA BANK, MECHANICS BANK, KUHN, and
28 DOES 1 through 1000 have knowingly and willingly entered into a conspiracy, common

1 enterprise, or common course of conduct to conceal and have concealed evidence of their
2 unlawful conduct by unlawfully withholding trust records from the Bureau, and unless restrained
3 and permanently enjoined from doing so by order of this court, defendants CFDA, FDSC,
4 COMERICA BANK, KUHN, and DOES 1 through 1000 will continue such practices, in
5 violation of California Code of Regulations, title 16, Section 1267, as follows:

6 193. Defendants CFDA, FDSC, MECHANICS BANK, COMERICA BANK, KUHN, and
7 DOES 1 through 1000 have engaged in a pattern of concealing or permitting concealment of
8 material information and documentation regarding the TRUST by failing to file a Preneed Funeral
9 Trust Fund Report, as required by California Code of Regulations, title 16, section 1269, until
10 2007 and by failing to provide a full copy of the Disparity Resolution Plan to the Bureau. In
11 addition, Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000
12 have engaged in a pattern of concealing material information and documentation regarding the
13 TRUST by keeping the TRUST's records out of state since 2007²⁶ and by failing to fully
14 cooperate with the Bureau during its audit of the TRUST, necessitating the issuance of
15 administrative subpoenas to obtain many documents requested in the audit. Furthermore,
16 Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000 continue to
17 withhold material records of the TRUST from the Bureau, including but not limited to, the
18 TRUST's general ledger, the ledgers of the individual trust accounts, the original FDSC Board of
19 Directors minute book, and Exhibit B to the Disparity Resolution Plan.

20 194. By and through their conspiracy to hide the financial mismanagement of the TRUST,
21 defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through 1000 failed to
22 make certain records available to the Bureau for review until in or about September 2010, despite
23 the fact that the records have been requested since 2007. As of the date of the filing of this First
24 Amended Complaint, Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1
25 through 1000 have not provided certain records that were requested for the audit in 2007.

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²⁶ See footnote 20, *supra*.

1 195. Unless restrained and permanently enjoined, Defendants CFDA, FDSC, COMERICA
2 BANK, KUHN, and DOES 1 through 1000 and each of them will continue to engage in or will
3 resume said aforementioned practices and acts in violation of the law as hereinabove set forth.

4 196. Plaintiff, trustor-beneficiaries, and enrolled funeral establishments, will be irreparably
5 injured in that Defendants CFDA, FDSC, COMERICA BANK, KUHN, and DOES 1 through
6 1000 will continue to engage in or will resume acts and practices in violation of law, as
7 hereinabove set forth.

8 197. Plaintiff has no adequate remedy at law to prevent Defendants CFDA, FDSC,
9 COMERICA BANK, KUHN, and DOES 1 through 1000 from engaging in the aforementioned
10 alleged acts and practices.

11 **PRAYER FOR RELIEF**

12 WHEREFORE, Plaintiff prays for relief as follows:

13 1. That defendants, and each of them, their officers, directors, employees, agents,
14 representatives, successors, and assigns, and all other persons, corporations, or other entities
15 acting under, through, or on behalf of defendants, be permanently restrained and enjoined from
16 engaging in or performing, directly or indirectly, any and all of the following acts or aiding or
17 abetting others to:

18 A. Allow a trustee other than a banking institution or a trust company legally
19 authorized by the State of California to act as trustee as defined in Section 7736.

20 B. Violate Business and Professions Code Section 7737 by allowing FDSC or any
21 other entity other than the trustor, trustee, and funeral establishment to be a party to a preneed
22 funeral agreement.

23 C. Violate Business and Professions Code Section 7735 by allowing income from
24 the trust to be used for payment of anything other than a reasonable annual fee for services
25 rendered in administering the trust, using any funds other than income directly earned on the trust
26 during that year, or by expending administrative fees in an amount in excess of four (4%) percent
27 of the trust balance on December 31 of any given year. A reasonable annual fee for administering
28 the trust shall include the following expenses if such expenses are directly related to the

1 administration of the trust: bookkeeping, accounting fees, office expenses, trustee fees, and
2 investment management fees. A reasonable annual fee for administering the trust shall not, under
3 any circumstances, be interpreted to include any of the following expenses: lobbying fees,
4 payment of any expense in connection with any convention, payment to any third party
5 organizations, other than those providing services directly related to the administration of the trust
6 as defined above, funeral establishments commissions or fees, or payments of any legal
7 settlements or arbitration expenses.

8 D. Violate Section 7737 by failing to deliver the corpus and accumulated income,
9 less the revocation fee, to the trustors, beneficiaries, or their legal representatives upon
10 revocation.

11 E. Violate California Code of Regulations, Title 16, Section 1274 by failing to
12 return to the trustors, beneficiaries, or their legal representatives, without imposition of a
13 revocation fee the funds paid to the funeral establishment and any interest earned on their trust
14 corpus when an enrolled funeral establishment is not able to perform the trust contract or to
15 provide the contracted services and merchandise. Such funds shall be returned within ninety days
16 of the date that defendants have been notified or have become aware that:

17 (i) the funeral establishment can no longer perform services; or

18 (ii) the funeral establishment no longer has a valid license.

19 Defendants shall be required to use due diligence to ensure that they are apprised of such
20 circumstances at the earliest possible juncture.

21 F. Solicit the transfer of preneed contracts from trustors, beneficiaries, or legal
22 representatives of a beneficiary or trustor when a participating funeral establishment has become
23 unable to perform the contract or to provide the contracted services or merchandise.

24 G. Transfer any preneed contract to another funeral establishment unless the
25 trustor, beneficiary, or legal representative of a beneficiary or trustor has specifically requested
26 that transfer and authorized it in a signed writing submitted at the time of the request.

27 H. Violate California Code of Regulations, Title 16, Section 1264 by failing to
28 return to the trustor within 15 days after cancellation or revocation of a contract the corpus and

1 accumulated earnings. This provision shall not prevent defendants from deducting a revocation
2 fee from the distribution.

3 I. Violate California Code of Regulations, Title 16, Section 1267 by failing to
4 maintain or cause the trustee of the preneed trust to maintain, complete financial records in
5 California at all times or by failing to make the trust records available for inspection in California
6 by the Bureau during reasonable working hours.

7 J. Violate Probate Code Section 16002, by failing to operate the trust for the sole
8 benefit of the beneficiary.

9 K. Hold the California Master Trust out to the public as a Bureau approved trust or
10 as a trust that is compliant with the laws and regulations of the state.

11 L. Destroy any evidence in any form, including, but not limited to, evidence in
12 written, electronic and recorded formats.

13 M. Dissipate any assets received by and through their business affiliation with the
14 California Master Trust.

15 2. That this Court, during the pendency of this action, issue a preliminary injunction
16 against defendants, including the corporations, partnerships, and individuals, and each of them,
17 from engaging in any action that violates the preneed funeral trust laws within the Funeral
18 Directors and Embalmers Law as codified at Section 7600 *et seq.* and Division 12 of Title 16 of
19 the California Code of Regulations pursuant to Section 125.5, as described in paragraph 1, above,
20 in this Prayer.

21 3. That this Court issue a preliminary and permanent injunction enjoining defendants,
22 their employees, agents, servants, representatives, successors, and assigns, any and all persons
23 acting in concert or participation with them, and all other persons, corporations, or other entities
24 acting under, by, through, or on their behalf, from doing any of the following:

25 A. Expending, disbursing, transferring, encumbering, withdrawing or otherwise
26 exercising control over any funds received by or on behalf of the TRUST or rightfully due the
27 TRUST except as authorized by the Court; and
28

1 B. Conducting business of any kind on behalf of, or relating to the TRUST other than
2 as necessary to assist a Receiver, successor trustee, or administrator, or to comply with discovery
3 requests and orders, or as permitted by the Court.

4 4. That this Court, as authorized by Section 125.5, order defendants, and each of them,
5 to pay investigation expenses to Plaintiff Cemetery and Funeral Bureau for violating the Funeral
6 Directors and Embalmers Law as set forth in as Section 7600 *et seq.* and Division 12 of Title 16
7 of the California Code of Regulations, all in the amount according to proof at trial.

8 5. That this Court order defendants, and each of them, to render to the Court and to the
9 Plaintiff a full and complete accounting of the financial activities and condition of the TRUST
10 and their dealings with the TRUST from 2000 to the present, to include the expenditure and
11 disposition of all revenues and assets received by or on behalf of the TRUST.

12 6. That this Court order defendants, and each of them, be surcharged and held liable for
13 restitution for any and all such assets for which they fail to properly account, together with
14 interest thereon at the legal rate from the date of liability thereon.

15 7. That this Court order that any and all expenses and fees incurred by defendants in this
16 action be borne by the individual defendants and each of them and not by TRUST or any of its
17 trustors or beneficiaries.

18 8. That this Court, as authorized by Section 125.5, order defendants, and each of them,
19 to pay restitution to each of its victims for monies owed to them, by and through defendants'
20 operation of the TRUST in violation of the Funeral Directors and Embalmers Law as codified at
21 Section 7600 *et seq.* and Division 12 of Title 16 of the California Code of Regulations, together
22 with interest thereon at the legal rate from the date of liability thereon, all in the amount
23 according to proof at trial, including the following:

24 A. That this Court order defendants, and each of them, to identify all deceased
25 beneficiaries on the TRUST's active list whose funeral services have not been provided pursuant
26 to the preneed funeral contract, to account for the monies or other assets owed to these
27 beneficiaries, and to pay restitution together with interest thereon at the legal rate from the date of
28 liability hereon to those deceased beneficiaries' heirs or legal representatives or to escheat those

1 funds to the state pursuant to the Unclaimed Property Law, set forth in Code of Civil Procedure
2 Section 1500 *et seq.*

3 B. That this Court order defendants, and each of them, to identify all funeral
4 establishments who are enrolled or have previously been enrolled in the TRUST from 2000 to the
5 present who are or were unable to perform the contracted funeral services and pay restitution to
6 the trustors or beneficiaries (or their heirs or legal representatives) who have contracted with
7 these homes, or to escheat those funds to the state pursuant to the Unclaimed Property Law.

8 C. That this Court order defendants, and each of them, to identify and pay
9 restitution together with interest thereon at the legal rate from the date of liability to all
10 beneficiaries, trustors (or their heirs or legal representatives), or enrolled funeral establishments
11 that have been underpaid from 2000 to the present.

12 9. That this Court appoint a receiver, trustee, or administrator to exercise control over all
13 TRUST assets and any funds received by or on behalf of the TRUST, to administer the restitution
14 ordered, to implement all orders of this Court, and/or to oversee the dissolution of the TRUST
15 and return of its assets to participating funeral establishments or the trustors as required.

16 10. That this Court order defendants, and each of them, to pay the fees and costs of and
17 assist and cooperate with the appointed receiver, trustee, or administrator who shall administer the
18 TRUST and oversee the restitution ordered.

19 11. That this Court modify the terms of the TRUST in order that the TRUST complies
20 with the Funeral Directors and Embalmers Law, which shall involve, inter alia, the removal of
21 FDSC as a party and the elimination of any term that requires or permits the TRUST to pay fees
22 to FDSC or CFDA or any party related thereto.

23 12. That costs of suit herein incurred be awarded to Plaintiff.

24 13. That the reasonable expenses incurred by the Plaintiff, the Cemetery and Funeral
25 Bureau, be awarded to Plaintiff.

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14. That such other and further relief be ordered as this Court may deem necessary to protect the public health, safety, and welfare.

Dated:

Respectfully Submitted,

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Attorney General of California
ALFREDO TERRAZAS
Senior Assistant Attorney General
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CERTIFICATE OF SERVICE

Case Name: **Cemetery and Funeral Bureau v. California Master Trust, et. al.**
JCCP No.: **4686**; LASC No.: **BC459862**; CSC No.: **109PR165181**

I declare:

I hereby certify that on **May 8, 2012**, I electronically filed the following documents with the Clerk of the Court by using the CM/ECF system: **FIRST AMENDED COMPLAINT FOR INJUNCTIVE RELIEF, RESTITUTION, AND OTHER EQUITABLE REMEDIES** Participants in the case who are registered CM/ECF users will be served by the CM/ECF system.

See attached E-Service List

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar at which member's direction this service is made. I am 18 years of age or older and not a party to this matter. I am familiar with the business practice at the Office of the Attorney General for collection and processing of correspondence for mailing with the United States Postal Service. In accordance with that practice, correspondence placed in the internal mail collection system at the Office of the Attorney General is deposited with the United States Postal Service with postage thereon fully prepaid that same day in the ordinary course of business.

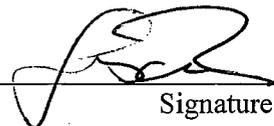
I further certify that on **May 8, 2012**, I served the attached **FIRST AMENDED COMPLAINT FOR INJUNCTIVE RELIEF, RESTITUTION, AND OTHER EQUITABLE REMEDIES** by placing as first class mail in the internal mail collection system at the Office of the Attorney General at 300 South Spring Street, Suite 1702, Los Angeles, CA 90013, addressed as follows:

Chair, Judicial Council of California Administration Office of the Courts Attn: Appellate & Trial Court Judicial Services. (Civil Case Coordination) 455 Golden Gate Ave. San Francisco, California 94102-3688

Superior Court of California County of Los Angeles Clerk, Dept 15 111 North Hill Street Los Angeles, CA 90012-3014
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I declare under penalty of perjury under the laws of the State of California the foregoing is true and correct and that this declaration was executed on **May 8, 2012**, at Los Angeles, California.

Lisa M. Robinson
Declarant


Signature

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