

1 EDMUND G. BROWN JR.
Attorney General of the State of California
2 LOUIS VERDUGO, JR.
Senior Assistant Attorney General
3 RALPH LIGHTSTONE
Supervising Deputy Attorney General
4 SATOSHI YANAI, State Bar No. 186355
Deputy Attorney General
5 300 South Spring Street
Los Angeles, CA 90013
6 Telephone: (213) 897-0015
Facsimile: (213) 897-7605
7 E-mail: satoshi.yanai@doj.ca.gov

8 Attorneys for Plaintiff
THE PEOPLE OF THE STATE OF CALIFORNIA
9 ex rel. EDMUND G. BROWN JR., as Attorney
General of the State of California
10

11 SUPERIOR COURT OF CALIFORNIA

12 COUNTY OF ORANGE

13
14 **THE PEOPLE OF THE STATE OF CALIFORNIA**
ex rel. **EDMUND G. BROWN JR. as Attorney**
15 **General of the State of California,**

16 Plaintiff,

17 v.

18 **PACIFISTAFF, INC., a Corporation;**
BRUCE BOWEN, an Individual; and
19 **DOES 1 through 50, inclusive,**

20 Defendants.
21

CASE NO.:

**COMPLAINT FOR
INJUNCTIVE RELIEF, CIVIL
PENALTIES, RESTITUTION,
AND OTHER EQUITABLE
RELIEF**

(Business & Professions Code
sections 17200 et seq. and 17500
et seq.)

22 Plaintiff, the People of the State of California ex rel. Edmund G. Brown Jr., as the Attorney
23 General of the State of California, is informed and believes, and on such information and belief,
24 alleges as follows:

25 **INTRODUCTION**

26 1. This action is brought by the Plaintiff, the People of the State of California ex rel.
27 Edmund G. Brown, Jr., Attorney General of the State of California, against PacifiStaff, Inc.
28 (“PacifiStaff”), its agents, and Does 1 through 50, inclusive, in order to halt the proliferation and

1 implementation of an unlawful scheme marketed by PacifiStaff to employers in the State to
2 evade workers' compensation costs by exploiting a legal exemption intended to only exempt the
3 owners of small closed corporations from the costs of paying for workers' compensation
4 coverage *for themselves*. Marketing itself as the "Antidote to Workers' Compensation,"
5 PacifiStaff advises employers – generally in the high-hazard construction industry – to appoint
6 their entire workforce of manual workers as sham officers, and issue each of them a nominal
7 share in the corporation, in order to unlawfully claim the exemption for corporate officers or
8 directors who are also the sole shareholders of a closed corporation. The employer relying on
9 the exemption does not then obtain workers' compensation insurance to cover their new
10 officer/shareholder workers. This scheme leaves the workers without the no-fault protections of
11 the workers' compensation system, and makes it more difficult for legitimate employers that
12 fulfill their workers' compensation obligations to competitively bid for contracts against these
13 corporations that falsely claim the "officer" exemption.

14 **PARTIES**

15 2. Plaintiff Edmund G. Brown Jr. is the Attorney General of the State of California and is
16 the chief law officer of the State. (Cal. Const., art. V, § 13.) The Attorney General is
17 empowered by the California Constitution to take whatever action is necessary to ensure that the
18 laws of the State are uniformly and adequately enforced. He is statutorily authorized to bring
19 actions in the name of the People of the State of California to enforce California's statutes
20 governing unfair competition and untrue or misleading sales representations. (Bus. & Prof.
21 Code, §§ 17200 et seq. and 17500 et seq.)

22 3. Defendant PacifiStaff is now, and has been at various relevant times, a California
23 corporation engaged in promoting a business plan for construction and other employers to avoid
24 workers' compensation payments, and providing corporate organization and management
25 services, payroll services, and legal advice. PacifiStaff maintains an office at 2125 E. Katella
26 Avenue, Suite 330, in Anaheim, California in the County of Orange, and has conducted business
27 at all times relevant to this lawsuit in, among other places, the County of Orange in the State of
28

1 California. PacifiStaff is not registered as a lawyer referral service with the State Bar of
2 California.

3 4. Defendant Bruce Bowen (“Bowen”) is a vice president of PacifiStaff and is now, and
4 has been at various relevant times, an agent, representative, and/or employee of defendant
5 PacifiStaff, and was acting in such capacity as an agent, representative, and/or employee with the
6 permission and consent of PacifiStaff in performing the unlawful acts alleged below. Bowen is
7 not now, and has not been at any time relevant to this complaint, a licensed attorney in the State
8 of California. Bowen is sued in his individual capacity.

9 5. Plaintiff is not aware of the true names, identities, or capacities of the defendants sued
10 herein as Does 1 through 50, inclusive, and therefore sues said defendants by such fictitious
11 names. Plaintiff is informed and believes that, at various relevant times, said Doe defendants
12 participated in, or otherwise were in some manner responsible for the harm to the general public
13 that arose from the facts and occurrences alleged in this complaint. Plaintiff will seek leave of
14 the court to amend this complaint to state the true names of the fictitiously named defendants
15 once they are discovered.

16 6. Whenever reference is made in this complaint to any act of the corporate defendant,
17 such allegation shall mean that the corporation did the acts alleged in this complaint through its
18 officers, directors, employees, agents and/or representatives while they were acting within the
19 actual or ostensible scope of their authority.

20 7. Whenever reference is made in this complaint to any act of any of the
21 defendants, including those named herein as Doe defendants, such allegation shall mean that
22 each defendant and/or Doe defendant acted individually and jointly with the other defendants,
23 including the Doe defendants, named in this complaint.

24 8. At all relevant times, each defendant, including those named herein as Doe defendants,
25 knew or realized that the other defendants and/or Doe defendants were engaging in or planned to
26 engage in the violations of law alleged in this complaint. Knowing or realizing that other
27 defendants were engaging in such unlawful conduct, each defendant nevertheless facilitated the
28 commission of those unlawful acts. Each defendant encouraged, facilitate, or assisted in the

1 commission of the unlawful acts, and thereby, aided and abetted the other defendants in the
2 unlawful conduct.

3 9. Defendants, including those named herein as Doe defendants, have engaged in a
4 conspiracy, common enterprise, and common course of conduct to utilize false and/or misleading
5 representations, engage in the unauthorized practice of law, and make unlawful legal referrals to
6 facilitate a common scheme to profit by promoting the unlawful evasion of workers'
7 compensation obligations. The conspiracy, common enterprise, and common course of conduct
8 continues to the present.

9 10. The violations of law alleged in this complaint occurred in Orange County
10 and in other counties in California.

11 **DEFENDANTS' BUSINESS PRACTICES**

12 11. PacifiStaff, using the trade name "Workforce Solutions," has billed itself as the
13 "Antidote to Workers' Compensation" and promoted a scheme to evade workers' compensation
14 insurance to a clientele of construction contractors and other employers with high workers'
15 compensation insurance rates. PacifiStaff has marketed and continues to market its services to
16 its prospective clients through various means, including, *inter alia*, appearances at trade shows,
17 print advertisements in the *California Contractor* industry newsletter, and over the Internet
18 through its web site: www.theworkforcesolutions.com.

19 12. PacifiStaff's marketing campaign has represented and continues to represent that
20 PacifiStaff can reduce or eliminate its clients' dependence on workers' compensation insurance,
21 and falsely advertises that its methods have been "approved" or "recognized" by the
22 "Department of Labor," despite the fact that PacifiStaff knew or should have known at the time
23 of each representation that the "Department of Labor" has not "approved" or "recognized"
24 PacifiStaff's business model.

25 13. In addition to the marketing efforts referred to above in paragraph 10, PacifiStaff and
26 Bowen have also conducted and continue to conduct direct sales meetings with prospective
27 client employers, during which Bowen represents that, for an initial fee and additional monthly
28 fees, PacifiStaff can save its clients tens of thousands of dollars annually by eliminating the need

1 to obtain workers' compensation insurance, and provide an allegedly superior package of health,
2 life, and disability insurance.

3 14. During these direct sales meetings conducted by PacifiStaff with prospective client
4 employers, Bowen falsely advises prospective clients that they are eligible to cease paying for
5 workers' compensation insurance on behalf of their construction employees by taking advantage
6 of a workers' compensation exemption within Labor Code section 3351, subdivision (c)
7 ("Section 3351(c)"). That provision allows officers or directors of a private corporation who are
8 also the sole shareholders thereof to exempt themselves from workers' compensation coverage.

9 15. During PacifiStaff's direct sales meetings, Bowen also repeats the false representation
10 made in PacifiStaff's print and Internet advertisements that PacifiStaff's program to reduce or
11 eliminate its clients' workers' compensation costs has been "approved" or "recognized" by the
12 "Department of Labor" as being in compliance with the law, despite the fact that Bowen knew or
13 should have known at the time of each representation that his statements were untrue and
14 misleading.

15 16. The scheme promoted by PacifiStaff involves taking manual construction employees
16 subject to workers' compensation coverage and adorning them with officer titles and issuing
17 them nominal corporate shares for the sole purpose of reducing workers' compensation costs by
18 unlawfully claiming the Section 3351(c) exemption.

19 17. Thus, in the course of the direct sales meetings, PacifiStaff and Bowen advise
20 prospective clients to utilize the Section 3351(c) exemption by taking their entire workforce of
21 manual workers covered by workers' compensation, appointing them as officers in a new
22 corporation established apart from the original client company, and issuing the newly-appointed
23 officer-employees nominal shares in the new corporation. The client then ceases to pay for any
24 workers' compensation insurance for the new officer/shareholder employees, but still leases the
25 employees back to the original construction company whenever the original company requires
26 manual construction labor. Bowen advises prospective clients that this corporate structure was
27 devised for the sole purpose of exploiting the Section 3351(c) exemption.

28

1 18. As explained by PacifiStaff and Bowen during the direct sales meetings, the suggested
2 arrangement eliminates any danger for the prospective client employer that their new officer-
3 employees will exert any practical influence over the affairs of the original construction
4 company. Bowen assures potential clients that they will be able to run their construction
5 contracting business in precisely the same way that they always have. The new
6 officer/shareholder employees are merely at-will employees of the leasing corporation, which
7 will have no contractor’s license, and exists solely to lease its “officers” as the manual workforce
8 for the original client company.

9 19. As further represented by PacifiStaff and Bowen during the direct sales meetings, the
10 shareholding arrangement with the new officer-shareholder employees also insures that the
11 workers do not gain any influence through their new status. Bowen explains that employees can
12 be sold a single share of the new leasing corporation worth as little as a dollar, and that the stock
13 is restricted by rules that require the employees to sell their stock back to the corporation if they
14 ever separate from the company for any reason, and prohibit the sale of the stock to anyone other
15 than the corporation.

16 20. During the direct sales meetings, PacifiStaff and Bowen also provides false assurances
17 to prospective clients that the package of health, life, and disability insurance provided through
18 PacifiStaff will provide the officer/shareholder employees of the clients with superior benefits
19 when compared to workers’ compensation insurance, without any additional risk of legal
20 liability, despite the fact that PacifiStaff and Bowen knew or should have known at the time of
21 each representation that their statements were untrue and misleading.

22 21. PacifiStaff facilitates and controls its overall scheme of providing private health, life,
23 and disability insurance in lieu of workers’ compensation by:

- 24 a) having Bowen and other non-attorney representatives provide legal advice about
- 25 the applicability of the Section 3351(c) exemption and the legal consequences of
- 26 incorporating and dropping workers’ compensation coverage;
- 27 b) offering legal services to its clients for incorporation, corporate management, or
- 28 other issues, and referring its clients to licensed attorneys who are paid or selected

1 by PacifiStaff;
2 c) maintaining the new leasing corporations created under the PacifiStaff program,
3 including, but not limited to, appointing officers, managing share transactions,
4 providing agendas for board and shareholders' meetings, scheduling and
5 presiding at corporate meetings, handling claims for medical services, and
6 managing payroll services.

7 22. PacifiStaff's marketing and direct sales meetings have resulted in a number of
8 companies purchasing PacifiStaff's service, and PacifiStaff has facilitated and continues to
9 facilitate its clients in claiming the exemption from workers' compensation coverage for their
10 officer/shareholder employees.

11 **FIRST CAUSE OF ACTION**

12 **VIOLATIONS OF BUSINESS AND PROFESSIONS CODE SECTION 17200**
13 **(PROMOTING EVASION OF WORKERS' COMPENSATION OBLIGATIONS**
14 **THROUGH ABUSE OF THE CORPORATE FORM AND THE LABOR CODE**
15 **SECTION 3351(c) EXEMPTION)**

16 **(Against Defendants PacifiStaff, Inc., Bruce Bowen, and Does 1-50, inclusive)**

17 23. The People reallege and incorporate by reference paragraphs 1 through 22 of this
18 complaint.

19 24. The People allege that PacifiStaff and Bowen have engaged and continue to engage in
20 unfair competition, as defined in Business & Professions Code section 17200, by enticing
21 employers to unlawfully evade their obligation to maintain workers' compensation insurance as
22 required by Labor Code section 3700, and providing services to those employers to facilitate the
23 evasion.

24 25. Specifically, the People allege that PacifiStaff and Bowen induce employers to utilize
25 sham corporate structures to unlawfully exploit the workers' compensation exemption contained
26 within Labor Code section 3351, subdivision (c), and then furnish the means to accomplish the
27 unlawful evasion by providing legal expertise and other services to incorporate, maintain, and
28 manage the sham corporations.

1 **SECOND CAUSE OF ACTION**

2 **VIOLATION OF BUSINESS AND PROFESSIONS CODE SECTIONS 17500**

3 **(UNTRUE OR MISLEADING REPRESENTATIONS)**

4 **(Against Defendants PacifiStaff, Inc., Bruce Bowen, and Does 1-50, inclusive)**

5 26. The People reallege and incorporate by reference paragraphs 1 through 22 of this
6 complaint.

7 27. The People allege that PacifiStaff and Bowen have made and continue to make untrue
8 or misleading statements, as defined in Business & Professions Code section 17500, that
9 PacifiStaff and Bowen knew or should have known to be untrue or misleading at the time they
10 were made, in relation to their efforts to induce employers to purchase their services.

11 28. Specifically, the People allege that during sales meetings with prospective clients, and
12 in the print and Internet ads touting their services, PacifiStaff and Bowen have made and
13 continue to make untrue or misleading statements that PacifiStaff and Bowen knew or should
14 have known were untrue or misleading, including but not limited to: asserting that PacifiStaff's
15 scheme is legal; representing that government authorities have approved of PacifiStaff's business
16 model; misrepresenting the nature of the insurance benefits provided through PacifiStaff as
17 compared to workers' compensation benefits; flatly stating that the PacifiStaff-provided
18 insurance coverage is "better" than workers' compensation insurance coverage; and misleading
19 employers about the legal consequences of terminating workers' compensation coverage for its
20 workers.

21 **THIRD CAUSE OF ACTION**

22 **VIOLATIONS OF BUSINESS AND PROFESSIONS CODE SECTION 17200**

23 **(UNTRUE OR MISLEADING REPRESENTATIONS)**

24 **(Against Defendants PacifiStaff, Inc., Bruce Bowen, and Does 1-50, inclusive)**

25 29. The People reallege and incorporate by reference paragraphs 1 through 22, 27, and 28
26 of this complaint.

27 30. The People allege that PacifiStaff and Bowen have engaged and continue to engage in
28 unfair competition, as defined in Business & Professions Code section 17200, by making and

1 continuing to make unfair, deceptive, untrue, or misleading advertising, and by making and
2 continuing to make untrue or misleading statements, as defined in Business & Professions Code
3 section 17500, that PacifiStaff and Bowen knew or should have known to be untrue or
4 misleading at the time they were made, in relation to their efforts to induce employers to
5 purchase their services, as alleged in paragraphs 27 and 28, above.

6 **FOURTH CAUSE OF ACTION**

7 **VIOLATIONS OF BUSINESS AND PROFESSIONS CODE SECTION 17200**

8 **(UNAUTHORIZED PRACTICE OF LAW)**

9 **(Against Defendants PacifiStaff, Inc., Bruce Bowen, and Does 1-25, inclusive)**

10 31. The People reallege and incorporate by reference paragraphs 1 through 22 of this
11 complaint.

12 32. The People allege that PacifiStaff and Bowen have engaged and continue to engage in
13 unfair competition, as defined in Business & Professions Code section 17200, by engaging in the
14 unauthorized practice of law in violation of Business & Professions Code section 6125.
15 PacifiStaff and Bowen have had non-attorneys provide specific legal advice to prospective
16 clients about – among other things – the benefits of incorporation, the state of the law regarding
17 the exemption set forth in Labor Code section 3351, subdivision (c), and the prospective clients’
18 eligibility for that exemption. PacifiStaff has also secured, provided, and paid for the legal
19 services of licensed attorneys to its clients as a means of implementing and furthering its
20 workers’ compensation evasion scheme. PacifiStaff’s clients receive legal advice from the
21 attorneys who are paid by PacifiStaff.

22 **FIFTH CAUSE OF ACTION**

23 **VIOLATIONS OF BUSINESS AND PROFESSIONS CODE SECTION 17200**

24 **(VIOLATION OF LAWYER REFERRAL STATUTE)**

25 **(Against Defendant PacifiStaff, Inc. and Does 1-25, inclusive)**

26 33. The People reallege and incorporate by reference paragraphs 1 through 22 of this
27 complaint.

1 34. The People allege that PacifiStaff has engaged in unfair competition, as defined in
2 Business & Professions Code section 17200, by referring its clients to attorneys despite not
3 being a lawyer referral service registered with the State Bar of California, in violation of
4 Business & Professions Code section 6155, subdivision (a).

5 **PRAYER FOR RELIEF**

6 **WHEREFORE**, the People pray for judgment as follows against defendants, jointly and
7 severally:

8 1. Pursuant to Business & Professions Code section 17203, that defendants, their
9 successors, agents, representatives, employees, and all persons who act in concert with
10 defendants be temporarily, preliminarily, and permanently enjoined from engaging in unfair
11 competition as defined in Business & Professions Code section 17200, including, but not limited
12 to, the acts and practices alleged in this complaint.

13 2. That defendants, their successors, agents, representatives, employees, and all persons
14 who act in concert with defendants be temporarily, preliminarily, and permanently enjoined from
15 making any untrue or misleading statements in violation of Business & Professions Code section
16 17500, including, but not limited to, the untrue and misleading statements alleged in this
17 complaint.

18 3. Pursuant to Business & Professions Code section 17206, that the Court assess a civil
19 penalty of two thousand five hundred dollars (\$2,500) against defendants for each violation of
20 Business & Professions Code section 17200, as proved at trial.

21 4. Pursuant to Business & Professions Code section 17536, that the Court assess a civil
22 penalty of two thousand five hundred dollars (\$2,500) against defendants for each violation of
23 Business & Professions Code section 17500, as proved at trial.

24 5. That defendants be ordered to make restitution of any money or other property that
25 may have been acquired by their violations of Business & Professions Code sections 17200 and
26 17500.

27 6. That the People recover their costs of suit.
28

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

7. Such other and further relief that the court deems just and proper.

Dated: November 6, 2007

Respectfully submitted,
EDMUND G. BROWN JR.
Attorney General
LOUIS VERDUGO, JR.
Senior Assistant Attorney General
RALPH LIGHTSTONE
Supervising Deputy Attorney General
SATOSHI YANAI
Deputy Attorney General

BY: _____
SATOSHI YANAI
Deputy Attorney General

Attorneys for Plaintiff,
THE PEOPLE OF THE STATE OF
CALIFORNIA ex rel. EDMUND G. BROWN
JR., as Attorney General of the State of
California

60252708.wpd
SA2007600274