

**CARMEN J. LAWRENCE**  
Regional Director

Attorney for Plaintiff  
**SECURITIES AND EXCHANGE COMMISSION**  
Northeast Regional Office  
Seven World Trade Center, 13th Floor  
New York, New York 10048  
(212) 748-8035

**THOMAS M. MELTON (4999)**  
**SECURITIES AND EXCHANGE COMMISSION**  
Salt Lake District Office  
50 South Main, Suite 500  
Salt Lake City, Utah 84144  
(801) 524-6748

**IN THE UNITED STATES DISTRICT COURT  
DISTRICT OF UTAH, CENTRAL DIVISION**

**SECURITIES AND EXCHANGE COMMISSION,**

**Plaintiff,**

**v.**

**GEORGE BADGER,  
GOLF COMMUNITIES OF AMERICA, INC.,  
f.k.a. GOLF VENTURES, INC.,  
DUANE MARCHANT,  
STEPHEN SPENCER,  
KARL BADGER,  
MARION SHERRILL,  
HARMON S. HARDY, JR.,  
LA JOLLA CAPITAL FINANCIAL CORP.,  
HAROLD B. GALLISON, JR.,  
TERRY HUGHES,  
MARVIN SUSEMIHL,  
DAVID ROSENTHAL,  
WILLIAM SLONE and  
ANDREW SEARS,**

**Defendants.**

**No. 2:97-CV-0963K**

**Judge Dale A. Kimball**

**AMENDED COMPLAINT**

*11/20*

Plaintiff Securities and Exchange Commission ("Commission"), for its Amended Complaint against defendants George Badger ("Badger"), Golf Communities of America, Inc. f.k.a. Golf Ventures, Inc. ("GVI"), Duane Marchant ("Marchant"), Stephen Spencer ("Spencer"), Karl Badger, Marion Sherrill ("Sherrill"), Harmon S. Hardy, Jr. ("Hardy"), La Jolla Capital Financial Corp. ("La Jolla Capital"), Harold B. Gallison, Jr. ("Gallison"), Terry Hughes ("Hughes"), Marvin Susemihl ("Susemihl"), David Rosenthal ("Rosenthal"), William Slone ("Slone") and Andrew Sears ("Sears"), alleges as follows:

### **SUMMARY**

1. From 1993 through 1996, Badger perpetrated a fraudulent scheme to generate market purchases of GVI securities. As part of this scheme, Badger paid bribes to registered broker-dealers and to individual brokers in exchange for the brokers recommending and selling GVI securities to their retail customers. Badger's son, Karl Badger, arranged some of the bribes to individual brokers. Sherrill, Hardy, Hughes, La Jolla Capital, Gallison and Susemihl negotiated and/or accepted undisclosed bribes from Badger in exchange for their agreements to induce the retail customers of their brokerage firms to purchase GVI securities. Rosenthal and Slone accepted bribes from Badger and Karl Badger and, thereafter, recommended and sold GVI securities to their retail customers without disclosing to their customers that they had received bribes from GVI. Sears also accepted undisclosed bribes from Karl Badger in exchange for his promise to sell GVI securities to his retail customers.

2. Additionally, from September 1996 through July 1997, GVI, Badger, Marchant, and Spencer distributed to the investing public information that contained

materially false and misleading statements regarding GVI. Specifically, GVI made misrepresentations and omitted material facts concerning: (a) Badger's undisclosed control over GVI; (b) GVI's supposed internal investigation of Badger's bribe scheme; and (c) the development of GVI's residential golfing and recreational community called Red Hawk International Golf & Country Club ("Red Hawk Project").

### **JURISDICTION AND VENUE**

3. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act, 15 U.S.C. § 77t(b), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d).

4. This Court has jurisdiction over this action, and venue is proper in this district, pursuant to Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15 U.S.C. § 78aa.

### **DEFENDANTS**

5. **Badger** is 67 years old and resides in Salt Lake City, Utah. During the relevant time period, Badger had the title of Director of Investor Relations for GVI but, in fact, acted as the principal officer of GVI, making all significant executive decisions. At all relevant times, Badger was also a large shareholder and President of Leasing Technology, Inc. ("LTI"), GVI's largest shareholder. From 1993 through 1996, Badger also served as President of LTI. In April 1997, Badger pled guilty in the United States District Court for the Southern District of New York to a four-count, felony information alleging: (i) conspiracy to commit securities fraud, wire fraud, money laundering and commercial bribery; (ii) securities fraud; (iii) criminal contempt; and (iv) perjury. In connection with

prior incidents, Badger has: (a) pled guilty to bribing an agent of the Internal Revenue Service; (b) pled guilty to conspiracy to commit securities fraud; and (c) in an action brought by the Commission, consented to a permanent injunction barring him from future violations of the antifraud provisions of the federal securities laws.

6. **GVI** is a corporation organized under the laws of Utah with its principal place of business in Salt Lake City, Utah. Its securities are registered pursuant to Section 12(g) of the Exchange Act, 14 U.S.C. § 781(g), and its shares are publicly traded on the Non-NASDAQ Over-The-Counter Bulletin Board market (the "Bulletin Board").

7. **Marchant** is 58 years old and resides in Salt Lake City, Utah. During the period from 1993 through 1996, Marchant was President and Chief Executive Officer of GVI and a member of its Board of Directors.

8. **Spencer** is 41 years old and resides in Salt Lake City, Utah. During the period from 1993 through 1996, Spencer was Chief Financial Officer and Secretary/Treasurer of GVI and a member of its Board of Directors.

9. **Karl Badger** is 43 years old and resides in Bountiful, Utah. During the period from 1993 through 1996, he worked in GVI's department of Investor Relations.

10. **Sherrill** is 50 years old and resides in Monroe, Georgia. During the period from October 1993 through December 1993, Sherrill was President of Burnett, Grey & Co. ("Burnett Grey"), a registered broker-dealer that ceased operations in early 1994.

11. **Hardy** is 68 years old and resides in Dallas, Texas. During the relevant time period, Hardy was the majority shareholder in Burnett Grey and was registered as the Principal of Burnett Grey.

12. **La Jolla Capital** is a corporation organized under the laws of Nevada with its principal office in San Diego, California and is a broker-dealer registered with the Commission.

13. **Gallison** is 39 years old and resides in Las Vegas, Nevada. Gallison is registered with the Commission as a Principal of La Jolla Capital.

14. **Hughes** is 39 years old and resides in San Diego, California. From September 1992 until early 1994, Hughes was a registered representative with Burnett Grey. Since that time, he has been a registered representative associated with La Jolla Capital.

15. **Susemihl** is 57 years old and resides in Cardiff, California. During 1994, Susemihl was a registered representative associated with La Jolla Capital.

16. **Rosenthal** is 40 years old and resides in San Francisco, California. From 1995 through January 1997, he was a registered representative associated with InterSecurities, Inc. a registered broker-dealer. Rosenthal is currently associated with First Associated Securities Group, Inc., a registered broker-dealer in San Francisco, California.

17. **Slone** is 55 years old and resides in Cheshire, Connecticut. From May 1995 to the present, Slone was a registered representative associated with Buell Securities Corp. ("Buell"), a registered broker-dealer.

18. **Sears** is 26 years old and resides in Fitchburg, Massachusetts. During the period from mid-1995 through 1996, Sears was a registered representative associated with Delta Equity Services Corp. ("Delta"), a registered broker-dealer. Sears is currently associated with Brookstreet Securities Corp., a registered broker-dealer.

19. At the time of the transactions and events alleged in this Complaint, Badger,

Marchant and Spencer were controlling persons of GVI for the purposes of Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a). Among other things, Badger, Marchant and Spencer had responsibility for, and actively participated in and directed, the management and operations of GVI, and they each possessed, directly or indirectly, the power to direct or control, or cause the direction or control of, and directed or controlled, the management and operations of GVI.

### FACTS

#### Burnett Grey & Co.

20. In the fall of 1993, Sherrill contacted Badger to discuss an arrangement in which Burnett Grey's brokers would retail GVI securities to their customers in exchange for payments from GVI to Burnett Grey. An agreement was reached in October 1993, at which time, Sherrill and Badger entered into a sham consulting agreement on behalf of Burnett Grey and GVI to conceal the true purpose for cash payments to Burnett Grey. Both Sherrill and Badger knew that the consulting agreement was entered into solely to conceal GVI's bribe payments to Burnett Grey for retailing GVI stock. Thereafter, Badger arranged for Burnett Grey to receive bribe payments from GVI totalling \$10,000 in connection with this "consulting agreement." Sherrill accepted the bribe payments from GVI in exchange for having Burnett Grey's brokers induce their customers to purchase GVI securities and make a market in the stock.

21. In December 1993, after Sherrill left Burnett Grey, Hardy agreed with Badger that Burnett Grey would continue to promote GVI to its retail customers. Also in late 1993, at Hardy's request and as additional compensation for Burnett Grey's sales efforts, Badger

transferred a block of GVI shares to Burnett Grey so that the firm could list those shares on its balance sheet as assets and thereby meet its net capital requirements. This transfer of GVI stock certificates enabled Burnett Grey to remain in business and continue to retail GVI securities until February 1994.

22. From October 1993 through February 1994, brokers employed by Burnett Grey, including Hughes, caused the firm's customers to purchase approximately \$340,000 of GVI stock, or 48,000 shares. Hughes and the other registered representatives that recommended purchases of GVI securities to Burnett Grey customers failed to disclose to these investors that Burnett Grey received the payments.

23. Sherrill, Hardy and Hughes knew or recklessly disregarded that Hughes and the other representatives failed to inform their retail customers that Burnett Grey received cash bribes from Badger in exchange for Burnett Grey representatives selling GVI's securities to retail customers.

#### **La Jolla Capital**

24. In March 1994, after being introduced to Badger by Susemihl, Gallison solicited Badger for payments to La Jolla Capital in exchange for La Jolla Capital brokers retailing GVI's securities to its customers.

25. In May 1994, Badger reached an agreement with Gallison and Susemihl. To conceal the true purpose for the subsequent cash payments to La Jolla Capital, Gallison requested that Badger sign a sham agreement for La Jolla Capital to provide consulting services to GVI. Gallison, Susemihl, and Badger knew that the purpose of the consulting agreement was to conceal GVI's bribe payments to La Jolla Capital.

26. Badger arranged for La Jolla Capital to receive bribe payments from GVI totaling \$35,000 in connection with this "consulting agreement." Gallison accepted the \$35,000 in bribes from GVI in exchange for Gallison's and Susemihl's agreements to arrange purchases of GVI securities through La Jolla Capital brokers.

27. From May through June 1994, brokers employed by La Jolla Capital caused their customers to purchase approximately \$498,000 of GVI stock, or 63,000 shares. The registered representatives that recommended purchases of GVI securities to La Jolla Capital customers failed to disclose to these investors that La Jolla Capital received the payments.

28. Gallison and Susemihl knew or recklessly disregarded that La Jolla Capital's registered representatives failed to disclose to their retail customers that La Jolla Capital received cash bribes from GVI for recommending and selling GVI's securities.

**Rosenthal**

29. In August 1995, Rosenthal contacted GVI and spoke with Karl Badger. Rosenthal and Karl Badger reached an agreement under which Karl Badger agreed to pay Rosenthal in exchange for Rosenthal's retail sales of GVI stock. Karl Badger agreed to give GVI shares to Rosenthal equal to approximately 10% of the value of Rosenthal's retail sales to customers.

30. From October 1995 through September 1996, Rosenthal caused his retail customers to purchase approximately 43,330 GVI shares for approximately \$120,473.

31. From October 1995 through October 1996, Karl Badger arranged for Rosenthal to receive a total of 12,442 GVI shares as payment for recommending and selling GVI securities to his retail customers.



32. The payments were delivered into Rosenthal's personal brokerage accounts located away from his own firm. Rosenthal failed to disclose to his retail customers that he received the GVI shares.

33. Rosenthal knowingly or recklessly failed to disclose to his retail customers that he received bribes in the form of GVI stock for recommending and selling GVI's securities.

**Slone**

34. In May 1995, Slone contacted GVI and spoke with Badger. Slone and Badger later came to an agreement under which Slone would retail GVI securities to his customers in exchange for free GVI shares from Badger.

35. From May 1995 through September 1995, Slone caused his retail customers to purchase approximately \$118,000 of GVI stock, or 43,000 shares.

36. From September 1995 through January 1996, Badger provided to Slone a total of 6,500 GVI shares for recommending and selling GVI securities to retail customers.

37. In September 1995, after receiving his first stock payment, Slone requested that Badger send Slone a letter stating that Slone was being paid by Badger for "consulting" services and not for arranging purchases of GVI stock. Badger sent such a letter to Slone. Both Badger and Slone knew that the letter was a sham and that its purpose was solely to conceal Badger's bribes to Slone.

38. The 6,500 GVI shares paid to Slone were delivered into Slone's personal brokerage account at Buell. Slone thereafter sold the GVI shares for approximately \$13,000.

39. Slone knowingly or recklessly failed to disclose to his retail customers that he received bribes in the form of stock for recommending and selling GVI's securities.

**Sears**

40. In August 1996, Sears reached an agreement with Karl Badger to receive compensation in exchange for additional purchases of GVI stock by Sears's customers. Previously, from September 1995 through June 1996, Sears caused his retail customers to purchase approximately \$113,000 of GVI stock, or 63,000 shares. To conceal the true purpose for the subsequent stock payments that GVI would be sending to Sears, Sears and GVI entered into a sham investment banking agreement in which Sears supposedly would provide investment banking services to GVI. Sears prepared the investment banking agreement and it was signed by Sears and Badger. Sears, Karl Badger and Badger knew that the investment banking agreement was created solely to conceal Karl Badger's bribes to Sears.

41. From August 1996 through September 1996, Sears sent false confirmation slips to Karl Badger purporting to reflect purchases of approximately 41,000 GVI shares by Sears's retail customers at a cost of approximately \$260,000. Sears's customers did not purchase these additional shares.

42. Karl Badger arranged for Sears to receive approximately 3,000 GVI shares as payment for arranging these supposed \$260,000 in retail purchases, in accordance with the sham "investment banking agreement." The GVI shares were received into Sears's personal brokerage account at Delta. Sears sold the GVI shares that he had received from Karl Badger for approximately \$18,000.

**GVI's False and Misleading Disclosures**

43. Between September 1996 and July 1997, GVI distributed written information in the form of public filings with the Commission and press releases concerning its management and the progress of construction on GVI's residential golfing and recreational community called Red Hawk International Golf & Country Club ("Red Hawk Project"). The Red Hawk Project was GVI's main asset and primary potential source of future revenue; GVI had no other substantial sources of revenue. Specifically, GVI filed the following documents with the Commission on the following dates: Form 10SB for 1996 ("1996 GVI 10SB"), September 11, 1996; Form 10-QSB for the period ending September 30, 1996 ("September 1996 GVI 10QSB"), December 23, 1996; Form 10-QSB for the period ending December 31, 1996 ("December 1996 GVI 10QSB"), February 13, 1997; and Form 10-KSB for the year ending March 31, 1997 ("1997 GVI 10KSB"), July 15, 1997. Each of GVI's public filings was signed by Marchant and Spencer. In addition, GVI issued relevant press releases and letters to shareholders on the following dates: October 18, 1996 ("October 18th Press Release"); October 23, 1996 ("October 23rd Press Release"); November 4, 1996 ("November 4th Press Release"); November 19, 1996 ("November Shareholder Letter"); and December 1996 ("December Shareholder Letter").

**Badger's Secret Control Over GVI**

44. At all relevant times, Badger acted as the principal officer of GVI and made all executive decisions. Badger controlled how GVI spent its funds, determined how GVI raised capital and was responsible for its principal strategic business decisions.

45. GVI filed false and misleading reports with the Commission and issued false

and misleading press releases concerning Badger's affiliation with GVI. The 1996 GVI 10SB, the September 1996 GVI 10QSB, the December 1996 GVI 10QSB, and the 1997 GVI 10KSB did not disclose his substantial control over the company. Nor was Badger's substantial control over GVI disclosed in the October 15th Press Release despite the fact that this press release specifically commented on Badger's relationship with GVI.

46. As a result of their knowledge of Badger's substantial control of GVI, GVI, Badger, Marchant and Spencer knew, or were reckless in not knowing, that the 1996 GVI 10SB, September 1996 GVI 10QSB, December 1996 GVI 10QSB, 1997 GVI 10KSB, and October 15th Press Release were materially false and misleading.

**GVI's Phony Investigation Of Badger**

47. In the October 18th Press Release, GVI falsely claimed that it had commenced an internal investigation concerning Badger's arrest in October 1996 for securities fraud in connection with GVI. GVI never conducted an independent investigation into the allegations against Badger that led to his arrest in October 1996 and ultimate guilty plea to four felonies concerning the fraudulent scheme described in this complaint.

48. As a result of their knowledge that GVI never conducted an independent investigation into Badger's arrest, GVI, Badger, Marchant and Spencer knew, or were reckless in not knowing, that the October 18th Press Release was materially false and misleading.

**Misrepresentations Concerning The Red Hawk Project**

49. GVI hired Granite Construction ("Granite") to construct its Red Hawk Project. The Red Hawk Project was GVI's largest asset and its primary potential source of future revenue. On October 31, 1996, Granite ceased working on the Red Hawk Project when GVI ran out of funds. At that time, Granite had completed less than 50% of the project.

50. Between October 1996 and July 1997, GVI made numerous false public statements concerning Granite's progress on the Red Hawk Project. For example, in the October 23rd Press Release, November 4th Press Release; November Shareholder Letter, December Shareholder Letter, September 1996 GVI 10QSB, December 1996 GVI 10QSB, and the 1997 GVI 10KSB, GVI touted the substantial progress that Granite had supposedly achieved toward completion of the Red Hawk Project when, in fact, Granite actually had ceased all work after completing less than 50% of its work on that project.

51. Badger and Marchant participated in the preparation of these press releases and shareholder correspondence. Spencer prepared the three periodic reports at issue, which both he and Marchant signed. Badger reviewed the periodic reports before GVI filed them. Badger, Marchant, and Spencer were each aware of the extent to which Granite had completed its work on the Red Hawk Project and the reason why Granite had stopped working on that project.

52. GVI, Badger, Marchant and Spencer knew, or were reckless in not knowing, that the Fourth Quarter 1996 Letters and Press Releases and the September 1996 GVI 10QSB, the December 1996 GVI 10QSB and the 1997 GVI 10KSB were materially false and misleading.

**FIRST CLAIM FOR RELIEF**

**Violations of Section 17(a) of the Securities Act  
and Section 10(b) of the Exchange Act and Rule 10b-5**

(Badger, Karl Badger, Sherrill, Hardy, Hughes, La Jolla  
Capital, Gallison, Susemihl, Rosenthal, and Slone)

53. The Commission repeats and realleges each and every allegation contained in paragraphs 1 through 52 by reference, as if fully set forth herein.

54. Defendants Badger, Karl Badger, Sherrill, Hardy, Hughes, La Jolla Capital, Gallison, Susemihl, Rosenthal and Slone, directly or indirectly, singly or in concert, by use of the means or instrumentalities of interstate commerce, or of the mails, or of the facilities of a national securities exchange, in connection with the purchase or sale of GVI securities, knowingly or recklessly: (a) employed devices, schemes and artifices to defraud; (b) have obtained money or property by means of, or have otherwise made, untrue statements of material fact, or have omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices and courses of business which have or would have operated as a fraud or deceit upon purchasers of GVI securities and upon other persons.

55. As part of and in furtherance of the violative conduct, and as more fully set forth above, Badger, Karl Badger, Sherrill, Hardy, La Jolla Capital, Gallison, Hughes, Susemihl, Rosenthal and Slone each knowingly or recklessly engaged in a scheme to defraud in which Badger and Karl Badger bribed Sherrill, Hardy, Hughes, La Jolla Capital, Gallison, Susemihl, Rosenthal, and Slone to induce them to sell GVI stock to retail customers throughout the United States without disclosing the bribes, or the arrangement to pay the

bribes, to customers. In addition, as part of and in furtherance of the violative conduct, and as more fully set forth above, Sherrill, Hardy, Gallison, Hughes, Susemihl, Rosenthal, Slone and Sears negotiated the bribe agreements with Badger and Karl Badger in which the scheme was described, bribes were offered or arrangements were made for bribes to be paid.

56. Defendants Badger, Karl Badger, Sherrill, Hardy, La Jolla Capital, Gallison, Hughes, Susemihl, Rosenthal, and Slone knew or recklessly disregarded that neither the payment of the bribes to Burnett Grey, La Jolla Capital, Rosenthal, and Slone, or the arrangement to pay them, was disclosed to their retail customers in connection with the purchase of GVI stock.

57. The information omitted from disclosure to the customers in connection with the purchase of GVI stock was material.

58. By reason of the foregoing, Badger, Karl Badger, Sherrill, Hardy, La Jolla Capital, Gallison, Hughes, Susemihl, Rosenthal and Slone directly or indirectly, have violated, and unless enjoined are reasonably likely in the future to violate, Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder, 17 C.F.R. § 240.10b-5.

### **SECOND CLAIM FOR RELIEF**

#### **Violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder**

**(Badger, Karl Badger, and Sears)**

59. The Commission repeats and realleges each and every allegation contained in paragraphs 1 through 52 by reference, as if fully set forth herein.

60. Badger, Karl Badger and Sears, directly or indirectly, singly or in concert, by

use of the means or instrumentalities of interstate commerce, or of the mails, or of the facilities of a national securities exchange, in connection with the purchase or sale of GVI securities, knowingly or recklessly: (a) employed devices, schemes and artifices to defraud; (b) have obtained money or property by means of, or have otherwise made, untrue statements of material fact, or have omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices and courses of business which have or would have operated as a fraud or deceit upon purchasers of GVI securities and upon other persons.

61. As part of and in furtherance of the violative conduct, and as more fully set forth above, Badger, Karl Badger and Sears, directly or indirectly, singly or in concert, knowingly or recklessly, engaged in acts which would have operated as a fraud or deceit upon purchasers of GVI securities in which Karl Badger bribed Sears so that Sears would purchase GVI securities for his retail customers. In addition, Badger signed a sham investment banking contract that Sears prepared solely to conceal the fact that GVI would pay bribes to Sears for retailing GVI stock. In furtherance of the violative conduct, Sears sent false confirmation slips to Karl Badger purporting to reflect purchases of GVI securities by Sears's retail customers in order to receive free GVI securities from Karl Badger.

62. Defendants Badger, Karl Badger, and Sears knew or recklessly disregarded that they engaged in acts that would have operated as a fraud or deceit upon Sears's retail customers in connection with the purchase or sale of GVI securities.

63. By reason of the foregoing, Badger, Karl Badger and Sears, singly or in concert, directly or indirectly, have violated, and unless enjoined are reasonably likely in the



future to violate, Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder, 17 C.F.R. § 240.10b-5.

**THIRD CLAIM FOR RELIEF**

**Violations of Section 10(b)  
of the Exchange Act and Rule 10b-5**

(GVI, Badger, Marchant and Spencer)

64. The Commission repeats and realleges each and every allegation contained in paragraphs 1 through 52 by reference, as if fully set forth herein.

65. Defendants GVI, Badger, Marchant and Spencer directly or indirectly, singly or in concert, by use of the means or instrumentalities of interstate commerce, or of the mails, or of the facilities of a national securities exchange, in connection with the purchase or sale of GVI securities, knowingly or recklessly, have: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material fact, or have omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices and courses of business which have operated as a fraud or deceit upon purchasers of GVI securities and upon other persons.

66. As part of and in furtherance of the violative conduct, and as more fully set forth above, GVI, Badger, Marchant and Spencer directly or indirectly, singly or in concert, knowingly or recklessly, made various false statements and omitted material facts in public filings with the Commission and press releases identified above concerning: (a) Badger's secret control over GVI; (b) GVI's supposed investigation of Badger; and (c) the status of the

Red Hawk Project, including the work performed by Granite.

67. The information misrepresented or omitted from disclosure in these documents was material.

68. Defendants GVI, Badger, Marchant and Spencer knew, or were reckless in not knowing, that GVI's public filings and press releases identified above were materially false and misleading.

69. By reason of the foregoing, GVI, Badger, Marchant and Spencer singly or in concert, directly or indirectly, have violated, and unless permanently enjoined will again violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5.

#### **FOURTH CLAIM FOR RELIEF**

##### **GVI's Violations of Sections 13(a) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13**

70. The Commission repeats and realleges each and every allegation contained in paragraphs 1 through 52 by reference, as if fully set forth herein.

71. Defendant GVI failed to file with the Commission, in accordance with the rules and regulations prescribed by the Commission, such quarterly reports as the Commission has prescribed and GVI failed to include, in addition to the information expressly required to be stated in such reports, such further material information as was necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading, in violation of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1 and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13.

72. As part of and in furtherance of this violative conduct, GVI filed with the Commission the September 1996 GVI 10-QSB, the December 1996 GVI 10QSB, Form 10SB for 1996, the 1997 GVI 10KSB ("Filings"), each making material misrepresentations and omissions. As a result, these filings were materially false and misleading.

73. By reason of the foregoing, GVI has violated, and unless enjoined will again violate Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1 and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13.

#### **FIFTH CLAIM FOR RELIEF**

##### **Violations of Sections 13(a) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13**

(Badger, Marchant and Spencer)

74. The Commission repeats and realleges each and every allegation contained in paragraphs 1 through 52 by reference, as if fully set forth herein.

75. Defendant GVI failed to file with the Commission, in accordance with the rules and regulations prescribed by the Commission, such quarterly reports as the Commission has prescribed and GVI failed to include, in addition to the information expressly required to be stated in such reports, such further material information as was necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading, in violation of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1 and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13.

76. As part of and in furtherance of this violative conduct, GVI filed with the Commission the September 1996 GVI 10-QSB, the December 1996 GVI 10QSB, Form 10SB

for 1996, the 1997 GVI 10KSB ("Filings"), each making material misrepresentations and omissions. As a result, these filings were materially false and misleading.

77. Defendants Badger, Marchant and Spencer each was a controlling person of GVI for the purposes of Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a).

78. Defendants Badger, Marchant and Spencer each, knowingly or recklessly, directly or indirectly, singly or in concert, participated in making material misrepresentations in the Filings, and in so doing, Badger, Marchant and Spencer did not act in good faith. Defendants Marchant and Spencer also signed the Filings and attested to the accuracy of the Filings when each of them knew or recklessly disregarded that the Filings contained material misrepresentations and omitted material facts concerning GVI and Badger.

79. By reason of the foregoing, Badger, Marchant and Spencer are each liable as controlling persons pursuant to Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a), for GVI's violations of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1 and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13; and unless they are enjoined, Badger, Marchant and Spencer will again engage, as controlling persons, in conduct that would render them liable, pursuant to Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a), for violations of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1 and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13.

**RELIEF REQUESTED**

WHEREFORE, the Commission respectfully requests that this Court:

**I.**

Enter a final judgment permanently restraining and enjoining Badger, GVI, Karl Badger, Sherrill, Hardy, La Jolla Capital, Gallison, Hughes, Susemihl, Sears, Slone and Rosenthal and their agents, servants, employees and attorneys and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from violating Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b) and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

**II.**

Permanently enjoin Marchant and Spencer, their agents, servants, employees and attorneys and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from violating Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

**III.**

Permanently enjoin GVI, its agents, servants, employees and attorneys and all persons in active concert or participation with it who receive actual notice of the injunction by personal service or otherwise, from violating Section 13(a) of the Exchange Act, 15 U.S.C. §§ 78m(a), 78m(b)(2), and Exchange Act Rules 12b-20, 13a-1 and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13.

**IV.**

Permanently enjoin Badger, Marchant and Spencer their agents, servants, employees and attorneys and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from engaging in conduct as controlling persons that would render them liable pursuant to Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a), for violations of Section 13(a) of the Exchange Act, 15 U.S.C. §§ 78m(a), 78m(b)(2), and Exchange Act Rules 12b-20, 13a-1 and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13.

**V.**

Issue an order barring GVI, Badger, Marchant, Spencer, Karl Badger, Sherrill, Hardy, La Jolla Capital, Gallison, Hughes, Susemihl, Rosenthal, Slone and Sears from participating in the offer or sale of any "penny stock", as defined by Section 3 of the Exchange Act and the Commission's rules thereunder.

**VI.**

Issue an order barring Badger, Marchant and Spencer, pursuant to Section 20(e) of the Securities Act, 15 U.S.C. § 77t(e), and Section 21(d)(2) of the Exchange Act, 15 U.S.C. § 78u(d)(2), from serving or acting as an officer or director of any issuer that has a class of securities registered under Section 12 of the Exchange Act, 15 U.S.C. § 78l, or that is required to file reports pursuant to Section 15(d) of the Exchange Act, 15 U.S.C. § 78o(d).

**VII.**

Issue an order directing Badger, GVI, Marchant, Spencer, Karl Badger, Sherrill, Hardy, Hughes, La Jolla Capital, Gallison, Susemihl, Rosenthal, Slone and Sears to disgorge

all funds and benefits they obtained as a result of the violations alleged herein, and to pay prejudgment interest thereon.

**VIII.**

Issue an order directing Badger, Karl Badger, Sherrill, Hardy, Hughes, La Jolla Capital, Gallison, Susemihl, Rosenthal, Slone and Sears to pay civil money penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3), and directing Marchant and Spencer to pay civil money penalties pursuant to Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3).

**IX.**

Grant such other and further relief as the Court may deem just and proper.

Dated: New York, New York  
August 11, 1999

Respectfully submitted,

  
CARMEN J. LAWRENCE  
Regional Director

Attorney for Plaintiff  
SECURITIES AND EXCHANGE COMMISSION  
Northeast Regional Office  
7 World Trade Center  
New York, New York 10048

  
THOMAS M. MELTON

Attorney for Plaintiff  
SECURITIES AND EXCHANGE COMMISSION  
Salt Lake District Office  
50 South Main, Suite 500  
Salt Lake City, Utah 84144

**Of Counsel:**

**Robert Knuts  
George N. Stepaniuk  
Cynthia L. Corcoran  
Laura V. Eng**