JUDGE V. WOOD

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STATE OF IDAHO

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DISTRICT COURT
MAGISTRATE DIVISION
BONNEVILLE COUNTY
IDAHO

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IN THE DISTRICT COURT OF THE SEVENTH JUDICIAL DISTRICT

OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF BONNEVILLE

STATE OF IDAHO, Department of Finance, Plaintiff, vs. SYSTEMS INTEGRATION CORPORATION, an Idaho corporation; U.S. SILICON CORPORATION, an Idaho corporation; ESTATE OF WARREN W. MADSEN, DECEASED; ROBERT C. WAGNER; JANICE MADSEN, and GORDON W. JENKINS, Defendants.	Civil No. CV00-1592 **COMPLAINT** Fee Category: Exempt

Comes now the State of Idaho, Department of Finance, Gavin M. Gee, Director, by and through counsel, to complain and allege as follows:

JURISDICTION

1. This action is brought under the provisions of the Idaho Securities Act, Title 30, Chapter 14, Idaho Code, and in particular Idaho Code §30-1442 wherein the Director of the Idaho Department of Finance ("Department") is empowered to bring actions seeking injunctive and other relief against defendants who have either violated or are about to violate provisions of the Idaho Securities Act or any Rule thereunder.

VENUE

2. The acts and practices alleged herein comprising violations of law by the above-named Defendants occurred in the conduct of trade and commerce in Bonneville County, and elsewhere in the State of Idaho.

DEFENDANTS

3. Defendant Systems Integration Corporation ("SIC") is an Idaho corporation whose last known address is 1338 Mojave St., Idaho Falls, ID 83404. SIC was incorporated in Idaho on May 18, 1992. The company forfeited its corporate charter on December 2, 1996 but was reinstated the same month, December 20, 1996. SIC was incorporated as a vehicle to develop and market different technologies that were being worked on by various former INEL engineers. The 1998 Annual Report Form filed by SIC with the Idaho Secretary of State shows the following officers and directors: Warren W. Madsen, President; Janice Madsen, Secretary; and Robert C. Wagner, Director. SIC did not file its 1999 renewal with the Idaho Secretary of State, so the corporation was administratively dissolved on February 17, 2000. SIC corporate records show 49 current shareholders. No stock certificates have ever been issued to any SIC shareholders. The stock of SIC has never been registered for sale with the Idaho Department of Finance.

4. Defendant U.S. Silicon Corporation ("USSC") is an Idaho corporation whose last known address is 2595 Channing Way, Idaho Falls, ID 83404. USSC was incorporated in Idaho on December 14, 1995. SIC owns 74% of USSC. USSC was formed to develop a quartz mine near Arco, Idaho. The 1998 Annual Report Form filed by USSC with the Idaho Secretary of State shows the following officers and directors: Warren W. Madsen, President; Robert C. Wagner, Director; Janice Madsen, Director; and Gordon W. Jenkins, Director. USSC did not file its 1999 renewal with the Idaho Secretary of State, so the corporation was administratively dissolved on February 17, 2000. USSC corporate records show 58 current shareholders. No stock certificates have ever been issued to any USSC shareholders. The stock of USSC has never been registered for sale with the Idaho Department of Finance.

5. Warren W. Madsen died on August 9, 1999. Mr. Madsen was the president of both SIC and USSC. Mr. Madsen was the primary control person for both corporations. Mr. Madsen had not been registered as a salesman or a broker-dealer with the Idaho Department of Finance at any time.

6. Defendant Robert C. Wagner ("Wagner") was at all relevant times a director of both SIC and USSC. His last known address is 1530 Canterbury Road, Westlake, OH 44145. Mr. Wagner has not been registered as a salesman or a broker-dealer with the Idaho Department of Finance at any time.

7. Defendant Janice Madsen is the widow of Warren W. Madsen. Mrs. Madsen is the secretary of SIC and a director of USSC. Her last known address is 2595 Channing Way, Idaho Falls, ID 83404.

8. Defendant Gordon W. Jenkins ("Jenkins") was at all relevant times corporate counsel for both SIC and USSC. On the 1998 Annual Report Form filed by USSC with the Idaho Secretary of State, Jenkins is listed as a director. His last known address is 2592 Channing Way, Idaho Falls, ID 83404.

FACTS

9. Beginning sometime in early 1993, Warren W. Madsen and Wagner began soliciting persons to invest in SIC through the purchase of SIC stock. The stock of SIC was never registered for sale with the Idaho Department of Finance. The sales of SIC stock were done with the knowledge of defendants Janice Madsen and Jenkins.

10. After USSC was formed, Warren W. Madsen and Wagner began soliciting persons to invest in USSC through the purchase of USSC stock. The stock of USSC was never registered for sale with the Idaho Department of Finance. The sales of USSC stock were done with the knowledge of defendants Janice Madsen and Jenkins.

11. Defendant Jenkins was aware at all times, as corporate counsel for SIC and USSC, that the stock of both companies was being sold and that the stock was never registered for sale with the Idaho Department of Finance. A letter from the Idaho Department of Finance was sent to Warren W. Madsen dated March 17, 1998 inquiring into Mr. Madsen's sales of stock in SIC. Jenkins, on behalf of Mr. Madsen, replied to the Department by letter dated April 3, 1998. At that time, Jenkins was on notice that the Department was questioning whether there were registration violations in the sales of stock in SIC.

12. Jenkins, as corporate counsel for SIC, sought the advice of the Salt Lake City law firm of Kruse, Landa & Maycock on the issues in connection with SIC's offer and

sale of its common stock. By letter dated May 19, 1998 to Warren Madsen and copied to Jenkins, attorney Lyndon L. Ricks made it clear that there were potentially serious registration violations in SIC's offers and sales of stock.

COUNT ONE

The allegations contained in paragraph 1 through 12 are hereby realleged as if fully set forth.

13. Beginning on a date uncertain, but at least since early 1993 as to SIC stock and December, 1995 as to USSC stock, Defendants SIC, USSC, Warren W. Madsen, and Wagner offered for sale, either directly or indirectly, or aided and abetted in the offer, to Idaho residents and others through printed offering material and oral solicitations, securities in the form of SIC stock and USSC stock.

14. The securities offered by Defendants SIC, USSC, Warren W. Madsen, and Wagner were not registered with the Department as required by Idaho Code §30-1416.

15. Defendants SIC, USSC, Warren W. Madsen, and Wagner have violated Idaho Code §30-1416.

COUNT TWO

The allegations contained in paragraphs 1 through 15 are hereby realleged as if fully set forth.

16. At all times relevant to this complaint, the Defendants Warren W. Madsen and Wagner were not licensed by the Department of Finance as broker-dealers or salesmen to offer for sale securities as required by Idaho Code §30-1406. Therefore, Defendants Warren W. Madsen and Wagner have either transacted business in this state as broker-

dealers or salesmen without having been registered, or have acted as broker-dealers or issuers, and employed salesmen who were not registered under the Act.

17. Defendants Warren W. Madsen and Wagner have violated Idaho Code §30-1406.

COUNT THREE

The allegations contained in paragraphs 1 through 17 are hereby realleged as if fully set forth.

18. Defendants SIC, USSC, Warren W. Madsen, and Wagner violated an antifraud provision of the Idaho Securities Act, Idaho Code §30-1403(2), in that they omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading. The omissions of Defendants SIC, USSC, Warren W. Madsen, and Wagner include, but are not limited to, the following:

A. Failing to disclose to offerees and/or investors that the SIC stock and USSC stock offered for sale was not registered in Idaho, as required by the Idaho Securities Act.

B. Failing to disclose to offerees and/or investors that Defendants SIC, USSC, Warren W. Madsen, and Wagner were not registered as broker-dealers or salesmen in Idaho, as is required by the Idaho Securities Act.

C. Failing to disclose, to offerees and/or investors, material financial information related to SIC or USSC prior to the investments.

D. Failing to adequately disclose, to offerees and/or investors, risk factors related to the investment.

E. Failing to disclose, to offerees and/or investors, the actual use of proceeds of the offering.

19. Defendants SIC, USSC, Warren W. Madsen, and Wagner have violated Idaho Code §30-1403(2).

COUNT FOUR

The allegations contained in paragraph 1 through 19 are hereby realleged as if fully set forth.

20. Defendants SIC, USSC, and Warren W. Madsen violated an antifraud provision of the Idaho Securities Act, Idaho Code §30-1403(2), in that they made untrue statements of material facts in connection with the offer and sale of securities. The misrepresentations of Defendants SIC, USSC, and Warren W. Madsen include, but are not limited to, the following:

A. Representation that the investors could make several hundred percent return on their investment in two to three years. No basis was given to support such claim.

B. Representation that the quartz mine would generate over $10,000,000 in sales by the end of the first year. No basis was given to support such claim.

C. Representation that $6,000,000 had already been invested in the mining operation by 1998. No basis was given to support such claim.

D. Representation that the USSC mining claims contained some of the highest quality silica ore in the world. No basis was given to support such claim.

21. Defendants SIC, USSC, and Warren W. Madsen have violated Idaho Code §30-1403(2).

COUNT FIVE

The allegations contained in paragraph 1 through 21 are hereby realleged as if fully set forth.

22. Defendants SIC, USSC, Warren W. Madsen, and Wagner offered and sold securities to persons in this state in violation of an antifraud provision of the Idaho Securities Act, Idaho Code §30-1403(3), in that they engaged in acts, practices, and courses of business which operated as a fraud or deceit upon other persons. Defendants' acts, practices, and courses of business which operated as a fraud or deceit include, but are not limited to, the following:

A. The pattern of omissions and misrepresentations referred to in Counts Three and Four, above.

23. Defendants SIC, USSC, Warren W. Madsen, and Wagner have violated Idaho Code §30-1403(3).

COUNT SIX

The allegations contained in paragraphs 1 through 23 are hereby realleged as if fully set forth.

24. At all times relevant to this complaint, Defendant Janice Madsen, while acting as secretary of SIC and director of USSC, had actual or constructive knowledge of violations of the Idaho Securities Act by SIC and USSC as alleged in Counts One, Two, Three, and Four, above.

25. Defendant Janice Madsen is liable for sanctions pursuant to Idaho Code §30-1442(4).

COUNT SEVEN

The allegations contained in paragraphs 1 through 25 are hereby realleged as if fully set forth.

26. At all times relevant to this complaint, Defendant Jenkins, while acting as director of USSC, had actual or constructive knowledge of violations of the Idaho Securities Act by USSC as alleged in Counts One, Two, Three, and Four, above.

27. Defendant Jenkins is liable for sanctions pursuant to Idaho Code §30-1442(4).

COUNT EIGHT

The allegations contained in paragraphs 1 through 27 are hereby realleged as if fully set forth.

28. At all times relevant to this complaint, Defendant Jenkins, while acting as corporate counsel for SIC and USSC, aided and abetted Defendants SIC, USSC, Warren W. Madsen, and Wagner in violating the Idaho Securities Act as alleged in Counts One, Two, Three, and Four, above.

29. Defendant Jenkins is liable for sanctions pursuant to Idaho Code §30-1442(4).

PRAYER FOR RELIEF

Wherefore, Plaintiff prays for a Judgment in favor of Plaintiff and against Defendants as follows:

A. That Defendants be adjudged to have violated the Idaho Securities Act.

B. That Defendants be permanently enjoined from engaging in any acts, practices or omissions which would constitute violations of the Idaho Securities Act, Title 30, Chapter 14, Idaho Code, and in particular, that they be permanently enjoined from:

1. Selling or offering for sale nonexempt securities in any form in the State of Idaho until such time as the securities have been registered with the Idaho Department of Finance in accordance with Title 30, Chapter 14, Idaho Code;
2. Selling or offering for sale nonexempt securities in any form in the State of Idaho until such time as Defendants have registered as broker-dealers or salesmen for a broker-dealer or issuer with the Idaho Department of Finance, in accordance with Title 30, Chapter 14, Idaho Code;
3. While engaged in or in connection with the offer, sale or purchase of any security:
   (a) Employing any device, scheme or artifice to defraud any investors in the securities;
   (b) Making any untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading;
   (c) Engaging in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person.
4. Aiding, abetting, counseling, inducing or causing any other person to engage in any of the types of conduct described in paragraphs 1, 2, or 3, above.

C. That Defendants be prohibited from claiming the availability of, using, or offering or selling securities, under any exemptions under the Idaho Securities Act without receiving the prior written consent of the Director.

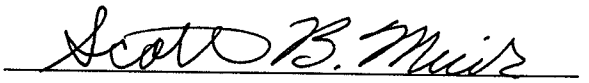
D. That the Court appoint a receiver for Defendants Systems Integration Corporation and U.S. Silicon Corporation, should it be deemed necessary.

E. That Defendants be ordered to restore to each person in interest any consideration which may have been acquired or transferred in violation of the Idaho Securities Act.

F. That Plaintiff be awarded attorney's fees and costs incurred in the preparation and the prosecution of this action, and if judgment is taken by default herein, that $5,000 is a reasonable attorney's fee.

G. Such other and further relief as this Court may deem equitable and just.

DATED this 21st day of March, 2000.



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