

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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	:	
SECURITIES AND EXCHANGE	:	
COMMISSION,	:	
	:	<u>ORDER AND OPINION</u>
	:	<u>DENYING THE MOTIONS TO</u>
Plaintiff,	:	<u>DISMISS THE COMPLAINT</u>
-against-	:	
	:	21 Civ. 6814 (AKH)
GPL VENTURES LLC, GPL MANAGEMENT	:	
LLC, ALEXANDER J. DILLON, COSMIN I.	:	
PANAIT, HEMPAMERICANA, INC.,	:	
SALVADOR E. ROSILLO, SEASIDE	:	
ADVISORS, LLC, and LAWRENCE B.	:	
ADAMS,	:	
	:	
Defendants.	:	
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ALVIN K. HELLERSTEIN, U.S.D.J.:

Plaintiff Securities and Exchange Commission (“SEC” or “Plaintiff”) filed this action against Defendants GPL Ventures LLC (“GPL Ventures”), GPL Management (“GPL Management”), (collectively, the “GPL Entities”), and the GPL Entities’ co-owners, Alexander J. Dillon (“Dillon”) and Cosmin I. Panait (“Panait”), (collectively, the “GPL Defendants”); HempAmericana, Inc. (“HempAmericana”) and its Chief Executive Officer (“CEO”) Salvador E. Rosillo (“Rosillo”); and Seaside Advisors, LLC and its CEO, Lawrence B. Adams (“Adams”),¹ alleging violations of Sections 15(a) and 17(a) of the Securities Act of 1933, 15 U.S.C. §§ 77 *et seq.*, and Section 10(b) and Rule 10b-5 of the 1934 Securities Exchange Act, 15 U.S.C. § 78 *et seq.*² Complaint (“Compl.”), ECF No. 1. The GPL Defendants and HempAmericana and

¹ After this Complaint was filed, Adams passed away.

² The GPL Defendants are collectively charged with violating Section 15(a); Dillon and Panait are charged with control person liability under Sections 15(a) and 20(a); the GPL Defendants, HempAmericana, and Rosillo are charged with violating Section 17(a); Seaside and Adams are charged with violating Section 17(a)(1), (3); and all Defendants are charged, across two counts, with violating Section 10(b) and Rule 10b-5.

Rosillo, in separate motions, move to dismiss for failure to state a claim. ECF Nos. 51, 53. Both motions are denied.

BACKGROUND

The following facts are taken from the SEC’s Complaint, which I must “accept[] as true” for the purpose of deciding this motion. *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009).

The Complaint generally describes the GPL Defendants’ business as a series of scalping schemes, whose operational aspects are illustrated through the HempAmericana Scalping Scheme. While the concept of the scheme is relatively simple, the number of individuals alleged to have participated in effectuating the scheme makes this case appear more complex.

Accordingly, for clarity, I first identify the relevant players and then turn to the remainder of the substantive allegations.

The Relevant Players

The GPL Entities – GPL Ventures, GPL Management, Dillon, and Panait

GPL Entities are in the business of privately acquiring and publicly selling the securities of microcap issuers. Compl. ¶ 23. Dillon and Panait co-own the GPL Entities, and Dillon previously held a Series 7 securities license and was briefly employed at a registered broker-dealer from April 2013 to July 2013. *Id.* ¶¶ 24–25. Neither of the GPL Entities is registered with the SEC, and neither Dillon nor Panait is associated with a registered broker or dealer. *Id.* ¶ 4.

HempAmericana and Rosillo

HempAmericana researches, develops, and sells products made of industrial hemp, and Rosillo is its CEO. It filed a certification and notice of termination of registration under Exchange Act Section 12(g) or suspension of duty to file reports under Sections 13 and

15(d) on June 12, 2015. Since its incorporation in 2014, HempAmericana has never been profitable, generating but \$9,727 in revenues from 2017 through May 2020. *Id.* ¶¶ 47–48. Disclosure statements filed on OTCMarkets’ website have stated that the company must raise funds in order to finance operations; however, HempAmericana has not filed financial information with OTCMarkets since July 2020. *Id.* ¶¶ 49–50.

Seaside and Adams

Seaside is a consulting firm for various microcap companies that assists with marketing, public relations, and general business advice, and Adams is its owner and CEO. *Id.* ¶ 28–29. Seaside sub-contracts others, including Individual A, to undertake promotional campaigns to increase stock prices. *Id.* ¶ 57.

Individual A

Individual A is a professional stock promoter who operates promotional campaigns to increase the prices of stocks. *Id.* ¶¶ 43, 57. He hires other promoters or middlemen, who in turn, hire yet other promoters, to promote stocks, and as is relevant here, received compensation from Seaside.

The Scalping Scheme and the GPL Entities’ Business Model

Since at least early 2017 and continuing to the present, the GPL Defendants have been privately acquiring large blocks of discounted shares of stock in approximately 140 microcap issuers and publicly selling those blocks into the market for their own account, generating gross proceeds of at least \$81 million.” *Id.* ¶¶ 2, 4, 33. Dillon and Panait coordinate and authorize all of the GPL Entities stock trading. *Id.* ¶ 34.

The GPL Defendants engage in “scalping”—secretly funding promotional activity in microcap issuers whose stock they trade. *Id.* ¶ 8. Scalping involves a defendant (i) acquiring

shares of a stock for his own benefit prior to recommending or touting that very stock to others, (ii) failing to disclose in the tout the full details of his ownership of the shares and his plans to sell them, and (iii) proceeding to sell his shares following the tout's dissemination, and into the share price and trading volume increases triggered by his touting. *Id.* ¶ 9. The scheme works as follows. The GPL Defendants engage cold-callers to pitch GPL Ventures to publicly traded microcap issuers, offering capital infusions to support the issuers' operations, or pitching or providing services, such as installing an "investor relations" firm, or introducing an in-house accountant to assist with preparing the issuers' financial statements. *Id.* ¶¶ 35–36. Once an issuer agrees to be funded, the GPL Defendants acquire large blocks of the issuer's unrestricted stock at a steep discount, either by: 1) purchasing aged convertible notes from the issuer's debtholders, which notes the GPL Defendants then convert into shares; or 2) purchasing shares directly from the issuer through qualified Reg. A offerings. *Id.* ¶ 37. The GPL Defendants generally sell newly acquired shares into the market before purchasing new blocks in the same issuer. *Id.* ¶ 38.

The HempAmericana Scalping Scheme

From 2017 through at least late 2019, the GPL Defendants' scalping activities included buying and selling large blocks of HempAmericana securities, generating profits of approximately \$11 million. *Id.* ¶¶ 10, 41. Dillon oversaw this scheme. *Id.* ¶ 53. The Complaint describes the HempAmericana scheme as follows: (1) the GPL Defendants repeatedly acquired stock purportedly sold pursuant to the Reg. A registration exemption, conditioned on a portion of the stock sales proceeds being sent by the issuer to Seaside; (2) Seaside then paid Individual A, a professional stock promoter; (3) Individual A hired promoters, or middlemen, who in turn hired other promoters, to promote the stock; (4) the GPL Defendants sold the stock during the

promotional campaigns, which did not disclose that the promotions were indirectly funded by the issuer, HempAmericana, using the proceeds received from the GPL Defendants, the most significant purchaser in the issuer's qualified Reg. A offerings, or that the GPL Defendants intended to sell their large stock holdings during the promotion. *Id.* ¶ 43. To deposit and sell their HempAmericana shares, the GPL Defendants told their brokers that they were not involved in the promotional activities; the "Use of Proceeds" representations in HempAmericana's Reg. A offering circulars also do not mention that significant portions of the stock sales proceeds would be used for stock promotion. *Id.* ¶¶ 44–45. Instead, the Reg. A offering circulars, which Rosillo and HempAmericana filed with the SEC, along with offering statements on Forms 1-A, state that the capital raised would be used "to grow [HempAmericana's] business." *Id.* 54.

Shortly after HempAmericana's first Reg. A capital raise was qualified on June 29, 2017, Rosillo began issuing unrestricted Reg. A shares to the GPL Defendants, and from July 2017 to November 2019, the GPL Defendants sequentially acquired the majority of the issued unrestricted shares. *Id.* ¶ 51–52. Dillon would purchase additional tranches of shares in the Reg. A offerings, only if the GPL Defendants could successfully sell their existing shares into the market. *Id.* ¶ 53.

The GPL Defendants also conditioned their investment in HempAmericana upon HempAmericana hiring Seaside to promote the company's stock and using a portion of the GPL Defendants' investment to fund a marketing campaign to promote the stock. *Id.* ¶ 56–57. Accordingly, Dillon introduced Rosillo to Adams and Individual A, and required that Rosillo hire Seaside as a "consultant;" Seaside would then sub-contract Individual A to undertake a wide-ranging promotional campaign to enable the GPL Defendants to sell their shares at a profit. *Id.* ¶ 57. HempAmericana only publicly disclosed that it retained Seaside as a consultant. *Id.* ¶

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