



a CEO for the company who would answer to Mihaylov and Markov. Lindberg introduced them to Johnson for this purpose.

3. To give effect to the unrestricted-stock provision, Lindberg, Mihaylov, Markov, and Johnson, Sniffex's CEO, participated in a Nevada-registered Rule 504 stock offering. In this offering, Sniffex sold 15 million shares of its common stock purportedly to a Nevada resident and three private Nevada companies. In a legitimate Rule 504 offering, securities sales are exempt from the registration provisions of the federal securities laws, and securities purchasers who are non-affiliates and non-underwriters of the issuer may re-sell the securities with out restriction. Here, however, the Rule 504 offering was a sham.

4. Each of the Nevada purchasers was actually a Lindberg nominee, who immediately transferred the stock to Mihaylov and Markov. These two Defendants, who also used nominees, subsequently transferred approximately 3.75 million of their shares to Switzerland residents Nicholas Klausgaard and Ilona Klausgaard, who received them in the account of a private company they controlled. At all relevant times, Defendants Lindberg, Mihaylov, Markov, Johnson, and the Klausgaards were Sniffex underwriters for whom the unrestricted re-sale provisions of Rule 504 were not applicable.

5. From May 17, 2005, through April 6, 2006, Mihaylov, Markov, and Johnson engaged in a fraudulent promotional campaign intended to inflate the share price and trading volume in the public market for Sniffex stock. The campaign characterized Sniffex's primary product, a purported hand-held bomb detector invented by Markov and also called Sniffex ("the Sniffex device"), as a critical breakthrough in the global war against terrorism. At the behest of Mihaylov and Markov, Johnson drafted and issued 33 press releases on Sniffex's behalf. One press release falsely claimed that tests by an independent facility showed that the Sniffex device





## THE PARTIES

13. The plaintiff is the Securities and Exchange Commission, which brings this civil enforcement action pursuant to the authority conferred on it by Section 20(b) of the Securities Act and Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. §§ 77t(b), 78u(d), and 78u(e)].

14. Defendant Homeland, a Nevada corporation headquartered in Irving, Texas, was incorporated as Sniffex, Inc. in October 2004. It changed its name to Homeland Safety International, Inc. in August 2006. The company's stock was admitted for quotation in the Pink Sheets under the symbol SNFX on April 26, 2005. Presently, its stock trades under the symbol HSFI.

15. Defendant Lindberg, age 40 and a resident of Coppell, Texas, is the former president of Interim Capital Corporation ("ICC"), a Nevada corporation whose stock has been registered with the Commission pursuant to Section 12(g) of the Exchange Act since August 2005.

16. Defendant Mihaylov, age 28, is a resident of Pazardjik, Bulgaria.

17. Defendant Markov, age 50, is a resident of Sophia, Bulgaria.

18. Defendant Johnson, age 60 and a resident of Colleyville, Texas, is the president, secretary, treasurer, and sole director of Homeland.

19. Defendant Nicholas V. Klausgaard, age 22, is a citizen of Denmark who resides in Switzerland. He is one of two officers of Magenta Holdings Ltd, a Nevis company that he formed with his mother, Ilona V. Klausgaard, to receive and sell Homeland stock.

20. Defendant Ilona V. Klausgaard, age 49, is a citizen of Denmark who resides in Switzerland. She serves as Magenta Holdings' other officer.

## FACTS

### **Sniffex's Origins**

21. In 2003, Markov invented the Sniffex device, a handheld unit that purportedly emits an electromagnetic field to detect gunpowder and other types of explosives from distances up to 300 feet. Thereafter, Markov formed a Bulgarian company, TASC Ltd., to manufacture the Sniffex device. In or about May 2004, Mihaylov and Markov formed a partnership to carry out a market-manipulation scheme using the Sniffex device as the scheme's backdrop. Pursuant to their partnership, Markov and Mihaylov agreed to acquire a publicly traded shell company in the United States purportedly to market the device internationally. Mihaylov and Markov also agreed to provide \$150,000 and \$100,000, respectively, to capitalize the U.S. company.

22. On behalf of Markov and himself, Mihaylov met Lindberg in Sofia, Bulgaria, in or about September 2004 to negotiate the purchase of a publicly traded shell company based in the United States. In exchange for control of the public shell, including approximately 15 million shares of its so-called "free-trading" stock, Mihaylov agreed to pay Interim Capital Corporation ("Interim Capital"), a then-private company Lindberg controlled, \$100,000 plus 2 million restricted shares of the shell's stock. Lindberg agreed to create a publicly traded shell and to introduce Mihaylov to someone who would serve as the shell company's CEO while answering to Mihaylov and Markov. Lindberg also agreed to coordinate a sham offering under Regulation D, Rule 504 in which the shell would issue approximately 15 million so-called "free-trading" shares to Mihaylov and Markov. Lindberg ultimately received the 2 million restricted Sniffex shares through an entity called ACAP Partners I, Ltd.

23. Rule 504 provides an exemption from the registration provisions of the Securities Act. Under the rule, a company may offer and sell of up to \$1 million of securities in a 12-month











CEO. And some of them stated, “Sniffex . . . was formed in November of 2004 to bring to the market a new generation of electronic detection systems.”

35. The releases were fraudulent. They did not disclose, that Mihaylov, Markov, and the Klausgaards controlled virtually all of Sniffex’s public float and that they intended to sell, and were selling, their stock into the market in conjunction with the favorable press releases.

Moreover, the press releases did not disclose that Sniffex was created for the purpose of conducting a market-manipulation scheme, that Mihaylov and Markov actually controlled the company, and that Johnson was a mere figurehead CEO who took orders from Mihaylov and Markov.

36. On June 1, 2005, Sniffex issued a press release announcing the “results from field tests of Sniffex . . . performed by the Energetic Materials Research and Testing Center” (“EMRTC”), a state testing institution associated with the New Mexico Institute of Mining and Technology.

According to this release, “several of the tests showed that Sniffex was able to detect nitro-based explosives from behind walls and inside cars from distances of 10 to 30 feet.” It quoted Johnson as saying, “The results were impressive . . . .” And it included a web-based link to an excerpt of an EMRTC report prepared by Johnson.

37. This press release was misleading in several respects. First, it falsely stated that the tests, which actually took place on March 3, 2005, were *performed by* EMRTC. In fact, the involvement of EMRTC engineers was limited to concealing the explosives for the detection trials, observing the tests, and recording the results. Johnson and his assistant actually operated the device during the tests.

38. Second, the release stated that the tests showed that the device was able to detect explosives. According to the EMRTC engineers, however, these tests were flawed and therefore

















