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U.S. DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
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CLERK, U.S. DISTRICT COURT
By _____
Deputy

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, v. **HOMELAND SAFETY INTERNATIONAL, INC. F/K/A SNIFFEX, INC.; MARK B. LINDBERG; PETAR D. MIHAYLOV; YURI P. MARKOV; PAUL B. JOHNSON; NICHOLAS V. KLAUSGAARD; AND ILONA V. KLAUSGAARD,** Defendants.	**Civil Action No.: ___cv____** 3-08CV1197-0

COMPLAINT

1. Plaintiff Securities and Exchange Commission ("Commission") alleges as follows against Defendants Homeland Safety International, Inc. F/K/A Sniffex, Inc.; Mark B. Lindberg, Petar D. Mihaylov, Yuri P. Markov, Paul B. Johnson, and Nicholas V. Klausgaard and Ilona V. Klausgaard ("the Klausgaards") (collectively, "Defendants"):

SUMMARY OF ALLEGATIONS

2. From October 2004 through April 2006, Mihaylov and Markov acquired control of public company Homeland Safety International, Inc.—then known as Sniffex, Inc. ("Sniffex")—and carried out a $32 million pump-and-dump fraud scheme in concert with the other Defendants. They acquired Sniffex in 2004 as a "shell" company from Lindberg in exchange for an agreement to pay Lindberg $100,000 plus 2 million shares of restricted Sniffex stock. The terms of the deal called for Lindberg to provide Mihaylov and Markov 15 million shares of so-called "free-trading" stock in the company. The deal also called for Lindberg to assist them in locating

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

could detect explosives. In fact, these tests were carried out largely by Johnson and were inconclusive. Two other press releases contained baseless claims that the company would receive $5 million in funding. Finally, Markov provided quotes for certain press releases praising the Sniffex device and the company's financial prospects.

6. Mihaylov parroted many of these fraudulent claims in a spam-email campaign in June and July 2005 and in a glossy direct-mail piece disseminated to over one million recipients in January 2006. As a result of the fraudulent promotional campaign, Sniffex's share price increased from $0.80 to $6, giving the bogus company a market capitalization of $474 million at the scheme's peak.

7. The individual defendants profited handsomely by disregarding re-sale restrictions and selling their scheme-derived shares into the artificially inflated market. Lindberg sold approximately 2.071 million shares for a net gain of approximately $315,481; Mihaylov sold approximately 3.73 million shares for approximately $11.3 million; Markov sold approximately 2.8 million shares for approximately $8.6 million; and the Klausgaards sold approximately 3.75 million shares for approximately $12.3 million. Neither the Sniffex press releases nor other public statements made in the scheme disclosed that Markov and Mihaylov controlled Sniffex, that they and the Klausgaards controlled virtually all of the company's public float, and that this group intended to sell, and was selling, millions of secretly owned shares into the market.

8. By committing the acts alleged in this *Complaint*, Homeland, Lindberg, Mihaylov, Markov, and Johnson directly and indirectly engaged in, and unless restrained and enjoined by the Court will continue to engage in, acts, transactions, practices, and courses of business that violate the securities-registration provisions and the anti-fraud provisions of the federal securities laws, specifically Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933 ("Securities Act")

[15 U.S.C. §§ 77e(a), 77e(c), and 77q(a)] and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

9. By committing the acts alleged in this *Complaint*, the Klausgaards directly and indirectly engaged in, and unless restrained and enjoined by the Court will continue to engage in, acts, transactions, practices, and courses of business that violate the securities-registration provisions of the federal securities, specifically Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

10. The Commission brings this action against Defendants seeking, as to Lindberg, a permanent injunction, an officer-and-director, and a penny-stock bar and, as to Mihaylov, Markov, Johnson, and the Klausgaards, permanent injunctions, disgorgement plus prejudgment interest, civil penalties, penny-stock bars, and accountings.

JURISDICTION AND VENUE

11. The Court has jurisdiction of this civil enforcement action pursuant to Section 22(a) of the Securities Act and Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 77v(a), 78u(d), 78(u)(e), and 78aa]. The Defendants made use of the means or instruments of interstate commerce, of the mails, or of the facilities of a national securities exchange in connection with the acts, transactions, practices, and courses of business alleged in this *Complaint*.

12. Venue lies in the Northern District of Texas pursuant to Section 22(a) of the Securities Act and Section 27 of the Exchange Act [15 U.S.C. §§ 77v(a) and 78aa]. Venue is proper because many of the transactions, acts, practices, and courses of business described below occurred within the jurisdiction of the Northern District of Texas.

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

period. Generally, when a Rule 504 offering is registered under a state's securities laws, purchasers may re-sell the securities without restriction. But purchasers who are underwriters of the offering or affiliates of the issuer are subject to re-sale restrictions. Therefore, such securities in their hands are not "free-trading." Moreover, Preliminary Note 6 to Regulation D provides that Rule 504 "is not available to any issuer for any transaction or chain of transactions that, although in technical compliance with these rules, is part of a plan or scheme to evade the registration provisions of the Act." At no time did Sniffex or any of the other Defendants file a registration statement with the Commission for any offer or sale of Sniffex securities.

24. At Lindberg's direction, Interim Capital employee Chasity Thompson incorporated Homeland as Sniffex, Inc. in Nevada on October 27, 2004. Thompson named herself as the company's initial officer and director. On November 3, 2004, she resigned these positions and appointed Johnson—whom Lindberg had introduced to Mihaylov and Markov as part of the shell-purchase agreement—as her sole successor. Now that Johnson was installed as Sniffex's CEO, the stage was set for the sham Rule 504 offering.

The Sham Rule 504 Offering

Step One: Mihaylov and Markov Purchased Sniffex Promissory Notes through Nominees Controlled by Lindberg and Johnson

25. As a preliminary step to the Rule 504 offering, from December 2004 through April 2005, Lindberg and Johnson caused Sniffex to issue convertible promissory notes purportedly to Nevada resident Stephen DeCesare and to three private Nevada companies: Tanika Consulting Group, Interim Capital, and PU Partners, Inc. In reality, DeCesare and the three entities were simply nominees or aliases controlled or used by Lindberg and Johnson. Lindberg controlled Interim Capital and PU Partners. And Johnson, at Lindberg's suggestion, used the names

Stephen DeCesare and Tanika Consulting in the scheme without the knowledge or permission of Stephen DeCesare or Tanika Consulting.

26. The promissory notes were convertible into Sniffex stock at a rate of one share per $0.01 of outstanding principal and accrued interest. They had a combined face value of $158,000. Mihaylov paid Sniffex the $158,000, directly or indirectly, through the nominee companies Interim Capital and PU Partners and through the fictitious names DeCesare and Tanika Consulting.

Step Two: Sniffex Registered a Rule 504 Offering in Nevada

27. On February 28, 2005, Sniffex filed a registration statement with the Nevada Securities Commission covering a 15-million-share offering at $0.01 per share under Rule 504. Securities sold under Rule 504(b)(1)(i) may be resold freely by non-affiliates of the issuer who are not otherwise acting as underwriters, provided that the issuer's offers and sales are made exclusively "in one or more states that provide for the registration of the securities, and require the public filing and delivery to investors of a substantive disclosure document before sale, and are made in accordance with those state provisions." Rule 90.403 of the Nevada Administrative Code provides that Rule 504 offerings in Nevada must be submitted on the Small Company Offering Registration Form ("SCOR Form"), a substantive disclosure document adopted by the North American Securities Administrators Association. The registrant must comply with the SCOR Form instructions, which require, among other things, that the form "be delivered to each investor before the sale is made." The Nevada Securities Commission declared the registration statement effective on April 6, 2005.

28. Johnson and Lindberg participated in drafting the registration statement. It described the intended use of the offering's $150,000 in anticipated proceeds, stating that the company would

use $8,010 for "Public Offering" expenses, $5,000 for "Legal Offering Expenses," $15,000 for "Consulting Fees and Expenses," $38,500 for "Marketing Expense," $46,500 for "Product Development," and $36,990 for "Research & Development." In reality, the Rule 504 offering was a sham transaction that was not intended to raise any significant capital. Its real purpose was to deliver purportedly unrestricted stock to Mihaylov and Markov through Nevada nominees.

Step Three: Lindberg and Johnson Converted the Promissory Notes and Received Virtually all of the 15 Million Rule 504 Shares

29. In April 2005, Lindberg exercised the conversion feature of the promissory notes, entitling his nominees to receive Sniffex stock in exchange for the notes. On April 22, 2005, Johnson delivered instruction letters to Sniffex's transfer agent, Routh Stock Transfer, authorizing it to issue 3,245,000 shares in the name of Interim Capital and 3,312,000 shares in the name of Stephen DeCesare. On May 5, 2005, Johnson delivered additional instruction letters to the transfer agent, authorizing it to issue 2,123,000 shares to Tanika Consulting and 6,300,000 shares to PU Partners. In the meantime, Lindberg transferred ownership of PU Partners to Mihaylov, putting Mihaylov in complete control over PU Partners and the Sniffex shares issued in its name. Routh Stock Transfer issued the Interim Capital and DeCesare share certificates on April 25, 2005, and the Tanika Consulting and PU Partners share certificates on May 5, 2005, all without restrictive legends based upon the ostensible Rule 504 offering. As a result of these transactions, Lindberg and Mihaylov controlled 14,980,000 Sniffex shares. Two Lindberg associates purchased the remaining 20,000 shares from Sniffex.

Step Four: Redistribution of the Rule 504 Shares to Mihaylov, Markov, and the Klausgaards

30. On or about May 5, 2005, Lindberg and Johnson submitted letters in the names of DeCesare, Interim Capital, and Tanika Consulting to the transfer agent, instructing it to transfer

their shares into Mihaylov's name and into the names of persons who were nominees of Mihaylov and Markov. The Interim Capital letter requested the transfer of 1.2 million shares into the name of Yordanka Markova, a Markov nominee, and 2,045,000 shares into the name of Miroslav Chardakov, a Mihaylov nominee. The Tanika Consulting letter requested the transfer of 2,123,000 shares into Mihaylov's name. The DeCesare letter requested the transfer of 1,705,000 shares to Chardakov and 1,607,000 shares to Mihaylov. On or about May 5, 2005, Mihaylov submitted a letter in the name of PU Partners to the transfer agent, instructing it to transfer 3.75 million PU Partners' shares into the name of Anton Silyanov, a Markov nominee, and 2.55 million shares into the name of Yordanka Markova, a Markov nominee. In accordance with these requests, the transfer agent issued stock certificates without restrictive legends on May 10, 2005, in the names of Mihaylov, Markova, Silyanov, and Chardakov.

31. Markov deposited the Markova and Silyanov shares in accounts bearing their names at Dallas brokerage firm Barron Moore, Inc. Markov had opened these accounts in or about March 2005 in connection with the scheme. Mihaylov deposited his shares into brokerage accounts in his name at Ameritrade and E*Trade. Mihaylov transferred the Chardakov shares to Magenta Holdings Limited, a Nevis-company controlled by the Klausgaards. In October 2005, the Klausgaards deposited the shares in brokerage accounts in the name of Magenta Holdings at Leeb Brokerage Services and E*Trade. As a result of these transactions, Mihaylov, Markov, and the Klausgaards controlled over 99% of Sniffex's public float.

Initial Trading in Sniffex Stock

32. On April 8, 2005, one of Lindberg's associates deposited 10,000 Sniffex shares in an account at Barron Moore and placed an order to sell 5,000 of them at $0.05 per share. Based upon this order, Barron Moore applied to the NASD for a trading symbol for Sniffex's stock and

referred the order to market maker Legacy Trading Company LLC. Legacy applied to quote Sniffex's stock on the Pink Sheets, which granted the request on April 26, 2005. As a result, Sniffex became a publicly traded company. On May 16 and 17, 2005, Lindberg purchased 71,000 shares from Markov and Mihaylov using matched trades through the market. Lindberg purchased these shares from Markov's Markova account and from a Mihaylov account at prices ranging from $0.72 per share to $0.86 per share.

The Fraudulent Promotional Campaign

33. From May 17, 2005, through April 6, 2006, Johnson, Mihaylov, and Markov engaged in a fraudulent promotional campaign designed to inflate the price and trading volume of Sniffex's stock. At the beginning of the campaign, Mihaylov, Markov, and the Klausgaards controlled over 99% the company's public float.

Misleading Press Releases

34. As part of the fraudulent promotional campaign, Johnson drafted and issued 33 Sniffex press releases at the behest of Mihaylov and Markov. Most of these touted purchase orders by, or agreements with, overseas sales agents who purportedly distributed the Sniffex device abroad. Many contained claims such as those in a release of July 7, 2005, a day after the London subway bombings:

> "Our progress as a new company has been steadily accelerating. The events of July 7, 2005 in London have further increased the interest in Sniffex and in our company's future products. We believe we are at the forefront of providing new tools for effectively fighting the international war on terror."

All of the releases mentioned the company's ticker symbol and indicated that its stock traded on the Pink Sheets. Virtually all of them mentioned that Johnson was the company's president and

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

inconclusive. The engineers noted that they could not determine whether positive results were the product of the device's technology, conscious or subconscious manipulation of the device by Johnson or his assistant, mere chance, or other factors. Following the tests, an EMRTC engineer advised Johnson that at least two to three rounds of additional tests were necessary before any conclusions regarding the device's efficacy could be drawn.

39. Third, the press release did not accurately reflect Johnson's true opinion of the tests. Indeed, after the testing, Johnson registered his displeasure with the tests' outcome to EMRTC staff. Moreover, on March 6, 2005, Johnson sent a memo to Mihaylov and Markov stating, "We tested for 7 hours straight, non stop, and I am sorry to say we had very mixed results."

40. Finally, Johnson's excerpt described 10 of the more favorable test results. But it omitted results from 16 others, which were less favorable. As a whole, the release conveyed the misleading impression that independent EMRTC testing proved the device could detect explosives, when in fact this was far from the truth.

The Spam-Email Campaign

41. Beginning at least as early as June 1, 2005, Mihaylov coordinated a spam-email campaign that encouraged investors to buy Sniffex stock. These spams included the following statements:

- (June 1, 2005) Sniffex Inc. . . . Announces Revolutionary Handheld Explosives Detection Device, which is able to locate explosives from 50-300 feet, even through concrete walls and metal. The device weighs only 1 pound and can be used by law enforcement officers as well as for numerous military purposes!!!

- (June 6, 2005) Could this company be amongst the top deals on wallstreet [sic] this year!!! YES its trading at only 75 cents now and this brand new stock could be $3-4 easily in the next few weeks as the story unfolds!!

- (June 24, 2005) DO NOT BUY THIS STOCK if you want to just play it for a few days, this issue will bring best returns only for long term investors who realize the

potential of the company and the fact that 2-3 contracts on governmental level could skyrocket the stock price above $10-20.

- (July 18, 2005) The company has the most sensitive explosive detection device in the world and now after what happened in London 10 days ago this sector is the hottest on the stoc-k market [sic]. . . . We strongly believe once everybody on the stoc-k market [sic] realize what a gem SNFX then its possible for this stoc-k [sic] to see $10-20 levels. . . . You see SNFX has plugged perhaps the biggest hole in the global fight against terror.

The statements in the spam emails were misleading because they did not disclose that a Sniffex control person, Mihaylov, was responsible for the statements and that he and other defendants intended to sell, and were selling, Sniffex stock into the market in conjunction with the spam campaign.

The Misleading Glossy Mailer

42. On or about January 1, 2006, Mihaylov disseminated a four-page, glossy mailer entitled "Hot Stocks on the Street" to approximately 1.1 million recipients via first-class mail. The mailer, which touted Sniffex as a "top STRONG BUY recommendation for the year 2006," was misleading. It proclaimed, "THERE IS NO COMPETITION [for the device]!!" In fact, at least two other companies competed in the market for handheld, explosives-detection devices at the time. Second, it was misleading because it did not disclose that a Sniffex control person, Mihaylov, was behind the buy recommendation and that he and other defendants intended to sell, and were selling, their shares into the market, contrary to the strong-buy recommendation.

Misleading Press Releases Concerning $5 Million Funding

43. On January 6, 2006, Sniffex issued a press release announcing the "completion of terms" of an agreement that would provide the company with $5 million in equity funding from "an established European group who has a long track record of funding growing companies in several areas of the world." The release said that Sniffex would use the funds for research and development of weapons-detection devices, among other things.

44. This press release was misleading because Sniffex had not received, and was not entitled to receive, $5 million. On November 22, 2005, Johnson had entered a "Securities Purchase Agreement" on behalf of Sniffex with a company called Mercatus & Partners, LP. Pursuant to the agreement, Sniffex gave Mercatus shares of restricted stock in exchange for a Mercatus promise to pay Sniffex $5 million within 30 days. Under the agreement, however, Sniffex was entitled only to the return of the stock if Mercatus did not pay by the end of the 30-day period. Thus, Mercatus was under no obligation to pay, an important fact omitted from the release.

45. Moreover, in a press release on April 12, 2006, Sniffex again stated that it had completed terms of an agreement to receive $5 million, referring to the Mercatus agreement of November 22, 2005. When this second release was issued, the 30-day period had already expired, and Sniffex had not received the funding. Thus, the release conveyed the false impression that Sniffex stood to receive $5 million.

Market Reaction to the Fraudulent Promotional Campaign

46. This fraudulent promotional campaign dramatically increased the price and trading volume of Sniffex's stock. From May 17, 2005, to July 29, 2005, Sniffex's share price gradually rose from $0.80 to $6, an increase of 650%. At that point, the company had a market capitalization of $474 million. The stock's average daily trading volume during this period was 235,931, with peak volume of 1,026,600 on July 29. During this time, Sniffex issued six misleading press releases, and Mihaylov disseminated numerous false spam emails.

47. From July 30, 2005, through January 11, 2006, Sniffex shares traded between $2.15 and $5.15 on average daily volume of 252,492. Trading volume peaked at 5,845,700 on January 11. During this period, Sniffex issued 21 press releases, including the bogus funding release, and Mihaylov distributed the fraudulent glossy mailer.

Mihaylov, Markov, Lindberg, and the Klausgaards Profit from Sniffex Stock Sales

48. From May 16, 2005, through January 31, 2006, Mihaylov sold approximately 3.73 million Sniffex shares for approximately $11.3 million. From May 16, 2005, through March 31, 2006, Markov sold approximately 2.8 million Sniffex shares—from his Markova and Silyanov accounts—for proceeds of approximately $8.6 million. From October 4, 2005, through January 31, 2006, the Klausgaards sold approximately 3.75 million shares through the Magenta Holdings accounts for approximately $12.3 million. From May 2005 through December 2006, Lindberg sold approximately 2.071 million Sniffex shares for approximately $315,481.

FIRST CLAIM

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

49. The Commission realleges paragraphs 1 through 47.

50. Defendants Homeland, Lindberg, Mihaylov, Markov, and Johnson directly or indirectly, singly or in concert with others, in connection with the purchase and sale of securities, by use of the means and instrumentalities of interstate commerce and by use of the mails, have (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material facts and have omitted to state material facts necessary in order to make the 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 operate as a fraud and deceit upon purchasers, prospective purchasers, and other persons.

51. Defendants Homeland, Lindberg, Mihaylov, Markov, and Johnson knowingly or recklessly engaged in the conduct described in this claim.

52. By reason of the foregoing, Defendants Homeland, Lindberg, Mihaylov, Markov, and Johnson have violated, and unless enjoined will continue to 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] thereunder.

SECOND CLAIM

(Violations of Securities Act Section 17(a))

53. The Commission realleges paragraphs 1 through 47.

54. Defendants Homeland, Lindberg, Mihaylov, Markov, and Johnson directly or indirectly, singly or in concert with others, in the offer and sale of securities, by use of the means and instruments of transportation and communication in interstate commerce and by use of the mails, have (a) employed devices, schemes, or artifices to defraud; (b) obtained money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in transactions, practices, or courses of business which operate or would operate as a fraud or deceit.

55. Defendants Homeland, Lindberg, Mihaylov, Markov, and Johnson knowingly or recklessly engaged in the conduct described in this claim.

56. By reason of the foregoing, Homeland, Mihaylov, Johnson, and Markova have violated, and unless enjoined will continue to violate, Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

THIRD CLAIM

Violations of Securities Act Sections 5(a) and 5(c)

57. The Commission realleges paragraphs 1 through 47.

58. Defendants, directly or indirectly, singly or in concert with others, have offered to sell, sold, and delivered after sale, certain securities and have (a) made use of the means and instruments of

transportation and communication in interstate commerce and of the mails to sell securities, through the use of email, interstate carrier, brokerage transactions, and otherwise; (b) carried and caused to be carried through the mails and in interstate commerce by the means and instruments of transportation such securities for the purpose of sale and for delivery after sale; and (c) made use of the means or instruments of transportation and communication in interstate commerce and of the mails to offer to sell such securities.

59. By reason of the foregoing, Defendants Homeland, Lindberg, Mihaylov, Markov, Johnson, and the Klausgaards have violated, and unless enjoined will continue to violate, Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e (c)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court enter a judgment:

I.

Permanently enjoining Defendants Homeland, Lindberg, Mihaylov, Markov, and Johnson from future violations of Sections 5(a), 5(c), and 17(a) of the Securities Act [15 U.S.C. §§ 77e(a), 77e (c) and 77q(a)], and 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 enjoining the Klausgaards from future violations of Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)];

III.

Ordering Defendants Mihaylov, Markov, Johnson, and the Klausgaards to disgorge an amount equal to the assets and benefits which they obtained as a result of the violations alleged, plus prejudgment interest on that amount.

IV.

Imposing civil penalties against Defendants Mihaylov, Markov, Johnson, and the Klausgaards 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)] for violations of the federal securities laws as alleged herein;

V.

Or interlocutory order, requiring Defendants Mihaylov, Markov, Johnson, and the Klausgaards to provide an accounting detailing the amount and use of proceeds of Homeland securities sales.

VI.

Permanently barring Defendants Lindberg, Mihaylov, Markov, Johnson, and the Klausgaards from participating in an offering of penny stock, pursuant to Section 20(g) of the Securities Act [15 U.S.C. § 77t(g)] and Section 21(d)(6) of the Exchange Act [15 U.S.C. § 78u(d)(6)].

VII.

Permanently barring Defendant Lindberg from serving as an officer or director of a public reporting company pursuant to Section 21(d)(2) of the Exchange Act.

VIII.

Such other and further relief as the Commission may show itself entitled.

Dated: July 15, 2008

Respectfully submitted,

TIMOTHY S. McCOLE
Mississippi Bar No. 10628
SECURITIES AND EXCHANGE COMMISSION
801 Cherry Street, 19th Floor
Fort Worth, TX 76102
E-mail: McColeT@SEC.gov
Phone: (817) 978-6453
Fax: (817) 978-4927
Attorney for Plaintiff

CERTIFICATE OF SERVICE

I hereby certify that on the 15th day of July 2008, the foregoing Civil Cover Sheet, Complaint, Judgment, and Consent was served on the below party by causing a true and correct copy thereof to be delivered via Federal Express to address as listed below:

Patrick M. Ryan, Esq.
Daniel G. Webber, Jr. Esq.
Ryan Whaley Coldiron Shandy, PC
900 Robinson Renaissance
119 North Robinson
Oklahoma City, OK 73102
Counsel for Defendant Mark B. Lindberg

Timothy S. McCole

JS 44(Rev. 11/04)

ORIGINAL

CIVIL COVER SHEET 3-08CV1197-O

The JS-44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpo of initiating the civil docket sheet. (SEE INSTRUCTIONS ON THE REVERSE OF THE FORM.)

I.(a) PLAINTIFFS

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Defendants-
Homeland Safety International, Inc. F/K/A Sniffex, Inc.; Mark B. Lindberg; Petar D. Mihaylov; Yuri P. Markov; Paul B. Johnson; Nicholas V. Klausgaard; and Ilona V. Klausgaard.

(b) COUNTY OF RESIDENCE OF FIRST LISTED PLAINTIFF _____
(EXCEPT IN U.S. PLAINTIFF CASES)

County of Residence of First Listed Defendant: Denton
(IN U.S. PLAINTIFF CASES ONLY)
NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

(c) ATTORNEY (FIRM NAME, ADDRESS, AND TELEPHONE NUMBER)
Timothy S. McCole
U.S. Securities & Exchange Commission
801 Cherry Street, Suite 1900
Fort Worth, TX 76102
(817) 978-6452

ATTORNEYS (IF KNOWN)
Patrick M. Ryan, Esq.
Ryan Waley Coldiron Shandy, PC
900 Robinson Renaissance
119 North Robinson
Oklahoma City, OK 73102
Counsel for Defendant Mark B. Lindberg

RECEIVED
JUL 15 2008
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF TEXAS

II. BASIS OF JURISDICTION (PLACE AN "X" IN ONE BOX ONLY)

- ☒ 1 U.S. Government Plaintiff
- ☐ 2 U.S. Government Defendant
- ☐ 3 Federal Question (U.S. Government Not a Party)
- ☐ 4 Diversity (Indicate Citizenship of Parties in Item III)

III. CITIZENSHIP OF PRINCIPAL PARTIES (For Diversity Cases Only)

	PTF	PTF		PTF	PTF
Citizen of This State	☐ 1	☐ 1	Incorporated or Principal Place of Business In This State	☐ 4	☐ 4
Citizen of Another State	☐ 2	☐ 2	Incorporated and Principal Place of Business in Another State	☐ 5	☐ 5
Citizen or Subject of a Foreign Country	☐ 3	☐ 3	Foreign Nation	☐ 6	☐ 6

IV. NATURE OF SUIT (*PLACE AN "X" IN ONE BOX ONLY*)

CONTRACT
- ☐ 110 Insurance
- ☐ 120 Marine
- ☐ 130 Miller Act
- ☐ 140 Negotiable Instrument
- ☐ 150 Recovery of Overpayment & Enforcement of Judgment
- ☐ 151 Medicare Act
- ☐ 152 Recovery of Defaulted Student Loans (Excl. Veterans)
- ☐ 153 Recovery of Overpayment of Veteran's Benefits
- ☐ 160 Stockholders' Suits
- ☐ 190 Other Contract
- ☐ 195 Contract Product Liability
- ☐ 196 Franchise

TORTS

PERSONAL INJURY
- ☐ 310 Airplane
- ☐ 315 Airplane Product Liability
- ☐ 320 Assault, Libel & Slander
- ☐ 330 Federal Employers' Liability
- ☐ 340 Marine
- ☐ 345 Marine Product Liability
- ☐ 350 Motor Vehicle
- ☐ 355 Motor Vehicle Product Liability
- ☐ 360 Other Personal Injury

PERSONAL INJURY
- ☐ 362 Personal Injury - Med. Malpractice
- ☐ 365 Personal Injury - Product Liability
- ☐ 368 Asbestos Personal Injury Product Liability

PERSONAL PROPERTY
- ☐ 370 Other Fraud
- ☐ 371 Truth in Lending
- ☐ 380 Other Personal Property Damage
- ☐ 385 Property Damage Product Liability

FORFEITURE/PENALTY
- ☐ 610 Agriculture
- ☐ 620 Other Food & Drug
- ☐ 625 Drug Related Seizure of Property 21 USC 881
- ☐ 630 Liquor Laws
- ☐ 640 R.R. & Truck
- ☐ 650 Airline Regs.
- ☐ 660 Occupational Safety/Health
- ☐ 690 Other

BANKRUPTCY
- ☐ 422 Appeal 28 USC 156
- ☐ 423 Withdrawal 28 USC 157

PROPERTY RIGHTS
- ☐ 820 Copy rights
- ☐ 830 Patient
- ☐ 840 Trademark

LABOR
- ☐ 710 Fair Labor Standards Act
- ☐ 720 Labor/Mgmt. Relations
- ☐ 730 Labor/Mgmt. Reporting & Disclosure Act
- ☐ 740 Railway Labor Act
- ☐ 790 Other Labor Litigation
- ☐ 791 Empl. Ret. Inc. Security Act

SOCIAL SECURITY
- ☐ 861 HIA (1395FF)
- ☐ 862 Black Lung (923)
- ☐ 863 DIWC/DIWW (405(g))
- ☐ 864 SSID Title XVI
- ☐ 865 RSI (405(g))

FEDERAL TAX SUITS
- ☐ 870 Taxes (U.S. Plaintiff or Defendant)
- ☐ 871 IRS - Third Party 26 USC 7609

OTHER STATUTES
- ☐ 400 State Reapportionment
- ☐ 410 Antitrust
- ☐ 430 Banks and Banking
- ☐ 450 Commerce
- ☐ 460 Deportation
- ☐ 470 Racketeer Influenced and Corrupt Organizatio
- ☐ 480 Consumer Credit
- ☐ 810 Selective Service
- ☒ 850 Securities Commodities/ Exchange
- ☐ 875 Customer Challenge 12 USC 3410
- ☐ 890 Other Statutory Actions
- ☐ 891 Agricultural Acts
- ☐ 892 Economic Stabilization
- ☐ 893 Environmental Matters
- ☐ 894 Energy Allocation Act
- ☐ 895 Freedom of Information Act
- ☐ 900 Appeal of Fee Determination Under Equal Access to Justic
- ☐ 950 Constitutionality of State Statutes

REAL PROPERTY
- ☐ 210 Land Condemnation
- ☐ 220 Foreclosure
- ☐ 230 Rent Lease & Ejectment
- ☐ 240 Torts to Land
- ☐ 245 Tort Product Liability
- ☐ 290 All Other Real Property

CIVIL RIGHTS
- ☐ 441 Voting
- ☐ 442 Employment
- ☐ 443 Housing/ Accommodations
- ☐ 444 Welfare
- ☐ 440 Other Civil Rights

PRISONER PETITIONS
- ☐ 510 Motions to Vacate Sentence

Habeas Corpus:
- ☐ 530 General
- ☐ 535 Death Penalty
- ☐ 540 Mandamus & Other
- ☐ 550 Civil Rights

V. ORIGIN (*PLACE AN "X" IN ONE BOX ONLY*)

- ☒ 1 Original Proceeding
- ☐ 2 Removed from State Court
- ☐ 3 Remanded from Appellate Court
- ☐ 4 Reinstated or Reopened
- ☐ 5 Transferred from another district (Specify)
- ☐ 6 Multidistrict Litigation
- ☐ 7 Appeal to District Judge from Magistrate Judge

VI. CAUSE OF ACTION CITE THE U.S. CIVIL STATUTE UNDER WHICH YOU ARE FILING **(DO NOT CITE JURISDICTIONAL STATUTES UNLESS DIVERSITY):**
Brief Description of cause:
Sections 5(a), 5(c), and 17(a) of the Securities Act [15 U.S.C. §§ 77e(a), 77e (c) and 77q(a)], and Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Ru 10b-5 thereunder [17 C.F.R. § 240.10b-5]

VII. REQUESTED IN COMPLAINT: CHECK IF THIS IS A CLASS ACTION ☐ UNDER F.R.C.P. 23 **DEMAND $** CHECK YES only if demanded in complaint: **JURY DEMAND** ☐ YES ☐ NO

VIII. RELATED CASE(S) (See Instructions): **IF ANY** JUDGE _____ DOCKET NUMBER _____

DATE July 15, 2008 **SIGNATURE OF ATTORNEY OF RECORD** Timothy S. McCole

FOR OFFICE USE ONLY
Receipt # _____ AMOUNT _____ APPLYING IFP _____ JUDGE _____ MAG. JUDGE _____