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**IN THE DISTRICT COURT OF THE FORTH JUDICIAL DISTRICT**

**OF THE STATE OF IDAHO, IN AND FOR ADA COUNTY**

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| STATE OF IDAHO, DEPARTMENT OF FINANCE, SECURITIES BUREAU,<br><br>Plaintiff,<br><br>vs.<br><br>GERALD RICHARD THOMPSON, individually and dba SKY DETECTIVE, INC.,<br><br>Defendant. | CV OC 1107257<br>Case No. _____<br><br>**VERIFIED COMPLAINT**<br><br>Fee category: Exempt |

COMES NOW the State of Idaho, Department of Finance, Securities Bureau, Gavin M. Gee, Director (Finance), by and through its counsel, Alan Conilogue, Deputy Attorney General, and upon information and belief, complains and alleges as follows:

1. This action is brought pursuant to Idaho's Uniform Securities Act (2004), Idaho Code § 30-14-101 *et seq.* (the Act), and in particular Idaho Code § 30-14-603, wherein Finance

is authorized to bring actions seeking injunctive and other relief against persons who have either violated or are about to violate provisions of the Act or any rule promulgated thereunder.

2. The acts and practices herein comprising violations of law by the above-named Defendant occurred in Ada County and elsewhere in the state of Idaho.

## CASE SUMMARY

3. Finance alleges that Defendant Gerald Richard Thompson (Thompson), individually and dba Sky Detective, Inc., solicited investors to invest in securities in an approximate aggregate amount of at least three million six hundred twenty-nine thousand one hundred fifty dollars ($3,629,150.00). The investment was intended to fund the start-up business Sky Detective, Inc. (Sky).

4. Sky's business was aimed at the surveillance and tracking market. Thompson was promoting a device that could be attached to vehicles or shipping containers, and a similar device to be worn as an ankle bracelet. The devices were supposed to use global positioning and cell-phone tower triangulation technology to establish their location, and to communicate that location via a cellular telephone signal. Software offered by Thompson and Sky was supposed to be able to receive the signals and plot the location of a given device on a map, viewable on a computer.

5. The main value that Thompson brought to the enterprise was his connection to the law enforcement community, which was touted as a significant surveillance devices. His contacts with law enforcement were lauded as enabling Sky to sell huge numbers of the devices, once the business got off the ground.

6. The business never got off the ground. Due to Thompson's mercurial temperament, lack of business acumen, and profligate spending, Sky never produced a

functioning surveillance device, other than a few suitable as a beta test. Thompson squandered investment seed money, paying himself and his favored employees absurdly high salaries for a start-up company. He also spent the investment monies freely on items that, at best, were only remotely connected to the business of the start-up, such as a meal at a Boise, Idaho restaurant, the tab for which was $1,398.72. Because of the swift depletion of seed money, Sky was unable to follow through on efforts to produce the surveillance devises before it ran out of money and the enterprise collapsed.

7. Even though Sky had no product[1], Thompson vigorously touted Sky's potential to investors. He spoke of the device he was developing as if it already existed, and described the investment as one that would provide returns of up to 500%. He made these and other misrepresentations in order to beguile investors into funding Sky (and, not incidentally, his own lifestyle). Despite his grandiose claims, and because of his leadership, Sky Detective had little chance of success.

**8.** Thompson's misrepresentations, and his failure to tell investors certain material information, constituted securities fraud under Idaho's Uniform Securities Act, Idaho Code § 30-14-101 *et seq.*

## DEFENDANT

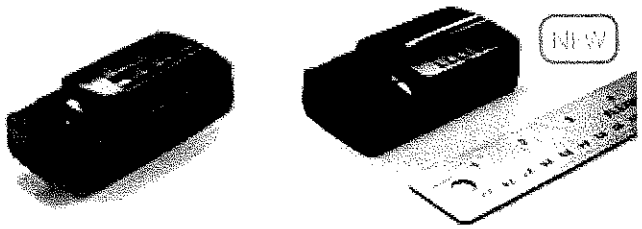
9. Thompson is a resident of Boise, Ada County, Idaho and conducted business in Idaho as Sky Detective, Inc. during all times relevant herein. He had spent several years as a deputy sheriff in Los Angeles, California, and during that time gained some familiarity with law enforcement surveillance needs. After retiring from the force, Thompson moved back to Idaho, his childhood home.

[1] Sky did have available to it a working surveillance device, which could be purchased from a third-party vendor and resold. However, Thompson disdained this device in favor of one he intended to develop. Sky did sell a few of the working devices, almost as an aside, but its chief focus was on developing a new product.

10. Sky was initially caused to be incorporated by Thompson and by Paul Thomas, on June 23, 2006. In an effort to eventually publicly trade shares of Sky, and to raise money, Sky merged with an unrelated Nevada corporation, SharcBytes.com, Inc., on April 30, 2007. Thompson was eventually forced out of Sky. Currently, Sky is an active corporation in good standing in Nevada. Sky's current secretary is a former employee of Thompson, dba Sky, and its current director and treasurer is Warren Thompson, believed to be Thompson's father. The relationship of Thompson and Sky in its current status is unknown.

## FACTS

11. Sometime in late 2005 or early 2006, Thompson encountered an acquaintance, Jeff Breier, who was affiliated with a company named GPSit. GPSit was attempting to sell a surveillance or tracking device known as the PT200, a small device manufactured by Sendum, a privately held company based in Vancouver, British Columbia, Canada. The PT200 is pictured below, on left.




12. It occurred to Thompson that the tracking device could be used by law enforcement to conduct surveillance of vehicles, and that it could also be used to track offenders. Thompson entered into an agreement with Breier and GPSit to supply the PT200 to him, which he intended to introduce into the law enforcement community using his contacts as a member of that community.

13. Thompson joined with Paul Thomas and formed Sky Detective, Inc. (Sky), as a means to promote and sell the product. As Thompson met with interested purchasers, he got some ideas about how to improve it for the law enforcement market. At about the same time, some of Thompson's interested purchasers decided to avoid the middleman, Sky, and purchase directly from Breier and GPSit. Accordingly, Thompson determined to develop and produce his "improved" product, which he dubbed the "SD30." The SD30 is pictured in the photo above, on right, next to the ruler.

14. In furtherance of the SD30, Thompson worked with two other individuals to capitalize his company. These two new individuals helped Thompson accomplish a "reverse merger" with SharcBytes.com Inc., a Nevada corporation. By the reverse merger, Sky was able to transform from an Idaho corporation with a small number of shares into a Nevada corporation with a large number of shares. This was supposed to enable the new Sky to raise capital by issuing shares, and to eventually be publicly traded.

15. Thompson filed for the safe harbor exemption under Rule 506 of Regulation D of Section 4 of the Securities Act of 1933 in May 2007, and began to solicit investors. Sky sold shares for fifty cents ($.50) each, and sought to raise two million dollars ($2,000,000.00). Thompson filed another Form D in May, 2008, and thereafter Sky sold shares for one dollar each ($1.00).

16. Thompson eventually raised approximately three million six hundred twenty-nine thousand one hundred fifty dollars ($3,629,150.00) from approximately two hundred thirteen (213) investors. To achieve this, Thompson issued approximately 13,454,456 shares, which is a per share price of twenty-seven cents ($.27). Thompson gifted shares to various employees and others at no charge, thereby devaluing the per share price.

17. From mid-2007 through fall of 2008, Thompson solicited investors for Sky. He solicited investors in one-on-one meetings, in small groups, and in larger gatherings of 20-30 people. Thompson personally solicited investors, and his employees solicited investors under Thompson's guidance and control. During these solicitations, Thompson and his employees vigorously promoted this investment as an incredible opportunity, one that was well underway and was essentially assured. Thompson and Sky also issued various promotional materials which contained statements about the potential of the investment. Many of the promotional statements were misleading, and some were false.

18. Thompson and Sky, at all times material herein, were not registered with the State of Idaho or the National Association of Securities Dealers (now known as the Financial Industry Regulatory Authority) as broker/dealers, or as broker/dealer agents.

19. The securities issued by Thompson and Sky were not registered with the State of Idaho or the US Securities and Exchange Commission.

20. Although Thompson sought the Regulation D Rule 506 safe harbor, he failed to meet its requirements. He sold securities to more than 35 non-accredited investors, and he did not provide investors with audited financial information.

**Misrepresentations**

21. In order to induce investors to invest, Thompson made the following material representations, among others:

a. That the investment was risk free or virtually risk free. This was false because it was a start-up company, in an unproven market, and entirely dependent on a constant inflow of investor money to continue operations. The investment was ultimately unsuccessful and investors lost their entire investment. Thus, it was not risk free.

b. That Sky would begin trading shares on a public market within a year. This was false because Thompson had no reasonable basis to believe this, and it has, in fact, not gone public.

c. That once Sky went public, share prices would increase from fifty cents ($.50) or one dollar ($1.00) to twenty or twenty-five dollars ($20.00 - $25.00). This was false because Thompson had no reasonable basis to believe this, and, since the business has collapsed, the share price will not increase at all.

d. Thompson represented to investors that, because Sky was selling the second offering of shares for one dollar ($1.00), the original issue had doubled in value. This was false because Sky had virtually no sales, there was no active market to trade the shares, and Thompson simply decided arbitrarily to value the second issue at one dollar ($1.00) per share.

e. That Sky owned, produced, and sold a functioning tracking device, the SD30. This was false because the only functioning tracking device that Sky made available to purchasers was the Sendum PT200, which Sky purchased from Sendum. Sky never produced or sold more than a few SD30 tracking devices. Those SD30s were used to test the product, and none of them worked in the United States.

f. That Sky owned, produced, and sold a functioning ankle-mounted tracking device known as the "Gang Tracker." This was false because Sky did not own, produce or sell an ankle-mounted tracking device.

g. In a letter used by Thompson to promote the investment, dated February 21, 2008, Thompson stated that Sky had "Filed patent applications on our gang tracker solution." This was false because Sky filed only a single patent application, and that was filed about five months after the February letter. As of February 21, 2008, Sky had filed no patent applications.

h. Thompson told investors that the fair market value of all of Sky's shares, as of May 1, 2008, was fifty-six million, eight hundred seventy-one thousand, four hundred forty-one dollars ($56,871,441.00). Although Thompson had a market valuation from William J. Laska of Laska Company to substantiate this claim, such valuation was based solely on information provided by Thompson to Laska and was absurd on its face. Sky had virtually no sales as of May 2008, and had no functioning product. This valuation was false because the true market value was close to zero.

i. Thompson told investors that Sky had a purchase order from Container Security Logistics, Ltd. (CSL) for three hundred forty million dollars ($340,000,000.00). Although he had an ostensible purchase order, it was worthless because Sky could not provide the two million SD30s the purchase order called for. Further, Thompson knew or should have known that CSL did not need and could not use two million tracking devices.

**Material Omissions**

22. Thompson did not tell potential investors certain information that would be necessary to make other statements not misleading, and that an investor would likely consider as material to a decision to invest with Thompson. Thompson failed to disclose the following material information:

a. Information about Sky's financial condition.

b. That Thompson would pay himself a two hundred twenty-five thousand dollar ($225,000) annual salary.

c. That Thompson paid board members five thousand dollars ($5,000) a month, including himself as a board member, in addition to his salary.

d. That Sky did not have a functioning product.

e. That Sky had virtually no sales.

f. That Thompson was not registered to sell the securities, as required by Idaho's Uniform Securities Act (2004).

g. That the alleged purchase order from CSL for three hundred forty million dollars ($340,000,000.00) was given to Thompson at Thompson's request not because it represented a real order, but because Thompson intended to use it to gain credibility with investors and purchasers. Thompson colluded with the owner of CSL to produce the phony purchase order.

h. That the securities issued by Sky were not registered as required by Idaho's Uniform Securities Act (2004).

## COUNT ONE
## (Fraud - False and Misleading Statements)

23. The allegations of paragraphs 1 through 22 above are realleged and incorporated herein as if set forth verbatim.

24. Idaho Code § 30-14-501(2) provides that it is unlawful for any person, directly or indirectly, in connection with the offer, sale or purchase of a security, to make an untrue statement of material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

25. Thompson's misrepresentations to prospective investors, as set forth in paragraph 21 above, were made in connection with the offer, sale or purchase of securities. Thompson's misrepresentations, as specifically set forth in paragraphs 21 a. through i. above, were false and misleading, constituting violations of Idaho Code § 30-14-501(2) as to each misrepresentation to each investor.

26. Thompson's omissions of material facts and failures to disclose material information to prospective investors, as set forth in paragraph 22, above were made in

connection with the offer, sale or purchase of securities. Thompson's omissions of material facts and failures to disclose, as specifically set forth in paragraphs 22 a. through h. above, constitute violations of Idaho Code § 30-14-501(2) as to each omission and failure to disclose to each investor.

## COUNT TWO
**(Fraudulent Conduct)**

27. The allegations of paragraphs 1 through 22 above are realleged and incorporated herein as if set forth verbatim.

28. Idaho Code § 30-14-501(3) provides that it is unlawful for any person, directly or indirectly, in connection with the offer, sale or purchase of a security, to engage in an act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

29. Thompson's acts as set forth in paragraphs 3 through 22 above were made in connection with the offer, sale or purchase of securities.

30. By his lavish spending and vigorous promotion of Sky and Sky's alleged potential for success, Thompson helped perpetuate the appearance of a successful investment plan. His untrue statements and omissions of material fact misled investors as to the true potential of the investment. By doing so, Thompson conducted a scheme or artifice to defraud. Thompson's actions were calculated to beguile investors into parting with their money. Thompson convinced investors by espousing the safety and success of the investment coupled with a high rate of return, and the effect was to make investors want to invest with him.

31. Thompson's conduct as described in paragraphs 3 through 22, and paragraph 30 above, constitutes engaging in transactions, acts, practices, or courses of business which operate

or would operate as a fraud or deceit upon investors or prospective investors, in violation of Idaho Code § 30-14-501(3) as to each investor.

## COUNT THREE
## (Unregistered Securities)

32. The allegations of paragraphs 1 through 22 above are realleged and incorporated herein as if set forth verbatim.

33. Thompson issued, sold or offered securities in Idaho and in other states, in the form of shares of Sky. Such securities were not registered with Finance as required by Idaho Code § 30-14-301.

34. Thompson's failure to register such securities with Finance constitutes a violation of Idaho Code § 30-14-301.

## COUNT FOUR
## (Failure to Register)

35. The allegations of paragraphs 1 through 22 above are realleged and incorporated herein as if set forth verbatim.

36. Thompson, through Sky, transacted business in Idaho as a broker-dealer. Neither Thompson nor Sky was registered as a broker-dealer with Finance as required by Idaho Code § 30-14-401(a).

37. Thompson's failure to register as a broker-dealer with Finance constitutes a violation of Idaho Code § 30-14-401(a).

38. Thompson transacted business in Idaho as an agent of a broker-dealer or of an issuer. Thompson was not registered as an agent with Finance as required by Idaho Code § 30-14-402(a).

39. Thompson's failure to register as an agent with Finance constitutes a violation of Idaho Code § 30-14-402(a).

## PRAYER FOR RELIEF

WHEREFORE, Finance prays for judgment in favor of Finance and against Thompson as follows:

1. That Thompson be adjudged to have violated Idaho's Uniform Securities Act (2004), Idaho Code § 30-14-101 *et seq.*, rules promulgated thereunder, and other applicable federal laws and regulations as proven at trial, as to Counts One through Four alleged above, as well as any additional counts proven at trial.

2. That Thompson be permanently enjoined from engaging in any act or practice violating any provision of Idaho's Uniform Securities Act (2004) or any rule promulgated thereunder, pursuant to Idaho Code § 30-14-603(b)(1), and in particular, that he be permanently enjoined from:

a. Selling or offering for sale securities in any form in the state of Idaho; and

b. Engaging in any act, practice or course of business that operates or would operate as a fraud or deceit upon another person.

3. That Thompson be ordered to make restitution to investors, pursuant to Idaho Code § 30-14-603(b)(2)(C), in the aggregate amount of three million six hundred twenty-nine thousand one hundred fifty dollars ($3,629,150.00) or such other amount as proven at trial. That Thompson pay the restitution amount to Finance to be delivered to the investors, and that the Court award a money judgment in favor of Finance in such amount.

4. That Thompson each be ordered to pay a civil penalty of up to ten thousand dollars ($10,000) for each violation of the Act as the Court deems appropriate, pursuant to Idaho

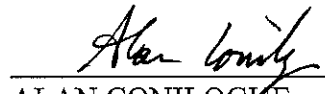
Code § 30-14-603(b)(2)(C), for total penalties of forty thousand dollars ($40,000), and that the Court award a money judgment in favor of Plaintiff in such amount.

5. That Plaintiff be awarded attorney fees and costs incurred in the preparation and prosecution of this action, pursuant to Idaho Code § 12-121, and that the Court award a money judgment in favor of Plaintiff in such amount. Should judgment be taken by default herein, Plaintiff asserts that five thousand dollars ($5,000) is a reasonable sum for the same.

6. For such further relief as this Court may deem just and equitable under the circumstances.

DATED this 11 day of April, 2011.

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL



ALAN CONILOGUE
Deputy Attorney General

## VERIFICATION

STATE OF IDAHO )
) ss.
County of Ada )

TIMOTHY D. MARTIN, Investigator of the Securities Bureau of the Department of Finance, State of Idaho, being first duly sworn, deposes and says:

I have read the foregoing Verified Complaint, and know the contents thereof; and that the same are true to the best of my knowledge and belief.

DATED this 8 day of April, 2011.

TIMOTHY D. MARTIN

SUBSCRIBED AND SWORN to before me this 8th day of April, 2011.

VIRGINIA L. JOHNSTON NOTARY PUBLIC STATE OF IDAHO

Notary Public for Idaho
Residing at: Caldwell
My Commission Expires: 04-05-2012