


COPY

FILED IN CLERK'S OFFICE  
U.S.D.C. Atlanta

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF GEORGIA  
ATLANTA DIVISION

JAN 28 2008

JAMES N. HATTEN, Clerk  
By:  Deputy Clerk

|                                     |   |              |
|-------------------------------------|---|--------------|
| SECURITIES AND EXCHANGE COMMISSION, | : |              |
|                                     | : |              |
| Plaintiff,                          | : | CIVIL ACTION |
|                                     | : | FILE NO.     |
| v.                                  | : |              |
| ROBERT F. GRUDER and                | : | 1:08-CV-0294 |
| STINGER SYSTEMS, INC.               | : |              |
|                                     | : |              |
| Defendants.                         | : |              |
|                                     | : |              |
|                                     | : |              |
|                                     | : |              |

COMPLAINT

1. The plaintiff Securities and Exchange Commission ("Commission") files this complaint and alleges the following:

SUMMARY

2. Stinger Systems, Inc. ("Stinger") purports to be in the business of manufacturing stun guns, and other non-lethal electronic products for law enforcement agencies.

3. From October 2004, shortly before Stinger's shares began public trading via the Pink Sheets, through March 2005, Stinger and its CEO Robert F. Gruder ("Gruder") made a series of material misrepresentations and omissions regarding Stinger's "flagship" stun gun product.

4. First, Stinger and Gruder misrepresented that Stinger's stun gun was in the production stage and ready for sale and distribution when, in truth, production of that product had not even begun.

5. Second, Stinger and Gruder misrepresented that the Bureau of Alcohol, Tobacco and Firearms ("ATF") certified Stinger's stun gun.

6. As a third false statement, Stinger and Gruder misrepresented that Stinger's shares traded on NASDAQ.

7. These misrepresentations had the effect of preconditioning the market and causing a spike in the trading volume and price for Stinger's shares once it began publicly trading in November 2004.

8. Stinger and Gruder have, directly or indirectly, engaged in acts, practices, and courses of business which constituted and will constitute violations of Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder [15. U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5].

9. The Defendants, unless enjoined by this Court, will continue to engage in the acts, practices, and courses of business alleged herein, and in acts, practices and courses of business of similar purport and object.

**JURISDICTION AND VENUE**

10. The Commission brings this action pursuant to authority conferred upon it by Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. §§ 78u(d)-(e)] to enjoin the defendants from engaging in the transactions, acts, practices and courses of business alleged in this Complaint, and transactions, acts, practices and courses of business of similar purport and object, for disgorgement of illegally obtained funds and other equitable relief, and for civil money penalties.

11. This Court has jurisdiction over this action pursuant to Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. 78u(d), 78u(e) and 78aa].

12. The Defendants, directly and indirectly, have made use of the mails, the means and instrumentalities of transportation and communication in interstate commerce, and the means and instrumentalities of interstate commerce, in connection with the transactions, acts, practices, and courses of business alleged in this Complaint.

13. Venue lies in this Court pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa], because certain of the transactions, acts, practices and courses of business constituting violations of the Exchange Act have occurred within the Northern District of Georgia, including the sales

of stock in the defendant company to numerous investors who reside within the Northern District of Georgia.

**DEFENDANTS**

14. Stinger Systems, Inc. is a Nevada corporation that was created in 1996 as a shell company under the name United Consulting Corporation ("UCC").

15. Stinger had no operations until Gruder acquired it in September 2004.

16. Stinger's shares began trading publicly in November 2004, and were quoted on the Pink Sheets.

17. The company became subject to the Exchange Act reporting requirements when it its Form S-1 registration statement became effective in November 14, 2005, and its stock has been quoted on the OTC Bulletin Board since February 2006.

18. Currently, Stinger purportedly manufactures stun guns and other non-lethal electronic products for law enforcement agencies.

19. According to its Form 10-Q, filed on August 14, 2007, Stinger has less than \$3 million in total assets, over two thirds of which are "intangibles," and only \$14,000 in cash. Stinger incurred a net loss of approximately \$6.3 million in its 2006 fiscal year. As a

result, Stinger requires outside sources of funding in order to continue operations.

20. Robert F. Gruder, 48, is Stinger's Chairman, CEO, and second largest shareholder. He receives an annual salary of \$250,000 from Stinger.

21. Gruder was also the Chairman, CEO, and majority shareholder of Information Architects Corporation from as early as March 1997 until August 2002, when that company was de-listed from NASDAQ for failing to satisfy NASDAQ's capitalization requirements.

#### FACTS

A. Stinger and Gruder Misrepresent Material Facts Regarding Stinger's Stun Gun

22. Stinger has repeatedly stressed the importance of its stun gun (a non-lethal electronic product for law enforcement, among others) to the overall success of the company. In November and December 2004 press releases, Stinger referred to its stun gun as its "flagship" product. Stinger's February 7, 2005 Form S-1 also stated, "Stinger's success is based largely upon the success of the Stinger Stun Gun."

23. Although Stinger and Gruder constantly emphasized the superiority of its technology and product, in reality, it appears that: a) the patent that covered the stun gun

technology had been offered to, and rejected by, several companies, including Smith & Wesson, prior to being purchased by Gruder; and b) the technology at the core of Stinger's stun gun was actually 20-years-old and had been abandoned by a number of companies, including Stinger's primary competitor, Taser International, Inc.

24. Between November 2004 and March 2005, Gruder and Stinger made a series of misrepresentations and omissions relating to Stinger's stun gun.

25. Some of these statements came shortly before Stinger's stock began public trading, generating interest in Stinger's stock and fueling a rapid initial increase in its stock price.

26. The misrepresentations consisted of press releases and direct mailings to thousands of law enforcement officers and agencies, suggesting that Stinger was manufacturing, selling and shipping its stun gun, when in truth the product was still in the development phase.

27. The misrepresentations also consisted of statements on the Stinger's website and/or in industry publications that indicated Stinger's stock was trading on NASDAQ when it was not.

28. The misrepresentations also consisted of claims that ATF had certified its stun gun, even though the ATF offers no such certification.

**i. The Misrepresentations Regarding Product Readiness**

25. In October and November 2004, around the time Stinger's stock began trading publicly, Stinger orchestrated a direct, mass-mailing to approximately 2,000 law enforcement officers and agencies.

26. That mailing consisted of a 4" x 6" post card that Gruder prepared stating, "Stinger Systems now shipping the STINGER Less Lethal Weapon."

27. The post card included a picture of the stun gun (that was still being developed by Stinger), a description of its features, and link to Stinger's website.

28. This mass mailing generated some inquiries about investing in Stinger's stock.

29. Stinger made a similar statement on its internet website. Between October 2004, when the website first appeared, and December 28, 2004, the portion of Stinger's website discussing its products represented that the Stun Gun was "shipping December 2004." Thereafter, the website was changed to say "shipping first quarter 2005."

30. On November 15, 2004, two trading days after Stinger's stock first began public trading, Stinger issued a press release, prepared by Gruder, entitled "Stinger Systems Enters Rapidly Expanding Projectile Stun Gun Market."

31. That press release represented that Stinger's stun gun was "available in either a two-cartridge model (four darts) priced at \$599 or a single-cartridge model (two darts) priced at \$525" and that "[t]he Company anticipates shipping both models to its customers in January 2005."

32. On January 4, 2005, Stinger issued another press release, prepared by Gruder, which quoted Gruder as stating, "We are actively selling the Stinger projectile stun gun weapon and we will be delivering the product in the first quarter of 2005."

33. Finally, on March 21, 2005, Stinger's press release, prepared by Gruder, "announced the start of production for the Stinger [stun gun product]."

34. All of these statements falsely portrayed that Stinger was capable of producing, selling and delivering its stun gun.

35. In truth, when these statements were made, Stinger had not produced, sold or delivered any stun guns



and the product was still in the design phase. Stinger had no basis for the claims being made.

36. For example, when Stinger represented in its October and November 2004 mass mailing that it was "now shipping" its stun gun, Stinger had actually only a limited number of prototypes, was still revising the design, had not arranged to produce the molds necessary to mass produce the plastic housing for the stun gun and had not contracted to produce more than a few prototypes of the electronic components of the stun gun.

37. Indeed, by March 31, 2005, Stinger had still not shipped a single stun gun to a customer, and had just begun limited production.

38. Further, as late as February 17, 2005, Stinger had not entered into any agreements to sell its stun gun.

39. Although the statement "start of production" was used in the March 21, 2005 press release, in fact, Stinger had only produced a few shells (the plastic bodies which house the device's electronic components) and had realized that it would have to make some design adjustments and retool production.

40. Stinger's statements regarding possible production and ship dates for the stun gun were false. Gruder was informed at all times about the status of the

stun gun, and knew that Stinger lacked a reasonable basis for making these statements.

41. Several major issues had to be resolved before the company could begin selling and shipping its product.

42. For example, in December 2004, the Bureau of ATF notified Gruder that, as designed, each Stinger stun gun would have to be individually licensed before it could be sold.

43. Gruder knew that the ATF ruling would reduce future stun gun sales.

44. As of the dates of Stinger's public statements that occurred between October 2004 and March 2005, Stinger had not yet conducted any medical testing to measure the effect of the product on humans, and the prior testing was 30 years old.

45. As of the dates of Stinger's public statements that occurred between October 2004 and March 2005, Stinger had not yet conducted any performance testing for its stun gun.

46. As of the dates of Stinger's public statements that occurred between October 2004 and March 2005, Stinger had not then finalized the design of the stun gun.

47. Given these significant remaining tasks, Gruder was advised by the former president of Stinger in the

second or third week of January 2005 that the earliest possible production/shipment date for the stun gun was December 2005.

48. A former Stinger president has advised that there was "not a snowball's chance in hell" of Stinger shipping a properly-tested product by December 31, 2004, January 31, 2005, or even March 31, 2005.

49. At the time of his hiring, Gruder described that former President of Stinger as "add[ing] a wealth of industry expertise" and predicted that the man's "guidance and direction will no doubt prove invaluable as we launch our Stinger line of projectile stun guns."

50. To date, Stinger has failed to produce its stun gun product in commercially viable quantities, or to deliver any significant number of stun guns to customers.

51. An October 10, 2005 press release represented that Stinger had "begun volume production of its [four dart] Stinger Projectile stun weapon" and "recorded its initial sales." However, the Company's Form S-1 Registration Statement, filed with the Commission on August 31, 2007, admits that the company (1) did not begin shipping this product until the second quarter of 2006 and (2) decided to discontinue production and further sales

shortly thereafter in light of "production inefficiencies" and "feed back from the market."

52. Stinger's Form S-1 Registration Statement, filed with the Commission on August 31, 2007, also reveals that the two dart version of the stun gun remains in the development stage, stating, "There is no assurance . . . that we will be able to manufacture the Stinger stun gun on a timely basis," notes that Stinger's inability to resolve certain pending design problems might "**delay the roll-out** of the Stinger stun gun," and warns, "Failure to **introduce** the Stinger stun gun on a timely basis would have a material adverse effect on us . . . ." (Emphases added).

**ii. The Misrepresentations Regarding Certification**

53. The post cards that Gruder prepared and Stinger mass-mailed to law enforcement officials in October and November 2004 also stated: "**FINALLY** . . . An ATF Certified Less Lethal Weapon." (Emphasis in original).

54. Stinger also posted this statement on its website and included it in advertisements in various trade journals, such as the January 2005 issue of *Law Enforcement Technology*, the January/February 2005 issue of *Law Enforcement Product News* and the January/February 2005 issue of *Police and Security News*.

55. This statement was false. Although the ATF regulates and/or classifies "firearms," a term that includes stun guns like Stinger's that use gunpowder as a propellant, the ATF does not "certify" any firearm.

**iii. The Misrepresentations Regarding the Trading Market**

56. During the last three months of 2004, Stinger's website included pages entitled "Videos and Testimonials," "FAQ," "TRAINING," "PRESS RELEASES," "INVESTORS," and "ABOUT STINGER."

57. In November 2004, after the post card was mailed to law enforcement agencies and officers, but before Stinger's stock began trading publicly, Stinger's web pages entitled "INVESTORS" and "ABOUT STINGER" represented, "Stinger Systems, Inc. is a publicly traded company on the NASDAQ."

58. Gruder authorized these statements to appear in Stinger's website.

59. In fact, at that time, shares of Stinger Systems had never traded on NASDAQ or on any other public exchange or quotation medium.

60. Stinger removed the references to trading on NASDAQ from its website before the stock began trading publicly. After learning of the SEC's investigation in

this matter, Stinger then revised its website to state that the ATF "classifies" its stun gun.

**B. Stinger's Share Price Increases Dramatically  
Concurrent with the Misrepresentations**

61. On November 12, 2004, the first full day of trading, Stinger's stock price rose by 340%, from \$1.25 to \$5.50.

62. On November 15, 2004 (the next trading day), when Stinger announced that it anticipated shipping its stun gun products in January 2005, the stock price increased by an additional 55% to \$8.50.

63. By November 17, 2004 the stock price closed at \$19.25.

64. The shares reached an all-time intra-day high of \$48.55 in January 2005, while advertisements containing the misrepresentation regarding certification were appearing in law-enforcement publications.

65. Thereafter, the price began to decline, closing above \$10 for the last time on April 1, 2005.

66. Currently, the stock trades at less than \$2, and has rarely risen above \$2 since April 2006.

COUNT I-FRAUD

Violations of 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]

67. Paragraphs 1 through 66 are hereby realleged and are incorporated herein by reference.

68. From at least October 2004 through at least March 2005, Defendants Stinger and Gruder, in connection with the purchase and sale of securities described herein, by the use of the means and instrumentalities of interstate commerce and by use of the mails, directly and indirectly:

a) employed devices, schemes, and artifices to defraud;

b) made untrue statements of material facts and 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 would and did operate as a fraud and deceit upon the purchasers of such securities, all as more particularly described above.

69. The Defendants knowingly, intentionally, and/or recklessly engaged in the aforementioned devices, schemes and artifices to defraud, made untrue statements of

material facts and omitted to state material facts, and engaged in fraudulent acts, practices and courses of business. In engaging in such conduct, the Defendants acted with scienter, that is, with an intent to deceive, manipulate or defraud or with a severe reckless disregard for the truth.

70. By reason of the foregoing, the Defendants, directly and indirectly, 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 thereunder [17 C.F.R. § 240.10b-5].

**PRAYER FOR RELIEF**

WHEREFORE, Plaintiff Commission, respectfully prays that the Court:

I.

Make findings of fact and conclusions of law in accordance with Rule 52 of the Federal Rules of Civil Procedure.

II.

Issue a permanent injunction enjoining defendants Stinger and Gruder, and their agents, servants, employees, attorneys, and all persons in active concert or participation with him who receive actual notice of the order by personal service or otherwise, and each of them



from violating 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];

III.

Issue an Order requiring defendant Gruder, pursuant to Section 20(d) of the Securities Act [15 U.S.C. 77t(d)] and Sections 21(d)(3) and 21A of the Exchange Act [15 U.S.C. 78u(d)(3) and 78u-1], to pay civil monetary penalties.

IV.

Issue an Order pursuant to Section 20(e) of the Securities Act [15 U.S.C. 77t(e)] and Section 21(d)(2) of the Exchange Act [15 U.S.C. 78u(d)(2)] permanently prohibiting defendant Gruder from acting as an officer or director of any company that has a class of securities registered with the Commission pursuant to Section 12 of the Exchange Act [15 U.S.C. 78l] or that is required to file reports with the Commission pursuant to Section 15(d) of the Exchange Act [15 U.S.C. § 78o(d)].

V.

Issue an Order pursuant to both Section 603 of the Sarbanes-Oxley Act of 2002 (which amended Section 20 of the Securities Act and Section 21(d) of the Exchange Act) and the inherent equitable powers of this Court, which bars defendants Gruder from participating in any offering of a penny stock, including acting as a promoter, finder,

consultant, agent, or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or trading in any penny stock; or inducing or attempting to induce the purchase or sale of any penny stock.

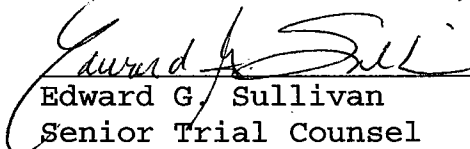
VI.


Issue an Order that retains jurisdiction over this action in order to implement and carry out the terms of all orders and decrees that may have been entered or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court.

VII.

Grant such other and further relief as may be necessary and appropriate.

RESPECTFULLY SUBMITTED,

  
\_\_\_\_\_  
Edward G. Sullivan  
Senior Trial Counsel  
Georgia Bar No. 691140

  
\_\_\_\_\_  
Douglas M. Dykhuizen  
Staff Attorney  
Georgia Bar No. 141580

COUNSEL FOR PLAINTIFF  
U. S. SECURITIES AND EXCHANGE COMMISSION  
3475 Lenox Road, N.E., Suite 1000  
Atlanta, Georgia 30326-1234  
(404) 842-7612  
(404) 842-7679 Facsimile  
sullivane@sec.gov