

Marcus Mumford (12737)  
**MUMFORD RAWSON, LLC**  
15 West South Temple, Ste 1000  
Salt Lake City, Utah 84101  
Tel: 801-428-2000  
Email: mrm@mumfordrawson.com  
*Attorney for Plaintiffs*

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF UTAH, CENTRAL DIVISION	
ISLET HOLDINGS, INC., a Texas corporation, ISLETECH, INC., a Nevada corporation,  Plaintiffs,  v.  ISLET SCIENCES, INC., a Nevada corporation, JOHN STEEL, an individual, CHARLES DANIEL RHODES, an individual, JONATHAN LAKEY, an individual, and John Does 1 through 5,  Defendants.	FIRST AMENDED COMPLAINT  Case No. 2:12-CV-00799-BSJ  REDACTED VERSION  (UNREDEDACTED VERSION WITH EXHIBITS FILED UNDER SEAL)  JURY TRIAL DEMANDED

For their first amended complaint, Plaintiffs hereby complain and allege as follows:

1. Beginning the in the spring of 2009, Defendants worked with Plaintiffs to acquire, on behalf of Plaintiffs, certain assets of MicroIslet, Inc., out of bankruptcy, in order to develop and sell them. In their efforts, Plaintiffs expended over \$750,000, with a significantly greater investment of time and resources. Plaintiffs acquired the MicroIslet assets, including significant intellectual property assets, and relied on Defendants Steel, Rhodes, and Lakey, as fiduciaries, to develop the assets for future sale. Since that time, Plaintiffs have become aware of an extensive plot on the part of Defendants to frustrate Plaintiffs' business and take Plaintiffs' property for

Defendants' own benefit. Defendants' fraudulent actions include numerous instances of mail and wire fraud, fraudulent misrepresentations made in Islet Sciences' filings with the Securities and Exchange Commission, obstruction of justice, including threats and intimidation of witnesses, and even including false representations made by their attorneys in this Court. By this action, Plaintiffs seek to recover the full value of money and resources lost as a result of Defendants' action, including compensatory damages, expectation damages, treble damages and punitive damages, and a judicial declaration resolving all matters raised by Defendants' fraudulent scheme.

#### **PARTIES AND JURISDICTION**

2. Plaintiff Islet Holdings, Inc. ("Islet Holdings"), is a Texas corporation with its principal place of business in Salt Lake County, Utah.

3. Plaintiff Isletech, Inc. ("Isletech"), is a Nevada corporation with its principal place of business in Salt Lake County, Utah.

4. Defendant Islet Sciences, Inc. ("Islet Sciences"), is a Nevada corporation with its principal place of business in New York County, New York.

5. Defendant John Steel ("Steel") is a citizen of California, residing in La Jolla, California.

6. Defendant Charles Daniel Rhodes is a resident and citizen of California.

7. Defendant Jonathan Lakey is a resident and citizen of California.

8. Does 1 through 5 are persons or entities who have not been identified but who Plaintiffs may identify during discovery as participants in the wrongful acts alleged herein and wish to add them to this suit.

9. The actions that give rise to this lawsuit took place in Utah and affect the interest of companies based in Utah.

10. Defendants have had contacts with, and done business with, residents of Utah, and are subject to the Utah's long-arm statutes. Among other things, Islet Sciences is a publicly-held company with its stock listed on the OTC Bulletin Board and makes the purchase and sale of its securities available to the residents of Utah.

11. This court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 1331, 1332 and 1367.

12. Venue is proper in this Court pursuant to 28 U.S.C. § 1391.

### **GENERAL ALLEGATIONS**

#### **Plaintiffs Corporation And Its Wholly-Owned Subsidiary**

13. Islet Holdings has operated continually since at least September 18, 2007, when Wayne Mower was appointed to serve as President and Director, and Wayne Mower has served continually as President and sole Director to the present, with the exception of a two month period in the summer of 2009 in which attorney Chuck Hannon served as the "interim" President.

14. Since approximately December 2008, Texas attorney Joyce Lindauer has served as the resident agent of Islet Holdings.

15. On May 28, 2009, Islet Holdings changed its corporate name from Biozhem Cosmeceuticals, Inc., in anticipation of changing the direction of its corporate activities to the acquisition and development of technologies relating to cell therapies for diabetes.

16. Islet Holdings is a publicly-held company currently listed for trading on the OTC Pink Sheets. Information regarding the Plaintiff is available at [www.pinksheets.com](http://www.pinksheets.com).

17. On or about May 1, 2008, President Wayne Mower caused a Form 15 to be filed with the Securities and Exchange Commission on behalf of Islet Holdings, thereby eliminating the reporting requirements of Islet Holdings under the Securities and Exchange Act of 1934, as amended.

18. On or about April 17, 2009, Islet Holdings formed Isletech, as its wholly-owned subsidiary, in order to pursue a new business opportunity presented by the acquisition of certain assets of MicroIslet, Inc (“MicroIslet”).

19. Over time, Plaintiffs have expended over \$750,000 in the acquisition and pursuit of the development of its business, including the development of MicroIslet assets, which they have now lost as a result of the Defendants’ actions and are seeking in this suit, among other things, to recover.

**Isletech’s Acquisition of MicroIslet Assets**

20. On or about November 10, 2008, MicroIslet, a Nevada corporation, filed bankruptcy under the provisions of Chapter 11, in United States Bankruptcy Court for the Southern District of California, Case No. 08-11388-B7. Subsequently, the Chapter 11 bankruptcy filing was converted into a Chapter 7.

21. Gerald H. Davis was appointed by the Court as Trustee in the MicroIslet Bankruptcy (“Trustee”). Richard C. Norton was employed as legal counsel to the Bankruptcy Trustee (“Norton”).

22. At bankruptcy, the Trustee sold the intellectual property of MicroIslet, which included U.S. Patent Number 6,365,385, patent development documents and related material, laboratory results, electronically stored documents relating to the foregoing, other electronic media, and laboratory samples, including primate tissue and cells in frozen states of storage, and executory contracts with Progentitor Cell Therapy LLC and Fios Therapeutics Inc., a company owned and controlled by the Mayo Foundation (collectively “Intellectual Property”).

23. In April 2009, the Trustee of the MicroIslet estate agreed to sell the Intellectual Property to Isletech. In furtherance of the transaction, counsel for Isletech appeared in support of the sale of MicroIslet’s Intellectual Property to Isletech.

24. On April 6, 2009, Nathan Drage, attorney for Isletech, disbursed \$50,000 to the Trustee of the MicroIslet bankruptcy from his law firm’s client trust account, on behalf of Isletech, for the purchase of MicroIslet’s Intellectual Property. This money had been deposited in the trust account by Isletech, having originated in part from [REDACTED], an investor in Islet Holdings.

25. On April 21, 2009, Nathan Drage, attorney for Isletech, disbursed an additional payment of \$50,000 to the Trustee of the MicroIslet bankruptcy from his law firm’s client trust account, on behalf of Isletech, for the purpose of MicroIslet’s Intellectual Property.

26. On April 22, 2009, the United States Bankruptcy Court, Southern District of California, the Honorable Peter W. Boyle presiding, entered a Minute Order granting the Trustee’s motion to assume and assign executory contracts to Isletech of the MicroIslet intellectual property. (See Exhibit 1.)

27. On April 28, 2009, Norton sent an email to Drage confirming that the final payment of \$100,000 had been received from Isletech. (See Exhibit 2.) The email also gives Plaintiffs the right to “remove all IP assets on the Premises and in the possession of the Auctioneer.” (Id.) Also on April 28, 2009, Norton sent an email to Drage confirming that Dr. Lakey would pick up intellectual property assets (laboratory material) on behalf of Isletech. (See Exhibit 3.) Steel responded, cc: to Drage and other investors in Islet Holdings, to confirm that Dr. Lakey would facilitate the pick up of MicroIslet assets on behalf of Isletech. (Id.)

28. On April 30, 2009, Norton sent Drage an email containing the April 22 Minute Entry from the Bankruptcy Court confirming the Trustee’s motion for the assumption of executory contracts by Isletech. (See Exhibit 4.)

29. On May 13, 2009, Norton sent an email to Drage attaching the Bankruptcy Court’s order approving the stipulation and assignment of the Fios contract, as part of the MicroIslet Intellectual Property assets purchased by Isletech out of the MicroIslet bankruptcy. (See Exhibit 5.)

30. In a hearing before the Bankruptcy Court, the presiding judge granted the sale of MicroIslet’s Intellectual Property to Isletech. Pursuant to that hearing, Chapter 7 Trustee Gerald H. Davis and Isletech executed a document effecting the sale and purchase of the MicroIslet Intellectual Property to Isletech, as the sworn declaration of Norton establishes. (See Exhibit 32.)

31. Thus, Isletech obtained “all of the Debtor’s right, title and interest” in certain assets of MicroIslet, which included MicroIslet’s Intellectual Property, including:

- a. “All intellectual property of [MicroIslet], including any and all rights an under any and all patents, whether licensed, owned or pending application, to the extent assignable”;
- b. “All intellectual property of [MicroIslet], including all data, analyses, records, studies, and trade secrets, whether in hard or electronic format”; and
- c. “All rights under the contract between [MicroIslet] and FIOS Therapeutics, Inc.”

(See Exhibit 32.)

32. As a result of the foregoing, Chapter 7 Trustee’s legal counsel Richard C. Norton also arranged the following, among other things, to complete the sale of assets to Isletech:

- a. “Transfer of all electronic data from [MicroIslet agents] computers to a transferable electronic device”; and
- b. “...all hard copies of any documents, or property belonging to MicroIslet.”

(Id.)

33. On June 19, 2009, Islet Holdings issued a press release informing the public that its subsidiary Isletech (and Islet Holdings as parent company) had acquired the intellectual property of MicroIslet for cell-based replacement treatments, which included MicroIslet’s patents and other intellectual property.

**Defendants’ Participation In Isletech’s Acquisition Of MicroIslet Intellectual Property**

34. Steel, Rhodes and Dr. Lakey were heavily involved in facilitating Isletech’s purchase of MicroIslet Intellectual Property.

35. On April 8, 2009, under the subject of “isletech/bk trustee,” Steel sent an email to Rhodes and Charles (“Buzz”) duPont in furtherance of Isletech’s acquisition of MicroIslet Intellectual Property. In the email Steel writes about “the several moving parts with Isletech” and stated “I recommend the following....” (See Exhibit 6.) Steel writes that “[w]e already have kept the game into extra innings with the 80k from Buzz/Dick,” referring to Plaintiffs’ investors, Buzz duPont and Dick Williamson. (Id.) Steel points out the importance of acquiring the Fios contract in the MicroIslet bankruptcy so “that we may have a definitive asset in the company [Isletech].” (Id.)

36. On April 13, 2009, under the subject “isletech,” Steel sent an email to Rhodes and Drage. (Exhibit 7.) In that email, Steel confirms that the initial \$50,000 paid to the MicroIslet Trustee was paid from the Drage law firm trust account on behalf of Isletech. (Id.) Steel states: “the trustee already has 50k which would leave at least 125k remaining in Nathan [Drage]’s trust account,” which were assets held by Drage in trust on behalf of Plaintiffs. (Id.) Steel recommends that “we should offer [the Trustee] another 20k, which would allow us to tie up the remaining pieces of the puzzle.” (Id.) In the email, Steel participated in discussion of how Isletech should marshal its financial resources, and Steel suggests that Isletech offer Dr. John Logan of Fios to join as a “director in Isletech.” (Id.)

37. On April 24, 2009, Drage sent a draft of an Isletech Accredited Subscription Agreement to Steel and Dan Rhodes for their review. (Exhibit 8.) In the email Drage confirmed “the successful approval of purchase of assets from the Court,” and set forth his understanding with regards to Plaintiffs’ plans to raise an additional \$1 million in capital to further develop the MicroIslet Intellectual Property acquired out of the bankruptcy. (Id.)



38. On April 22, 2009, the custodian of MicroIslet Intellectual Property stored in electronic media format, wrote to the Trustee's counsel, Richard Norton, that he would put the material on a CD, containing over 150 MB of data. (Exhibit 9.) In that email that was forwarded to Drage, the custodian referred to Isletech as the "new owners" of the technology confirming the sale of MicroIslet Intellectual Property to Isletech. (Id.) The email names MicroIslet's patent attorneys at the law firm of Shepherd Mullin for further reference. (Id.) Drage emailed the correspondence to John Steel and requested his comments. Steel responded to Drage, cc: to Plaintiffs' investors, including duPont, and said: "lets wait and see what he shows up with in the file ... I can then discuss with the patent lawyers fro [sic] confirmation. (Id.)

39. As part of its purchase of MicroIslet Intellectual Property, Isletech acquired rights to MicroIslet's contract with Progenitor Cell Therapy (PCT). On April 27, 2009, PCT executed this agreement with Isletech and emailed it to Drage, cc: Steel, Rhodes and others, in furtherance of the development of MicroIslet Intellectual Property. (See Exhibit 10.)

40. Included in the MicroIslet Intellectual Property were tissue and cell samples from primate studies. (Exhibit 11.) On April 27, 2008, Norton corresponded with Drage regarding the frozen samples. Drage forwarded the email to Steel who, with Dr. Lakey, confirmed that Dr. Lakey would store the samples for Isletech. (Id.) Steel requested that Drage obtain more information for the storage. (Id.) Thus, Steel and Dr. Lakey fully knew that the laboratory assets had been included in Isletech's purchase of MicroIslet Intellectual Property. (Id.)

41. Dr. Lakey was in a fiduciary relationship with Plaintiffs, and Plaintiffs relied on him by sharing their property and confidential information with him. But he later joined Steel in Defendants' efforts to defraud Plaintiffs. He currently serves as the Chief Science Officer of

Islet Sciences, knowing full well that his work there is, among other things, infringing on Plaintiffs' intellectual property. Steel, by way of sworn declaration submitted in this matter, has attested that Dr. Lakey assisted in drafting periodic reports with the SEC by Islet Sciences, making him a part of Defendant's fraudulent efforts to frustrate Plaintiffs business and steal Plaintiff's property.

42. Dr. Lakey knew that statements subsequently made in Islet Sciences' quarterly reports and annual report regarding ownership of MicroIslet patents and other intellectual property were false.

43. On April 29, 2009, Isletech investor duPont sent an email to Drage, cc: Steel, and Rhodes, congratulating him on the hard work he had performed for the past month on behalf of Isletech, identifying Isletech as the owner of the MicroIslet Intellectual Property. (Exhibit 12.) Additionally, duPont discussed what was needed to develop the "IP/soft assets" and asks that Drage put together a "punch list of prioritized tasks" to help keep everyone "on track to success." (Id.)

44. On May 1, 2009, Dr. John Logan of the Fios "barrier facility" sent an email to Drage. (Exhibit 13.) Fios was a party to one of the executive contracts, and the email confirms that Isletech was to assume the Fios contract as part of its acquisition of MicroIslet Intellectual Property. (Id.)

45. On May 3, 2009, Dr. Lakey sent an email to Christopher Marsh of Scripps Health and specifically identified "Isletech" as "the new microislet," requesting a time to "talk about clinical islet txp trial, and indicating "John Steel is leading the effort." (See Exhibit 26.) Steel forwarded the email to Drage, Rhodes, duPont, and other Plaintiffs' investors.

46. On May 2, 2009, Steel, on behalf of Isletech, invited Lakey to join the Isletech board of directors, with himself, duPont, and Dr. David Scharp. (Exhibit 14.) Steel confirmed that the Islet Holdings “investor group” had “recently acquired the assets of MicroIslet including the pending FDA IND submission for diabetic kidney transplant recipients,” and offered Lakey stock grants in Plaintiffs. (Id.) Lakey responded to confirm, among other things, that “I have ideas for a logo,” and “we need to get the name protected,” referring to the Isletech name. (Id.) Steel forwarded the email to Drage, duPont and Rhodes. (Id.) Buzz duPont would later become an officer of Plaintiff Isletech.

47. Dr. Lakey responded on May 3, 2009, asking about the “anticipated meeting requirements” of the Isletech’s Board of Directors (BOD) and seeking a face to face meeting and stating that he had a logo for Isletech. Steel forwarded the correspondence to Buzz duPont, Drage and Rhodes. (Id.)

48. On May 7, 2009, duPont sent an email to Drage to discuss equipment needed by Progenitor Cell Therapy to develop the MicroIslet Intellectual Property. (Exhibit 15.) In doing so, he expressly acknowledged that Isletech was the owner of the MicroIslet Intellectual Property. (Id.)

49. On May 7, 2009, Steel sent an email to Drage in response to correspondence from Fios. (Exhibit 16.) In doing so, Steel refers to monies invested into Islet Holdings by Dick Williamson and Buzz duPont, which need to be converted into shares of Islet Holdings at a rate of \$.15 per share. (Id.) This email, again, expressly demonstrates Steel’s full knowledge (and arrangement) that the assets were acquired by Isletech, and the money paid to the Trustee was on behalf of Isletech.

50. On May 8, 2009, Steel received an email to attorney Dan Dumezich of Mayer Brown, attorneys to Dave Lasco, one of Plaintiffs' investors, seeking documents in furtherance of Lasco's intent "to continue to invest in Isletech." (Exhibit 17.) Steel responded to confirm that the parties would "speak tomorrow with Nathan Drage – the lawyer who has been handling the bk proceedings and related outcome for Ilsetech." (Id.)

51. On May 10, 2009, Steel sent an email to Drage and George Goldberger of PCT, with copy to investor duPont. (Exhibit 18.) In the email, Steel discusses the payment of \$10,000 by Isletech to PCT for equipment and assets needed by Isletech to develop the MicroIslet Intellectual Property Dr. Lakey agreed to keep on behalf of Isletech. (Id.)

52. On May 11, 2009, Norton sent an email to Dr. John Logan of Fios and Drage discussing a MicroIslet contract that Isletech assumed as part of its purchase of MicroIslet Intellectual Property. A draft of the Stipulation, which was subsequently filed with the court, was attached, stating part:

- a. On April 20, 2009, an auction was conducted for the sale of the debtor's intellectual property to the highest bidder and Isletech was the successful buyer of the intellectual property and is now the owner of al intellectual property previously owned by the debtor.
- b. On April 22, 2009, the bankruptcy court entered an order approving the sale of the intellectual property to Isletech, Inc.

(See Exhibit 19.)

53. On May 11, 2009, Steel sent an email to Jain Krotz of Nitto Denko Technical Corp. related to Isletech's acquisition of PCT equipment. In the email, Steel specifically

requests that the contract be drafted “under the name Isletech,” and instructions for wiring the \$10,000 expended by Plaintiffs for the materials to be used developing the MicroIslet Intellectual Property. (Exhibit 20.) Steel copied Drage, duPont and Dr. Lakey on the email. (Id.)

54. On May 12, 2009, duPont sent an email to Drage thanking him for doing a “good job” in making another of many deadlines that Isletech was faced with in successfully acquiring and developing the MicroIslet Intellectual Property. (See Exhibit 21.)

55. On May 14, 2009, Steel sent an email to inform Drage that he would receive a wire from investor Dick Williamson in furtherance of Williamson’s investment in Plaintiffs, and that the funds would be applied to purchase and develop the MicroIslet Intellectual Property. (See Exhibit 22.)

56. On May 15, 2009, under the subject “isletech,” Steel sent an email to Dan Rhodes and Drage reviewing the history, work, and status of transferring the MicroIslet Intellectual Property to Isletech, and soliciting his help on behalf of Isletech. (See Exhibit 23.)

57. On May 20, 2009, Steel received an email from investor Charles Hannon, confirming that Hannon had wired \$50,000 to Nathan W. Drage P.C. Client Trust Account for shares of “Isletech formerly known as Microislets Corporation.” Steel forwarded the email to Drage with instructions to issue shares. (See Exhibit 24.)

58. On May 20, 2009, Drage corresponded with Mr. Yamamoto of Nitto Denko Technical in which Drage discussed Isletech’s successful purchase of the MicroIslet Intellectual Property from the bankruptcy proceedings. Steel was copied on the correspondence. (See Exhibit 25.)

59. During April and May of 2009, Drage conducted due diligence on the MicroIslet patented patents, technology and intellectual property that Isletech was purchasing out of the MicroIslet bankruptcy proceedings.

60. In Drage's due diligence, Steel and Lakey represented to Isletech and its shareholders and investors that the patented technology and intellectual property developed and owned by MicroIslet must be purchased in order to pursue any business plan that attempts treat Type 1 diabetes through islet science technology.

61. On May 15, 2009, as part of his due diligence regarding the importance of Isletech acquiring the MicroIslet patent and intellectual property, Nathan Drage sent an email to Lakey seeking answers to questions. (See Exhibit 27.)

62. Drage's questions involved, in part the existence of another company in the hunt for a valid treatment and cure of Type 1 diabetes through islet technology: Living Cell Technologies. (Id.)

63. Drage's due diligence inquiry related to the ongoing question that Isletech and its investors had as to why monies should be expended to purchase the MicroIslet patent and intellectual property when another company appeared to be progressing without such ownership.

64. Steel responded to Drage's email stating that "[the LCT] patents are useless."

65. Thus, Steel continued to represent to Isletech and associated parties that the ONLY commercially viable patents and intellectual property were those owned by MicroIslet, inducing Plaintiffs to expend money and effort in the acquisition and development of the MicroIslet Intellectual Property.

66. On May 21, 2009, Rhodes spoke with Drage, reporting that Rhodes had spoken to Dr. Logan at Fios and that they see no problems with Isletech and Fios moving forward. Rhodes also requested that Drage send him \$5,000 for living expenses. During the period from approximately April 1, 2009 to May 30, 2009, approximately \$21,000 had been sent by Plaintiffs to Rhodes or his family for his assistance with Isletech.

67. On May 29, 2009, Rhodes and Steel spoke with Drage concerning the MicroIslet Intellectual Property. Steel confirmed to Drage that the MicroIslet equipment was worth \$300,000 and that he would talk to Goldberger at Progenitor regarding the equipment. Steel also stated that David Lasco had left Steel a “bad message.”

68. On May 29, 2009, under the subject of “isletech/pct/fios,” Steel send an email to Drage and Rhodes seeking confirmation of the purchase of equipment for \$10,000 and addressing additional matters regarding George Goldberg of Progenitor and Dr. Lakey. Steel, referring to the critical nature of the Progenitor and Fios contracts, stated: “we are wasting precious time while accruing expense without any production underway, and we cant lose either one of the entities/partners.” Steel concludes by stating that “I have several press release thoughts one we get the group together.” (See Exhibit 28.)

69. By May 2009, Isletech had succeeded in acquiring the MicroIslet patents and intellectual property technology out of the MicroIslet bankruptcy. There was absolutely NO question as to the ownership of the technology. Steel and Lakey repeatedly represented and acknowledged that it was owned by Isletech, not by duPont or Rhodes.

70. To the present date, Isletech remains a wholly-owned subsidiary of Islet Holdings. Nevada records show Wayne Mower as Director and President of Isletech. Intellectual property

sold by the Trustee of the Chapter 7 bankruptcy of MicroIslet continues to be owned solely by Isletech, subsidiary of Islet Holdings.

**Misrepresentations Of Steel And Others Forces Isletech Equity Restructure**

71. Prior to June 2009, Steel had been the primary contact and liaison between Isletech and several investors that Steel knew and had involved in MicroIslet when it was an operating entity. These investors included Dave Lasco, Charles Hannon, and Dick Williamson.

72. Based upon statements and representations by Steel and Rhodes, Plaintiffs believed that Lasco, Hannon, and Williamson were purchasing stock in Plaintiff entities for an aggregate of about 20% of the equity, with Steel owning about 25% and Dan Rhodes owning about 25%.

73. On June 4, 2009, Isletech investor Hannon sent an email to Steel inquiring about the lack of communication from Steel. In so doing, Hannon, an attorney, emphatically stated “not having communication concerns me that it may be another MicroIslet mess.” Hannon concluded by stating “I would be grateful for definitive information on all relevant parties to the Isletech enterprise.” (See Exhibit 29.)

74. On June 4, 2009, Steel responded to Hannon and copied Lasco, Rhodes, and Drage. Confirming that Steel was participating in inducing investors to invest in Isletech, such as Hannon and Dave Lasco, and that Steel clearly knows that the MicroIslet assets are now owned by Isletech, Steel states “Nathan should have sent you and Dave your certs.” (Id.)

75. Soon after a meeting in La Jolla with Lasco and Hannon, Plaintiffs discovered that Steel had led investors Dave Lasco, Chuck Hannon, and Dick Williamson to believe that they were the controlling shareholders of Isletech.



76. Surprised by the disparity of the information conveyed to Isletech management and Drage, and having met several investors in La Jolla, Drage spoke directly to investors Steel had brought into Isletech.

77. As a result of the investors and Isletech “comparing notes,” it became clear that a “new equity structure” would be required in order for everyone to continue onward and work together to develop the MicroIslet assets acquired by Isletech.

78. Thereafter, Steel repudiated any “affiliate” ownership in Isletech to avoid litigation from Lasco, Hannon and Williamson. Additionally, Rhodes ceased contact with Plaintiffs until the Spring of 2010. Consequently, Plaintiffs rescinded issuing Isletech shares intended for Steel and Rhodes and proceeded to “restructure” the Plaintiff entities in cooperation with Lasco, Hannon, Williamson and duPont. From that point, Drage interacted with Hannon, who became interim President of Islet Holdings for a brief time, and Buzz duPont, who became Vice President of Isletech, in pursuit of Plaintiffs’ business plan to develop the MicroIslet Intellectual Property.

79. In the afternoon of June 15, 2009, Drage sent an email to duPont reviewing the recent events of Isletech and giving an assessment of the current status. In that email it was expressly clear that Isletech had acquired the MicroIslet patents and intellectual property from the MicroIslet bankruptcy and that any and all involvement by Steel and Rhodes was for Isletech. Drage copied Lasco, Hannon, Williamson and Steel. (See Exhibit 30.)

80. In the evening of June 15, 2009, Drage sent an email to duPont, Steel, Lasco, Williamson, and Hannon that the Drage law office was providing corporate documents that were “created based on understandings at the time we started this project of obtaining and developing

the MicroIslet intellectual property.” Thus, those investors/shareholders jointly knew and understood that Isletech owned the MicroIslet assets. Lasco, Williamson, Hannon, and Steel continued to cooperate, work, and invest in Isletech based upon that fact. (See Exhibit 31.)

81. On June 16, 2009, under the subject “Deal Points Confirmed,” duPont sent an email to Mr. Drage confirming the restructure of the Plaintiff entities that resulted in recapitalization of the Plaintiff entities and resulted in Islet Holdings acquiring Isletech. Under the “new” structure Steel would receive shares or warrants pursuant to a consulting agreement to be work out at a later time. Mr. duPont also asked Drage to speak to Dr. Logan of Fios to confirm continued cooperation of Fios. (See Exhibit 33.)

82. Drage confirmed to DuPont the agreement by Isletech Holdings and Isletech and confirmed that he had communicated with Dr. Logan of Fios. Mr. Drage copied Messrs Lasco, Hannon, Williamson, and Steel. (See Exhibit 33.)

83. Effective June 16, 2009, Islet Holdings completed the acquisition of Isletech, owner of the MicroIslet Intellectual Property.

84. On June 19, 2009, Islet Holdings made a public announcement of the acquisition of Isletech. (See Exhibit 34.)

**Actions In Reliance Upon The Representations Of Steel, Rhodes, And Lakey**

85. Islet Holdings pursued its new corporate direction through the encouragement and advice of John Steel, former officer and director of MicroIslet, as a consultant to Islet Holdings and Isletech.

86. Between February and June of 2009, in part as set forth above, Steel and Rhodes led Islet Holdings and Isletech to believe that Steel had investors who would invest the monies

necessary to operate Islet Holdings in exchange for a minority ownership stake. In particular, Steel induced Islet Holdings to form Isletech for the purpose of purchasing the patents and other intellectual property from the bankruptcy estate of MicroIslet.

87. Steel also represented to Plaintiffs that MicroIslet had expended over \$50 million developing its intellectual property and obtaining United States patent protection.

88. Based on the representations of Steel, Rhodes and others, Islet Holdings raised and expended over \$750,000 for the purpose of purchasing and developing the MicroIslet Intellectual Property.

89. Based on the representations of Steel, Rhodes and others, Plaintiffs expended the significant amounts of time and other resources in furtherance of developing the purchased assets and pursuing Plaintiffs' business opportunities.

90. Based on the representations of Steel, Rhodes and others, Plaintiffs hired duPont as an officer of Isletech.

91. Relying on Steel's representations in 2009, and with the participation of Rhodes and Dr. Johnathan Lakey, Plaintiffs were induced into purchasing the MicroIslet Intellectual Property, which Plaintiffs did in fact do, effective April 22, 2009.

92. Steel repeatedly represented to the Plaintiff entities and their management, agents, and shareholders, that 1) the value of the MicroIslet patents and other intellectually property was worth over \$50 million, 2) after purchase by Plaintiffs those entities would have a market value in excess of \$100 million, and 3) that Plaintiffs would likely be "taken over" by a large pharmaceutical company like Johnson & Johnson.

93. Dr. Lakey made representations a) confirming the value of the MicroIslet Intellectual Property, and b) acknowledging that Plaintiffs owned the MicroIslet Intellectual Property and the development of that property.

94. In furtherance of Plaintiffs' business, Plaintiffs' committed to Dr. Lakey to keep and store important laboratory material purchased by Isletech with the other intellectual property out of the MicroIslet bankruptcy.

95. These representations by Steel concerning Plaintiffs' plans to develop the MicroIslet Intellectual Property, his plans to assist and participate in the same, and the availability of investment money from other investors turned out to be false.

**Fraudulent Acts In Furtherance Of Scheme And Artifice To Defraud**

96. Shortly after Plaintiffs purchased the MicroIslet Intellectual Property, Steel purposely hindered Plaintiff's development of valuable and state-of-the-art "islet science" technology for the purpose of executing a scheme and artifice to defraud Plaintiffs and to benefit Defendants.

97. By August 2009 Steel secretly stopped assisting in the development of Isletech, and actually became a "behind the scenes" obstructionist to the progress of Isletech under the existing management and equity ownership.

98. Steel used Dr. Lakey and Rhodes as the means by which he would seek indirect control of Plaintiffs assets.

99. By email dated August 28, 2009, Drage wrote to attorney and vice president duPont and complained of difficulty in "obtaining answers to the most basic of due diligence

questions,” and the loss of five weeks of progress in developing the Isletech technology because of Steel’s actions and inaction. (See Exhibit 35.)

100. In his August 28 email, Drage discusses Steel’s interference with the work of Dr. Lakey for Isletech. (Id.)

101. In his August 28 email Drage also identified the need to coordinate work with George Goldberger and Bob Pretti. Steel had previously represented to Isletech and its investors that working with Progenitor, Fios, Regulus, and Dr. Lakey were the only way in which to develop the MicroIslet technology purchased by Isletech. Now, it appeared that Steel was preventing the coordination needed to develop the technology and obtain further funding. (Id.)

102. During the spring and summer of 2010, Steel communicated with Plaintiffs and their shareholders in an effort to gain controlling ownership of Plaintiffs.

103. Steel’s efforts, initially under serious consideration, were subsequently rebuffed when it became known that he was misrepresenting facts to shareholders of the Plaintiffs. Specifically, he falsely represented that the ALL the major shareholders and investors of Plaintiffs were fully informed of the proposal and in agreement as to concept and terms.

104. Thereafter, Steel schemed to defraud Plaintiffs by taking from them, and claiming for himself in the form of other companies he owned, the MicroIslet Intellectual Property, and by using and developing the MicroIslet Intellectual Property as if it had been purchased out of bankruptcy by parties other than Isletech. In furtherance of this scheme, Steel, Rhodes and others formed Islet Sciences (a Delaware corporation), and sought investment capital from sources other than Plaintiffs.

105. As stated, to raise capital, Steel claimed ownership of Plaintiff’s assets.

106. Steel involved Rhodes in a scheme to acquire control of One eCommerce Corporation, a public company traded on the OTC bulletin board.

107. In order to raise capital for the public company he now controlled, Steel expanded involvement of others in his misrepresentations to investors and the public. This involvement would include Chief Financial Officer Richard Egan and Chief Science Officer Dr. Lakey.

108. Steel's controlled public company changed its name to "Islet Sciences."

109. Steel's control of private and public entities, and the names attached thereto, were all utilized to further his fraudulent goal of obtaining money and technology contracts from others.

110. In order to accomplish his purposes, he needed to utilize the entities and obtain the help of others to falsely represent that he, through his entities, owned and controlled the patents and technology developed and owned by MicroIslet which he told Plaintiffs was worth over \$100 million.

111. Steel's scheme has not only defrauded investors and contract parties to Islet Sciences, but it has constituted the additional acts of, and furtherance of, his fraud upon Plaintiffs in 2009.

112. Furthermore, Steel's scheme has not only defrauded investors and contract parties to Islet Sciences, but it has expressly "clouded" Plaintiff's title to the MicroIslet Intellectual Property acquired by Plaintiffs in May of 2009, as confirmed by the bankruptcy Trustee.

113. In 2012, and continuing to today, Steel falsely claims to the world in filings with the SEC that Defendant Islet Sciences owns the MicroIslet assets, including U.S. Patent Number 6,365,385.

114. The Defendants do not own any of the patents, or other intellectual property assets, that were sold through the MicroIslet bankruptcy.

115. Steel's current claims to the world through SEC filings, are completely contrary to what he expressly, in writing, acknowledged and represented to Plaintiffs and their shareholders and their prospective investors.

116. Rhodes and Lakey were fully aware of Steel's acknowledgments and representations and they individually and jointly likewise acknowledged and represented the same to Plaintiffs and their shareholders and prospective investors.

117. With this Amended Complaint, Plaintiffs are submitting the declaration of Dan Rhodes, who has an extensive history of helping John Steel raise money for companies, including MicroIslet, Islet Holdings and Islet Sciences.

118. Rhodes worked with Steel on the following companies whose businesses were focused on developing the same intellectual property for diabetes treatment: MicroIslet, Islet Holdings, Isletech, and Islet Sciences.

119. Rhodes describes the fraudulent scheme at issue in this action:

- a. Steel came to Rhodes in the spring of 2009 with the opportunity to purchase the MicroIslet patent and intellectual property assets out of bankruptcy for pennies on the dollar, valuing the property at the time at potentially "in excess of \$100 million," and describing it as "essential to any new attempts to development treatment for Type 1 diabetes through utilization of porcine islets."

- b. Steel asked Rhodes to approach friends and business associates in Salt Lake City, individuals associated with Plaintiffs, to arrange for a public company to raise capital and purchase the patents and intellectual property out of the MicroIslet bankruptcy.
- c. At Steel's direction, Rhodes solicited Wayne Mower to make his publicly held company available to pursue the acquisition and development of the MicroIslet technology.
- d. After Plaintiffs were structured, Steel and Rhodes helped solicit investment for Plaintiffs, making representations to Plaintiffs' investors, for the purpose of acquiring and developing MicroIslet technology.
- e. "In all of those discussions it was clear to everyone that it was Islet Holding's subsidiary, Isletech, Inc., that was purchasing the MicroIslet patent and other technology from the MicroIslet bankruptcy trustee...."
- f. "In all of those discussions it was clear to everyone that Isletech corporate attorney Nathan W. Drage would handle the negotiations with legal counsel to the Bankruptcy Trustee, documentation relating to the assets, and presentation and argumentation to the Bankruptcy Court regarding the transaction and the importance of the court to expedite and shorten the time that sale of the assets."
- g. Plaintiffs did purchase title to the assets out of the MicroIslet bankruptcy.



- h. In the spring of 2010, Steel attempted to obtain control of Islet Holdings and Isletech, and in so doing Steel made material misrepresentations to Plaintiffs and their investors.
- i. In the same time period, Steel acknowledged to Rhodes that “he had located his own public company that would develop the MicroIslet patent and intellectual property.” Steel represented falsely to Rhodes that “Buzz duPont bought and paid for the intellectual property in the bankruptcy and that between duPont and [Rhodes] we controlled all of the MicroIslet patents and intellectual property.” Rhodes confirms: “I learned later that Steel lied to me.”
- j. Steel told Rhodes that he was the purchaser of MicroIslet patents and technology, leading Rhodes to sign a handwritten assignment of that intellectual property to Islet Sciences, Inc.
- k. Steel told Rhodes that Islet Sciences would, in fact, utilize and develop the MicroIslet patents and intellectual property, which appropriately belonged to Plaintiffs.
- l. Rhodes assisted Steel with Defendants’ scheme, and promised to issue millions of shares in Islet Sciences to Rhodes in exchange for his assistance. “At all times Steel represented that Islet Sciences was building off the patents and intellectual property of MicroIslet.”
- m. Rhodes was familiar with the letter Plaintiffs sent to Defendants in April 2012, demanding that Islet Sciences cease representing to the public that it

owned the patents and intellectual property owned by Isletech. He reveals that Steel “was extremely angry about the demand letter,” and that Steel “threatened to place a ‘stop transfer’ on [Rhodes’] shares, or take them away completely unless Isletech dropped the lawsuit.”

- n. After Plaintiffs filed, Steel “made numerous threats against anyone related to Isletech, including threats of going to government authorities to start investigations as a means of deflecting attention from the lawsuit.”

(Exhibit 36.)

120. On information and belief, in approximately April 2010, Defendants had interstate telephone conversations and email communications with other investors in pursuit of their scheme to defraud Plaintiffs. In those communications with parties associated with Sand Dollar Partners LLC, an Arizona limited liability company, Steel falsely represented that MicroIslet’s intellectual property had been transferred to a new corporation, Islet Sciences, Inc. Steel and Defendants did so based on the false handwritten assignment Steel had Rhodes execute stating: “I, Dan Rhodes hereby assign my asset, acquired at the MicroIslet BK auction to Islet Sciences, Inc. This assignment is in consideration of my founders shares in Islet Sciences.”

121. As Rhodes has confirmed, that handwritten assignment was false and induced by Steel in exchange for stock in Islet Sciences, and the use of that handwritten assignment is a further fraudulent act.

122. In those false email and telephone communications made in furtherance of Defendants’ scheme, Defendants further represented that Islet Sciences was developing the MicroIslet Intellectual Property, and expected that, with the investment of Sand Dollar, and the

services of Dr. Lakey, they could advance by years the process for securing U.S. Food and Drug Administration approval for the new drug that would be developed based on the MicroIslet Intellectual Property. Dr. Lakey participated in the false scheme to defraud by, among other things, providing the Sand Dollar investors with a tour of the laboratory facilities wherein he made representations concerning the product as being based on the MicroIslet patents and intellectual property he had worked on.

123. In those false email and telephone communications made in furtherance of Defendants' scheme, Defendants further represented that Defendant Islet Sciences would be able to make a public offering through the SEC based on the "key technologies," including the "MicroIslet assets" it had "acquired ... in Chapter 11/7 proceedings," and that its business would be able to "leverage ... MicroIslet's time and \$70M of development expense" and "change [its] investor base from 3,000 to 9."

124. Thus, it was Defendants' scheme to take advantage of Plaintiffs and their money to purchase the MicroIslet assets and intellectual property and materials to develop the diabetes treatment, but then convert that technology, intellectual property and materials for their own benefit in the form of Islet Sciences.

**Dispute As To Ownership And Use Of MicroIslet Technology**

125. As set forth above, Plaintiffs acquired the MicroIslet Intellectual Property and expended significant resources in development of the same.

126. Nevertheless, Defendants have made numerous public declarations claiming that they acquired and own the MicroIslet Intellectual Property. In these statements, they acknowledge that they are using it to develop Islet Sciences' products. These statements have

had the effect of clouding Plaintiffs' ownership interests in the former MicroIslet Intellectual Property, and also help establish that Defendants are infringing on Plaintiffs' intellectual property.

127. In this matter, Islet Science attorney Steckman has falsely claimed that du Pont purchased the MicroIslet assets, not Isletech, and then assigned them to Islet Sciences. Steckman further represented that duPont was issued shares in Islet Sciences worth an estimated value of over \$8 million for purportedly transferring the MicroIslet patents and intellectual property to Islet Sciences.

128. On or about September 23, 2011, One eCommerce Corporation, a Nevada corporation ("One eCommerce"), filed a "Current Report" on Form 8K with the Securities and Exchange Commission, which was amended on October 6, 2011 ("October Form 8K").

129. The October Form 8K was signed by John Steel as Chief Executive Officer of eCommerce.

130. The October Form 8K made several material omissions, including 1) the circumstances that led to the departure of John Steel from MicroIslet, 2) that MicroIslet had been liquidated pursuant to a Chapter 7 bankruptcy, and 3) that One eCommerce was claiming assets derived from MicroIslet that had been conveyed to Isletech, wholly-owned subsidiary of Islet Holdings.

131. On or about October 7, 2011, John Steel caused Islet Sciences to file a Schedule 13D with the Securities and Exchange Commission regarding acquisition of ownership of One eCommerce Corporation.

132. According to the Schedule 13D, Steel was the President of Islet Sciences, a privately-held Nevada corporation, which obtained shares of One eCommerce.

According to the Schedule 13D, Steel's company Islet Sciences claimed 82.8% ownership of One eCommerce.

133. On or about November 14, 2011, One eCommerce Corporation filed its quarterly report with the SEC, signed by Steel as President and CEO and Richard Egan as CFO.

134. The common shares of One eCommerce (subsequently merged with Islet Sciences) are traded on the Electronic Bulletin Board and quotations are entered for the sale and purchase of Islet Sciences common stock.

135. On January 20, 2012, John Steel caused Islet Sciences to file a "Current Report" on Form 8K with the Securities and Exchange Commission ("the SEC Filing") regarding a merger of One eCommerce and Islet Sciences (hereafter referred to as the merged and renamed entity "Islet Sciences").

136. The January 20, 2012, Form 8K filing with the SEC made a number of material misrepresentations and omissions, in that, *inter alia*, it purports to claim for Islet Sciences the intellectual property and assets of MicroIslet owned by Isletech and Islet Holdings, and failed to disclose information that would be material to the business operations and assets of Islet Sciences.

137. Among other things, the January 20, 2012 Form 8K SEC filing is also deficient as follows:

- a. At page 19 the list of 5% shareholders does not identify who among them received 3 million shares for intellectual property claimed by Islet Sciences from which its entire business plan is derived.
- b. At page 21 the “biography” shows John Steel as having served as Chairman and CEO of MicroIslet for 10 years, but does not discuss the bankruptcy and does not reconcile how Islet Sciences now claims the intellectual property acquired from MicroIslet by Plaintiffs. Richard Egan is identified as Chief Financial Officer of Islet Sciences, and has a particular duty to “know” exactly “how” Islet Sciences obtained its intellectual property assets.
- c. At page 23, Joel D. Perlin is identified as the “Audit Committee financial expert” of Islet Sciences. Thus, Perlin also has a duty to “know” and disclose all the particulars relating to the intellectual property assets of Islet Sciences. At page 39, Note 3 to Islet Sciences audit has an incomplete discussion of how its intellectual property was purportedly acquired.
- d. At page 40, Note 4 to Islet Sciences audit does not identify who received its shares.
- e. At page 41, Note 5 relating to “Related Party transactions” does not cover MicroIslet connection or history to the intellectual property.
- f. At page 44, the balance sheet makes reference to an “intangible asset,” but at page 50 the Note to financial regarding “intangible assets” does not identify “third party” connected to the asset, which party is believed to be a “related party.”

g. Pages 52, 53, 54 and 57 are deficient repeats of Notes 3, 4, and 5 and the *pro forma* balance sheet entry of “intangible asset.”

138. On March 9, 2012, Islet Sciences filed a quarterly report with the SEC on Form10-Q for the period ending January 31, 2012.

139. Note 3 to the Islet Sciences 10-Q filed March 9, 2012, entitled “Intangible Assets,” states that on May 5, 2010 Islet Sciences was “assigned the intellectual property rights for Patent #6,365,385 that was issued on December 1, 1999. This patent related to Methods of Culturing, Cryopreserving, and Encapsulating Islet Cells. The rights to this patent were purchased out of the bankruptcy proceedings of MicroIslet, Inc. for \$200,000 then assigned to Islet Sciences, Inc. for 3,000,000 shares of common stock which was later converted to 300,000 shares of Series B preferred stock.” Thus, Islet Sciences is claiming for itself the assets of Plaintiffs, which is completely false. The SEC filings of Islet Science further establish that Defendants are infringing on Plaintiffs’ intellectual property.

140. Note 4 to Islet Sciences 10-Q filed March 9, 2012, entitled “Preferred Stock and Common Stock,” states “The Company issued 13,430 shares of Series B preferred stock to the Company’s founders and advisors for intellectual property assignments related to the Company’s purpose, mission and contributions to the business plan and strategy. The Company issued 3,000 shares of Series B preferred stock for the assignment of the intellectual property rights purchase from MicroIslet, Inc. bankruptcy proceedings.” This declaration to the public is false because Isletech is the purchaser of the MicroIslet Intellectual Property.

141. In the quarterly report filed with the Securities and Exchange Commission for the period ended January 31, 2012, Islet Sciences states on page 9: “On May 5, 2010, the Company

[Islet Sciences] was assigned the intellectual property rights of patent #6,365,385 that was issued on December 1, 1999. This patent is related to the Methods of Culturing, Cryopreserving, Encapsulating Islet Cells. The rights to this patent were purchased out of the bankruptcy proceedings of MicroIslet, Inc. For \$200,000 then assigned to islet Sciences, Inc. for 3,000,000 shares of common stock which was later converted into 3,000,000 shares of Series B preferred stock.”

142. The substance of the foregoing statement regarding Islet Sciences ownership of the MicroIslet patents and technology is repeated at page 10.

143. Defendants Islet Sciences, Steel, and Lakey are contributors and responsible authors of the January 31, 2012 quarterly report. Accompanying the report, Defendant Steel signed a “Certification” that the report “does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made...not misleading.” Furthermore, Steel’s certification states that the financial report, which includes the prior quoted language, “fairly represent in al material respects” the financial condition represented in the report.

144. Steel’s Certification also expressly states: “I am responsible for establishing and maintaining disclosure controls and procedures....”

145. A similar “Certification” is provided by Richard Egan, CFO of Islet Sciences.

146. On July 30, 2012, Islet Sciences filed its Annual Report with the SEC for the period ending April 30, 2012.



147. The April 30, 2012 Annual Report included “audited” financial statements that list as an asset the form MicroIslet patent and other intellectual property. Note 4 (page F-15) falsely states that those assets were acquired and assigned to Islet Sciences.

148. Note 6 (Page F-18) to the Audited Financial Statements repeats the false declaration of Note 4.

149. The April 30, 2012 Annual Report includes signed certifications as to truthfulness by CEO John Steel and CFO Richard Egan. Their certifications are false and fraudulent.

150. On September 13, 2012, Islet Sciences filed an amendment to its Annual Report for the period ending April 30, 2012.

151. The April 30, 2012 Amended Annual Report included “audited” financial statements that list as an asset the form MicroIslet patent and other intellectual property. Note 4 (page F-15) falsely states that those assets were acquired and assigned to Islet Sciences.

152. Note 6 (Page F-18) to the Audited Financial Statements of the Amended Annual Report repeats the false declaration of Note 4.

153. The Amended Annual Report filed with the SEC by Defendant Islet Sciences did not disclose the Plaintiffs’ correspondence with Islet Sciences on or about April \_\_, 2012, informing Defendants of the false nature of claims made by Defendants against Plaintiffs’ intellectual property.

154. On September 14, 2012 Defendant Islet Sciences filed with the SEC a quarterly report for the period ended July 31, 2012.

155. The July 31<sup>st</sup> Quarterly Report falsely reported the MicroIslet patents and other intellectual as assets of Defendant Islet Sciences are owned by Defendant Islet Sciences. Note 3

(page 10) to “intangible assets” states that 3 million shares of stock were issued for the assignment of the MicroIslet patents and assets. The information and the assignment are fraudulent and damages Plaintiffs.

156. Note 6 to the July 31<sup>st</sup> Quarterly report falsely leads the public to believe that Defendant Isletech does own assets that belong to Plaintiffs, despite the filing of a complaint in federal court by referring to Plaintiff’s ownership claim as “without merit.” This false statement is repeated at page 18 under “Legal Proceedings.”

157. On or about September 13, 2012, Islet Science filed “Amended Annual Report” with the Securities and Exchange Commission.

158. The Amended Annual Report contains “audited” financial statements. In it, Islet Sciences and auditing firm PMB Helin Donovan, LLP, stated: “On May 4, 2010, the Company was assigned the intellectual property rights for a patent that was issued on December 1, 1999. The rights to this patent were purchased out of the bankruptcy proceedings of MicroIslet, Inc. for \$200,000 and then assigned to ISI in exchange for the issuance of 3,000,000 shares of common stock.”

159. The same Amended Annual Report also states “On May 4, 2010, the Company issued 3,000,000 shares of common stock for the assignment of the intellectual property rights purchased from a company in bankruptcy proceedings for \$200,000.”

160. The Annual Report and Amended annual report filed by Islet Sciences contain “Certification” of Steel as CEO and Egan as CFO.

161. The Quarterly Report, Annual Report, and Amended Annual Report, filed by Islet Sciences are directly contrary to the inducements, acknowledgments, and representations and a

omissions of material fact made by Steel, duPont and Lakey, who are now all officers or directors or significant shareholders of Islet Sciences.

162. Furthermore, by way of Declaration of John Steel in a filing in this case, Lakey assisted in the drafting of the SEC filings pursuant to periodic reporting requirements of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended. (See Exhibit 37.)

163. Furthermore, evidence that the SEC filing is false comes from Dan Rhodes, who provided services as an agent for Plaintiffs in 2009 (See Exhibit 36).

164. On or about December 14, 2012, Defendant Islet Sciences filed with the SEC a quarterly report for the period ended October 31, 2012.

165. The October 31st Quarterly Report falsely reported the MicroIslet patents and other intellectual as assets of Defendant Islet Sciences. Note 3 (page 9) to “intangible assets” states that 3 million shares were issued for assignment of the MicroIslet patents and intellectual property. The representations made are fraudulent, harming Plaintiffs.

166. The blatantly false reports filed with the US Securities and Exchange Commission, under penalty of perjury by the CEO John Steel and CFO Richard Egan, are acts in furtherance of Defendants’ scheme to defraud Plaintiffs and provides the foundation of facts that Defendants have infringed upon Plaintiffs’ patents and have wrongfully involved Plaintiffs and SEC violations and other fraudulent activity.

**Representations of Steel Concerning The Use Of The MicroIslet Technology**

167. Following the acquisition of Isletech by Islet Holdings, Drage continued to interact with Steel on almost a daily basis to prepare responses to due diligence questions from management, shareholders, prospective investors, and other third parties.

168. On June 19, 2009, Drage sent an email to Steel that included due diligence questions from a prospective investor regarding MicroIslet and its Form 10K filing with the SEC in which the patents and technology were discussed. Steel responded with the answers (See Exhibit 38.)

169. In Steel's response he continued to represent that the MicroIslet technology was superior and that the 'patents' were now owned by "Isletech."

170. Contrary to what he represented on June 19, 2009, in 2012 John Steel represented to this court that the patents and technology were not owned by Isletech. (See Exhibit 37.)

171. Steel's June 19, 2009 written statements and representations also mention MicroIslet's press release of the prior year – August 2008.

172. The August 13, 2008 press release by MicroIslet discusses the test trials that were the subject of the due diligence questions, thus leading the recipients of Steel's June 19 email to concluded that Isletech owns ALL the technology and benefits of the technology of MicroIslet (See Exhibit 39.)

173. The August 13, 2008 press release also describes the business of MicroIslet, which Steel induced Isletech and its shareholders to become successors in interest to, as follows:

- a. **About MicroIslet, Inc.** MicroIslet is a biotechnology company engaged in the research, development, and commercialization of patented technologies in the field of cell therapy for patients with insulin-dependent diabetes. MicroIslet

has licensed several technologies from Duke University for isolation, culturing, storage, and microencapsulation of insulin-producing islet cells from porcine sources. The Company believes that these technologies, and other proprietary methods developed in-house, are significant advances in the field of cellular therapeutics. MicroIslet is planning human clinical trials in the U.S., and exploring possible trials abroad. MicroIslet's ultimate goal is to offer cell transplantation therapies for diabetic patients worldwide. The Company's lead product, MicroIslet-P(TM), consists of microencapsulated porcine islets for implantation into the abdominal cavity using a minimally invasive procedure. Microencapsulation involves surrounding islet cells with formulations of a highly biocompatible, ultra-pure biopolymer, called alginate, or other similar biocompatible polymers. The alginate coating allows insulin, glucose, oxygen and other nutrients to diffuse freely, while blocking antibodies and reducing the patient's immune response to the implanted islet cells. It is hoped that MicroIslet-P(TM) will provide physiologic and self-regulating blood glucose control, thus reducing the need for insulin injections or infusions and constant blood glucose monitoring. The long term complications associated with type 1 diabetes, such as peripheral neuropathies, heart and kidney disease, and skin disorders, may be mitigated by the tighter blood glucose control that would result from such a product.

174. In similar form, the website of Defendant Islet Sciences on February 23, 2013 states the following, helping to establish that Defendants are infringing on MicroIslet Intellectual Property that Plaintiffs own:

- a. Overview: Islet Sciences Inc is a development-stage biotech company with patented technologies focused on transplantation therapy for insulin-dependent diabetics. Islet Sciences has developed a therapy from young pig islets-- co-encapsulated with therapeutic agents that allow insulin and/or other islet functioning hormones to diffuse freely and block antibodies reducing immune system rejection. Islet transplantation therapy is well established, scientific journals have written positively on the potential of using porcine insulin, and the company has designed proprietary methods and technologies for encapsulating.
- b. Our Approach Xenotransplantation & Microencapsulation: The effectiveness of islet transplantation has been demonstrated in principle by the Edmonton protocol, but it faces two major obstacles which prevent it from being used on a larger scale: 1) the need for immunosuppressive drugs to prevent rejection and, 2) a severe shortage of human donor tissue. Islet Sciences' approach could overcome both of these obstacles, allowing transplantation to become the treatment of choice for insulin-dependent diabetics. The company's approach is based on the technologies of xenotransplantation and microencapsulation.

- c. Xenotransplantation — specifically, the use of porcine islet cells — provides an essentially unlimited supply of cells for transplantation. Pig cells are an established source for human therapeutics including insulin and heart valves and the FDA has drafted guidelines for the development, manufacture and evaluation of xenotransplantation-based products. Microencapsulation involves the surrounding of islet cells with a highly biocompatible biopolymer called alginate, which reduces the host's immune response to the implanted material. Islet Sciences uses highly purified alginate for the microencapsulation process, which is developed to reduce the chance of inflammation.
- d. Islet Sciences is in the process of developing its first product — microencapsulated porcine islets for injection into the abdominal cavity. Islet Sciences' technologies are being developed to optimize islet survival and functionality during the manufacturing process. We believe our approach is more advanced than current methods, which reduce islet viability 1) directly after harvest from donor animals, 2) during storage and transportation, and 3) during the surgical procedure.

175. On June 24, 2009, Steel participated in due diligence inquiries by third parties. As a follow-up to Steel's representations, Steel sent an email on June 25, 2009, to Islet Holdings shareholder Les Mower regarding MicroIslet, and "one of our advisors "Jon Lakey": "father of the Edmonton protocol."

176. Responding to Mower, Steel represented that “our strategy overcomes the numbers limitations of his [Dr. Lakey] pioneering work” and that Isletech succeeded in ownership to the patents and intellectual property of MicroIslet. Furthermore, Steel stated that Isletech could be acquired by Johnson and Johnson. (See Exhibit 40.)

177. Steel continues in his email to state: “Of course there just are not enough potential donors to have any impact so the ‘porcine tissue’ approach that we will take with Isletech and fios is the only theoretical near term opportunity to have a meaningful outcome for diabetics” (Emphasis added). Thus, Steel continued to represent to Plaintiff’s shareholders and prospective investors that he Plaintiff now owned the technology that would solve serious problems for diabetics through xenotransplantation. Steel continued: “This is a massive indication and there is strong empirical data to argue that we will be successful given recent success in this patient category of the ‘Edmonton approach.’” Steels’ common use of “our” and “we” underscore his deep participation due diligence issues that Plaintiffs and prospective investors relied upon.

178. Defendants’ own, current description of their business is consistent with the description of MicroIslet Intellectual Property that pre-dated the bankruptcy sale, thus further establishing that Defendants have schemed to defraud Plaintiffs and are infringing on Plaintiffs’ technology.

179. The Annual Report for MicroIslet, Inc. for the period ending December 31, 2007, describes itself as follows: “We are a biotechnology company engaged in the research, development, and commercialization of patented technologies in the field of transplantation therapy for people with conditions requiring cell-based replacement treatments, with a focus on type 1, or insulin-dependent diabetes. Patented islet transplantation technology, exclusively



licensed from Duke University, along with our own developments, constitute methods for isolating, culturing, cryopreservation, and immuno-protection (microencapsulation) of islet cells. We intend to continue our research and development efforts and, ultimately, to introduce products to the market. We intend to seek FDA approval for marketing in the U.S. a first product, called MicroIslet-PTM. MicroIslet-PTM will be an injectable suspension of microencapsulated porcine insulin-producing, pancreatic islet cells. We believe that MicroIslet-PTM, a xenotransplantation (transplantation between different species) product, has significantly more commercial potential than human-to-human (allotransplantation) islet replacement approaches, due to the high cost and inherently limited supply of human islets. In the past, we researched the use of our technology for allotransplantation, and we may continue such research for use in select patient populations. We refer to this potential product as MicroIslet-HTM. Both of these product candidates are intended for the treatment of insulin-dependent diabetes, and both are intended to be administered into the patient's abdominal cavity, where the transplanted islet cells will produce insulin in response to increases in blood glucose, much like the patient's original pancreatic islet cells did prior to being destroyed by disease. The primary function of microencapsulation is to protect the islets from the host's immune system. The microcapsule coating is composed of layers of biocompatible materials.”

180. In their annual report under “Intellectual Property,” MicroIslet reports their Patents and Intellectual Property as follows:

#### INTELLECTUAL PROPERTY

Our team of scientists has developed new intellectual property in the areas of islet cell processing, quantification, and encapsulation. While we keep a portion of these advances

as confidential trade secrets, we also have filed, and will continue to file, patent applications with the U.S. Patent and Trademark Office to protect our intellectual property as deemed appropriate.

Patents, trademarks, and trade secrets are central to the profitability of pharmaceutical products and our policy is to pursue intellectual property protection aggressively for all our products. The license from Duke University described above relates to three patents owned by Duke that are important to our business plan. The patents relate to methods of culturing, cryopreserving, and encapsulating pancreatic islet cells. A summary of the patents is provided in the following table:

PATENT	CLAIMS
6,365,385 (4/2/2002)	<p>Method of treating isolated pancreatic islet cells by:</p> <ul style="list-style-type: none"> <li>- Culturing with cocktail*</li> <li>- Cryopreservation with cocktail*</li> <li>- Encapsulation with polysaccharide gum</li> </ul> <p>Culturing encapsulated islets with cocktail*</p> <p>Method of treating isolated pancreatic islet cells by:</p> <ul style="list-style-type: none"> <li>- Microencapsulated islet cells prepared according to claimed methods (above)</li> <li>- Microencapsulated islet cell product prepared according to claimed methods</li> </ul>

	<ul style="list-style-type: none"> <li>- Incubation of capsule containing a cell in a physiologically acceptable salt, where said salt is a sulfide salt, to increase capsule durability while retaining physiological responsiveness</li> <li>- Method of culturing with cocktail*</li> <li>- Semi permeable membrane to include poly-l-ornithine</li> </ul>
6,783,964 (8/31/2004)	<p>Product composition patent describing:</p> <ul style="list-style-type: none"> <li>- Microencapsulated islet cells</li> <li>- Microcapsule is comprised of a polysaccharide gum surrounded by a semi permeable membrane</li> <li>- Microcapsule is comprised of alginate in combination with polylysine, polyornithine and combinations thereof</li> <li>- Internal islet cell-containing core is comprised of alginate, gelled or not gelled</li> <li>- Microcapsule is 50um to 2mm in diameter</li> <li>- Microcapsule is incubated in physiologically acceptable salt to increase durability of the microcapsule</li> </ul>

	<p>- Physiological salt treatment of microencapsulated living islet cells results in not more than 10% increase by weight over one month at 37C and at least 150% basal insulin secretion in response to 16.7 mM glucose challenge in physiological solution at pH 7.4 after one month</p> <p>*Possible components of cocktail include: anti-oxidants, anti-cytokines, anti-endotoxin, and/or antibiotics.</p>
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**John Steel's Failed Attempt To Transact Business With Plaintiff**

181. In the spring of 2011, Steel unsuccessfully attempted to affect a transaction with Islet Holdings and Isletech wherein Steel would gain control or access to the intellectual property acquired from MiscoIslet in bankruptcy and as further developed by Islet Holdings and Isletech. Steel represented to Islet Holdings and Isletech that the subsidiary investors (now shareholders of Islet Holdings) were fully aware and informed of the plan proposed by Steel. Concerned about the validity of Steel's representation, Nathan Drage, corporate counsel of Islet Holdings and Isletech, contacted the investors and shareholders of Islet Holdings and inquired whether they were aware and in agreement with the Steel proposal regarding Islet Holdings and Isletech. In correspondence circulated to key investors of Islet Holdings, counsel stated:

182. “John Steel is working on a transaction to have Islet Holdings acquire Islet Sciences, Inc., a company that, I am told, John has been working on for a few years. The transaction would result in Islet Holdings owning Islet Science as a subsidiary in addition to Isletech, Inc.... As previously expressed ... by me, I am more than willing to cooperate and even assist everyone in doing whatever everyone would like to do - as long as everyone is on the same page. Hence, I do not want to sign any documents unless [key shareholders] are in agreement. So, the first item of my inquiry is are you [shareholders] aware of the proposed transaction with Islet Sciences and Islet Holdings, Inc.

183. I am happy to do a phone conference at your convenience.” Mr. Drage was informed that, in fact, key shareholders and investors were not aware or in agreement with any proposal from Steel regarding any transaction involving Islet Holdings and Isletech. Thereafter, Steel ceased communicating with Islet Holdings and Isletech. Having failed to “divide and conquer” the shareholders of Islet Holdings in order to obtain the intellectual property Isletech acquired from MicroIslet, Steel proceeded to pursue taking Islet Sciences public and fabricate ownership of the intellectual property.

#### **Dispute As To Ownership Of MicroIslet Intellectual Property**

184. Despite Steels representations in 2009 which induced Plaintiffs Isletech and Isletech Holdings to acquire and develop the MicroIslet Patents and other intellectual property, in 2011 and 2012, Steel would claim to the world in SEC filings, under penalty of perjury of Sarbanes Oxley declarations, that a public company he gained control of had acquired those MicroIslet patents and other intellectual property from an individual – Buzz duPont.

185. Based upon Defendants' 2011 and 2012 positions, statements, and declarations, Steel's 2009 representations and inducements were fraudulent.

186. Two years later, utilizing the help of former Isletech officer Buzz duPont and Dr. Lakey, Steel gained control of a public company and caused it to file reports with the Securities and Exchange Commission. Those SEC filings, along with a declaration of Defendant Steel from 2012 regarding an "assignment" of "patents," are entirely inconsistent with his representations in the spring of 2009.

187. Defendants Islet Sciences, Steel, Rhodes and Lakey now seek to benefit from misrepresentations and omissions of 2009, 2011, 2012, and 2013.

188. Clearly, unequivocally, and indisputably, Isletech purchased the patents and intellectual property that were in the MicroIslet bankruptcy estate in April 2009. Claims to the contrary by Defendants John Steel and his company Defendant Islet Sciences are false and fraudulently made.

189. At a recent hearing in this case on January 8 2013, counsel for Islet Sciences falsely represented to Judge Bruce Jenkins that someone other than Isletech purchased the MicroIslet patents and other intellectual property.

190. The January 8, 2013, transcript reveals that Defendants Steel and Islet Sciences would make false statements not only to the Securities and Exchange Commission, but even to a federal judge through their attorneys.

191. The January 8, 2013 transcript states, in part, as follows:

Mr. Steckman: That is not what our existing business is, our product is, nothing. And there is in fact, today, there is no product at all. All we have is a company that is engaged

in research that is using completely different technologies. So we know exactly how it was acquired because it was our clients who bought it.

The Court: You don't claim any interest in what was purchase at the bankruptcy sale?

Mr. Steckman: I'm sorry, I missed what your Honor said.

The Court: You don't claim any interest at all in what was purchased at the bankruptcy sale by plaintiffs?

Mr. Steckman: No. We purchased it, we own it.....

(See January 8, 2013 transcript, pages 19 and 20).

192. Furthermore, as Mr. Steckman made additional misrepresentations to Judge Jenkins:

The Court: Well, they claim they bought the [MicroIslet patents and intellectual property] out of bankruptcy.

Mr. Steckman: Well, they claim that.

The Court: Well, they either did or they didn't.

Mr. Steckman: Well, I have already explained that they didn't, but I also explained --

The Court: Well, tell me why they didn't. The bankruptcy says they did.

Mr. Steckman: Well, they never paid a dime for it, and if you ask counsel, the money did not come from the --

The Court: So what?

Mr. Steckman: It was bought in the personal capacity of Mr. Dupont who wrote the check for it and, ultimately, assigned it to Sciences.

The Court: Why wasn't it assigned to him?

Mr. Steckman: Pardon me?

The Court: Why didn't the bankruptcy trusted assign it to Mr. Dupont?

Mr. Steckman: Well, I think that the reason has to do with representations that were made by Mr. Drage. You know, we don't know that because we haven't interviewed the trustee so that he can remember.

(See January 8, 2013 transcript, page 31-32)

193. Mr. Steckman went on to disclose that Charles (Buzz) du Pont assigned to Islet Sciences the patents and intellectual property sold in the MicroIslet bankruptcy.

194. Defendant duPont was issued several million shares of Defendant Islet science for assigning to it patents and intellectual property owned by Plaintiffs.

195. The current market value of shares issued to Defendant Rhodes for claiming to assign that which he did not own is in excess of several million dollars.

196. Based upon Steckman's disclosure and representations to Judge Jenkins, duPont is an affiliate of Islet Sciences, as that term is defined under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and rules promulgated thereto, and therefore liable as set forth herein.

197. As set forth above, Defendants have falsely represented to the public and private investors, as further alleged herein, that Islet Sciences owns the patents and other intellectual property owned and developed by MicroIslet prior to 2009.

198. Plaintiffs are entitled to declaratory and injunctive relief to stop defendants from any further false and misleading statements that refer to or affect Plaintiffs or their assets.



199. Plaintiffs are entitled to orders of this court that require Defendants to file amended quarterly and annual reports with the United States Securities and Exchange Commission that accurately disclose that Plaintiffs, not Defendants, own ALL the intellectual property previously owned and developed by MicroIslet.

200. Plaintiffs are entitled to orders of this court that require Defendants to issue a press releases to accurately disclose that Plaintiffs, not Defendants, own ALL the intellectual property previously owned and developed by MicroIslet.

**Non-Disclosure Of Material Information To Investors**

201. At no time prior to March 20, 2012, did Defendants disclose to the Islet Science private placement investors or public market that the intellectual property assets that serve as the basis for the stock sales and public market are, in fact, not owned by Islet Sciences. On or about March 20, 2012, Defendant Islet Sciences filed a Form 8-K report with the SEC reporting that it had received \$1,160,000 in investment capital from investors by selling 2,257,922 shares of common stock at \$.45 per share.

202. On or about March 23, 2012, Defendant Islet Sciences filed a Form 8-K report with the SEC reporting that it had received \$243,000 in investment capital from investors by selling 540,000 shares of common stock at \$.45 per share.

203. On or about April 13, 2012, Defendant Islet Sciences filed a Form 8-K report with the SEC reporting that it had received \$945,000 in investment capital from investors by selling 2,102,189 shares of common stock at \$.45 per share.

204. Up to and including April 13, 2012, and the present, Defendants failed to correct the misrepresentations and omissions of material fact to private investors or the public market.

**Plaintiffs' Request For Information**

205. On or about April 20, 2012, Plaintiffs' counsel sent a letter to Steel and to Egan requesting how Islet Sciences claims ownership to its intellectual property. (*See* Demand Letter, dated 04/20/2012, attached as Exhibit 41.)

206. Neither Steel nor Egan have responded on behalf of Islet Sciences to Plaintiffs' inquiries.

207. Because of the Defendants' misrepresentations and omissions of material fact and their failure to respond to Plaintiffs' inquiries, Plaintiffs' have been forced to commence litigation and file this Complaint.

208. Upon information and belief, Defendants failed to respond to the Demand Letter because they are actively engaged in a scheme to defraud the public shareholders of two companies by claiming for themselves the property of Plaintiffs.

**Misrepresentations To Public And Private Investors Continues**

209. On or about April 30, 2012, Islet Sciences filed a Form 8-K report with the SEC reporting that it had received \$1,102,500 in investment capital from investors by selling 2,450,000 shares of common stock at \$.45 per share.

210. On or about May 9, 2012, Islet Sciences filed a Form 8-K report with the SEC reporting that it had received \$770,250 in investment capital from investors by selling 1,711,667 shares of common stock at \$.45 per share.

211. Defendants raised a total of \$4,220,750 through the sale of stock from March 1, 2012, through May 9, 2012.

212. To the present date, Defendants have failed to correct the omissions of material fact and other deficiencies of public or private information to the investors.

213. To the present date, Defendants have failed to correct the materially false or deficient information they have disseminated to the public markets.

214. The reason the Defendants have persisted in their fraudulent activities is to quickly receive investments before the investors and public markets learn of their fraudulent activities.

215. In addition to the monies raised from private investors, Defendants have also engaged in transactions with entities and individual who Plaintiffs believe are completely unaware of the fraud committed daily by Defendants, which include the following:

216. On March 23, 2012, Islet Sciences issued a Press Release stating that it had acquired DiaKine Therapeutic, Inc.

217. On March 29, 2012, Islet Sciences issued a Press Release stating that DiaKine received European Patent Protection.

218. On March 27, 2012, Islet Sciences issued a Press Release stating that Dr. Paul Johnson and Dr. Jonathan Lakey had been added to the company's "Scientific Board," of which Dr. Steven Paraskevas, Dr. Miguel Riella, Dr. Christian Mende, and Dr. Jerry Nadler are also members.

219. On April 9, 2012, Islet Sciences issued a Press Release stating that its new "wholly-owned" subsidiary DiaKine had received \$1,831,250 in grants from the National Institute of Health and \$250,000 in grants from the Iacocca Foundation.

On May 7, 2012, Islet Sciences issued a Press Release stating that it has entered into an “Exclusive License Agreement” with Yale University.

220. Upon information and belief, Defendants failed to disclose to any of the foregoing persons or entities the true history and ownership of the intellectual property that forms the basis of the operations, existence, fund raising, and public market activities of Islet Sciences.

Dr. Lakey worked with the Plaintiffs in the summer of 2009. Defendants have misrepresented facts to Dr. Lakey to get him to bring his name and experience to Islet Sciences.

If the foregoing persons and entities knew the true history and ownership of the intellectual property that forms the basis of Defendants’ operations, existence, fund raising, and public market activities, they would cease association with such fraudulent activities.

221. Defendants have engaged in the flurry of press releases to hide their fraudulent activities relating to the intellectual property owned by Plaintiffs and to lure additional investors into private and public market transactions.

## **RICO ALLEGATIONS**

### **Defendants’ Enterprise**

222. Plaintiffs have sustained injury to their business or property as a result of the acts and the conduct of the defendants described herein.

223. Based upon plaintiff’s current knowledge, the following group of individuals associated in fact (which plaintiff refer to as the “Islet Sciences Enterprise” (“ISE”)) is responsible for a scheme to defraud and steal Defendants’ technology and constitutes an “enterprise” as that term is defined in 18 U.S.C. 1961(4)(a): Islet Sciences, Steel, Lakey and Rhodes.

224. The ISE is an ongoing organization which engages in, and whose activities affect, interstate commerce.

225. While the defendant participates in and is part of the ISE, each has an existence separate and distinct from the enterprise, and each of these entities are “persons” as defined by 18 U.S.C. 1961(3).

226. To successfully accomplish the object of its scheme, ISE required a systematic means to control the substantive information transmitted to Plaintiffs and parties other than plaintiffs, and their control of and participation in it is necessary for the successful operation of its scheme. Defendants control and operate the ISE by: having control of Islet Sciences and operating Islet Sciences for the purpose of claiming to own and develop MicroIslet Intellectual Property belonging to Plaintiffs; falsely misrepresenting to investors on behalf of Islet Sciences that they own and are developing medical products based on MicroIslet Intellectual Property belonging to Plaintiffs; and disparaging Plaintiffs’ proper claims to own and have developed MicroIslet Intellectual Property.

227. As set forth above, the ISE has an ascertainable structure separate and apart from the pattern of racketeering activity in which Defendant engage in.

#### **Predicate Acts**

228. Section 1961(1) (B) of RICO provides that “racketeering activity” includes any act indictable under 18 U.S.C. 1341 (relating to mail fraud) and 18 U.S.C. 1343 (relating to wire fraud). As set forth below, Defendants have and continue to engage in conduct violating each of these laws to effectuate its scheme.

229. In addition, to effectuate their scheme, Defendants sought to and did aid and abet the others violating the above laws within the meaning of the 18 U.S.C. 2. As a result, their conduct is indictable under 18 U.S.C. 1341 and 1343 on this addition basis.

Violation of 18 U.S.C. 1341 and 1343

230. For the purpose of executing and/or attempting to execute the above-described scheme to claim for themselves and develop MicroIslet Intellectual Property, by means of false pretenses, representations or promises, the defendant, in violation of 18 U.S.C. 1341 placed in post offices and/or in authorized repositories matter and things to be sent or delivered by the Postal Service, caused matter and things to be delivered by commercial interstate carriers, and received matter and things from the United States Postal Service or commercial interstate carriers, including, but not limited to, marketing and investment solicitation materials, product development materials relating to the claimed ownership and development of MicroIslet Intellectual Property, internet marketing, websites of Islet Sciences and emails sent in furtherance of the fraudulent scheme.

231. For the purpose of executing and/or attempting to execute the above-described scheme to defraud or obtain money by means of false pretenses, representations or promises, the defendant, also in violation of 18 U.S.C. 1343, transmitted and received by wire matter and things, which include, but are not limited to, emails making false representations of ownership, coordination regarding attempts to claim and develop MicroIslet Intellectual Property, and other emails and telephone calls made in furtherance of the scheme to defraud Plaintiffs.

232. The matters and things sent by Defendants via the Postal Service, commercial carrier wire or other interstate electronic media as identified above include, inter alia

- a. False and fraudulent representations that Defendants acquired, own and have exclusive rights to the MicroIslet Intellectual Property;
- b. Material omissions of fact concealing that Defendants do not actually own or have rights to the MicroIslet Intellectual Property;
- c. False and deceptive representation concerning Plaintiffs' rights to the MicroIslet Intellectual Property;
- d. False and deceptive representations concerning Islet Sciences' business, including claims that Islet Sciences is developing products that are not based on MicroIslet Intellectual Property; and
- e. Material omissions of fact concerning the fact that the business of Islet Sciences is built on MicroIslet Intellectual Property, which Plaintiffs own.

233. The defendant's misrepresentations, acts of concealment and failures to disclose were knowing and intentional, and made for the purpose of defrauding Plaintiffs and deceiving others associated with Plaintiffs to wrongfully obtain their monies and property for defendant's gain.

234. The defendant either knew or recklessly disregarded the fact that the misrepresentations and omissions described above and incorporated herein were material, and Plaintiffs reasonably relied on the misrepresentations and omissions as set forth above.

235. As a result, defendant has obtained money and property belonging to Plaintiffs, and continues to operate the business of Islet Sciences at Plaintiffs' expense, and Plaintiffs have been respectively injured in their business or property by the defendant's overt acts of mail and wire fraud, and by Defendants' aiding and abetting each other's acts of mail and wire fraud.

#### Pattern of Racketeering Activity

236. Defendants have engaged in a “pattern of racketeering activity,” as defined by 18 U.S.C. 1961(5), by committing or aiding and abetting in the commission of at least 2 acts of racketeering activity, i.e., indictable violations of 18 U.S.C. 1341 and 1343 as describe above, within the part 10 years, in fact defendants have committed or aided and abetted each other in the commission of several related acts of racketeering activity for the purpose of attempting to steal from Plaintiffs and infringe on MicroIslet Intellectual Property.

237. The multiple acts of racketeering activity which defendants committed and/or conspired to, or aided and abetted in the commission of, were related to each other and amount to pose and threat continued racketeering activity, and therefore constitute a “pattern of racketeering activity” as defined in 18 U.S.C. 1961(5).

#### RICO Violations

238. Defendants, through the conduct described above, acquired, maintained and exercised control over the ISE enterprise, which was engaged in or affected interstate of foreign commerce. Therefore, Defendants have violated 18 U.S.C. 1961 (I)(B).

239. As a direct and indirect result of defendant’s conduct as described above, Defendants came into possession of substantial amounts of money. Defendant used that money to establish and/or operate the ISE enterprise described herein, which engaged in interstate or foreign commerce. Therefore, defendants have violated 18 U.S.C. 1962(a).

240. Section 1962(c) of RICO provides that it “shall be unlawful for any person employed by or associated with any enterprise engaged in, or the activities of which affect, interstate of foreign commerce, to conduct or participate, directly or indirectly, in the conducts of



the affair of the [ISE] through a pattern of racketeering activity comprised of numerous acts of mail fraud and wire fraud, and defendants so participated in violation of 18 U.S.C. 1962(c).

241. Defendants owned, operated and/or controlled by it, willfully agreed to, and did materially participate, directly or indirectly, in the conduct of the affairs of the ISE through a pattern of racketeering activity comprised of numerous acts of mail fraud and wire fraud, defendants so participated in violation of 18 U.S.C. 1962(c).

242. Additionally, Section 1962(d) or RICO makes it unlawful “for any person to conspire to violate any or the provisions of subsection (a), (b) or (c) of this section.” Defendant’s conspiracy to defraud the plaintiff of their money and property pursuant to the scheme described above violates 18 U.S.C. 1962(d).

### **FIRST CAUSE OF ACTION**

#### **(Civil RICO)**

243. Plaintiff incorporates and realleges the preceding paragraphs as though set forth at length in this cause of action.

244. This claim for relief arises under 18 U.S.C. 1964(c).

245. In violation of 18 U.S.C. 1962 (c), defendants have, as set forth above, conspired to violate 18 U.S.C. 1962(c) by conducting or participation in the conduct of, the affairs of the ISE through a pattern of racketeering.

246. As a result and by reason of the foregoing, Plaintiffs have been injured, suffered irreparable harm and sustained damage to their business and property, and are therefore entitled to recover actual and treble damages, and their cost of suit, including reasonable attorney fees, pursuant to 18 U.S.C. 1964(c).

247. In addition, as set forth above, defendants have violated 18 U.S.C. 1962(c) and (d) and will continue to do so in the future. Enjoining the defendant from committing these RICO violations in the future and or declaring their invalidity is appropriate pursuant to 18 U.S.C. 1964(a) which authorizes the district courts to enjoin violations of 18 U.S.C. 1962.

## **SECOND CAUSE OF ACTION**

### **(Declaratory Judgment)**

248. Plaintiffs incorporate each and every allegation elsewhere stated herein as if each allegation were set forth fully hereafter.

249. Under 28 U.S.C. § 2201, this Court has power to determine the rightful and true owner of the intellectual property purchased by Plaintiffs from MicroIslet out of bankruptcy.

250. This Court should declare that Plaintiffs are the rightful and proper owners of the intellectual property originally owned by MicroIslet that is now falsely claimed by Defendants.

251. This Court has the power to determine the rightful and true user of the MicroIslet Intellectual Property.

252. This Court should declare that Plaintiffs are the rightful and proper users fo the MicroIslet Intellectual Property.

253. Accordingly, Plaintiffs are entitled to the following:

- a. An Order that Defendants file amended reports with the Securities and Exchange Commission restating that Defendant Islet Sciences does not own any of the Patents and other Intellectual Property formerly developed and owned by MicroIslet; specifically, amendments to the following reports:
  - i. Form 10Q for the period ending January 31, 2012;

- ii. Form 10Q for the period ended April 30, 2012;
  - iii. Form 10K for the Annual Period Ending July 30, 2012;
  - iv. Form 10Q for the Quarterly Period ended October 31, 2012.
- b. An Order that Defendants issue a Press Release disclosing to the public markets that Defendant Islet Sciences does not own any of the Patents and other Intellectual Property formerly developed and owned by MicroIslet.

### **THIRD CAUSE OF ACTION**

#### **(Conversion)**

254. Plaintiffs incorporate each and every allegation elsewhere stated herein as if each allegation were set forth fully hereafter.

255. By representing to private and public investors that Defendant Islet Sciences owns the intellectual property of Plaintiffs, Defendants have willfully interfered with and appropriated and converted property belonging to Plaintiffs.

256. As a result of Defendants' actions, Plaintiffs have lost the money expended in the acquisition and development of MicroIslet Intellectual Property.

257. Defendants have received monies and securities claiming to own Plaintiffs' property, thus converting the property and the proceeds for their own interests.

258. Plaintiffs are entitled to all of the economic benefit Defendants have received while falsely claiming to own Plaintiffs' property and assets.

259. Plaintiffs have been wrongfully deprived of over \$4 million and are entitled to a judgment in that amount against Defendants.

260. The Court should also award punitive damages, costs, and attorney's fees.

#### **FOURTH CAUSE OF ACTION**

##### **Misappropriation Of Trade Secrets**

261. Plaintiffs incorporate each and every allegation elsewhere stated herein as if each allegation were set forth fully hereafter.

262. Plaintiffs' intellectual property includes and incorporates certain trade secrets.

263. Plaintiffs have taken steps to ensure that their intellectual property is not made public. In fact, the only reason Steel had access to Plaintiffs' property is because he had a relationship of trust with Plaintiffs.

264. As described above, Defendants used improper means in an attempt to acquire and utilize Plaintiffs' intellectual property.

265. As a result of Defendants' misappropriation of Plaintiffs' trade secrets, Plaintiffs have been damaged in an amount to be proven at trial.

#### **FIFTH CAUSE OF ACTION**

##### **Patent Infringement**

266. Plaintiffs incorporate each and every allegation elsewhere stated herein as if each allegation were set forth fully hereafter.

267. Plaintiffs own the intellectual property at issue, including Patent #6,365,385 relating to Methods of Culturing, Cryopreserving, and Encapsulating Islet Cells.

268. Defendants have purported to own and use Plaintiffs' patent. In fact, Defendants have raised substantial amounts of money based on their representations of ownership.

In doing so, and in further claiming derivative patents based on Plaintiffs' patent and other

intellectual property, Defendants are infringing on Plaintiffs' intellectual property and Plaintiffs have been harmed.

269. Defendants do not actually own Plaintiffs' patent and have harmed Plaintiffs by asserting ownership in an amount not less than \$12 million, to be proven at trial.

## **SIXTH CAUSE OF ACTION**

### **Unjust Enrichment**

270. Plaintiffs incorporates each and every allegation elsewhere stated herein as if each allegation were set forth fully hereafter.

271. By representing to private and public investors that Defendant Islet Sciences owns the intellectual property of Plaintiffs, Defendants have received over \$4 million from investors and securities with an unknown value.

272. Defendants have been unjustly enriched and Plaintiffs are entitled to all of the economic benefit Defendants have received while claiming to own Plaintiffs' property.

273. Plaintiffs are entitled to a judgment in the amount of \$4 million against Defendants.

274. The Court should also award punitive damages, costs, and attorney's fees.

## **SEVENTH CAUSE OF ACTION**

### **Interference With Potential Economic Relationship**

275. Plaintiffs incorporate each and every allegation elsewhere stated herein as if each allegation were set forth fully hereafter.

276. Defendants knew that Plaintiffs' intellectual property is a valuable and marketable asset.

277. Defendants have interfered with Plaintiffs' rights to the intellectual property by publicly claiming ownership over the same assets.

278. Defendants' actions are wrongful because Defendants know that those intellectual property assets actually belong to Plaintiff.

279. Plaintiffs have been damaged by Defendants' interference in an amount to be proven at trial.

## **EIGHTH CAUSE OF ACTION**

### **Breach Of Fiduciary Duty**

280. Plaintiffs incorporate each and every allegation elsewhere stated herein as if each allegation were set forth fully hereafter.

281. As a consultant to Islet Holdings and Isletech, Steel and Rhodes owed Plaintiffs a fiduciary duty to act in their best interests.

282. As an officer of Islet Holdings and Isletech, Lakey owed Plaintiffs a fiduciary duty to act in their best interests.

283. Steel, Rhodes and Lakey breached their fiduciary duty to Plaintiffs by having Islet Sciences assert that it owns Plaintiffs 'intellectual property. They acted fraudulently and in a self-serving manner, which harmed Plaintiffs.

284. Steel, Rhodes and Lakey should be required to disgorge any profits obtained and reimburse Plaintiffs for the losses suffered as a result of these breaches of fiduciary duties.

## **NINTH CAUSE OF ACTION**

### **Negligent Misrepresentation**

285. Plaintiffs incorporate each and every allegation elsewhere stated herein as if each allegation were set forth fully hereafter.

286. The representations and statements made by Defendants to private and public investors were materially false, incomplete, inaccurate, and misleading as to property and assets owned by Plaintiffs

287. Defendants have negligently misled private investors and the public as a whole, depriving Plaintiffs of the benefit of potential investment money as well as harming these uninformed investors.

288. Defendants knew or should have known that they were making materially false and misleading statements and that these statements and omissions would be relied on to Plaintiffs' detriment.

289. In fact, Plaintiffs and other persons and entities did rely, reasonably and justifiably, upon the false statements and representations and lack of information by the Defendants.

290. Defendants have failed to disclose material information they had a duty to disclose and are liable for nondisclosure. *See* Restatement (Second) Of Torts § 55a.

291. Defendants are liable to Plaintiffs for negligent misrepresentation. *See* Restatement (Second) Of Torts §552B.

292. As a direct and proximate cause and result of that alleged herein, Plaintiffs have been substantially damaged and are entitled to an award by the Court against Defendants for its actual damages and of punitive and exemplary damages of at least \$12 million.

#### **TENTH CAUSE OF ACTION**

### **Intentional Misrepresentation**

293. Plaintiffs incorporate each and every allegation elsewhere stated herein as if each allegation were set forth fully hereafter.

294. As shown above, these representations and statements made by Defendants to Plaintiffs as well as private and public investors were materially false, incomplete, inaccurate, and misleading as to the property and assets which are owned by Plaintiffs.

295. Defendants have intentionally misled private investors and the public as a whole, depriving Plaintiffs of the benefit of potential investment money as well as harming uninformed investors.

296. Defendants knew or should have known that they were making materially false and misleading statements and that these statements and omissions would be relied on.

297. In fact, Plaintiffs and other persons and entities did rely, reasonably and justifiably, upon the false statements and representations and lack of information by Defendants. Defendants intentionally failed to disclose material information when they had a duty to do so.

298. As a direct and proximate cause and result of that alleged herein, Plaintiffs have been substantially damaged and are entitled to an award by the Court against Defendants for its actual damages and of punitive and exemplary damages in an amount not less than \$12 million, to be proven at trial.

### **PRAYER FOR RELIEF**

WHEREFORE, Plaintiffs pray that the Court enter an Order as follows:

1. Judgment declaring that Plaintiffs own the MicroIslet intellectual property that Defendants have claimed for themselves;



2. An Order that Defendants file amended reports with the Securities and Exchange Commission restating that Defendant Islet Sciences does not own any of the Patents and other Intellectual Property formerly developed and owned by MicroIslet; specifically, amendments to the following reports:

- a. Form 10Q for the period ending January 31, 2012;
- b. Form 10Q for the period ended April 30, 2012;
- c. Form 10K for the Annual Period Ending July 30, 2012;
- d. Form 10Q for the Quarterly Period ended October 31, 2012.

3. An Order that Defendants issue a Press Release disclosing to the public markets that Islet Sciences does not own any of the Patents and other Intellectual Property formerly developed and owned by MicroIslet.

- 4. Awarding actual damages in an amount to be determined at trial;
- 5. A judgment awarding:
  - a. costs and reasonable attorneys' fees incurred as a result of Defendants' conduct;
  - b. awarding pre-and post-judgment interest as allowed by law;
  - c. awarding consequential, general, exemplary, and special damages in amounts to be determined at trial;
  - d. disgorgement of any profits and reimbursement of any losses suffered due to the breaches of fiduciary duty;
  - e. punitive damages as allowed by law.
- 6. And any additional relief the Court deems appropriate.

JURY DEMAND

Plaintiffs hereby demand trial by jury in this action of all issues so triable.

Respectfully submitted this 3rd day of July, 2013.

*/s/ Marcus R. Mumford*  
Attorney for Plaintiffs

[EXHIBITS TO BE FILED UNDER SEAL]