

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING) Order Number S-08-028-10-FO01
Whether there has been a violation of the)
Securities Act of Washington by:) ENTRY OF FINDINGS OF FACT AND
) CONCLUSIONS OF LAW AND
Seismic Shock Control Systems, Inc.;) FINAL ORDER TO CEASE AND
Michael Axon;) DESIST AS TO MICHAEL AXON
Edward Coumou;)
Respondents)

INTRODUCTION

On March 16, 2010, the Securities Administrator of the State of Washington issued Statement of Charges and Notice of Intent to Enter Order to Cease and Desist, Impose Fines, and Recover Costs S-09-039-09-SC01 (hereinafter "Statement of Charges"), against Respondent Michael Axon. The Statement of Charges, together with a Notice of Opportunity to Defend and Opportunity for Hearing ("Notice"), and an Application for Adjudicative Hearing ("Application for Hearing"), were served on Respondent Michael Axon on March 20, 2010.

On April 7, 2010, Respondent Michael Axon returned the Application for Hearing and waived his right to a hearing. In lieu of requesting a hearing, Respondent Michael Axon submitted a written statement for consideration by the Agency Director or Securities Administrator, and supplemented the written statement on April 8, 2010.

After considering the written statement as supplemented, and reviewing the investigative record, the Securities Administrator finds no material grounds for amendment of the Statement

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1 of Charges, and will therefore adopt as final the findings of fact and conclusions of law as set
2 forth in the Statement of Charges. The Securities Administrator finds as follows:

3 **FINDINGS OF FACT**

4 Respondents

5 1. Seismic Shock Control Systems, Inc. (“Seismic Shock”) is a Washington
6 corporation with a business address in Marysville, Washington. Seismic Shock formerly used
7 an office located in Arlington, Washington. Seismic Shock was in the business of developing
8 and manufacturing bearings that were to be used to protect buildings, bridges, and other
9 structures from damage due to seismic events. Seismic Shock was previously known as Axon
10 Shock Control Systems, Inc.
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12 2. Michael Axon (“Axon”) was the founder of Seismic Shock, and served at
13 various times as the company’s President and CEO until he resigned in approximately
14 February 2006. At all relevant times, Axon resided in Washington.

15 3. Edward Coumou (“Coumou”) served as the President of Seismic Shock.
16 Coumou is a resident of Washington.

17 Nature of the Offering

18 4. Beginning in approximately August 2001 and continuing through at least March
19 2006, the Respondents offered and sold Seismic Shock common stock to nearly 300 investors
20 in Washington and other states, raising a total of approximately \$3 million.
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1 5. In December 2002, a news article regarding Axon and Seismic Shock appeared
2 in the *Seattle Times*. The article, which was also posted on the Internet, reported that Axon
3 was “looking for investors” and included a link to Seismic Shock’s website.

4 6. The Respondents found investors in a number of ways. Seismic Shock’s
5 website included a link for prospective investors. Prospective investors were invited to
6 receive a copy of an offering memorandum by sending an e-mail to
7 invest@seismicshock.com. Coumou arranged for a group of investors to operate as “finders”
8 and recruit new investors in exchange for additional shares of stock. These finders solicited
9 and caused other persons to invest, by representing, among other things, that Seismic Shock
10 would be conducting an imminent public offering and by leading some investors to believe
11 they could earn returns “like Microsoft” or “equal to Microsoft.” In September 2003, Axon
12 sent a letter to Seismic Shock investors and offered to sell them additional shares of Seismic
13 Shock stock. In the letter, Axon encouraged investors to “share this investment opportunity
14 with others” and offered to assist them in presenting the investment to others.

15 7. Coumou and Axon met with prospective investors at different locations,
16 including the company’s office in Arlington. At one such meeting, Axon led an investor to
17 believe that Seismic Shock’s stock would double in value. Coumou also sent e-mails to
18 prospective investors, offering to sell them shares of Seismic Shock stock. In October 2006,
19 Coumou sent an e-mail to a prospective investor, stating that it was a “good time to buy”
20 Seismic Shock stock because the company had plans to become publicly traded. Coumou
21 also stated that shareholders are “free to sell their shares to any willing buyer at any time.”
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1 Misrepresentations and Omissions

2 8. In the offer and sale of Seismic Shock stock, the Respondents made misleading
3 statements regarding the value of Seismic Shock stock. In a letter dated August 12, 2004,
4 Coumou informed Seismic Shock investors that the company's stock price would be doubling
5 from \$5 per share to \$10 per share on August 25, 2004. In the letter, Coumou made a
6 "limited time" offer to sell additional shares of Seismic Shock for \$5 per share. The letter
7 failed to disclose that the share price was arbitrary and did not reflect the underlying value of
8 the company. In August 2005, Coumou sent a misleading letter to investors announcing that
9 the company had authorized a two-for-one stock split. The letter failed to disclose that the
10 stock split only increased the number of outstanding shares and did not change the underlying
11 value of the company or generate any return to investors.
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13 9. In the offer and sale of Seismic Shock stock, the Respondents failed to disclose
14 material information, which made the information that was disclosed, misleading to investors.
15 While some Seismic Shock investors were provided with written offering documents
16 (including a Private Placement Memorandum, a subscription agreement, a business plan, and
17 an accredited investor questionnaire), other investors received no written offering material
18 prior to their investment, and later received only stock certificates and correspondence. The
19 Respondents failed to provide several Seismic Shock investors with a Private Placement
20 Memorandum or other written document with disclosure of material information, including,
21 but not limited to, prior and intended use of offering proceeds, the compensation paid to Axon
22 and Coumou; and material information regarding the financial condition of Seismic Shock.
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1 The Respondents also failed to disclose the speculative nature of the stock; the lack of an
2 established public market for the stock; and the fact that there was no assurance that a public
3 market would develop for the stock; and other risks associated with the investment.

4 Registration Status

5 10. On March 12, 2004, Seismic Shock Control Systems Inc. filed claims of
6 exemption from registration with the Securities Division, pursuant to WAC 460-44A-504
7 (“Rule 504”) and WAC 460-44A-505 (“Rule 505”). Seismic Shock failed to comply with
8 Rule 504’s requirement that issuers file a notice of claim of exemption at least 10 business
9 days prior to the first sale to a resident of Washington. Seismic Shock also failed to comply
10 with Rule 505’s requirement that issuers file a notice of claim of exemption within 15 days of
11 the first sale to a resident of Washington. The Respondents failed to comply with other
12 conditions of Rule 504 and 505, by among other things, paying commissions in the form of
13 stock and by engaging in general solicitation.
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15 11. On or about March 17, 2004, counsel for Seismic Shock notified the Securities
16 Division that it was withdrawing its claims of exemption pursuant to Rule 504 and 505.
17 Seismic Shock Control Systems Inc. is not currently registered to sell its securities in the State
18 of Washington.
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20 12. Michael Axon is not currently registered as a securities salesperson or broker-
21 dealer in the State of Washington and has not previously been so registered.
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1 Based upon the Tentative Findings of Facts the following Conclusions of Law are made:

2 **CONCLUSIONS OF LAW**

3 1. The offer or sale of Seismic Shock Control Systems Inc. stock described above
4 constitutes the offer or sale of a security as defined in RCW 21.20.005(10) and (12).

5 2. Michael Axon has violated RCW 21.20.140, because he offered and/or sold
6 securities for which there is no registration on file with the Securities Administrator.

7 3. Michael Axon has violated RCW 21.20.040 by offering or selling said securities
8 while not registered as a securities salesperson or broker-dealer in the State of Washington.

9 4. The offer or sale of the investments described above was made in violation of
10 RCW 21.20.010 because, as set forth in the Tentative Findings of Fact, Respondent Michael
11 Axon made misstatements of material facts or omitted to state material facts necessary in order
12 to make the statements made, in light of circumstances under which they were made, not
13 misleading.
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15 **FINAL ORDER**

16 Based upon the foregoing and finding it in the public interest:

17 It is hereby ORDERED that Respondent Michael Axon and his agents and employees
18 each shall cease and desist from offering or selling securities in violation of RCW 21.20.140, the
19 securities registration section of the Securities Act of Washington.

20 It is further ORDERED that Respondent Michael Axon and his agents and employees
21 each shall cease and desist from acting as an unregistered securities broker-dealers or
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1 salespersons in violation of RCW 21.20.040, the broker-dealer and securities salesperson
2 registration section of the Securities Act of Washington.

3 It is further ORDERED that Respondent Michael Axon and his agents and employees
4 each shall cease and desist from violating RCW 21.20.010, the anti-fraud section of the
5 Securities Act of Washington.

6 It is further ORDERED that Respondent Michael Axon shall be liable for and pay a fine
7 in the amount of \$5,000.

8 It is further ORDERED that Respondent Michael Axon shall be liable for and pay costs
9 in the amount of \$2,500.

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11 **AUTHORITY AND PROCEDURE**

12 This Final Order is entered pursuant to the provisions of RCW 21.20.390 and RCW
13 21.20.395, and is subject to the provisions of RCW 21.20.440 and Chapter 34.05 RCW. The
14 Respondent has the right to petition the superior court for judicial review of this agency action
15 under the provisions of chapter 34.05 RCW. For the requirements for filing a Petition for
16 Judicial Review, see RCW 34.050.510 and sections following. Pursuant to 21.20.395, a certified
17 copy of this order may be filed in Superior Court. If so filed, the clerk shall treat the order in the
18 same manner as a Superior Court judgment as to the fine, and the fine may be recorded,
19 enforced, or satisfied in like manner.
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1 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

2 DATED and ENTERED this 21st day of April, 2010.

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5 SUZANNE SARASON
6 Chief of Enforcement

7 Presented by:

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9 ROBERT KONDRAT
10 Enforcement Attorney

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