

**ADMINISTRATIVE PROCEEDING
BEFORE THE
SECURITIES COMMISSIONER OF MARYLAND**

IN THE MATTER OF:

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Case No. 2015-0205

JEFFREY LAWSON

*

and

JOHN GRAZIOLI

*

and

SENSUSS, INC.,

*

RESPONDENTS.

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ORDER TO SHOW CAUSE

WHEREAS, the Securities Division of the Office of the Maryland Attorney General, pursuant to the authority granted in section 11-701 of the Maryland Securities Act, Title 11, Corporations and Associations Article, Annotated Code of Maryland (2014 Repl. Vol. & Supp. 2015) (the “Securities Act” or “Act”), initiated an investigation into the securities related activities of Jeffrey Lawson, John Grazioli, and Sensuss, Inc. (collectively “Respondents”); and

WHEREAS, on the basis of that investigation, the Maryland Securities Commissioner (the “Commissioner”) finds that grounds exist to allege that Respondents violated certain registration and antifraud provisions set forth at sections 11-301, 11-401, 11-402, and 11-501 of the Act; and

WHEREAS, the Commissioner has determined that it is in the public interest to issue this Order to Show Cause;

NOW, THEREFORE, the Commissioner hereby orders each Respondent to show cause why a final order should not be entered ordering that Respondent to cease and desist from violating those registration and antifraud provisions of the Act, to show cause why a statutory

monetary penalty of up to \$5,000 per violation should not be assessed against that Respondent for such violations, and to show cause why that Respondent should not be barred from engaging in the securities business in Maryland for or on behalf of others and from being or acting as a principal or consultant in any entity engaged in such activities.

I. JURISDICTION

1. The Commissioner has jurisdiction in this proceeding pursuant to section 11-701.1 of the Act.

II. RESPONDENTS

2. Sensuss, Inc. (“Sensuss”), at all relevant times was a Delaware corporation with a principal office in Pasadena, Maryland.

3. Jeffrey Lawson is a resident of the state of Illinois, who at all relevant times held himself out and acted as the chief executive officer of Sensuss and conducted business from the Sensuss office in Pasadena, Maryland.

4. John Grazioli is a resident of Severna Park, Maryland, who at all relevant times held himself out as the president of Sensuss and acted as an agent of Lawson and Sensuss in soliciting an investment from a Delaware resident.

III. STATEMENT OF FACTS

On information and belief, the Commissioner alleges the following:

5. Beginning in the summer of 2012, Lawson and Grazioli repeatedly solicited AH, Grazioli’s relative by marriage, for a \$250,000 investment in Sensuss through telephone calls and in person meetings at AH’s home. The solicitation culminated in a sale of 150 shares of Sensuss to AH on or about January 16, 2013 at the Sensuss office located in Pasadena, Maryland.

6. Lawson and Grazioli told AH that Sensuss had entered into an agreement to purchase a portfolio of patents owned by Lawson, its majority shareholder, for a fixed price of \$1 million. They claimed that, using Lawson's patented technology, the company was going to sell concussion detection devices for children's contact sports helmets.

7. According to Respondents, a sensor attached to the helmet would measure impact data and transmit this information in real time to the cloud. Using smart devices, medical professionals and others would then instantaneously receive an alert of the impact and could access a cumulative history of the athlete's impacts, allowing for faster and better informed decisions about potential concussion risk to the athlete and related medical attention.

8. Respondents told AH that the sensors initially were going to be manufactured at ZDM Technologies Inc., where Lawson was president. Respondents further represented that Sensuss either would be sold for a huge profit or would bring manufacturing in-house at a new plant in Delaware.

9. Lawson and Grazioli made numerous promises about the lucrative potential to come from application of this technology. They touted a long list of corporate sponsors that would be joining Sensuss in this venture, showcased favorable press reports and awards for the technology, and claimed that the company was "going to be the next Under Armour."

10. They also repeatedly represented to AH that the company 3M, a publicly-traded, multi-national conglomerate, was interested in buying the technology and had offered to pay them \$10 million to buy them out. On at least one occasion, Lawson showed AH a copy of the letter he claimed 3M sent him regarding the buy-out offer.

11. Pointing to the purported 3M offer as justification, Lawson and Grazioli then placed a \$10 million valuation on Sensuss, which, in turn, they used to calculate the value of

AH's potential \$250,000 investment. In connection with the \$250,000 potential investment, Lawson and Grazioli presented AH with an offering document that gave him "multiple options for investment opportunities" in Sensuss:

- Option 1 – fifteen percent interest for six years, starting repayment in the second year;
- Option 2 – three percent non-voting Sensuss stock with promised yearly dividends, which was valued at \$100,000 per percentage point with an extra half point to sign a letter of credit;
- Option 3 – two and one-half percent non-voting Sensuss stock plus a "grandfathered Distribution Agreement (very lucrative commission plan)" to sell Sensuss product and work for Sensuss in predefined capacity, valued at \$100,000 per percentage point.

12. Respondents gave AH an offering memorandum in which Respondents falsely represented that: the company was in the final stages of testing its "S2" sensor and had the "S2" scheduled for release in the coming months; the infrastructure for the "S3" sensor would be available in the fourth quarter of 2012; Respondents intended to limit the amount of salaries they could pay themselves or others before dividends were distributed to shareholders; and that there was an agreement in place between Sensuss and Lawson, who claimed ownership of certain key intellectual property rights for the technology, whereby Sensuss would purchase from Lawson a portfolio of patents for a fixed price of \$1,000,000.

13. On or about January 16, 2013, Sensuss's board of directors held its first meeting at the Pasadena, Maryland office located at 8221 Ritchie Highway. The minutes of this meeting reflect that, *inter alia*, share distribution and members' roles were decided, the company received from AH an official check in the amount of \$250,000, and that Grazioli gave AH a hand written receipt for the \$250,000. The minutes also reflect a note that "[t]hese funds will be allocated towards operational expenditures." All of Sensuss' 5,000 shares were distributed, with 150 shares (3%) going to AH.

14. Grazioli subsequently deposited AH's check into a bank account held by UBS Bank in the name of Sensuss, for which Grazioli was the only authorized signer.

15. Although Respondents promised AH, prior to his investment, that his funds would only be used for Sensuss business and that no one in Sensuss was going to take a paycheck or receive compensation of any kind, Respondents used the funds to pay for expenses that were not related to Sensuss or to pay undisclosed compensations. Among other things, Respondents used AH's investment monies to pay \$2,500 per month in rent for the office space used by Grazioli to operate a staffing agency he owned separate and apart from Sensuss, to pay the salary of Craig Ray, a director of Sensuss, and to pay "consulting fees" to Lawson and others.

16. Respondents represented to AH prior to his investing in the company that they were going to sell, but never sold, concussion sensors for children's sports helmets. After AH invested, however, Respondents shifted the company's focus from those sensors to LED lighting products, which were made by ZDM Technologies under the Sensuss label. On a conference call with AH, Lawson and Grazioli admitted that what they really wanted to do was to become a supplier to indoor marijuana growers of LED lights after Sensuss refined the technology to duplicate the exact sunlight of different locations so that the growers could replicate the light spectrum of places like Mexico and Afghanistan.

17. Respondents have not paid any monies to AH in connection with his investment.

18. Neither Respondent is registered in Maryland as a broker-dealer or agent.

19. Shares of Sensuss are not registered for offer or sale in Maryland, and no claim of exemption from registration has been filed with the Division. The shares are not a federal covered security.

COUNT I
(Offer and Sale of Unregistered Securities)

WHEREAS, section 11-501 of the Securities Act makes it unlawful for any person to offer or sell a security in Maryland unless the security is registered, is exempt from registration under the Act, or is a federal covered security; and

WHEREAS, the shares of Sensuss offered and sold by Respondents constitute “securities” in the form of stock, an interest in a profit-sharing agreement, or an investment contract, within the meaning of section 11-101 of the Securities Act; and

WHEREAS, there is no record of registration, claim of exemption from registration, or qualification as a federal covered security filed with the Division by or on behalf of Sensuss; and

WHEREAS, Respondents have offered and sold securities in Maryland in violation of the registration requirements of section 11-501 of the Securities Act;

NOW, THEREFORE, IT IS HEREBY **ORDERED** that each Respondent show cause why that Respondent should not be ordered permanently to cease and desist from the offer and sale of unregistered securities in Maryland, why that Respondent should not be assessed a statutory monetary penalty for such violations, and why that Respondent should not be barred from engaging in the securities business in this State and from being a principal or consultant in any entity so engaged.

COUNT II
(Acting as an Unregistered Agent)

WHEREAS, section 11-401 of the Securities Act makes it unlawful for any person to transact business in the offer and sale of securities in this State as a broker-dealer or agent unless that person is registered as such pursuant to the Act; and

WHEREAS, the Sensuss shares offered and sold by Respondents are “securities” within the meaning of section 11-101 of the Securities Act; and

WHEREAS, section 11-101(k) of the Securities Act defines an “issuer” as a person, including a corporation, that issues or proposes to issue a security; and

WHEREAS, section 11-101(b) of the Securities Act defines an “agent” as an individual other than a broker-dealer who represents a broker-dealer or issuer in effecting or attempting to effect the purchase or sale of securities; and

WHEREAS, Respondents Lawson and Grazioli each acted as an agent of Sensuss in effecting or attempting to effect the purchase or sale of Sensuss shares in this State; and

WHEREAS, none of the Respondents are registered with the Division as an agent to transact securities business in this State;

NOW, THEREFORE, IT IS HEREBY **ORDERED** that Respondent Lawson and Respondent Grazioli each show cause why that Respondent should not be ordered permanently to cease and desist from acting as an unregistered broker-dealer or agent in this State, why that Respondent should not be assessed a statutory monetary penalty for such violations, and why that Respondent should not be barred from engaging in the securities business in this State and from being a principal or consultant in any entity so engaged.

COUNT III

(Employment of Unregistered Agent for Sale of Securities)

WHEREAS, section 11-402 of the Securities Act makes it unlawful for any broker-dealer or issuer to employ or associate with an agent for the offer or sale of securities in this State unless the agent is registered pursuant to the Securities Act; and

WHEREAS, section 11-101(k) of the Securities Act defines an “issuer” as a person, including a corporation, that issues or proposes to issue a security; and

WHEREAS, the shares of Sensuss offered and sold by Respondents are “securities” within the meaning of section 11-101 of the Securities Act; and

WHEREAS, in issuing those securities, Respondent Sensuss acted as an issuer; and

WHEREAS, Respondents Lawson and Grazioli each acted as an agent of Sensuss by effecting or attempting to effect the purchase or sale of those securities in this State; and

WHEREAS, none of the Respondents are registered with the Division as an agent to transact securities business in this State;

NOW, THEREFORE, IT IS HEREBY **ORDERED** that Respondent Sensuss show cause why that Respondent should not be ordered permanently to cease and desist from employing unregistered agents for the offer and sale of securities in this State, why that Respondent should not be assessed a statutory monetary penalty for such violations, and why that Respondent should not be barred from engaging in the securities business in this State and from being a principal or consultant in any entity so engaged.

COUNT IV

(Misrepresentation or Omission of Material Fact in the Offer or Sale of Securities)

WHEREAS, section 11-301 of the Securities Act prohibits any person, in connection with the offer, sale or purchase of any security, directly or indirectly to: (1) employ any device, scheme or artifice to defraud; (2) make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading; or (3) to engage in any act, practice, or course of business that operates or would operate as a fraud or deceit on any person; and

WHEREAS, the shares of Sensuss offered and sold by Respondents are “securities” within the meaning of section 11-101 of the Securities Act; and

WHEREAS, in connection with the offer and sale of Sensuss shares, Respondents made materially false or misleading statements regarding the repayment of invested funds, profitability, risk, use of invested funds, and performance of the investment; and

WHEREAS, in connection with the offer and sale of Sensuss shares, Respondents omitted material facts that were necessary to make statements that Respondents made not misleading, including their lack of appropriate registration, full representation of the risks associated with the investment, and the status and use of the invested funds;

NOW, THEREFORE, IT IS HEREBY **ORDERED** that each Respondent show cause why that Respondent should not be ordered permanently to cease and desist from engaging in misrepresentations or omissions of material facts in connection with the offer and sale of securities, why that Respondent should not be assessed a statutory monetary penalty for such violations, and why that Respondent should not be barred from engaging in the securities business in this State and from being a principal or consultant in any entity so engaged.

REQUIREMENT OF ANSWER AND NOTICE OF OPPORTUNITY FOR HEARING

IT IS FURTHER **ORDERED**, pursuant to section 11-701.1 of the Securities Act and the Code of Maryland Regulations, COMAR 02.02.06.06, that each Respondent file with the Commissioner a written Answer to this Order within fifteen days of service of the Order. The Answer must admit or deny each factual allegation in the Order and should set forth affirmative defenses, if any. If a Respondent is without knowledge or information sufficient to form a belief as to the truth of an allegation, he must so state.

Each Respondent's Answer also must indicate whether he requests a hearing. A hearing will be scheduled in this matter if one is requested in writing. Failure to file a written request for a hearing will be deemed a waiver by that Respondent of the right to such a hearing.

Failure to file an Answer or a request for a hearing will result in entry of a final order directing that Respondent permanently to cease and desist from violation of the Securities Act, and imposing the sanctions sought in this Order.

DATE OF THIS ORDER:

SO ORDERED:

Commissioner's Signature
On File w/Original Document

February 16, 2017

Melanie Senter Lubin
Securities Commissioner