

1 PRESTON DuFAUCHARD
California Corporations Commissioner
2 ALAN S. WEINGER
Deputy Commissioner
3 JOANNE J. ROSS (CA BAR NO. 202338)
Corporations Counsel
4 Department of Corporations
5 1515 K Street, Ste. 200
6 Sacramento, California 95814
Telephone: (916) 324-9687
7 Facsimile: (916) 445-6985

8 Attorneys for Complainant

9 BEFORE THE DEPARTMENT OF CORPORATIONS
10 OF THE STATE OF CALIFORNIA

12	In the Matter of)	CASE NO.
13)	
14	THE CALIFORNIA CORPORATIONS)	FILE NO. 309-4439
15	Commissioner,)	STATEMENT OF ISSUES
16)	
17	Complainant,)	
18)	
19	v.)	
20)	
21	AIRSERTS Corporation,)	
)	
	Respondent.)	
)	
)	
)	
)	

22 Complainant, the California Corporations Commissioner, (“Commissioner”) is informed and
23 believes, and based upon such information and belief, alleges and charges Respondent as follows:

24 INTRODUCTION

25 The proposed order seeks to refuse to issue a permit to sell securities in the form of
26 redeemable preferred stock in Airserts Corporation, a California corporation (“Airserts”), pursuant to
27 section 25140 of the California Securities Law, Corporations Code section 25000 et seq., (“CSL”).
28 The Commissioner finds that the proposed plan of business of the Respondent and the proposed

1 issuance of securities are not fair, just and equitable.

2 II

3 THE APPLICATION

4 1. On December 30, 2008, Airserts filed an application to offer and sell securities in California
5 pursuant to Corporations Code section 25113 (“Application”). The Application was verified by
6 Douglas J. Shoner, (“Shoner”), President of Airserts.

7 2. Respondent proposes to qualify the offer and sale of securities in the form of redeemable
8 preferred stock in Airserts, with a proposed aggregate offering price of two million dollars
9 (\$2,000,000). A permit has not been issued pursuant to this Application. A Notice of Intention to
10 Refuse to Issue Permit was issued on the date hereof by the Commissioner.

11 III

12 THE COMMISSIONER’S STANDARDS HAVE NOT BEEN MET BY RESPONDENT

13 3. Section 25140(b) of the CSL provides as follows:

14 The Commissioner may refuse to issue a permit under Section 25113 unless he
15 or she finds that the proposed plan of business of the applicant and the
16 proposed issuance of securities are fair, just and equitable, that the applicant
17 intends to transact its business fairly and honestly, and that the securities which
it proposes to issue and the methods to be used by it in issuing them are not
such as, in his or her opinion, will work a fraud upon the purchaser thereof.

18 4. Complainant alleges that it is unable to find from the Application that Respondent’s
19 proposed plan of business and proposed issuance of securities are fair, just and equitable to the
20 prospective security holders, based on the following findings.

21 5. Respondent seeks a qualification of two million dollars (\$2,000,000) in the offer and sale of four
22 thousand 4,000 shares of redeemable preferred stock. The details of the offering reveal the offering
23 is more comparable to debt than capital stock, as follows:

24 a. Shoner retains 96% of the voting stock;

25 b. “Preferred Shareholders” have no conversion rights and severely limited transfer
26 rights;

27 c. “Preferred shareholders” do not participate in any gain from the sale of Respondent,
28 other than the gain attributed to accrued interest of fifty and four tenths percent (50.4%) simple

1 interest per annum until redeemed by Respondent; and

2 d. Respondent is capitalized with two hundred and eighteen dollars (\$218) in cash and
3 one thousand nine hundred twenty-eight dollars (\$1,928) in a patent for “puncture proof” tire
4 technology. As a result of such under capitalization, the “preferred shares” have no liquidation
5 preference.

6 6. The preferred stock accrues simple interest of fifty and four tenths of a percent (50.4%) per
7 annum until redeemed by Respondent. Redemption of the preferred shares and payment of accrued
8 interest will occur only at such time as the Respondent may be sold, but at a date no earlier than five
9 years and one day after issuance of the preferred shares.

10 7. The Application discusses Shoner’s unsuccessful attempt to obtain research and development
11 funding from the U.S. Military.

12 8. There appears to be no substantive commercial interest in Respondent’s technology.

13 9. Shoner applied for a patent on March 8, 1985 and the patent was issued July 16, 1991.

14 10. The product Respondent intends to sell in order to become profitable has been in existence
15 for some time and Complainant understands that this technology is not being utilized by the tire
16 industry.

17 11. Respondent is a development stage enterprise with only two hundred and eighteen dollars
18 (\$218) in cash and a patent. Respondent will need to raise additional capital to continue as a going
19 concern. This capital will be needed to create business. The information in the Application indicates
20 to Complainant that Respondent will be unable to raise such additional capital.

21 12. In its initial filing, Respondent included an unaudited balance sheet as of December 30,
22 2008. Among the many deficiencies, the balance sheet did not balance.

23 13. Respondent provides tax advice in its Application, without the requisite expertise, that
24 Respondent meets the criteria of a Qualified Small Business (QSB) and that the investors, therefore,
25 may exclude half of their proposed gain on the securities from federal taxation.

26 14. The reviewed financial statements from January 25, 2007 (inception) to December 31, 2008
27 state that Shoner has entered into an intellectual property license agreement with Respondent that
28 calls for an initial payment of forty thousand dollars (\$40,000) per year from 2009 to 2012 and then

1 sixty thousand dollars (\$60,000) per year thereafter. Shoner has extended the due date of the
2 payment to June 30, 2009 in anticipation of raising sufficient capital.

3 15. There is no stated dividend rate, and cash dividends would be paid pro rata to the preferred
4 stockholders only in the event Respondent has net income exceeding one hundred thousand dollars
5 (\$100,000) at the close of its tax year. Net income is not defined with in the Application and may not
6 be measured in conformity with accounting principles generally accepted in the United States.

7 VI

8 CONCLUSION

9 Preferred shareholders are taking all of the economic risk of the investment with Respondent,
10 and it appears that a return on the investment is unlikely. Furthermore, it appears that the President
11 and founder of Respondent (Shoner) stands to gain financially at the expense of the investors. For
12 all of the forgoing reasons, the Commissioner has determined that: (1) the proposed plan of business
13 of the Respondent and the proposed issuance of securities are not fair, just and equitable; (2) the
14 Respondent may not intend to transact its business fairly and honestly; and (3) the securities which
15 Respondent proposes to issue and the methods to be used in issuing the proposed securities may, in
16 the Commissioner's opinion, work a fraud upon the purchasers thereof.

17 WHEREFORE, IT IS PRAYED that the permit application filed by Airserts and Shoner on
18 December 30, 2008, as supplemented and amended to date, be refused.

19
20 Dated: July 21, 2009
21 Sacramento, California

PRESTON DuFAUCHARD
California Corporations Commissioner

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23 By _____
24 JOANNE ROSS
25 Corporations Counsel
26 Enforcement Division
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