

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF FLORIDA**

**CASE NO. 17-CV-80999**

**SECURITIES AND EXCHANGE  
COMMISSION,**

**Plaintiff,**

**v.**

**RICHARD PAUL CEDRONE,  
STEVEN ROBERT FERRIS and  
GEORGE RUSSELL THORESON,**

**Defendants.**

**COMPLAINT**

Plaintiff United States Securities and Exchange Commission (the “Commission”) alleges:

**SUMMARY OF ALLEGATIONS**

1. This case involves (i) a fraudulent scheme, spanning at least April 2012 through September 2013, to get Abakan, Inc.’s stock listed on NASDAQ by causing its share price to close at an artificial price of \$2 or better for 90 consecutive trading days through illegal “marking-the-close” and other manipulative trading activity; and (ii) using unregistered offerings of Abakan stock, from at least September 2012 through August 2014, to fund Abakan’s operations. The scheme was perpetrated by, among others, Defendants George R. Thoreson, Steven R. Ferris and Richard P. Cedrone, the latter despite being subject to a Commission penny stock bar and antifraud cease-and-desist order. By engaging in this conduct, Thoreson, Ferris and Cedrone each violated Securities Act Section 17(a)(1) and (3) and Exchange Act Sections 9(a)(2) and 10(b) and Rule 10b-5(a) and (c) thereunder; Ferris violated Securities Act Sections 5(a) and

(c); and Cedrone violated Exchange Act Section 15(b)(6)(B)(i) by violating his previous penny stock bar, in addition to violating his prior cease-and-desist order.

2. Unless enjoined by this Court, Cedrone, Ferris and Thoreson will likely continue to engage in such violations, and in acts, practices and transactions of similar purport and object.

### **JURISDICTION**

3. This Court has jurisdiction over this action pursuant to Securities Act Sections 20(b) and 22(a) [15 U.S.C. §§ 77t(b) and 77v(a)] and Exchange Act Sections 21(d), 21(e) and 27 [15 U.S.C. §§ 78u(d), 78u(e) and 78aa]. Certain of the transactions, acts, practices, and courses of business constituting the violations of law alleged herein occurred within this judicial district.

### **THE DEFENDANTS**

4. Richard Paul Cedrone, age 54, is a resident of Boynton Beach, Florida. Cedrone provided investor relations consulting services to Abakan from March 2012 through at least 2013. Cedrone was previously registered with the National Association of Securities Dealers (“NASD”), the predecessor of the Financial Industry Regulatory Authority, from January 1990 until January 1994 and held Series 7 and Series 63 licenses. In 1995, NASD censured him, fined him \$27,500 and barred him from association with any NASD member in any capacity for guaranteeing public customers against losses and for failing to respond to NASD information requests. See NASD Complaint No. C02940066 (December 30, 1994). In 1997, Cedrone pleaded guilty in U.S. District Court for the Southern District of New York to one felony count of wire fraud based on an indictment alleging, *inter alia*, that Cedrone bribed an undercover FBI agent posing as a broker to induce the agent to purchase shares of a penny stock for customer accounts. See *U.S. v. Richard Cedrone*, Case No. 1:96-cr-01064-DLC (S.D.N.Y.). The Commission brought settled administrative proceedings against Cedrone on March 1, 1999 (i)

ordering him to cease and desist from committing or causing violations of Securities Act Section 17(a) and Exchange Act Section 10(b) and Rule 10b-5 thereunder; (ii) barring him from participation in penny stock offerings; and (3) ordering him to pay disgorgement of \$500. See *In re Richard Cedrone*, Administrative Proceeding File No. 3-9157 (March 1, 1999).

5. Steven Robert Ferris, age 65, is a resident of Bellevue, Washington. Ferris provided investor relations consulting services to Abakan from at least May 2011 through at least January 2015. Ferris is a former registered representative: from 1986 through 1996, Ferris worked as a registered representative at three broker-dealers registered with the Commission. He held Series 7 and 63 securities licenses.

6. George Russell Thoreson, age 60, is a resident of Snohomish, Washington. From October 31, 2008 through November 15, 2013, Thoreson was a registered representative and investment adviser representative associated with Broker A, a broker-dealer and investment adviser registered with the Commission, and held Series 7, 8, and 63 securities licenses. Broker A terminated Thoreson in October 2013 primarily for conduct described herein. He subsequently served as a registered investment adviser representative at a registered investment adviser firm in Snohomish, Washington until retiring in March 2017. Since that time, Thoreson has not been associated with any SEC-registered entity.

#### **THE ISSUER**

7. Abakan, Inc. (“Abakan”) is a Nevada corporation incorporated on June 27, 2006 with its principal place of business in Miami, Florida. Since August 29, 2007, Abakan’s common stock has been registered with the Commission pursuant to Section 12(g) of the Exchange Act. Since December 15, 2009, Abakan’s common stock, which at all relevant times

qualified as a penny stock, has been quoted in the over-the-counter market under the symbol “ABKI.”

### **FACTS**

8. By early 2012, Abakan planned to apply for listing on NASDAQ. By late March 2012, Ferris and Cedrone were both working as investor relations consultants to Abakan and had learned of its NASDAQ-listing goal. As one of his first acts as an Abakan investor-relations consultant, on March 25, 2012, Cedrone e-mailed Thoreson, along with numerous other brokers in Cedrone’s database, to introduce them to Abakan. Thoreson found Cedrone’s description of Abakan attractive.

9. Within two days of receiving Cedrone’s email (which referred to Abakan as a “pink sheet stock”), Thoreson also learned of Abakan’s NASDAQ-listing goal, and began buying Abakan’s stock. By early April 2012, Cedrone introduced Thoreson to Ferris, whose office at the time was, like Thoreson’s, in Bellevue, Washington. Thereafter and throughout the scheme, Thoreson, Ferris and Cedrone communicated on a daily basis.

### **Defendants Were Aware of the Relevant Proscriptions**

10. At the time they engaged in the conduct described below, Thoreson, Ferris and Cedrone were each aware of the relevant proscriptions against market manipulation (as to all three) and against participation in penny stock offerings (as to Cedrone). All three had been, and Thoreson continued throughout the relevant period to be, registered representatives. All three, through their work and attendant training in the securities industry, were familiar with proscriptions against manipulative trading as well as such illicit practices as “marking the close.” Cedrone similarly well knew of the SEC order to which he had consented in 1999, which

imposed both an antifraud cease-and-desist order and a penny stock bar on him; and he knew Abakan was a penny stock.

### **The Scheme to Obtain NASDAQ Listing Through Manipulative Trading**

11. From an early point in the scheme, Thoreson, Ferris and Cedrone developed an understanding of the specific requirements that Abakan needed to satisfy to list on NASDAQ, the most important of which was that its share price needed to close at or above \$2 for ninety consecutive days. Initially, however, the three men misapprehended the ninety-day requirement, thinking that it comprised ninety consecutive *calendar* days; when, in fact, as they would later learn, it was ninety consecutive *trading* days.

12. Thoreson, Ferris and Cedrone worked in concert to fraudulently achieve the goal of having Abakan stock close at \$2 or better for 90 consecutive trading days. Throughout the scheme, the three men monitored Abakan's bid-and-ask activity in real time and were in constant communication with each other. Thoreson effected the vast majority of the trio's trading in Abakan during the scheme, ultimately amassing 629,675 shares in his personal accounts, at a total cost of \$1,374,409. Thoreson made real-time admissions during the scheme, primarily via email to Ferris and Cedrone, that he had just "marked the close" or engaged in other manipulative trading to keep Abakan's share price above \$2, admissions which are corroborated by trading records.

13. For example, as of 3:30 p.m. on July 12, 2012 (the final day in what Defendants believed was the relevant 90 day period), the most recent trade in Abakan had executed nearly two hours prior at a price of \$1.93. Then, between 3:31 and 3:50pm, Thoreson placed 4 orders to buy a total of 4,800 shares at market prices. Each order executed within one minute of entry, culminating with the final trade in Abakan that day – 600 shares at \$2. Four minutes later,

Thoreson emailed Cedrone and Ferris, “I just brought it back to \$2 for the close today, which is July 12 IE: 90 days.” The 4,800 shares Thoreson purchased to mark the close represented 39% of the total daily trading volume in Abakan that day, and Ferris and Thoreson accounted for 71% of the total daily volume in Abakan.

14. Ferris likewise engaged in significant Abakan trading, in coordination with, and sometimes on the opposite side of, Thoreson, and consistently working toward the shared goal of meeting the \$2 listing requirement. For his part, although Cedrone did not personally place trades in Abakan, he brought Thoreson into the scheme and persuaded him to work toward the goal of achieving NASDAQ listing for Abakan. Cedrone also received and sent email updates in real time of the group’s specific activities in furtherance of manipulating Abakan’s share price; attempted to recruit other traders to buy or sell Abakan stock when necessary to achieve the goal of the scheme; and, immediately after Abakan’s share price first closed at \$2, Cedrone advocated for and received a bonus of one month’s salary from Abakan based on having recruited Thoreson to the scheme.

15. As noted above, the trio initially misunderstood the required 90 days to be *calendar* days; for that reason, they mistakenly believed the requirement would be satisfied if Abakan’s share price closed at \$2 or better from April 12, 2012 (the first day it closed at \$2) through July 12, 2012. On Thoreson’s first day in the office after July 12, he sent an email stating, with respect to Abakan, “I have been keeping it at [\$]2.00 for the close for 2 weeks now. Thursday [July 12] was 90 days over \$2. I played golf Friday and nobody marked it at \$2.00 for the close.”

16. During the two-week period Thoreson referenced in his email, whenever the stock price dipped below \$2, Thoreson or Ferris intervened to bring the price back above \$2, while

coordinating with Cedrone who constantly monitored the market to ensure the scheme was on track. For example, on July 6, 2012, Abakan opened at \$2 and immediately dropped to \$1.92 on the second trade of the day. Cedrone called Ferris at 12:49, and within one minute Ferris purchased 300 shares being offered at \$1.90. As of 3 pm, 3,700 shares had traded the entire day, no trades had occurred in more than an hour, and the last trade had occurred at \$1.92. Beginning at 3:14, Thoreson entered orders to purchase 7,500 shares at \$2, which were filled in executions at \$1.95, \$1.99, and ultimately \$2, the final trade of the day. Minutes later, Thoreson sent Cedrone an email stating, "I took out the \$1.95 & \$1.99 . . . . Trying to keep this over \$2 at the close." Cedrone replied, "I saw it TY I think next week should be a good week."

17. On July 19, 2012, Thoreson emailed Ferris and Cedrone, "I'm a little concerned what is under *our* bids . . . . If someone hits *our* 2000 share bid at \$2.05 the next bid is \$1.10" (emphasis added). Cedrone responded directly to Thoreson, "i saw that i told steve [Ferris] earlier what it was i will see if i can get a few people to bid some [sic]." Later that day, Thoreson emailed Abakan's general email address, stating in part, "One thing I wanted to see is the stock closing at \$2.00 or more for 90 days. Steve [Ferris] and I did that assuming the 90 days are colander [sic] days not trading days??? I believe July 12<sup>th</sup> was that day." Thoreson and his confederates soon learned, however, that the required 90 days were *trading* days.

18. Abakan's share price retreated after July 12, and between then and September 26, 2012 had an average closing price of \$1.86. During that time, the longest period during which the stock closed over \$2 per share was three days.

19. Undeterred, the scheme continued. For example, after markets closed on September 12, 2012, Thoreson emailed Ferris, "I marked it up at the close." Consistent with Thoreson's email, at 3:53pm on that day, 7 minutes before the market closed, Thoreson entered 2

orders to purchase Abakan stock at market price, which resulted in executions that increased the price from \$1.70 to \$1.75. Thoreson accounted for 64% of trading in Abakan on that day.

20. Then, on September 26, 2012, Thoreson emailed Cedrone saying in part, “I’m over 420,000 shares now. We need to paint this at the close at at least \$2 to get the NASDAQ thing going. Once we are listed I can solicit the stock . . . .” The next day – September 27, 2012 – Abakan’s share price closed above \$2, where it would remain until October 14, 2013, ultimately rising to an all-time high price of \$3.45 on May 13, 2013.

21. As in the initial, April 12 to July 12, 2012 phase of the scheme, Thoreson and Ferris, in close communication with Cedrone, again coordinated their manipulative trading over the ensuing months to keep Abakan’s closing price above \$2. This coordinated trading included at least one “matched” trade between Thoreson and Ferris: on February 5, 2013, Thoreson entered an order to buy 2,500 shares at \$2.70 at 3:15pm; seven minutes later, Ferris entered an order to sell 2,500 shares at \$2.70, which immediately executed against Thoreson’s order.

22. Thoreson’s last recorded purchase of ABKI occurred on September 13, 2013, by which point, he had accumulated nearly 630,000 Abakan shares. Thoreson was terminated by Broker A on October 15, 2013.

### **The Use of Unregistered Offerings of Abakan Stock to Fund Abakan’s Operations**

23. At all relevant times, Ferris was aware that Abakan had a constant need for additional capital to pay expenses and to advance its technology towards commercialization. Further, Ferris knew that proceeds of sales of Abakan stock held by undisclosed affiliates of the issuer that shared a common signatory (hereinafter the “Undisclosed Affiliates”) were being used to finance Abakan. Beginning in at least August 2012 and continuing until at least September 2014, Ferris engaged directly in such unregistered public offers and sales of Abakan shares.



24. These unregistered offerings involved Abakan shares that Ferris obtained from the Undisclosed Affiliates. In addition, on several occasions, one of the Undisclosed Affiliates paid Ferris's consulting fees, on behalf of Abakan, with purportedly unrestricted Abakan shares in its possession.

25. The funds Ferris wired to purchase Abakan shares from the Undisclosed Affiliates were, as Ferris knew contemporaneously, immediately transferred either to or on behalf of Abakan, or to vendors to whom Abakan owed money. Ferris knew that the economic purpose of all these purchases was to fund Abakan's operations and pay its bills.

26. Similarly, when Ferris deposited and sold Abakan shares between September 2012 and September 2014, he did so for the purpose of funding Abakan's operations or paying its bills, and always at the request of Abakan. During this period, Ferris deposited and sold at least 353,333 shares of Abakan that he had obtained from the Undisclosed Affiliates for gross proceeds in excess of \$260,000. These funds were used either to pay Abakan's bills and expenses, or to invest in subsequent private placements, depending on how quickly Abakan needed the funds.

### **FIRST CLAIM FOR RELIEF**

#### **FRAUD IN THE OFFER OR SALE OF SECURITIES (Violations of Section 17(a) of the Securities Act) [Against Cedrone, Ferris and Thoreson]**

27. Paragraphs 1 through 26 are realleged and incorporated by reference.

28. By engaging in the conduct described above, Cedrone, Ferris and Thoreson, directly or indirectly, in the offer or sale of securities, by the use or means or instruments of transportation or communication in interstate commerce or by the use of the mails:

(a) have employed devices, schemes, or artifices to defraud;

(b) have obtained money or property by means of untrue statements of material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and

(c) have engaged in transactions, acts, practices and courses of business which operated as a fraud upon purchasers of securities.

29. By reason of the foregoing, Cedrone, Ferris and Thoreson violated Securities Act Section 17(a) [15 U.S.C. § 77q(a)].

### **SECOND CLAIM FOR RELIEF**

#### **FRAUD IN CONNECTION WITH THE PURCHASE OR SALE OF SECURITIES (Violations of Section 10(b) of the Exchange Act Section and Rule 10b-5 thereunder) [Against Cedrone, Ferris and Thoreson]**

30. Paragraphs 1 through 26 are realleged and incorporated by reference.

31. By engaging in the conduct described above, Cedrone, Ferris and Thoreson, directly or indirectly, by the use of the means and instrumentalities of interstate commerce, or of the mails, in connection with the purchase or sale of securities:

(a) have employed devices, schemes, or artifices to defraud;

(b) have made untrue statements of material fact, or have omitted, or are omitting and are about to omit to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and

(c) have engaged in transactions, acts, or practices and courses of business which operated or would operate as a fraud upon purchasers of securities.

32. By reason of the foregoing, Cedrone, Ferris and Thoreson violated Exchange Act Section 10(b) [15 U.S.C. § 78j(b)] and Rule 10b-5 promulgated thereunder [17 C.F.R. § 240.10b-5].

**THIRD CLAIM FOR RELIEF**

**MANIPULATIVE TRADING  
(Violations of Section 9(a)(2) of the Exchange Act)  
[Against Cedrone, Ferris and Thoreson]**

33. Paragraphs 1 through 26 are hereby realleged and incorporated by reference.

34. By engaging in the conduct described above, Cedrone, Ferris and Thoreson violated Section 9(a)(2) of the Exchange Act [15 U.S.C. § 78i(a)(2)].

**FOURTH CLAIM FOR RELIEF**

**UNREGISTERED OFFER AND SALE OF SECURITIES  
(Violations of Section 5 of Securities Act)  
[Against Ferris]**

35. Paragraphs 1 through 26 are realleged and incorporated by reference.

36. At all relevant times, the Abakan offerings and sales described herein were not registered in accordance with the provisions of the Securities Act.

37. Ferris, directly or indirectly, made use of the means or instruments of transportation or communication in interstate commerce or of the mails to offer and sell Abakan securities when no registration statement had been filed or was in effect as to such securities and when no exemption from registration was applicable.

38. By engaging in the foregoing conduct, defendant Ferris violated Section 5 of the Securities Act [15 U.S.C. § 77e].

**FIFTH CLAIM FOR RELIEF**

**VIOLATING A PENNY STOCK BAR  
(Violation of Section 15(b)(6)(B)(i) of the Exchange Act)  
[Against Cedrone]**

39. Paragraphs 1 through 26 are hereby realleged and incorporated by reference.

40. By reason of the foregoing, Cedrone violated Section 15(b)(6)(B)(i) of the Exchange Act [15 U.S.C. § 78o(b)(6)(B)(i)]

**SIXTH CLAIM FOR RELIEF**

**VIOLATING A COMMISSION ORDER  
[Against Cedrone]**

41. Paragraphs 1 through 34 are hereby realleged and incorporated by reference.

42. By reason of the foregoing, Cedrone violated the Commission cease-and-desist Order entered, by his consent, against him on March 1, 1999. See *In re Richard Cedrone*, Administrative Proceeding File No. 3-9157 (March 1, 1999).

**PRAYER FOR RELIEF**

WHEREFORE, the Commission respectfully requests that this Court enter a final judgment that:

- (i) Permanently enjoins defendants Cedrone, Ferris and Thoreson, from:
  - a. violating Securities Act Section 17(a) [15 U.S.C. § 77q(a)], Exchange Act Sections 9(a)(2) and 10(b) [15 U.S.C. §§ 78i(a)(2) and 78j(b)], and Exchange Act Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5], through both statutory injunctions and a narrower, hybrid antifraud injunction consistent with the

Eleventh Circuit's decision in *SEC v. Goble*, 682 F.3d 934 (11th Cir. 2012);  
and

- b. directly or indirectly, including, but not limited to, through any entity he owns or controls, placing orders to buy or sell securities for any account he owns or controls or in which he has any beneficial interest, during the last sixty minutes of any trading day;
- (ii) Permanently enjoins defendant Ferris from violating Securities Act Section 5 [15 U.S.C. § 77e];
- (iii) Permanently enjoins defendant Cedrone from violating Exchange Act Section 15(b)(6)(B)(i) [15 U.S.C. § 78o(b)(6)(B)(i)];
- (iv) Orders Cedrone to comply with the Commission's March 1, 1999 cease-and-desist Order against him;
- (v) Permanently enjoins Ferris and Cedrone from participating in an offering of penny stock;
- (vi) Orders Cedrone, Ferris and Thoreson to pay civil penalties pursuant to Securities Act Section 20(d) [15 U.S.C. § 77t(d)] and Exchange Act Section 21(d)(3) [15 U.S.C. § 78u(d)(3)] and, in the case of Cedrone, also pursuant to Exchange Act Section 21(d)(3)(D) [15 U.S.C. § 78u(d)(3)(D)], for all violative conduct occurring within five years of the filing of this Complaint;
- (vii) Orders Cedrone, Ferris and Thoreson to disgorge, with prejudgment interest, any and all ill-gotten gains each received as a result of the violative conduct described herein, within five years of the filing of this Complaint;

- (viii) Grants such other and further relief as the Court may deem just, equitable and necessary; and
- (ix) Retains jurisdiction over this action in order to implement and carry out the terms of all orders or decrees that it may enter, or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court.

Respectfully submitted,

August 31, 2017

By:  \_\_\_\_\_

Patrick R. Costello  
Florida Bar No. 75034  
Telephone: (202) 551-3982  
Facsimile: (202) 772-9245  
E-mail: [costello@sec.gov](mailto:costello@sec.gov)

J. Lee Buck, II, Assistant Director  
SD Fla. Bar # A5501967  
Telephone: (202) 551-4598  
Facsimile: (202) 772-9228  
E-mail: [BuckJL@sec.gov](mailto:BuckJL@sec.gov)

John P. Lucas, Counsel  
SD Fla. Bar # A5502370  
Telephone: (202) 551-5798  
Facsimile: (301) 847-4762  
E-mail: [LucasJ@sec.gov](mailto:LucasJ@sec.gov)

**ATTORNEYS FOR PLAINTIFF  
SECURITIES AND EXCHANGE COMMISSION**  
100 F. Street, N.E  
Washington, D.C. 20549