

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 11285 / May 8, 2024

SECURITIES EXCHANGE ACT OF 1934
Release No. 100074 / May 8, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-21932

In the Matter of

C-Bond Systems, Inc. and
Scott Silverman

Respondents.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 8A OF THE SECURITIES ACT
OF 1933 AND SECTION 21C OF THE
SECURITIES EXCHANGE ACT OF 1934,
MAKING FINDINGS, AND IMPOSING A
CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) and Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against C-Bond Systems, Inc. (“C-Bond” or “Respondent”) and Scott Silverman (“Silverman” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over Respondents and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondents consent to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondents' Offers, the Commission finds¹ that:

Summary

1. On December 29, 2020, C-Bond Systems, Inc. improperly recognized approximately \$102,000 in revenue for an order from a new customer. The order was shipped from C-Bond's warehouse on December 29, 2020 with instructions for the shipping company to store the product in its own warehouse until further notice. Three months later, in March 2021, at C-Bond's request, the shipping company returned the order to C-Bond. The products never left the control of C-Bond. Additionally, the customer never paid C-Bond for the order.

2. Subsequently, in April 2021, Scott Silverman, CEO and CFO of C-Bond at the time, signed an annual report on Form 10-K that reported the revenue from this proposed sale, which overstated total revenue for 2020 by more than 15%. In addition, in December 2021, Silverman approved and signed a registration statement on Form S-1 that contained the same materially overstated revenue.

3. By the time Silverman signed the annual report and registration statement, Silverman had received emails notifying him that the products were not delivered to the customer and had been returned to C-Bond. Accordingly, Silverman should have known that the revenue should not be recognized or reported in accordance with Generally Accepted Accounting Principles ("GAAP"), which requires that the customer obtain control of the goods in order to recognize revenue.

4. In April 2022, C-Bond filed an amended annual report signed by Silverman that reversed all revenue from this transaction because it "did not meet the Company's revenue recognition policy pursuant to ASC 606 and should not have been reflected as a sale."

5. During the period when the company's financial statements were misstated, Silverman received a bonus of \$21,961 in cash and 197 shares of preferred stock. Silverman has not, however, reimbursed C-Bond for the bonus as required under Section 304(a) of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act").

6. As a result of the conduct described above, C-Bond violated the antifraud provisions of Section 17(a)(2) and (3) of the Securities Act of 1933 ("Securities Act"), the issuer reporting provisions of Section 13(a) of the Exchange Act of 1934 ("Exchange Act") and Rule 13a-1 thereunder, and the books and records, internal accounting controls and internal control over financial reporting ("ICFR") provisions of Section 13(b)(2)(A) and (B) and Rule 13a-15(a) thereunder.

¹ The findings herein are made pursuant to Respondents' Offers of Settlement and are not binding on any other person or entity in this or any other proceeding.

7. As a result of the conduct described above, Silverman violated the antifraud provisions of Section 17(a)(2) and (3) of the Securities Act, the books and records provision of Rule 13b2-1 under the Exchange Act, Section 304 of the Sarbanes-Oxley Act and caused C-Bond's violation of the issuer reporting provisions of Section 13(a) of the Exchange Act and Rule 13a-1 thereunder.

Respondents

8. **C-Bond Systems, Inc.** is a Colorado corporation currently headquartered in San Antonio, Texas. It became a public company in 2018 through a reverse merger. C-Bond's common stock is registered with the Commission pursuant to Section 12(g) of the Exchange Act and trades on the OTC Pink marketplace under the symbol CBNT. C-Bond primarily manufactures and sells glass strengthening products. C-Bond files periodic reports, including annual reports on Forms 10-K, with the Commission pursuant to Section 13(a) of the Exchange Act and related rules thereunder. Throughout 2020 and 2021, C-Bond filed Forms 8-K that announced the company's unregistered sales of securities. Between January 2021 and April 2022, C-Bond sold millions of shares of common stock to investors, provided millions of shares of common stock to acquire another company, and issued millions of shares of common stock to vendors for services provided.

9. **Scott Silverman**, age 59, is a resident of Lighthouse Point, Florida. Silverman is the Chief Executive Officer of C-Bond and Chairman of C-Bond's Board of Directors. Since March 8, 2021, Silverman has also served as C-Bond's Chief Financial Officer. Silverman has never been a CPA.

Facts

A. C-Bond's Business

10. C-Bond develops and sells nanotechnology window strengthening products, such as film applications that render windows bullet resistant. During the relevant period, C-Bond had approximately six employees. As a small business with negative cash flow, C-Bond's revenue was an important metric for the company and investors. In October 2020, C-Bond announced revenue of approximately \$250,000 for the third quarter and issued guidance for revenue of \$400,000 in the fourth quarter. The \$400,000 guidance was dependent on a large, anticipated sale with a new international customer ("the Customer").

11. By mid-December 2020, C-Bond's fourth quarter revenue was less than \$70,000. Moreover, C-Bond still had not made the anticipated sale to the Customer.

B. C-Bond and Silverman Improperly Recognize and Report \$102,569 in Revenue from a Transaction with the Customer

The Customer Transaction

12. In late December 2020, C-Bond obtained a \$102,569 order from the Customer for 634 gallons of glass-strengthening solution. The order would have been one of the largest sales in the company's history and helped C-Bond reach its \$400,000 fourth quarter revenue guidance.

13. The Customer was a new customer, with no prior dealings with C-Bond. C-Bond and Silverman, who played an active role in business development and customer negotiations, did not conduct sufficient due diligence on the Customer's credit worthiness or its ability to pay for the large order. The contract between C-Bond and the Customer initially required the Customer to pay 30% upon order and 70% prior to shipment. Silverman, however, modified these terms and approved a purchase order with payment due 30 days after shipment, which was scheduled for mid-December 2020 per the purchase order.

14. On December 24, 2020, a C-Bond employee emailed a shipping company to request pick up of the products on December 29, 2020. Without notifying Silverman or others at the company, the employee also requested that the shipping company store the product in the shipper's warehouse until C-Bond received payment from the Customer. On December 29, 2020, the shipping company picked up the order and stored it in its own warehouse. C-Bond recognized \$102,569 in revenue from this sale on December 29, 2020.

The Products were Never Shipped to the Customer and were Returned to C-Bond

15. Throughout January and February 2021, the goods remained in the shipping company's warehouse in Texas as C-Bond and Silverman sought payment from the Customer. C-Bond never received payment.

16. By early March 2021, having never received payment from the Customer, a C-Bond employee requested that the shipping company return the goods to C-Bond. The employee resigned from C-Bond shortly thereafter.

17. In March 2021, Silverman was notified that the shipping company had held the product and then returned it to C-Bond's warehouse. For instance, on March 9, 2021, a C-Bond employee forwarded to Silverman an email from the shipping company stating that it had attempted to return a shipment, but no one was onsite at C-Bond to receive the shipment. The email included earlier communications identifying the Customer and including the December 2020 instructions to store the product until further notice. Silverman then forwarded the email to C-Bond's warehouse manager asking, "Can you handle?" The warehouse manager also discussed the product return in a call with Silverman.

18. In addition, on March 11, 2021, the product was returned to C-Bond's warehouse and received by the warehouse manager. The same day, the warehouse manager emailed several

C-Bond executives, including Silverman, to notify them of the returned product. The email attached the packing slip and invoice for the Customer order. Silverman failed to follow up to determine the impact that the return had on the company's financial statements.

Silverman Signs an Annual Report and Registration Statement that Materially Overstate Revenue

19. On April 14, 2021, C-Bond filed with the Commission its annual report on Form 10-K for fiscal year 2020. Silverman signed the annual report as CEO and CFO. The annual report stated 2020 annual revenue was "\$658,432 as compared to \$602,636 for the year ended December 31, 2019, an increase of \$55,796, or 9.3%." The reported revenue included the purported sale to the Customer. Thus, the annual report overstated C-Bond's annual revenue by more than 15% and falsely represented that 2020 revenue increased over 2019 revenue.

20. On December 3, 2021, C-Bond filed with the Commission a registration statement on Form S-1 to offer and sell up to \$3.3 million worth of its common stock. Silverman signed the registration statement as CEO and CFO. The registration statement contained the same misstatements about 2020 revenue as the annual report.

21. Under GAAP, an entity may recognize and report revenue only when it satisfies a performance obligation by transferring the promised goods to the customer. *Accounting Standards Codification* ("ASC") 606-10-25-23. Such goods are transferred when (or as) the "customer obtains control" of the goods. *Id.* Under C-Bond's revenue recognition practice, sales were recognized when the product left C-Bond's warehouse en route to the customer.

22. In light of the information that Silverman received and had access to, Silverman and C-Bond knew or should have known that: the product had not been shipped to the Customer; the revenue should not have been recorded or reported; and the statements about the company's 2020 revenue in C-Bond's 2020 annual report and December 2021 registration statement were materially false.

C-Bond Files a Restatement Reversing the Revenue from the Customer Sale

23. After the SEC began an investigation, on April 15, 2022, C-Bond filed with the Commission an amended annual report signed by Silverman as CEO and CFO that reversed all revenue from the Customer transaction. The amended annual report explained that "a sale in the amount of \$102,569 that was recorded in December 2020 did not meet the Company's revenue recognition policy pursuant to ASC 606 and should not have been reflected as a sale." Due to the restated revenue, instead of the previously reported 9.3% increase in year-over-year revenue, C-Bond's revenues for 2020 declined by 7.8%.

C. C-Bond's Deficient Internal Accounting and Financial Reporting Controls

24. C-Bond did not have sufficient written policies or procedures nor formal training for its employees relating to controls over accounting and financial reporting.

25. Since 2019, C-Bond has disclosed in its annual and quarterly reports that its ICFR were "not effective" and identified several material weaknesses including "a lack of review on the recording of revenue transactions and accounts receivable collectability." C-Bond stated that its material weaknesses "could, if not remediated, result in a material misstatement in our financial statement."

D. Silverman Received a Bonus During the Period when C-Bond's Financial Statements were Misstated

26. On January 6, 2022, which was during the 12-month period following the filing of the company's year-end 2020 financial statements that required restatement, Silverman received a bonus of \$21,961 in cash and 197 shares of preferred stock. Silverman has not reimbursed this bonus to C-Bond.

Violations

27. As a result of the conduct described above, C-Bond and Silverman violated Sections 17(a)(2) and (3) of the Securities Act, which prohibit, in the offer or sale of securities, obtaining money or property through materially false or misleading statements and any transaction, practice, or course of business that operates or would operate as a fraud or deceit upon a purchaser of securities. Negligence is sufficient to establish violations of Sections 17(a)(2) and (3) of the Securities Act. *Aaron v. SEC*, 446 U.S. 680, 696-97 (1980).

28. As a result of the conduct described above, C-Bond violated Section 13(a) of the Exchange Act and Rule 13a-1 thereunder, which require every issuer of a security registered pursuant to Section 12 of the Exchange Act to file with the Commission accurate annual reports.

29. As a result of signing C-Bond's 2020 annual report that he knew or should have known contained false statements about the company's 2020 revenue, Silverman caused C-Bond's violation of Section 13(a) of the Exchange Act and Rule 13a-1 thereunder.

30. As a result of the conduct described above, C-Bond violated Section 13(b)(2)(A) of the Exchange Act, which requires reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets.

31. As a result of the conduct described above, Silverman violated Rule 13b2-1 of the Exchange Act, which prohibits directly or indirectly falsifying or causing to be falsified any book, record, or account subject to Section 13(b)(2)(A) of the Exchange Act.

32. As a result of the conduct described above, C-Bond violated Section 13(b)(2)(B) of the Exchange Act and Rule 13a-15(a) thereunder, which require reporting companies to devise and

maintain internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP; and maintain a process, designed by or under the supervision of the principal executive and principal financial officers and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

33. Section 304 of the Sarbanes-Oxley Act requires the CEO or CFO of a reporting company required to prepare an accounting restatement due to material noncompliance with the securities laws as a result of misconduct to reimburse the issuer for, among other things, any bonus received by that person from the issuer during the 12-month period following the false filing. Silverman received a bonus during the 12-month period following the filing of C-Bond's 2020 annual report containing financial statements that were required to be restated. Silverman has not, to date, reimbursed C-Bond for those amounts. Therefore, Silverman has violated Sarbanes-Oxley Act Section 304.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents' Offers.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, Respondent C-Bond cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and (3) of the Securities Act and Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 13a-1 and 13a-15(a) thereunder.

B. Pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, Respondent Silverman cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and (3) of the Securities Act; Section 13(a) of the Exchange Act and Rules 13a-1 and 13b2-1 thereunder; and Section 304 of the Sarbanes-Oxley Act.

C. Respondent C-Bond shall, within 10 days of the entry of this Order, pay a civil penalty of \$175,000 to the Securities and Exchange Commission. If timely payment is not made, interest shall accrue pursuant to 31 U.S.C. § 3717.

D. Respondent Silverman shall, within 10 days of the entry of this Order, pay a civil penalty of \$50,000 to the Securities and Exchange Commission. If timely payment is not made, interest shall accrue pursuant to 31 U.S.C. § 3717.

E. Respondent Silverman shall, within 10 days of the entry of this Order, pursuant to Section 304 of the Sarbanes-Oxley Act, reimburse C-Bond \$21,961 and return to C-Bond 197 shares of preferred stock.

- F. The foregoing payments must be made in one of the following ways:
- (1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
 - (2) Respondents may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
 - (3) Respondents may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying C-Bond or Silverman as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Lisa Deitch, Assistant Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

G. Regardless of whether the Commission in its discretion orders the creation of a Fair Fund for the penalties ordered in this proceeding, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of civil penalties in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalties imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondent Silverman, and further, any debt for disgorgement, prejudgment interest, civil penalty

or other amounts due by Respondent Silverman under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent Silverman of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Vanessa A. Countryman
Secretary