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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING) Order No. S-14-1582-15-CO01
Whether there has been a violation of the)
Securities Act of Washington by:) CONSENT ORDER
)
Kitson Boards, Inc.,)
Michael H. Kitson,)
)
)
Respondents.)

INTRODUCTION

On June 8, 2015, the Securities Administrator of the Securities Division of the Department of Financial Institutions (“Securities Division”) issued a Statement of Charges and Notice of Intent to Enter Order to Cease and Desist, to Impose Fines, and to Charge Costs (“Statement of Charges”), Order Number S-14-1582-15-SC01, against Kitson Boards, Inc. and Michael H. Kitson (“Respondents”). Pursuant to the Securities Act of Washington, Chapter 21.20 RCW, the Securities Division and Respondents do hereby enter into this Consent Order in settlement of the matters set forth in the Statement of Charges and as alleged below. Respondents neither admit nor deny the Findings of Fact and Conclusions of Law as stated below.

FINDINGS OF FACT

Respondents

1. Kitson Boards, Inc. (“Kitson Boards”) was a Washington company that was incorporated on March 13, 2013 and had a principal place of business in Olympia, Washington. Kitson Boards was in the business of manufacturing and selling stand-up paddleboards. The company became inactive on June 8, 2015.

1 company stock at \$250 a share. In the summer of 2013, Kitson and Kitson Boards also offered the equity
2 investment on www.kitsonboards.com, a public website.

3 6. In the offers, Kitson and Kitson Boards misrepresented Kitson Boards's success and position in
4 the market. In some offers, Kitson and Kitson Boards represented that Kitson Boards was "the most
5 advanced manufacturer of paddle boards, surfboards and wake surfboards on the planet." In other offers,
6 Kitson and Kitson Boards represented that Kitson Boards had "cornered the market of ultra durable and
7 ultra light boards." In reality, the company was still in its research and development stage, and the revenue
8 Kitson Boards was generating from paddleboard sales was not enough to meet the company's costs. In
9 addition, at the time of the offers, a flaw in the design of the paddleboards resulted in some paddleboards
10 cracking. As late as September 2014, Kitson was working to prevent this cracking through improvements in
11 the design and manufacturing of the boards.

12 *Kitson Boards's Financial Condition*

13 7. In the fall of 2013, Kitson Boards moved into a manufacturing facility at Swantown Marina in
14 Olympia, Washington. In May and June 2014, Kitson solicited \$80,000 in short-term loans from a friend,
15 explaining that Kitson Boards was "working capital poor" and needed money to meet payroll and to avoid
16 shutting down for the month of August. Kitson promised he would repay the loans from sales revenue in a
17 few months, but Kitson Boards was never able to repay the loans.

18 8. In July 2014, the King County Superior Court entered a judgment of \$15,891.95 against Kitson
19 and Kitson Boards after Kitson Boards failed to pay a supplier. In September 2014, Kitson told
20 shareholders and other interested parties that Kitson Boards was attempting to raise additional funding,
21 which was needed to "get current with many suppliers," and that Kitson Boards needed \$12,000 to meet
22 payroll. In early October 2014, the Department of Labor & Industries filed a tax warrant against Kitson
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1 Boards for unpaid workers' compensation taxes. By this time, Kitson Boards had been unable to pay its
2 rent for several months.

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4 *2014 Offers*

5 9. On or around October 21, 2014, Kitson and Kitson Boards began offering promissory note
6 investments to the general public through offers in The Olympian, a newspaper of general circulation. The
7 offer appeared in The Olympian for approximately six weeks. A day before the offer first appeared in The
8 Olympian, Kitson used the offer to personally solicit at least one promissory note investor.

9 10. At least fifteen offerees responded to the offer in The Olympian. Kitson and Kitson Boards did
10 not screen prospective investors to determine their investment sophistication or whether they were
11 accredited. Between October 20, 2014 and November 20, 2014, Kitson and Kitson Boards sold at least
12 \$32,000 of promissory notes to ten offerees.

13 11. On October 27, 2014, Kitson received a notice from Kitson Boards's landlord stating that
14 Kitson Boards must pay \$31,296.81 in past-due rent and fees, or it must vacate the premises. Kitson Boards
15 was unable to pay this past-due rent and related fees. Despite this inability to pay its rent, Kitson and Kitson
16 Boards continued to offer and sell both debt and equity investments in Kitson Boards. Kitson and Kitson
17 Boards did not disclose to prospective investors that Kitson Boards was behind on its rent, that Kitson had
18 received a notice to pay the rent or vacate the premises, or that Kitson Boards was unable to pay the past-
19 due rent that it owed.

20 12. On October 31, 2014, the Securities Division contacted Kitson and Kitson Boards regarding the
21 offer of investments in The Olympian. The Division informed Kitson that it had no record of the securities
22 Kitson and Kitson Boards were offering being registered. The Division also notified Kitson that offering
23 unregistered securities through methods of general solicitation may be a violation of the Securities Act of
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1 Washington. The Division informed Kitson that it would be sending him a letter requesting additional
2 information about the offer and sale of Kitson Boards securities.

3 13. After being contacted by the Securities Division, Kitson and Kitson Boards continued to offer
4 and sell promissory note investments through offers in The Olympian. The last offer appeared in the
5 newspaper on or around November 30, 2014. While Kitson and Kitson Boards added a disclaimer to the
6 offer stating in small font that “[a]ll investments have risk,” Kitson and Kitson Boards did not disclose to
7 prospective investors that they were offering unregistered securities, or that the Securities Division was
8 investigating the company’s offer and sale of unregistered securities.

9 14. Kitson and Kitson Boards misrepresented the use of investor funds and the state of the business
10 to prospective investors. In the offers, Kitson and Kitson Boards represented to prospective investors that
11 Kitson Boards was raising capital to expand. Kitson represented to at least one offeree who visited the
12 Kitson Boards shop that, even if the company did not raise enough capital to expand, the company would
13 still be able to sell its paddleboards online and out of the shop. In reality, Kitson Boards was
14 undercapitalized and needed to raise additional funds to stay in business.

15 15. Kitson and Kitson Boards also failed to disclose to prospective investors that Kitson and Kitson
16 Boards had solicited short-term loans to meet payroll in the summer of 2014, that these loans remained
17 unpaid, that Kitson and Kitson Boards were the subject of a July 2014 judgement for failure to pay a
18 supplier, that Kitson Boards was the subject of an October 2014 tax warrant for failure to pay taxes, and
19 that Kitson and Kitson Boards had been served with a notice to pay past-due rent or vacate the premises.

20 16. Beyond a general disclaimer that all investments have risks, Kitson and Kitson Boards failed to
21 provide investors and offerees with the general and specific risks of investing in a paddleboard
22 manufacturing company. Kitson and Kitson Boards also misrepresented the risk of investing in Kitson
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1 Boards when they failed to disclose to potential investors information material to the financial condition of
2 the company.

3 17. In mid-November 2014, Kitson and Kitson Boards offered an equity investment to at least two
4 Washington residents. Kitson and Kitson Boards did not have a pre-existing relationship with either of
5 these prospective investors at the time of the offer. One of these offerees purchased \$50,000 of common
6 stock in Kitson Boards. While Kitson disclosed to this investor that Kitson Boards was undercapitalized,
7 Kitson failed to disclose other material information related to the financial condition of Kitson Boards,
8 including but not limited to Kitson Boards's failure to pay rent and Kitson's receipt of a notice to pay rent
9 or vacate the premises. Kitson and Kitson Boards also failed to disclose to the investor the general and
10 specific risks of investing in Kitson Boards.

11 18. On November 24, 2014, Kitson Boards's landlord filed an unlawful detainer lawsuit alleging
12 \$31,296.81 in past-due rent, utilities, and fees. On December 19, 2014, the Thurston County Superior Court
13 found that Kitson Boards should be evicted, and it entered a judgment of \$57,303.34 against Kitson and
14 Kitson Boards. On December 29, 2014, Kitson was served with notice that Kitson Boards must vacate the
15 premises within 72 hours or be subject to physical eviction.

16 19. On January 7, 2015, Kitson and Kitson Boards sent an email to more than 90 people on the
17 company's email list. The email was titled "Kitson Boards Share Offering," and it offered to its recipients
18 restricted stock in Kitson Boards at \$2.50 a share. Kitson and Kitson Boards represented that the funds
19 would be used to "fund our expansion," which included retiring debt, purchasing supplies, purchasing
20 equipment, and providing working capital.

21 20. Kitson and Kitson Boards failed to disclose to offerees that Kitson Boards was in the process of
22 being evicted for failure to pay its rent. Kitson and Kitson Boards also failed to disclose information
23 material to the investment and Kitson Boards, including but not limited to the financial condition of Kitson
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1 Boards, the amount of debt Kitson and Kitson Boards owed, the amount of funds the company would
2 require to stay in business, the company's operating history, and the general and specific risks of investing
3 in a paddleboard business.

4 21. On January 12, 2015, Kitson Boards was physically evicted from its place of business at
5 Swantown Marina. As of the date of this Consent Order, Kitson Boards has ceased doing business.

6 **Registration Status**

7 22. Respondent Kitson Boards, Inc. is not currently registered to offer or sell its securities in the
8 state of Washington, and it has not previously been so registered.

9 23. Respondent Michael H. Kitson is not currently registered as a securities salesperson or broker-
10 dealer in the state of Washington, and he has not previously been so registered.

11 *Failure to Comply with WAC 460-44A-504*

12 24. On December 4, 2014, Kitson filed with the Securities Division a claim of exemption from
13 registration on behalf of Kitson Boards, Inc. under WAC 460-44A-504. To qualify for an exemption under
14 WAC 460-44A-504, the offers and sales of securities by the issuer and its agents must comply with certain
15 terms and conditions. Kitson Boards, Inc. and its agents failed to comply with at least two of these terms
16 and conditions: the general solicitation provision and the notice filing provision.

17 25. WAC 460-44A-504 prohibits an issuer and any person acting on its behalf from offering or
18 selling securities by any form of general solicitation. In January 2015, after Kitson filed the claim of
19 exemption, Kitson Boards, Inc. and its agents offered shares in Kitson Boards, Inc. through general
20 solicitation when it emailed an offer to more than 90 people. In addition, in the months before Kitson filed
21 the claim of exemption, Kitson Boards, Inc. and its agents used methods of general solicitation to offer and
22 sell its securities, including online press releases, public website postings, and newspaper offers. These
23 actions violate the general solicitation provision of WAC 460-44A-504.
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1 26. WAC 460-44A-504 requires an issuer to file notice of its reliance on the exemption no later than
2 10 days prior to the first sale of securities under the exemption. Kitson Boards, Inc. failed to file this notice
3 prior to the sale of its securities, which violates the notice filing provision of WAC 460-44A-504.
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5 Based upon the above Findings of Fact, the following Conclusions of Law are made:

6 **CONCLUSIONS OF LAW**

7 1. The offer or sale of company stock as described above constitutes the offer or sale of a security
8 as defined by RCW 21.20.005(14) and RCW 21.20.005(17).

9 2. The offer or sale of promissory notes as described above constitutes the offer or sale of a
10 security as defined by RCW 21.20.005(14) and RCW 21.20.005(17).

11 3. Kitson Boards, Inc. and Michael H. Kitson have each violated RCW 21.20.140 because, as set
12 forth in the Findings of Fact, Respondents offered and sold securities for which no registration is on file
13 with the Securities Administrator, and for which no valid claim of exemption exists.

14 4. Michael H. Kitson has violated RCW 21.20.040 because, as set forth in the Findings of Fact,
15 Respondent offered and sold securities while not being registered as a securities salesperson or broker-
16 dealer in the state of Washington.

17 5. Kitson Boards, Inc. and Michael H. Kitson have each violated RCW 21.20.010 because, as set
18 forth in the Findings of Fact, Respondents made untrue statements of material fact or omitted to state
19 material facts necessary to make the statements made, in light of the circumstances under which they were
20 made, not misleading.
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2 Based upon the foregoing and finding it in the public interest:

3 **CONSENT ORDER**

4 IT IS AGREED AND ORDERED that Respondents Kitson Boards, Inc. and Michael H. Kitson,
5 their agents, and their employees each shall cease and desist from violating RCW 21.20.140, the securities
6 registration section of the Securities Act of Washington.

7 IT IS FURTHER AGREED AND ORDERED that Respondent Michael H. Kitson, his agents, and
8 his employees each shall cease and desist from violating RCW 21.20.040, the securities salesperson and
9 broker-dealer registration section of the Securities Act of Washington.

10 IT IS FURTHER AGREED AND ORDERED that Respondents Kitson Boards, Inc. and Michael H.
11 Kitson, their agents, and their employees each shall cease and desist from violating RCW 21.20.010, the
12 anti-fraud section of the Securities Act of Washington.

13 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Consent Order.

14 IT IS FURTHER AGREED that Respondents Kitson Boards, Inc. and Michael H. Kitson each enter
15 into this Consent Order freely and voluntarily and with a full understanding of its terms and significance.
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17 IT IS FURTHER AGREED that in consideration of the foregoing, Respondents Kitson Boards, Inc.
18 and Michael H. Kitson each waive their right to a hearing and to judicial review of this matter pursuant to
19 RCW 21.20.440 and Chapter 34.05 RCW.
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21 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**
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Signed this 5th day of February 2016.

Signed by:
Kitson Boards, Inc.

/s/
Michael H. Kitson
President

Signed by:

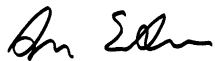
/s/
Michael H. Kitson, Individually

SIGNED and ENTERED this 18th day of February 2016.



William M. Beatty
Securities Administrator

Approved by:



Suzanne Sarason
Chief of Enforcement

Presented by:



Holly Mack-Kretzler
Financial Legal Examiner

Reviewed by:



Robert Kondrat
Financial Legal Examiner Supervisor

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