

**IN THE MATTER OF THE SECURITIES ACT,  
R.S.O. 1990, c. S. 5, as amended**

**-and-**

**IN THE MATTER OF ALLAN EIZENGA, RICHARD JULES FANGEAT,  
MICHAEL HERSEY, LUKE JOHN MCGEE and ROBERT LOUIS RIZZUTO**

**AMENDED STATEMENT OF ALLEGATIONS  
OF STAFF OF THE ONTARIO SECURITIES COMMISSION**

Staff of the Ontario Securities Commission (“Staff”) make the following allegations:

**THE RESPONDENTS**

1. Allan Eizenga (“Eizenga”) is an individual who resides in St. Catharines, Ontario. Eizenga has never been registered with the Commission to trade in securities.
2. Richard Jules Fangeat (“Fangeat”) is an individual who resides in Sparta, Ontario. During the material time, Fangeat was registered with the Commission. Fangeat has not been registered with the Commission since December 29, 1998.
3. Michael Hersey (“Hersey”) is an individual who resides in London, Ontario. Hersey has never been registered with the Commission to trade in securities.
4. Luke John McGee (“McGee”) is an individual who resides in Montreal, Quebec. McGee has never been registered with the Commission to trade in securities.
5. Robert Louis Rizzuto (“Rizzuto”) is an individual who resides in Oakville, Ontario. Rizzuto is registered with the Commission to sell mutual fund securities and limited market products (subject to an existing temporary cease trade order).

**THE DISTRIBUTION OF THE SAXTON SECURITIES**

6. Saxton Investments Ltd. (“Saxton”) was incorporated on January 13, 1995. Eizenga was an officer and a director of Saxton. Saxton and Eizenga established numerous other corporations. Eizenga was the president and a director of each of these companies (the “Offering Corporations”). The respondents McGee, Fangeat and Rizzuto also were named officers and/or directors of several of such companies.
7. Between January 1995 and September 1998, the respondents participated in the distribution of, and sold to Ontario investors, securities of one or more of the following Offering Corporations:

The Saxton Trading Corp.  
The Saxton Export Corp.  
The Saxton Export (II) Corp.  
The Saxton Export (III) Corp.  
The Saxton Export (IV) Corp.  
The Saxton Export (V) Corp.  
The Saxton Export (VI) Corp.  
The Saxton Export (VII) Corp.  
The Saxton Export (VIII) Corp.  
The Saxton Export (IX) Corp.  
The Saxton Export (X) Corp.  
The Saxton Export (XI) Corp.  
The Saxton Export (XII) Corp.  
The Saxton Export (XIII) Corp.  
The Saxton Export (XIV) Corp.  
The Saxton Export (XV) Corp.  
The Saxton Export (XVI) Corp.  
The Saxton Export (XVII) Corp.  
The Saxton Export (XVIII) Corp.  
The Saxton Export (XIX) Corp.  
The Saxton Export (XX) Corp.  
The Saxton Export (XXI) Corp.  
The Saxton Export (XXII) Corp.  
The Saxton Export (XXIII) Corp.  
The Saxton Export (XXIV) Corp.  
The Saxton Export (XXV) Corp.  
The Saxton Export (XXVI) Corp.  
The Saxton Export (XXVII) Corp.  
The Saxton Export (XXVIII) Corp.  
The Saxton Export (XXIX) Corp.  
The Saxton Export (XXX) Corp.  
The Saxton Export (XXXI) Corp.  
The Saxton Export (XXXII) Corp.  
The Saxton Export (XXXIII) Corp.  
The Saxton Export (XXXIV) Corp.  
The Saxton Export (XXXV) Corp.  
The Saxton Export (XXXVI) Corp.  
The Saxton Export (XXXVII) Corp.  
The Saxton Export (XXXVIII) Corp.

8. The Offering Corporations were incorporated pursuant to the laws of Ontario. The respondents' sales of shares of the Offering Corporations (the "Saxton Securities") constituted trades in securities of an issuer that had not been previously issued.

9. The distribution of the Saxton Securities contravened Ontario securities law. None of the Offering Corporations filed a preliminary prospectus or a prospectus with the Commission. No Offering Corporation was issued a receipt for a prospectus by the Commission. None of the Offering Corporations filed an Offering Memorandum or a Form 20 with the Commission.

10. The Offering Corporations purported to rely on the "seed capital" prospectus exemption contained in subparagraph 72(1)(p) of the *Securities Act*, R.S.O. 1990, c. S.5

(the “Act”). Neither this exemption, nor any other prospectus exemption, was available to them.

11. None of the exemptions from the registration requirements in Ontario securities law was available for the sale of the Saxton Securities.

12. On or about October 7, 1998, the Court appointed KPMG Inc. (“KPMG”) as the custodian of Saxton’s assets. In early 1999, KPMG reported that the Offering Corporations had raised approximately \$37 million from investors. All funds invested in the Offering Corporations had been transferred to Saxton. At that time, KPMG held the view that the value of the Saxton assets, at its highest [as reported by a related company, Sussex Group Ltd. (“Sussex”)], was approximately \$5.5 million. Sussex currently is being wound down by a court-appointed manager.

#### **THE SAXTON PRODUCTS AND BUSINESS**

13. The Saxton Group was a trade name that encompassed a complex network of related companies including Saxton, the Offering Corporations and Sussex Admiral Group Limited (Barbados), later renamed Sussex.

14. The Saxton Group’s core business was the development and manufacture of beverage and food products for the hospitality and tourist industries in Cuba (and elsewhere in the Caribbean). Sussex was the operating company. Among other things, Sussex held the Saxton Group’s economic associations, operating contracts and supply agreements.

15. The primary function of every Offering Corporation was to raise investment capital for the operations in Cuba and elsewhere. The Offering Corporations financed Sussex’s activities. Funds raised through the Offering Corporations were pooled and transferred to Saxton. Saxton, in turn, transferred the money directly, and indirectly (through 1125956 Ontario Inc.), to the Cuban and other operations. Investors associated their investment with “Saxton” and the Cuban operations, not the Offering Corporations.

16. Although, in fact, investors purchased shares in the Offering Corporations (the Saxton Securities), Saxton marketed the Securities as a “GIC”, a “Fixed Dividend Account” product and an “Equity Dividend Account” product.

17. The “GIC” promised investors an annual return of 10.25%. The Fixed Dividend Account offered investors either a 10.25% annual return for a three year term compounded or a 12% annual return for a five year term compounded. Investors in the Equity Dividend Account product were told to expect 25% to 30% annual growth. Investors were told that their money funded the Saxton Group’s operations. The rate of return on, or the growth of, their investment resulted from the profitability and success of the Group’s businesses (principally the Cuban operations).

18. The Saxton products were marketed and sold as a no, or low, risk investment notwithstanding that the Saxton Securities were described in the Offering Memoranda as “speculative”.

#### **EIZENGA’S CONDUCT**

##### **(a) Management of Saxton and the Raising of Funds**

19. Eizenga controlled the Saxton Group and the raising of funds from Ontario investors through the sale of the Saxton Securities. He made all key business and management decisions relating to, among other things, the means by, and structure through, which the Saxton Securities were distributed, the use of investor funds and the information disseminated to salespeople, investors and prospective investors. All Saxton officers, and the Sussex president, reported to him.

20. The concept and plan for the, and the resulting, distribution of the Saxton Securities were designed by Eizenga and implemented at his direction. The incorporation, and use, of thirty-nine Offering Corporations was designed or implemented by Eizenga as an attempt to circumvent the “seed capital” prospectus exemption requirement in subparagraph 72(1)(p) of the Act that sales be made to no more than 25 purchasers. Once one Offering Corporation received funds from the maximum allowed 25 investors, Eizenga allocated investors to a new Offering Corporation.

21. Eizenga directed the preparation, and approved the publication and distribution, of an Offering Memorandum for each of the Offering Corporations. These Memoranda were virtually identical and provided little information about the Saxton Group’s operations (into which funds invested in the Offering Corporations would flow) other than their geographic location.

22. Further, Eizenga failed to ensure salespeople provided, and often actively discouraged salespeople from providing, an Offering Memorandum to an investor prior to his or her purchase of the Saxton Securities.

23. Eizenga controlled the monies raised through the distributions of the Saxton Securities. He possessed the sole authority to independently sign cheques and effect transfers on Saxton’s and the Offering Corporations’ bank accounts. He controlled the flow of funds from the Offering Corporations to Saxton and from Saxton to Sussex, 1125956 Ontario Inc. and elsewhere.

24. Between 1995 and 1998, Eizenga traded the Saxton Securities by executing as each Offering Corporation’s authorized signing officer the investor subscription agreements.

25. He also acted as a financial advisor to clients who purchased approximately \$1.1 million of the Saxton Securities. In this regard, he made misrepresentations to his clients as described in subparagraphs 29(d) through (g) below and failed to provide them with

access to substantially the same information concerning the Saxton Securities that a prospectus filed under the Act would provide. Eizenga was not registered with the Commission and no registration exemption was available to him. He received commissions of approximately \$55,000 on his direct client sales.

**(b) Information Disseminated to Saxton Salespeople and Investors**

26. Saxton's head office was located initially in London and then moved to Burlington. The sales force consisted of independent salespeople who earned commissions and trailer fees on their sales of the Saxton Securities. The majority of the Saxton salespeople also purchased the Saxton Securities for themselves and/or their families.

27. As particularized below, McGee (Saxton's vice-president) and Fangeat had regular contact with Saxton salespeople. McGee and Fangeat reported to, and took direction from, Eizenga.

28. Eizenga made various oral and written representations respecting the nature and quality of the Saxton Securities and the mechanics and legality of their distributions to Saxton management and salespeople. Among other things, Eizenga produced or approved promotional and investor relations material, facilitated, organized or approved group meetings and presentations respecting the Saxton Securities and the Sussex operations and participated in promotional/investor relations trips to Cuba.

29. Between January 1995 and the summer of 1998, Eizenga made various misrepresentations to salespeople, investors and prospective investors including the following:

- (a) He obtained a legal opinion that the structure for the Saxton Securities' distributions complied with Ontario securities laws;
- (b) Salespeople did not need to be registered with the Commission to sell the Saxton Securities;
- (c) For salespeople who were registered with the Commission, sales of the Saxton Securities did not need to be approved by, or processed through, their sponsor firms;
- (d) The capital invested in, and the rate of return earned on, the "GIC" or "Fixed Dividend Account" product was guaranteed;
- (e) The capital invested in the "Equity Dividend Account" was guaranteed. Based on the profitability of the operations to date, the product would provide a 30% rate of return for investors;

- (f) In anticipation of becoming a public company, Saxton had surety bonds from Liberty Insurance that guaranteed fully the company's capital base and provided an additional level of security to investors; and
- (g) Saxton had secured a Certificate of Deposit for \$40 million backed by gold that fully collateralized shareholders' investments.

**(c) Investor Quarterly Account Statements**

30. Eizenga failed to ensure that proper internal controls were established, and proper books of accounts were kept, at Saxton. Among other things, Saxton's general ledger was never "closed off" and financial statements were never prepared.

31. Saxton distributed quarterly account statements to all investors who purchased the Saxton Securities. These account statements were created and disseminated on the instructions of Eizenga.

32. Shareholders who invested in the "GIC/Fixed Dividend Account" product received quarterly account statements that reflected a "market value" increase of between 10.25% or 12% (thus showing the rate of return promised to investors).

33. The quarterly account statements provided to shareholders who invested in the "Equity Dividend Account" product reflected a "market value" increase of between 25% and 30% (thus showing the rate of return which investors had been told to expect).

34. Eizenga knew that the quarterly account statements could not be substantiated by any accounting or financial data in Saxton's possession. Among other things, there were no financial statements or record of any revenue generation by the Saxton operations and thus, no means by which Saxton or Eizenga could establish the net results of the operations.

35. Along with the historical cost of the Saxton Securities held by the investor, the quarterly account statements purported to disclose an increase in the market value for the quarter and the end of the quarter for such Securities. Eizenga knew that, in addition to lacking the financial information to report any incremental value of the Saxton investments, there was no market for the Saxton Securities and thus, no market value could be, or should have been, attributed to such Securities.

36. To Eizenga's knowledge, the quarterly account statements distributed to, and relied upon by, investors misrepresented the value of shareholders' investments and were misleading. They also provided to investors and salespeople misplaced comfort and confidence in the legitimacy of the Saxton Group business and the stability, quality and risk level of their investment.

**(d) Eizenga's Failure to Inform the Commission**

37. In or about 1997, Eizenga embarked on a plan to take Saxton public and listed on a recognized stock exchange by way of a reverse takeover. It was contemplated that Sussex's assets would be vended in to F.S.P.I. Technologies Corp., a company listed on the Alberta Stock Exchange.

38. In the course of the going public process, Eizenga and the Saxton Group received legal advice that the distributions of the Saxton Securities did not comply with Ontario securities law and that no further funds should be raised. Further, there became a concern that the existing books and records were insufficient to show where all investor funds had gone.

39. Notwithstanding the circumstances described in paragraph 38, Eizenga continued to distribute the Saxton Securities. He failed to inform most salespeople of the advice he received. He did not contact the Commission.

40. Moreover, in October 1997, the Commission wrote to Eizenga and asked him to provide certain information respecting the Saxton Group. Eizenga provided misleading information to the Commission in his January 1998 response.

**(e) Eizenga's Remuneration**

41. Eizenga received a generous remuneration package as the president of Saxton including salary and expensive vehicles.

42. In or about early 1998, Eizenga improperly used investor funds for his personal use namely, expenses related to his home residence.

43. Eizenga's conduct described in paragraphs 19 through 42 was contrary to Ontario securities law and the public interest.

**HERSEY'S CONDUCT**

**(a) Sale of the Saxton Securities**

44. Hersey participated in the illegal distributions, and engaged in unregistered trading, of the Saxton Securities. Between 1995 and 1996, Hersey sold in excess of \$2 million worth of the Saxton Securities to over 30 Ontario investors. Many of the clients to whom Hersey sold the Saxton Securities had purchased insurance products from him and trusted him implicitly.

45. Hersey did not make the appropriate independent inquiries and conduct the necessary due diligence before he sold the Saxton Securities to his clients.

46. Hersey failed to provide his clients with access to substantially the same information concerning the Saxton Securities that a prospectus filed under the Act would provide. None of his clients received an Offering Memorandum prior to purchasing the Saxton Securities. The only documentation provided to clients by Hersey was vague promotional material prepared by Saxton.

47. Hersey misrepresented to his clients the nature and quality of the Saxton Securities. Further, he never received or reviewed any financial statements or other documentation corroborating the profitability or growth of the company. He also misrepresented the terms under which the investment could be liquidated.

48. Hersey earned a 5% commission on his sales of the Saxton Securities.

49. Hersey recruited others to become Saxton salespeople. In describing the investment products to such salespeople, Hersey made similar misrepresentations to those described in subparagraphs 77 (a), (b), (d) and (e) below.

**(b) Sale of SecurCorp Financial Inc. Securities**

50. In or about December 1992, Hersey incorporated Professional Insurance Management Inc. (“Professional Insurance”). Hersey and his wife were the officers of Professional Insurance. Hersey was the company’s sole director. Through Professional Insurance, Hersey offered his clients the opportunity to purchase investment products, including that of SecurCorp Financial Inc. (“SecurCorp”).

51. SecurCorp was incorporated in September 1996. Hersey was SecurCorp’s sole officer and director. SecurCorp offered investors high yield guaranteed investment products. Clients could purchase: (a) a term “guaranteed investment account” that offered a 19% to 25% compounding rate of return; or (b) a term interest in SecurCorp’s developing beverage or hotel/beer businesses. This promised investors a 25% return on maturity (collectively, the “SecurCorp Securities”).

52. The distribution of the SecurCorp Securities contravened Ontario securities law. SecurCorp did not file a preliminary prospectus or a prospectus with the Commission. SecurCorp did not file an Offering Memorandum or a File 20 with the Commission. None of the prospectus exemptions were available to it.

53. Between 1996 and early 1999, Hersey participated in the illegal distribution, and engaged in unregistered trading, of the SecurCorp Securities. Hersey sold in excess of \$700,000 worth of such securities to Ontario investors. He earned commissions on such sales.

54. Some of the clients who purchased the SecurCorp Securities had previously purchased the Saxton Securities from Hersey. Once Hersey’s relationship with Saxton



terminated in or about mid 1996, Hersey recommended to certain clients that they transfer their money to SecurCorp.

55. Hersey failed to provide his clients with access to substantially the same information concerning the SecurCorp Securities that a prospectus filed under the Act would provide. None of Hersey's clients received an Offering Memorandum in connection with their purchase of such Securities.

56. Hersey misrepresented to his clients the nature and quality of the SecurCorp Securities. He told clients that such investments were guaranteed and fully insured.

57. In certain cases, he misrepresented in which vehicle clients' monies had been invested. He also moved clients' money from SecurCorp to another investment vehicle without their knowledge (see paragraphs 58 through 64 below).

**(c) Sale of the Sussex International Ltd. Securities**

58. Sussex International Ltd. ("Sussex International") was an Ontario corporation. In 1998, Fangeat was Sussex International's sole officer and director.

59. Sussex International was another Saxton vehicle. Sussex International represented to the public that it was investing in the same businesses as the Offering Corporations.

60. Sussex International offered investors the opportunity to purchase shares in the company (the "Sussex International Securities"). The distribution of the Sussex International Securities contravened Ontario securities law. Sussex International did not file a preliminary prospectus or a prospectus with the Commission. It did not file an Offering Memorandum or File 20 with the Commission. None of the prospectus exemptions were available to it.

61. In 1998, Hersey participated in the illegal distribution, and engaged in unregistered trading, of the Sussex International Securities. Hersey earned commissions on his sales of the Sussex International Securities. Certain of Hersey's clients who purchased the Sussex International Securities also had purchased the Saxton Securities and/or the SecurCorp Securities.

62. Hersey failed to provide his clients with access to substantially the same information concerning the Sussex International Securities that a prospectus filed under the Act would provide. None of Hersey's clients received an Offering Memorandum in connection with their purchase of the Sussex International Securities.

63. Hersey misrepresented to his clients the nature and quality of the Sussex International Securities. Hersey told clients that their investments were guaranteed and RRSP-eligible.

64. In certain cases, Hersey told clients that they had purchased SecurCorp Securities notwithstanding that he had invested their money in Sussex International. In other cases, Hersey transferred clients' money into Sussex International without their knowledge.

**(d) Sale of Securities post September 1998**

65. In February 1999, Hersey sold Securcorp Securities to an Ontario investor. Hersey engaged in such unregistered trading notwithstanding the commencement of this Commission proceeding against him and a cease trade order dated September 24, 1998.

66. The conduct of Hersey, described in paragraphs 44 through 65 was contrary to Ontario securities law and the public interest.

**FANGEAT'S CONDUCT**

**(a) Sales of the Saxton Securities**

67. Fangeat became registered with the Commission to sell mutual fund securities in February 1993. Between December 31, 1996 and May 7, 1997 and July 2, 1997 and December 28, 1998, Fangeat was registered to sell mutual fund securities and limited market products.

68. By 1996, Fangeat also had been licensed with the Financial Services Commission of Ontario to sell life and other insurance products for many years.

69. Fangeat participated in the illegal distributions of the Saxton Securities. Between 1996 and late spring 1998, Fangeat sold, or acted as the financial advisor in connection with, at least \$10 million worth of the Saxton Securities to Ontario investors. Many investors had been clients of Fangeat for several years and trusted him implicitly.

70. Fangeat failed to provide his clients with access to substantially the same information concerning the Saxton Securities that a prospectus filed under the Act would provide. Further, he did not make the appropriate independent inquiries and conduct the necessary due diligence before he sold the Saxton Securities to his clients.

71. Fangeat misrepresented to his clients the nature and quality of the Saxton Securities. Among other things, Fangeat marketed and endorsed all the Saxton investment products as no, or low, risk notwithstanding that the Offering Memoranda described the Saxton Securities as "speculative".

72. Fangeat represented to clients that Saxton intended to go public and ultimately would be listed on a recognized stock exchange.

73. Moreover, Fangeat provided clients with account statements that, to his knowledge, did not reflect the true value of the Saxton Securities.

74. Fangeat failed to adequately assess the suitability of his clients' investments in the Saxton Securities.

75. Fangeat's sales of the Saxton Securities were never processed through his sponsor firm. In or about the summer of 1997, notwithstanding that Fangeat had been told by his then-sponsor that he was not authorized to sell such Securities, he continued to do so.

**(b) Fangeat's Role in Saxton's Management**

76. Fangeat held the position of marketing officer at Saxton. Ultimately, Fangeat became a Saxton vice-president. Fangeat was involved in Saxton management discussions and decision-making. His company, Integrated Planning Services Inc. ("Integrated Planning"), processed subscription agreements, RRSP applications and related paperwork respecting investors' purchases of the Saxton Securities. Fangeat participated in various promotional and investor relations activities including meetings and discussions with salespeople, investors and prospective investors and travelling to Cuba with investors.

77. Fangeat recruited and managed most of the Saxton salespeople and acted as an intermediary between Saxton and its sales representatives. In this role, he made various misrepresentations to Saxton salespeople including:

- (a) that they did not need to be registered with the Commission to sell the Saxton Securities;
- (b) that the sales of the Saxton Securities complied with Ontario securities law;
- (c) that the capital invested in Saxton's Guaranteed Investment Certificate/Fixed Dividend Account product was guaranteed;
- (d) that the Saxton investment products were suitable for conservative investors with low risk investment objectives;
- (e) that, based on the profitability of Saxton to date, the "Equity Dividend Account" product would provide a 30% rate of return for investors; and
- (f) that a sponsor firm had authorized the sale of the Saxton Securities.

78. With reference to paragraph 21 above, as an officer of several of the Offering Corporations, Fangeat failed to scrutinize adequately the accuracy and sufficiency of the

Offering Memoranda before they were distributed to salespeople and prospective investors.

79. With reference to paragraphs 31 through 33 above, Fangeat knew that the quarterly statements provided to his clients were unsubstantiated by any accounting or financial data in Saxton's possession. Fangeat also knew that the statements misrepresented the value of the shareholders' investments and thus, were misleading to investors and Saxton salespeople.

**(c) Fangeat's Compensation**

80. Fangeat received commissions of at least \$500,000 on his sales of the Saxton Securities. He also received a management fee of 2.5% on all Saxton Securities sold. Among other things, Saxton provided Fangeat with a Mercedes Benz as part of his compensation package and paid Integrated Planning's overhead expenses.

**(d) Sales of the Sussex International Securities**

81. In 1998, Fangeat participated in the illegal distribution of the Sussex International Securities. At that time, Fangeat was the president of Sussex International and the company operated out of the Integrated Planning offices. Sussex International was another vehicle for financing Sussex and the Cuban operations. Fangeat traded the Sussex International Securities by soliciting investors through discussions and meetings with salespeople and prospective investors and by executing investor subscription agreements and share certificates as the corporation's authorized signing officer.

**(e) Failure to Contact the OSC**

82. Despite his knowledge of the legal opinion described in paragraph 38 above, and some evidence to suggest that there may be significant investor funds for which Saxton could not account, Fangeat did not contact the Commission or any other law enforcement agency. Moreover, he continued to participate in the raising of funds from the public through the distribution of the Saxton and Sussex International Securities.

83. Fangeat's conduct, described in paragraphs 67 through 82 was contrary to Ontario securities law and the public interest.

**McGEE'S CONDUCT**

84. McGee is a lawyer by training. He was called to the Ontario bar in 1993. In or about 1995, McGee became licensed as an insurance agent with the Financial Services Commission of Ontario. McGee has never been registered with the Commission.

**(a) McGee's Management Role**

85. McGee became actively involved in the business of Saxton in the summer of 1996. By early 1997, McGee was Saxton's vice-president. McGee also was an officer and/or a director of several of the Offering Corporations. Eizenga terminated McGee in December 1997.

86. With reference to paragraph 20 above, McGee was aware of the corporate structure used by Saxton to distribute the Saxton Securities. To McGee's knowledge, once one Offering Corporation solicited 25 investors, investors and their funds were allocated to a new Offering Corporation.

87. With reference to paragraph 21 above, the Offering Memoranda identified McGee as the vice-president whose principal occupation was "Investment Consultant/Lawyer". McGee failed to scrutinize adequately the accuracy and sufficiency of such Memoranda before they were distributed to salespeople and prospective investors.

88. McGee made oral and written representations to salespeople and investors concerning the Saxton Securities, the Saxton Group and its operations. In this regard, McGee made various inaccurate and misleading statements. McGee failed to take the necessary steps to verify the accuracy and reliability of such information before disseminating it to salespeople and investors.

89. McGee's misrepresentations included the following:

- (a) that salespeople did not need to be registered with the Commission to sell the Saxton Securities;
- (b) that the sales of the Saxton Securities complied with Ontario securities law;
- (c) that based on the profitability of Saxton to date, the "Equity Dividend Account" product would provide a 30% rate of return for investors;
- (d) that the capital invested in Saxton's "GIC/Fixed Dividend Account" product was guaranteed; and
- (e) inaccurate or misleading information relating to the financial state, profitability and growth of Saxton and its operations.

90. Many of the Saxton salespeople relied on McGee's representations given that he was Saxton's vice-president and a lawyer. Salespeople, in turn, relayed inaccurate and misleading information McGee provided them to their clients.

91. With reference to paragraphs 31 through 33 above, McGee knew that the quarterly statements provided to investors were unsubstantiated by any accounting or financial data in Saxton's possession. McGee also knew that the statements misrepresented the value of the shareholders' investments and thus, were misleading to investors and Saxton salespeople.

92. Further, McGee knew that Fangeat was making misrepresentations to certain investors. McGee failed to take the appropriate steps to curtail Fangeat's activity or to correct the information provided to investors.

93. In or about mid to late 1997, McGee became aware that there may be significant investor funds for which Saxton could not account. McGee failed to alert the Commission and/or any other law enforcement agency and did not take appropriate steps to stop the sale of the Saxton Securities.

94. In August 1997, McGee learnt of the legal advice described in paragraph 38 above. Notwithstanding this knowledge, McGee failed to:

- (a) approach the Commission; and
- (b) instruct the Saxton salespeople to stop selling the Saxton Securities.

**(b) McGee's Sales of the Saxton Securities**

95. Between March and May 1996, McGee sold the Saxton Securities directly to at least 4 Ontario investors for a total amount in excess of \$80,000. McGee earned commissions of 5% on such sales.

96. McGee failed to provide his clients with access to substantially the same information concerning the Saxton Securities that a prospectus filed under the Act would provide. Investors were not provided with an Offering Memorandum prior to their purchase of the Saxton Securities and McGee did not otherwise provide adequate information.

97. Moreover, McGee misrepresented to investors that the Saxton Securities was a guaranteed investment product notwithstanding that the Offering Memoranda described such Securities as "speculative".

98. McGee also was involved with the general promotion, solicitation and sale of the Saxton Securities by, among other things, drafting promotional and investor relations material for distribution to prospective investors and investors, participating in group meetings and presentations and discussing with sales representatives, prospective investors and investors the Saxton business, its profitability and its growth potential.

**(c) McGee's Compensation**

99. In addition to commissions paid on his own direct sales, between the summer of 1996 and early 1997, McGee was paid 2.5% of all monies raised through the purchase of the Saxton Securities. Commencing in February 1997, McGee received a salary for his work with Saxton. In connection with his involvement in Saxton, McGee earned, in approximately one year, in excess of \$500,000.

100. By virtue of the conduct described above, McGee participated in the illegal distributions of the Saxton Securities and engaged in unregistered trading contrary to section 25 of the Act. No registration exemption was available to him. McGee's conduct was contrary to Ontario securities law and the public interest.

**RIZZUTO'S CONDUCT**

101. Rizzuto was first registered with the Commission to trade mutual fund securities in September 1992. Commencing in January 1997, Rizzuto could also trade limited market products.

102. Rizzuto participated in the illegal distributions of the Saxton Securities. Between April 1997 and April 1998, Rizzuto sold the Saxton Securities to 7 Ontario investors for a total amount sold of approximately \$750,000. He received commissions of approximately \$24,000 on such sales.

103. Rizzuto failed to provide his clients with access to substantially the same information concerning the Saxton Securities that a prospectus filed under the Act would provide. Among other things, none of his clients received an Offering Memorandum prior to purchasing the Saxton Securities.

104. Rizzuto misrepresented the nature and quality of the Saxton Securities. He told clients that they were purchasing a low risk guaranteed product. In fact, investors were purchasing shares in Saxton, such Securities which were described in the Offering Memoranda as "speculative".

105. Rizzuto failed to adequately assess the suitability of his clients' investments in the Saxton Securities.

106. The sale of the Saxton Securities were not processed through Rizzuto's sponsor firm. Rizzuto failed to inform his sponsor that he was engaged in the selling of such products.

107. In or about mid-1998, Rizzuto participated in the illegal distribution of the Sussex International Securities by facilitating the sale of such Securities to one of his clients. Rizzuto received a commission or referral fee of \$20,000 relating to his client's purchase of the Sussex International Securities.

108. The conduct of Rizzuto, described in paragraphs 101 through 107 above, was contrary to Ontario securities law and the public interest.

109. Such other allegations as Staff may make and the Commission may permit.

May 21, 2004