

**IN THE MATTER OF THE SECURITIES ACT
R.S.O. 1990, c. S.5, AS AMENDED**

- AND -

IN THE MATTER OF ANTHONY IANNO AND SAVERIO MANZO

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

Staff of the Ontario Securities Commission make the following allegations:

The Respondents

1. Anthony Ianno (“Ianno”) is an individual resident in Ontario.
2. Saverio Manzo (“Manzo”) is an individual resident in Ontario. Between 1992 and 2003, Manzo was registered with the Commission as a mutual fund salesman.

Covalon Technologies

3. Covalon Technologies Ltd. (“Covalon”) is a reporting issuer in Ontario that trades on the Toronto Stock Exchange Venture Exchange (“TSXV”) under the trading symbol “COV”. Covalon is a medical biosystems company.

Overview of the Respondents’ Conduct

4. In the period between January 2007 and April 2008, Ianno purchased a large number of shares of Covalon. He purchased a significant proportion of these shares on margin (meaning that they were purchased on credit advanced by a brokerage and secured against the value of the shares).

5. In the period between November 2007 and April 2008, Ianno manipulated the market for Covalon shares by raising or artificially maintaining their price. He frequently purchased Covalon shares through multiple brokerage accounts at or near the end of the trading day.
6. In the same period, as part of his undertaking to raise or maintain the price of Covalon shares, Ianno encouraged Manzo and eight other associates to purchase shares of Covalon. Ianno directed Manzo to make purchases at or near the end of the trading day. Finally, Ianno engaged in unauthorized trading in the accounts of four of his associates.
7. Ianno undertook to raise or maintain the price of Covalon shares in this period in order to assist with his margin issues. These issues included the need to improve his margin position, the need to avoid margin calls, and the need to negotiate margin rates (meaning the proportion of the shares' purchase price to be provided by Ianno) to fund further purchases of Covalon shares.

Overview of the Respondents' Trading

(a) Ianno

8. Between January 2007 and April 2008, Ianno purchased approximately 4,000,000 common shares of Covalon. The purchases were made in 11 different accounts held at 8 different brokerage firms. Some of the accounts were held in Ianno's name, and some were in the name of Roof-Can Corporation, a company owned in part by Ianno. These purchases totalled approximately \$7,642,000 at the time of acquisition.
9. The majority of Ianno's Covalon share purchases were made on margin. Of the approximately 4,000,000 shares purchased in this period, approximately 2,776,800 were subject to margin requirements.
10. A portion of these shares was held in brokerage accounts where the shares were subject to a \$3.00 per share minimum price for margin eligibility. The remaining portion was held in

accounts where the shares were subject to a \$2.00 per share minimum price for margin eligibility.

11. Each lending brokerage sets its own margin rules (subject to certain regulatory requirements), including minimum share prices and other loan security requirements. Brokerages generally assess the value of a share position for margin purposes based on the share's closing bid price (meaning the final bid price for those shares at the close of the trading day).
12. In the period between January 2007 and April 2008, Ianno received approximately 27 margin calls from 8 different brokerages relating to his Covalon shares, meaning that a lending brokerage notified him that his Covalon shares did not have sufficient value to secure the loans that had been made to purchase them.

(b) Manzo

13. Between January 2007 and April 2008, Manzo purchased approximately 935,000 shares of Covalon. The purchases were made in 10 different accounts held at 5 different brokerage firms. Some of the accounts were held in Manzo's name, and some were in the name of Financial Concepts, a sole proprietorship owned by Manzo. These purchases totalled approximately \$2,850,000 at the time of acquisition.
14. The majority of Manzo's Covalon share purchases were made on margin. Of the 935,000 shares purchased in this period, approximately 595,000 were purchased on margin. A portion of these shares were held in brokerage accounts where the shares were subject to a \$3.00 per share minimum price for margin eligibility. The remaining portion were held in accounts where the shares were subject to a \$2.00 per share minimum price for margin eligibility. Manzo did not receive any margin calls during this period.

Ianno's Attempts to Set an Artificial Price

15. In the period between November 2007 and April 2008, Ianno engaged in trading in which he intended to or did raise or maintain the price of Covalon shares. The majority of Ianno's purchases of Covalon shares during this period were active trades (meaning that they were priced for an immediate fill from available shares on offer).
16. A significant portion of these active trades caused an uptick (meaning an increase over the previous price) in the price of Covalon shares. In addition, a significant proportion of these active trades caused an increase in the prevailing market for Covalon shares (meaning an increase in the bid price and/or the ask price).
17. A significant portion of these active trades also occurred within 15 minutes of the close of the trading day. A portion of these trades constituted the closing trade of the day in Covalon shares.
18. Ianno undertook to raise or maintain the price of Covalon shares during this period in order to assist with his margin issues. These issues included the need to improve his margin position, the need to avoid margin calls, and the need to negotiate margin rates to fund further purchases of Covalon shares.
19. In conducting this trading, Ianno frequently undertook to raise the price of Covalon shares to or above a \$3.00 per share level in order to respond to the margin loan requirements imposed by several of the brokerages through whom he had purchased his Covalon shares.
20. Prior to and during this period, Ianno was warned by brokerage representatives that his late-day trading was inappropriate, however he continued to engage in such trading.

Ianno's Unauthorized Trading

21. Ianno encouraged eight individuals to open trading accounts at BMO InvestorLine and purchase Covalon shares in those accounts. The eight individuals were: RF, FS, AP, FM, MG, ND, DP and JM (together, the “Ianno Associates”).
22. Between December 2007 and February 2008, the Ianno Associates all opened accounts with BMO InvestorLine and purchased Covalon shares in those accounts.
23. In January and February of 2008, Ianno instructed Anthony D’Ugo (“D’Ugo”), a salesperson with BMO InvestorLine, to execute purchases of Covalon shares in the accounts of four of the Ianno Associates: MG, ND, DP and JM. Ianno did not have written trading authorization over these accounts.
24. The volume of the purchases totalled approximately 640,000 Covalon shares at a total acquisition cost to the account holders of approximately \$1,900,000. A significant portion of these trades were active and occurred within the last 30 minutes of trading.
25. On January 25, 2008 Ianno instructed D’Ugo to enter a buy order for Covalon shares in MG’s account within the last 5 minutes of trading. This bid improved the price of the prevailing best bid for Covalon shares.
26. On February 1, 2008, Ianno instructed D’Ugo to enter a buy order for Covalon shares in DP’s account within the last 10 minutes of trading. This bid improved the price of the prevailing best bid for Covalon shares. Ianno also instructed D’Ugo to enter a buy order for Covalon shares in DP’s account on February 5, 2008 within the last 5 minutes of trading which joined the prevailing best bid for Covalon shares, adding to the bid size.
27. Ianno communicated to D’Ugo that after the unauthorized trades outlined above were executed, he was willing to make further purchases himself if they were needed to achieve a specified price level for Covalon shares. Specifically, Ianno instructed D’Ugo that he should make purchases in Ianno’s account at a price of \$3.00 if needed to “protect the \$3.00”.

Manzo's Attempts to Set an Artificial Price

28. In the period between November 2007 and April 2008, Manzo engaged in trading in which he intended to or did raise or maintain the price of Covalon shares. This trading was frequently done either in conjunction with or at the direction of Ianno.
29. During this period, the majority of Manzo's purchases of Covalon shares were active trades. A significant portion of these active trades caused an uptick in the price of Covalon shares. A significant portion of these active trades also occurred within 15 minutes of the close of the trading day.
30. Of these late-day trades, the majority occurred after 15:59:00 (daily trading on the TSXV closes at 16:00 Toronto time) and a significant proportion constituted the closing trade of the day in Covalon shares. Manzo frequently made late day trades of only 100 Covalon shares, which is the minimum Standard Trading Unit (meaning the minimum quantity of shares that can be included in the stock exchange's price data) for purchases on the TSXV. Given Manzo's significant holdings of Covalon shares, there was no economic reason to purchase further shares in such small quantities. These closing trades frequently had the effect of setting the closing price in Covalon shares, often on an uptick.
31. In addition, Manzo frequently entered improving bids (meaning bids which increased the price of the prevailing bid) at or near the close of trading. These improving bids were nearly all for volumes of only 100 shares, which is the minimum Standard Trading Unit for bids on the TSXV. Once again, given his significant holdings of Covalon shares, there was no economic reason to bid for further shares in such small quantities. Manzo generally entered these improving bids into the marketplace anonymously.

Ianno and Manzo's Coordinated Trading

32. In the period between November 2007 and April 2008, there were several days in which Ianno and Manzo coordinated their purchases in order to raise or maintain the price of Covalon shares.
33. Ianno and Manzo were in frequent contact throughout this period, making nearly 300 calls between their cellular telephones.
34. On these dates, Ianno executed late-day purchases of Covalon shares either in his own account or in those of the Ianno Associates, as outlined above. These trades generally had the effect of taking out the prevailing offer side of the market (known as the “best ask”), thereby increasing the market level and/or the trading price of Covalon shares.
35. Manzo would then enter an improving bid for Covalon shares at the end of the trading day. These bids were generally for only 100 shares, the minimum Standard Trading Unit for a bid on the TSXV. Manzo would also frequently execute the closing trade in Covalon shares, also on a volume of only 100 shares.

Summary

36. As a result of the conduct outlined above, Ianno and Manzo directly or indirectly engaged or participated in an act, practice or course of conduct relating to securities that they knew or ought reasonably to have known would result in or contribute to a misleading appearance of trading activity in or an artificial price for a security contrary to section 126.1 of the *Securities Act*.
37. Further, the conduct outlined above was abusive of the capital markets.

CONDUCT CONTRARY TO ONTARIO SECURITIES LAW AND CONTRARY TO THE PUBLIC INTEREST

38. Staff allege that the conduct set out above of Ianno and Manzo violated Ontario securities law as specified and constituted conduct contrary to the public interest.
39. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

DATED at Toronto this 8th day of March, 2010.