



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

22nd Floor
20 Queen Street West
Toronto ON M5H 3S8

22e étage
20, rue queen ouest
Toronto ON M5H 3S8

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

- AND -

**IN THE MATTER OF DENNIS L. MEHARCHAND
and VALT.X HOLDINGS INC.**

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

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

A. Overview

1. During the period from January 2012 to December 2016 (the “Material Time”), Valt.X Holdings Inc. (“Valt.X Holdings”) and Dennis L. Meharchand (“Meharchand”) (together, the “Respondents”): (i) engaged in the business of trading in securities without being registered, contrary to subsection 25(1) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the “Act”); (ii) illegally distributed securities, contrary to subsection 53(1) of the Act; and (iii) engaged in conduct contrary to the public interest.
2. During the Material Time, the Respondents raised a total of approximately CDN\$1.5 million and USD\$140,000 through the sale of shares to approximately 65 investors who were solicited to invest in Valt.X Holdings. The Respondents engaged in the conversion of outstanding loans to convertible notes for shares in Valt.X Holdings worth approximately CDN\$1.4 million.
3. Further, Meharchand engaged in fraudulent conduct by making misleading or untrue statements to investors regarding the use of investors’ funds. Instead of using investor funds exclusively for their stated purpose, Meharchand used a significant portion of investor monies for his personal benefit, including the payment of loans, the payment of personal expenses, and the use of monies for gambling, contrary to subsection 126.1(b) of the Act.

B. The Respondents

4. During the Material Time, Meharchand was a resident of Toronto, Ontario and an officer and/or director and directing mind of Valt.X Holdings. He has never been registered with the Ontario Securities Commission (the “Commission”) in any capacity.
5. Valt.X Holdings was incorporated in Ontario in March 2006 with a registered address in Toronto, Ontario. During the Material Time, Valt.X Holdings was not a reporting issuer in Ontario and did not file a preliminary prospectus and prospectus. Valt.X Holdings has never been registered with the Commission in any capacity.

C. Unregistered Trading and Illegal Distribution

(a) Trading in Securities

6. During the Material Time, the Respondents solicited Canadian residents, both directly and indirectly, to advance monies for the purpose of funding Valt.X Holdings’ ongoing business activities. Since 2010, Valt.X Holdings’ business activities have included raising capital through the sale of securities to members of the public and attempts to commercialize proprietary cybersecurity technologies. As a result of investor solicitations, a total of approximately CDN\$1.5 million and USD\$140,000 from 65 investors was raised.
7. The individuals solicited to invest in Valt.X Holdings were members of the public. Direct solicitations resulted in numerous investor referrals, which the Respondents accepted.
8. Investors entered into subscription agreements with respect to their investment in Valt.X Holdings. The subscription agreements were issued by Valt.X Holdings and executed by Meharchand, as a director and/or officer. Typically, investors purchased common shares of Valt.X Holdings at a purchase price of between \$0.25 and \$1.00 per share.
9. The Valt.X Holdings common shares are “securities”, as defined in subsection 1(1) of the Act.
10. Meharchand solicited individuals to invest in Valt.X Holdings by contacting them directly by email, offering investment opportunities on the internet, meeting with potential investors, discussing the nature of the investment, making presentations about the investment

opportunity, answering inquiries made by potential investors, and disseminating marketing materials to potential investors.

11. Investor monies were accepted and deposited, directly or indirectly, into accounts associated with or related to the Respondents, including accounts in the name of Valt.X Holdings and Meharchand. The investor monies were then disbursed at the direction of Meharchand for use in the operation of Valt.X Holdings and for wholly unrelated purposes.

(b) The “Crowd Buy” Opportunity

12. In or around February 2016, Meharchand began marketing a “crowd buy” program on behalf of Valt.X Holdings. Potential investors were given an opportunity to purchase software licenses from Valt.X Holdings at a discount. Under the proposed terms of the “crowd buy” program, investors were told they have the option to (1) sell the licenses themselves or (2) have Valt.X Holdings sell the licenses on their behalf.
13. Potential investors were told that they would receive a fixed return on investment in one year and that their return would be dependent on the amount of money invested. For example, an investment of \$100,000 would provide a 30% return, an investment of \$50,000 would provide a 25% return, and an investment of under \$50,000 would provide a 20% return. Valt.X Holdings would buy back any unsold inventory at cost.
14. The “crowd buy” program offered by Valt.X Holdings is an investment contract, and therefore a “security” as defined in subsection 1(1) of the Act.

(c) Conversion of Existing Loans to Securities

15. Prior to 2012, Meharchand entered into a series of loans with various individuals. In 2012, Meharchand began providing convertible notes for Valt.X Holdings shares to his existing lenders. These convertible notes were in lieu of the principal and interest due on the outstanding loans. During the Material Time, Valt.X Holdings issued approximately \$1.4 million worth of convertible notes.
16. The convertible notes were offered for a set duration and provided the subscriber the option of converting outstanding loans to common shares of Valt.X Holdings, typically at a price of \$0.19 to \$1.00 per share. The terms of the notes varied from 45 days to two years.

17. If the subscriber did not elect to convert to shares and opted instead to redeem the convertible note, Valt.X Holdings would pay an annual interest rate of 15% from the date of the execution of the convertible note.
18. The Valt.X Holdings convertible notes are “securities”, as defined in subsection 1(1) of the Act.
19. By engaging in the conduct described above, the Respondents engaged in, or held themselves out as engaging in, the business of trading in securities and participated in acts, solicitations, conduct or negotiations directly or indirectly in furtherance of the sale or disposition of securities, in circumstances where there were no exemptions to the registration requirement available under Ontario securities law, contrary to section 25 of the Act and/or contrary to the public interest.
20. Further, by engaging in the conduct described above, the Respondents traded in securities where those trades were distributions of securities not previously issued, in circumstances where there were no exemptions to the prospectus requirement available under Ontario securities law or the Respondents improperly relied upon such exemptions, contrary to section 53 of the Act and/or contrary to the public interest.

D. Fraudulent Conduct

21. During the Material Time, Meharchand made representations to investors that their investment monies would be used for the ongoing operations of Valt.X Holdings. However, the funds raised from investors were not used exclusively for this purpose. Instead of being used exclusively for the stated purpose, and without the knowledge of investors, Meharchand directed a significant amount of investor monies towards other uses, including:
 - (a) paying personal expenditures, including credit card and mortgage payments;
 - (b) repaying individuals who were owed money from loans to Meharchand;
 - (c) paying existing investors;
 - (d) significant cash withdrawals; and

- (e) funding personal gambling activities engaged in by Meharchand.
- 22. During the Material Time, neither of the Respondents had any significant source of income other than investor funds. Meharchand's failure to use the investor funds as represented to investors was misleading and/or fraudulent in the circumstances.
- 23. By engaging in the conduct described above, Meharchand engaged in or participated in acts, practices, or courses of conduct relating to securities that he knew perpetrated a fraud on persons or companies contrary to subsection 126.1(b) of the Act.

E. Breaches of Ontario Securities Law and/or Conduct Contrary to the Public Interest

- 24. The specific allegations advanced by Staff are:
 - (a) During the Material Time, the Respondents engaged in, or held themselves out as engaging in, the business of trading in securities without being registered, in circumstances where there were no exemptions to the registration requirement available to the Respondents under Ontario securities law, contrary to subsection 25(1) of the Act;
 - (b) During the Material Time, the trading of securities as set out above constituted a distribution of securities by the Respondents in circumstances where no preliminary prospectus and prospectus were filed and receipts had not been issued for them by the Director, and where there were no exemptions to the prospectus requirement available to the Respondents under Ontario securities law or the Respondents improperly relied upon such exemptions, contrary to subsection 53(1) of the Act;
 - (c) During the Material Time, Meharchand engaged in or participated in acts, practices, or courses of conduct relating to securities that he knew perpetrated a fraud on persons or companies, contrary to subsection 126.1(b) of the Act;
 - (d) During the Material Time, Meharchand, as an officer or director of the Corporate Respondents, authorized, permitted or acquiesced in the non-compliance of the Corporate Respondents with Ontario securities law and as a result is deemed to also have not complied with Ontario securities law pursuant to section 129.2 of the Act.

25. The conduct described above was contrary to the fundamental purposes and principles of the Act found in subsections 1.1 and 2.1 of the Act. The Respondents engaged in unfair and improper practices, which harmed investors who invested in Valt.X Holdings, and by impugning the integrity of Ontario's capital markets.
26. By reason of the foregoing, the Respondents violated the principles and requirements of Ontario securities law such that it is in the public interest to make orders under section 127 of the Act.
27. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

DATED at Toronto, February 27, 2017.