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BULLETIN #3406
March 28, 2005

Discipline Discipline Penalties Imposed on Michael Druhan – Violation of By-law 29.1.

Person Disciplined A Hearing Panel, appointed pursuant to IDA By-law 20, has imposed discipline penalties on Michael Druhan, at all material times a Registered Representative at the Toronto offices of Yorkton Securities Inc. (“Yorkton”) and Sprott Securities Inc. (“Sprott”), both Members of the Association at the relevant time.

By-laws, Regulations, Policies Violated A disciplinary hearing was held on March 14, 2005, in Toronto, Ontario. Mr. Druhan did not attend the hearing to contest the allegations. Following submissions by Staff of the Enforcement Department (“Staff”) of the Investment Dealers Association of Canada (“Association”), the Hearing Panel accepted the facts and violations as alleged in the Notice of Hearing. In particular, the Hearing Panel held that Mr. Druhan engaged in the following conduct unbecoming, contrary to Association By-law 29.1:

- (1) Between November 1996 and April 2000, Mr. Druhan maintained an account at an outside firm in the name of his spouse, without the knowledge or consent of his employers; and
- (2) Between November 1996 and November 1999, Mr. Druhan engaged in personal financial dealings with three of his clients in that he received from these clients, financial compensation in the form of securities valued at approximately \$373,500 without the knowledge or consent of his employers.

Penalty Assessed The Hearing Panel imposed the following sanctions upon Mr. Druhan,

- A permanent ban from acting in any registered capacity with the Association;
- Disgorgement of commissions in the amount of \$403,366.52; and
- A fine of \$150,000.

The Hearing Panel also ordered Mr. Druhan to pay Association costs in this matter in the amount of \$20,000.

Summary
of Facts

In November 1996, an account was opened in the name of Mr. Druhan's spouse at CIBC Investor's Edge, the discount brokerage division of CIBC Investor Services Inc. ("Investor's Edge account"). Mr. Druhan had full knowledge and direct control over this account.

At the time the Investor's Edge account was opened, Mr. Druhan was employed at Yorkton. However, Yorkton was not made aware of this account until December 15, 1997, approximately 8 days before Mr. Druhan left Yorkton.

While Mr. Druhan was employed at Yorkton, a total of 75,000 shares of Control Advancements Inc. ("Control Advancements") were received into the Investor's Edge account as follows:

Date Received	Security Name	Quantity	Market Value (as of month-end securities received)
Nov. 22, 1996	Control Advancements	50,000	\$165,000
Dec. 17, 1997	Control Advancement	25,000	\$45,000

The 50,000 shares were received into the Investor's Edge account from SI Corporation and Client A at no cost. The 25,000 shares were received into the Investor's Edge account from an entity referred to as 'Client B in trust' at no cost.

Both Client A and B were clients of Mr. Druhan whom he first met while employed at Yorkton. They were also insiders of Control Advancements (and its successor company, Betacom Corp.) during the relevant time, acting as directors between April 30, 1996 and December 12, 2001.

Upon transferring to Sprott in January 1998, Mr. Druhan did not advise his employer of the Investor's Edge account. Sprott was first made aware of its existence during the course of Staff's investigation.

While Mr. Druhan was employed at Sprott, 150,000 shares of Mercury Scheduling Systems Inc. ("Mercury Scheduling") and 50,000 shares of Control Advancements were received into the Investor's Edge account as follows:

Date Received	Security Name	Quantity	Market Value (as of month-end securities received)
Oct. 22, 1998	Mercury Scheduling	100,000	\$82,000
Sept. 1, 1999	Mercury Scheduling	50,000	\$40,000
Nov. 8, 1999	Control Advancements	50,000	\$41,500

The 100,000 shares of Mercury Scheduling Systems and 50,000 shares of Control Advancements were received into the Investor's Edge account from the entity known as 'Client B in trust' at no cost. Mr. Druhan personally directed these shares to be deposited into the Investor's Edge account.

The other 50,000 shares of Mercury Scheduling Systems were received into the Investor's Edge account from Client C at no cost. Client C was a client of Mr. Druhan whom he first met while employed at Yorkton. He was an insider of Mercury Scheduling Systems acting as a director between November 15, 1995 and August 13, 1999. While he was not an acting director at the time he provided the shares to Mr. Druhan in September 1999, Client C was, however, President of Maxwell Mercantile, a company that was appointed as investor relations and corporate communications services for Mercury Scheduling Systems in September 1999.

None of the shares delivered into the Investor's Edge account remained in the account for very long. All of the shares were eventually sold for total proceeds in the amount of \$403,366.52. The proceeds generated from these sales were always immediately transferred out of the Investor's Edge account and deposited into Mr. Druhan's spouse's bank account.

Approximately during the same time period of receiving shares of both Control Advancement and Mercury Scheduling Systems, Mr. Druhan invested many of his clients in these companies. Shortly after the last delivery into the Investor's Edge account of Control Advancement shares in November 1999, Mr. Druhan's clients held a material percentage of Control Advancement's common stock. As of March 31, 2000, as a percentage of total shares issued, the Mr. Druhan's clients, including insiders, held 21% of Control Advancement shares. Between September 1998 and December 1999, the same period of time that the Mercury Scheduling shares were delivered into the Investor's Edge account, Mr. Druhan's clients, including insiders, held between 18% and 27% of the total shares issued by Mercury Scheduling.

Mr. Druhan also introduced a mutual fund manager to the management of Control Advancements. This meeting took place in November 1999, around the same time of the last delivery of Control Advancement shares into the Investor's Edge account. As a result of this meeting, the mutual fund purchased 500,000 shares of Control Advancements at a total cost of \$351,750, approximately 4.5% of the total market capitalization of the company.

Since November 18, 2003, Staff made repeated requests to Mr. Druhan to provide any evidence to establish that the shares delivered into the Investor's Edge account were properly paid for. To date, Mr. Druhan has not provided Staff with any such evidence.

Mr. Druhan is currently not registered in any capacity with the Association.

Kenneth A. Nason
Association Secretary