



INVESTMENT DEALERS
ASSOCIATION OF CANADA

bulletin



ASSOCIATION CANADIENNE DES
COURTIERS EN VALEURS MOBILIÈRES

Contact:
Paul Smith
Enforcement Counsel
(604) 331-4764

For distribution to relevant parties within your firm

BULLETIN #3374
December 23, 2004

Discipline

Discipline Penalties Imposed on Trevor Scott Morrison – Violation of By-law 29.1.

Person Disciplined The Pacific District Council of the Investment Dealers Association of Canada (the “Association”) has imposed discipline penalties on Trevor Scott Morrison, at all material times a Registered Representative working at the Vancouver Branch of IPO Capital Corp. (“IPO”), a member of the Association.

By-laws, Regulations, Policies Violated On September 15, 2004, the Pacific District Council considered, reviewed and amended a Settlement Agreement by adding, with the consent of Mr. Morrison, a clause that was not contained in the Settlement Agreement as negotiated between Mr. Morrison and Association Staff.

Pursuant to the Settlement Agreement, Mr. Morrison admitted the following:

Between March 16, 1999 and June 3, 1999, he distributed US \$56,000 in securities in the form of Debtor Certificates of Value Software Corporation without a receipt for a prospectus for the security having been obtained in accordance with Section 61 of the *British Columbia Securities Act* and without any exemption from the requirements of Section 61 being available, and thereby acted contrary to Association By-law 29.1.

TORONTO
CALGARY
HALIFAX
MONTRÉAL
VANCOUVER

Suite 1600, 121 King Street West, Toronto, Ontario M5H 3T9 Telephone: (416) 364-6133 Fax: (416) 364-0753
Suite 2300, 355 Fourth Avenue S.W., Calgary, Alberta T2P 0J1 Telephone: (403) 262-6393 Fax: (403) 265-4603
Suite 1620, 1791 Barrington Street, Halifax, Nova Scotia B3J 3K9 Telephone: (902) 423-8800 Fax: (902) 423-0629
Suite 2802, 1 Place Ville Marie, Montréal, Québec, H3B 4R4 Telephone: (514) 878-2854 Télécopieur: (514) 878-3860
Suite 1325, P.O. Box 11614, 650 West Georgia Street, Vancouver, B.C. V6B 4N9 Telephone: (604) 683-6222 Fax: (604) 683-3491

Penalty
Assessed

The penalties assessed against Mr. Morrison are:

- (a) a fine in the amount of \$5,000;
- (b) a suspension from approval in any capacity with the Association for a period of one year, which said suspension is deemed served by the more than 3 year period Mr. Morrison was under strict or close supervision; and
- (c) a condition of his continuing approval by the Association that the fine and costs herein be paid.

Mr. Morrison is also required to pay \$1,500.00 towards the Association's costs of this matter.

The penalty in clause (b) above was not contained in the original Settlement Agreement as negotiated between Mr. Morrison and Association Staff but was added by the Pacific District Council with the consent of Mr. Morrison.

Summary
of Facts

Overview

This matter relates to the period from March 16, 1999 to June 3, 1999 (the "Relevant Period") when Mr. Morrison was a Registered Representative ("RR") at the Vancouver branch of IPO Capital Corp. ("IPO"), a Member firm.

During the Relevant Period, Alan Bruce Alexander Thomson ("Thomson") and Ron Tremblay ("Tremblay") were RRs at IPO. John Frederick Brighten ("Brighten") was IPO's Executive Vice-President, Branch Manager, Compliance Manager and Ultimate Designated Person ("UDP") and Steven Nizam Khan ("Khan") was IPO's Chairman and CEO.

The Debtor Certificates

On March 16, 1999, the United States Bankruptcy Court for the District of Nevada (the "Bankruptcy Court") made an Order Authorizing the Incurring of Debt (the "Authorizing Order") by a Nevada corporation, Value Software Inc. ("Value") that was in a voluntary proceeding for reorganization under Chapter 11 of the Bankruptcy Code in the United States.

The Authorizing Order enabled Value to incur debt pursuant to Class A and Class B Debtor Certificates (the "Debtor Certificates") to fund operations and comply with terms of a merger with AutoFinance Companies of America Inc. ("AutoFinance") which formed the basis of Value's plan of reorganization (the "Plan").

Opportunity Presented to Tremblay and Thomson

James W. Wolff ("Wolff") was a promoter who resided in Florida. He was discharged from personal bankruptcy in 1997. Wolff was President and CEO of his own company First Internet Capital ("FI Capital") a Florida based Internet Marketing and Consulting company formed in 1997 to assist issuers in "going public". Among a number of other credentials, Wolff claimed to have previously been a financial advisor to Ferdinand Marcos and the family of the Shah of Iran as well as having been Ross Perot's banker.

Wolff and Tremblay knew each other through previous unspecified business dealings.

In March 1999, Tremblay received a letter from Wolff (“Wolff’s Letter”), and presented it to Thomson as an opportunity for each of them to “get some business going.” Wolff’s Letter promoted investment in the Debtor Certificates. It represented the following:

AutoFinance was a privately owned, Florida company that financed automotive installment sales contracts. Value, was a “shell” company. It had no assets but was listed on the Over The Counter Bulletin Board (“OTCBB”). It was subject to Bankruptcy proceedings in the Bankruptcy Court.

AutoFinance had agreed to be acquired by Value by way of a reverse merger, in order to obtain Value’s listing on the OTCBB. The surviving company would then change its name to AutoFinance.

FI Capital was hired to help the companies raise capital from public investors in the form of US \$1,000,000 worth of Debtor Certificates. The money raised would to cover the costs of closing the transaction and provide additional start up capital.

All money raised and commissions would be held in an interest bearing segregated trust account until the Plan was confirmed by Value’s shareholders and creditors, which said approval was expected on or before April 1, 1999 and which was said to be “100% assured.”

The Debtor Certificates would bear interest until they could be exchanged for “free trading” shares of the new company.

Brokers who sold the Debtor Certificates earned a 10% commission.

Investors could “make 2, 4, 6, or 8 times (their) money in a few weeks.”

“Anyone (US. Foreign, an Accredited or Non-Accredited)” could invest.

An original offering prospectus was prepared sometime in or about 1997 and was available for inspection, however, there was a “material change” since then.

IPO Supervisors Knew

Sometime between March 23, 1999 and April 13, 1999, Thomson advised Khan and Brighten, that he was marketing the Debtor Certificates to his clients. The proposal was then referred to IPO’s Corporate Finance Manager, Paul Weibe (“Weibe”). Wiebe advised Khan that the Debtor Certificate financing was a “high-risk venture”.

After discussing the proposal, Khan and Brighten advised Thomson that while IPO would not sponsor the Debtor Certificate private placement, he could sell it to IPO clients provided that they were sophisticated, aware of the risk involved, and willing to instruct IPO to forward funds on their behalf.

In meetings and in a series of four memoranda, from April 13 - 27, 1999, Thomson kept Khan and Brighten advised of his activities marketing the Debtor Certificates to existing and prospective IPO clients.

In an April 13, 1999 memo to Khan, which was copied to Brighten, Thomson indicated that he was working with Tremblay and Wolff “to put together a due diligence package

and develop a Subscription Agreement complete with Term Sheet” to facilitate sales of the Debtor Certificates, which he was marketing to his clients. Thomson also advised that the Debtor Certificates could be “marketed in any jurisdiction and without a securities license” and enclosed a sales forecast that indicated that potential subscribers would invest a total of \$130,500.

After Khan and Brighten discussed the Debtor Certificates, Brighten, in a memo dated April 19, 2003, advised Thomson that IPO would “not be doing any due diligence or research of this project” and instructed Thomson to ensure IPO’s name did “not appear in any of the materials used by Value/AutoFinance to present the deal.” Brighten did, however, authorize Thomson to sell the Debtor Certificates to IPO clients by writing in the memo, “Your solicitations of expressions of interest should be based only on the material provided by the issuers and your subscribers must base their decisions on that material.”

Mr. Morrison’s Participation

Mr. Morrison worked as Tremblay’s assistant and first heard about the Debtor Certificates from him. Mr. Morrison believed that IPO had endorsed the financing.

Mr. Morrison solicited and raised US \$56,000 (the “Clients’ Money”) from five IPO clients (“Morrison’s Clients”).

Like Thomson, Mr. Morrison solicited interest in the Debtor Certificates by presenting clients with a 6 page Fact Sheet (the “Fact Sheet”) that was prepared by Wolff and included much of the same information originally presented in Wolff’s letter. The Fact Sheet represented that:

The Bankruptcy Court had approved the Plan.

The Debtor Certificates were exempt from security laws and rules and could be sold and purchased by anyone.

Prior to their conversion feature, the Debtor Certificates carried a two-year maturity with a 10% per annum rate of return.

Value had not filed reports, with the “SEC”, on a timely basis since 1996.

Upon confirmation of the Plan, the Debtor Certificates could be converted into free-trading common shares.

Until confirmation of the Plan, funds would be held in a segregated interest bearing account, earning interest at applicable market rates of interest.

In the event that the Plan was not confirmed prior to April 30, 1999, the Debtor would repay the Debtor Certificate holders from the segregated funds.

Morrison’s Clients purchased the Debtor Certificates by signing a Subscription Agreement that identified Florida lawyer Gerald D’Ambrosio (“D’Ambrosio”) as the “Attorney-in-Fact” for both AutoFinance and Value and included wire instructions specifying that funds should be sent to him.

Between April 30, 1999 and May 31, 1999, Mr. Morrison’s Clients signed memoranda (the “Client Memoranda”) which Thomson drafted authorizing IPO to withdraw money

from their accounts to pay for the Debtor Certificates. The Client Memoranda stated the money would be paid to D'Ambrosio, In-Trust.

On May 31, 1999, Thomson instructed Brighten's Assistant, Shannon Obara ("Obara"), to wire transfer US \$238,000 to:

First Union National Bank of Florida
Jacksonville, Florida
ABA 06000021
Gerald J. D'Ambrosio
Attorney-Law Trust Account
Account Number: 2656302865722

The \$238,000 figure which was subsequently amended to US \$228,000, included the \$56,000 Mr. Morrison's Clients subscribed for.

On June 1, 1999, IPO wired the Clients' Money to the above-noted account number.

Mr. Morrison earned a 50% commission split while employed at IPO. As a result, he and IPO would have each received 2,800 (US\$) in commissions on the sales, except that no commissions were ever paid.

Plan Not Confirmed

On or about June 29, 1999, the Bankruptcy Court asked for additional evidence of feasibility before confirming the Plan. AutoFinance provided bank statements (the "Bank Statements") that showed the company had a very substantial bank balance over the previous 12 months, usually in excess of \$ 1 Million dollars.

The United States Securities and Exchange Commission (the "SEC"), who had intervened in the case before the Bankruptcy Court, reviewed the Bank Statements and determined they had been falsified.

Value later discovered, in or about July 1999, that AutoFinance had essentially been closed for some time, had no money and that the entire AutoFinance business was a scam. As a result, Value withdrew the Plan at the next confirmation hearing in Bankruptcy Court on August 13, 1999.

After the Plan was withdrawn, the use to which the money raised by the Debtor Certificates was to be applied no longer existed. On August 13, 1999 the Bankruptcy Court ordered D'Ambrosio to hold the money raised in his trust account and not to do anything with it.

On or about September 30, 1999, the Bankruptcy Court ordered D'Ambrosio to turnover and account for all funds held in his trust account and under his control, evidenced by the Debtor Certificates.

D'Ambrosio was unable to comply with the order of the Bankruptcy Court because he had previously disbursed the funds. It is unclear whether D'Ambrosio, who was the Registered Agent for Wolff's company FI Capital, deliberately orchestrated a scam and misappropriated the money. The money was not, however returned to the investors who purchased the Debtor Certificates from Mr. Morrison.

Mr. Morrison had no knowledge of any of the facts under this heading Plan Not Confirmed.

Thomson's Complaint Against D'Ambrosio

In March 2000, Thomson filed a 'Complaint of Fraud' against D'Ambrosio with the Department of Lawyer Regulation of the Florida State Bar. The Florida State Bar filed a formal complaint against D'Ambrosio in the Supreme Court of Florida in August 2001. D'Ambrosio filed a Conditional Admission and Consent to Sanction voluntarily resolving the matter.

In January 2002, a Referee of the Supreme Court of Florida found D'Ambrosio acted intentionally and ordered him to provide each of the investors the option, in writing, to continue with the investment or to receive a full refund of their contribution.

In or about May 2002, more than three years after they initially subscribed to the Debtor Certificates, Mr. Morrison's Clients received approximately 3/4 and in some cases more of the original amount they invested back from D'Ambrosio without interest.

No Prospectus or Available Exemption

Notwithstanding, any statement in Wolff's letter or the Fact Sheet, the Debtor Certificates were *securities* as defined by the *British Columbia Securities Act* (the "Act"). Neither AutoFinance nor Value was ever a reporting issuer in British Columbia.

There was no prospectus issued for sale of the Debtor Certificates. Neither AutoFinance nor Value made any filings with the British Columbia Securities Commission in relation to any distribution of the Debtor Certificates. While the Act provides certain exemptions from prospectus requirements under the Act, none of Mr. Morrison's sales of the Debtor Certificates qualified for any exemptions.

History

From about February 16, 2001, until February 26, 2004, Mr. Morrison's registration was subject to either Close or Strict supervision pending the outcome of the Association's investigation into this matter. Mr. Morrison has no disciplinary history with the Association.

Related Disciplinary Proceedings

Refer to Disciplinary Bulletin #3332 with respect to disciplinary action taken against Mr. Thomson and Disciplinary Bulletins # 3337 and # 3350 with respect to disciplinary action taken against Mr. Khan and Mr. Brighten respectively.

Kenneth A. Nason
Association Secretary