

2003 BCSECCOM 856

COR#03/179

Decision

**Steven Peter Hughes, also known as Stephen Peter Hughes
and Reo-Tech Capital Group Ltd.**

Section 161 of the *Securities Act*, RSBC 1996, c. 418

Hearing

Panel	Joyce C. Maykut, Q.C.	Vice Chair
	Joan L. Brockman	Commissioner
	Marc A. Foreman	Commissioner

Date of Hearing August 12, 2003

Date of Decision December 19, 2003

Appearing

Sean K. Boyle For Commission staff

Introduction

¶ 1 This is a hearing under section 161(1) of the *Securities Act* against Steven Peter Hughes and Reo-Tech Capital Group Ltd. In a notice of hearing dated May 2, 2003, Commission staff are seeking orders in the public interest that:

1. Hughes and Reo-Tech be denied all of the trading exemptions in the Act,
2. Hughes and Reo-Tech cease trading in, and be prohibited from purchasing, any securities,
3. Hughes be prohibited from becoming or acting as a director or officer of any issuer,
4. Hughes be prohibited from engaging in investor relations activities,
5. Hughes and Reo-Tech each pay an administrative penalty, and
6. Hughes and Reo-Tech pay the costs of the hearing.

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- ¶ 2 The notice of hearing contains allegations arising out of a business operated by Hughes between August 1996 and July 2001, in which Hughes purported to sell high-yield, low-risk securities to investors in and around Kamloops, British Columbia.
- ¶ 3 Hughes operated his business through a series of unincorporated and incorporated investment vehicles - DOSH Marketing, Paradigm Capital Group and Reo-Tech. Staff allege that the investments sold to investors in, or through, these three entities were neither high-yield nor low-risk, nor were investor funds invested as represented. Instead Hughes used most of the investors' funds for improper purposes.
- ¶ 4 In summary, the notice alleges that in operating his business, Hughes:
1. acted as an advisor and sold securities without registration, contrary to section 34 of the Act,
 2. sold securities of issuers without a prospectus or available statutory exemption, contrary to section 61 of the Act,
 3. made misrepresentations contrary to section 50(1)(d) of the Act,
 4. engaged in transactions or a series of transactions that perpetrated a fraud contrary to section 57(b) of the Act,
 5. breached a commission order, and
 6. acted contrary to the public interest.
- ¶ 5 Although Reo-Tech is named as a respondent and staff are seeking orders under sections 161 and 162 of the Act against Reo-Tech, the notice of hearing does not specifically allege that Reo-Tech breached any provisions of the Act or acted contrary to the public interest.
- ¶ 6 Neither Hughes nor Reo-Tech attended the hearing. We determined that Hughes and Reo-Tech both received notice of the hearing in accordance with section 180 of the Act. Commission staff had interviewed Hughes on June 27, 2002 concerning his role in this matter. A transcript of Hughes' interview was introduced into evidence to provide Hughes' version of events.

Background

- ¶ 7 Hughes emigrated from England in 1974. In 1975 he moved to Fort St. John, British Columbia and began working with a local finance company. Hughes stated

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that he continued working in the financial services and banking industry until June 1996. At that time his employment with CT Fund Services Inc., where he had been registered under the Act as a mutual fund salesperson since October 1992, was terminated.

- ¶ 8 After leaving Canada Trust, Hughes said he became involved in a multi-level marketing company. It was not successful, and by August 1996 he was unable to service his debts and declared personal bankruptcy.
- ¶ 9 Sometime during the spring or summer of 1996, Hughes began a consulting business in Kamloops, British Columbia. His idea was to provide a variety of financial and management services to early stage companies and work his way into a minority ownership position. He hoped this would generate diversified sources of revenue from dividend distributions. Until this happened, Hughes needed to stay afloat financially. He took investors' funds into his business by offering a two-year investment with a 25% return. In a nutshell, Hughes held out that he was in the business of assessing, investing, and managing venture capital investments on behalf of investors. He said he believed his business would be in a healthy financial position long before the investments became due.
- ¶ 10 Between 1996 and early 1998, several BC residents invested funds with DOSH Marketing. By 1998 Hughes was taking in investors' funds under the name of Paradigm. He continued under Paradigm until May 1999 when he incorporated Reo-Tech. The business continued under the name of Reo-Tech until it became insolvent in the summer of 2001. Hughes continued to solicit BC residents to invest in other ventures well into the fall of 2001, with the promise that this would salvage their lost investments.
- ¶ 11 None of DOSH Marketing, Paradigm or Reo-Tech was a reporting issuer or registered under the Act. Although Hughes operated through three differently named entities, there was only one business throughout the relevant period. The promotional material, which we describe in more detail later, indicated this and indeed, several investors were told their investments were "rolled over" from one entity to another when the business changed names. Hughes also represented that his business could provide a variety of consulting services to developing companies, including the ability to access "private capital pools". As it turned out, these "private capital pools" were often linked to John Grigg and the Desert Gardens Senior Center in Kamloops.
- ¶ 12 Grigg was a licensed insurance agent and self professed seniors' advocate. A former alderman and author of a weekly column for seniors in the local newspaper, he was well known in the Kamloops community. He had an office in

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the Desert Gardens Senior Center from which he conducted estate planning seminars and dispensed advice.

- ¶ 13 Grigg's business card showed he provided professional retirement services in asset protection, wealth preservation and offshore banking and investments. His advertisements focussed on how seniors could increase retirement income and tax savings. However, Grigg said he was simply in the business of referring individuals to other businesses and professionals for an introduction fee.
- ¶ 14 Hughes, who had known Grigg since 1983, was the beneficiary of many of these referrals. Indeed, almost all of the individuals who had invested with Hughes were seniors from the Desert Gardens Senior Center who had been referred to him by Grigg.
- ¶ 15 These investors stated, in interviews with staff, that they invested with Hughes in large part because they trusted Grigg and relied on his advice.
- ¶ 16 Grigg described Hughes to the seniors as a "financial whiz" who could help them with their investing. However, few understood exactly how Hughes would invest their money. Most investors stated that they were attracted to the 12.5% annual return. Hughes and Grigg seldom discussed the risk associated with these investments. When it was discussed, most investors came away believing the investment risk to be relatively low. None of them knew that new investors' funds were being used to pay out old investments that were due. One investor told Grigg that she was looking for a safe place to invest her money because she could not afford to lose it. Another investor said Grigg guaranteed that she would not lose her investment. Instead, almost all of them did.
- ¶ 17 For his efforts, Grigg received a 5% referral fee from Hughes. Grigg had been referring investors to Hughes since 1996 and had received up to \$100,000 in referral fees from Hughes. At the time of his interview with staff in April 2002, Grigg was 76 and in poor health. He has since died.
- ¶ 18 As will be described in more detail below, the investment opportunities offered to investors were either directly in a developing company or in one of Hughes' business entities. Hughes did not keep proper records and could not provide a complete list of persons who invested in DOSH Marketing or Paradigm. Commission staff reconstructed this information from bank, investor records and statements.
- ¶ 19 Hughes stated that from June 1996 to May 2001 he raised approximately \$1.4 million from investors. These funds were his business's only source of revenue. Hughes stated that of these funds \$486,000 was invested in other companies,

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approximately \$200,000 was repaid to investors and the rest went to office expenses. However, staff testified that most of the funds went to pay for unrelated personal expenses and less than \$300,000 was invested in other companies. Most of the investors lost their entire investment.

- ¶ 20 We have described the investments Hughes sold according to the entity through which he sold them.

DOSH Marketing

- ¶ 21 Between August 15, 1996 to March 27, 1998, 23 individuals invested \$509,922 with Hughes through DOSH Marketing. Hughes represented to these investors that their money would be invested offshore and would earn returns of 25% on terms of 12 or 18 months.
- ¶ 22 Several investors stated that Hughes did not tell them where or how their funds would be invested other than their funds were going offshore and they would earn returns of 25%.
- ¶ 23 Of the funds raised through DOSH Marketing, Hughes said \$165,000 was invested in two ventures, TAC International Limited and Big Valley Resources. Hughes said he used the rest of the funds developing his business. Staff said bank records show that Hughes used some of the investor's funds to pay school fees, alimony payments and credit card accounts.
- ¶ 24 Hughes stated that in 1996, he invested \$65,000 of DOSH investors' funds in TAC. In an earlier decision, the Commission found that TAC was an illegal investment scheme that ostensibly involved trading in offshore bank debentures. (See: *TAC International Limited and Craig Southwood*, [2000] 23 BCSC Weekly Summary 108.) There was no prospectus or exemption available to qualify the investments for sale and the investors did not receive the promised high yield returns or their capital.
- ¶ 25 Hughes stated that after a few months, he concluded that the TAC group was "dishonest and illegal". On February 1, 1999, in a settlement with the Executive Director, Hughes agreed that he was required to be registered under the Act because of his participation in TAC and that he had contravened sections 34 and 61 of the Act. Hughes was prohibited from trading for the later of, one year or until he paid \$5,000 to the Commission.
- ¶ 26 Hughes stated that in January 1997 he transferred approximately \$100,000 of DOSH investors' funds into an offshore account to purchase a private placement in Big Valley Resources Inc. Hughes said he was told the shares, which he purchased at \$1.70, were to climb up to \$8 to \$10 by year-end. However, Hughes

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said the shares lost their value following the Bre-X scandal and the entire investment was lost. Hughes admitted that he did not tell any of the investors about the Big Valley private placement.

- ¶ 27 None of the individuals who invested in, or through, DOSH Marketing earned a return on their investment and all but one (who was paid out with funds from subsequent investors) lost their entire investment. All but one investment was under \$100,000. No offering documents or available exemption qualified the investments for sale. No exempt distribution reports were filed regarding the money raised through DOSH Marketing.
- ¶ 28 None of the investors received any documentation from Hughes securing or otherwise evidencing an investment in DOSH Marketing or Big Valley. However, TAC investors filled in a written application to participate in the offshore bank scheme and received written confirmation of their investment. Documents from one investor, Patricia Conboy, show that Grigg solicited her to invest US\$5000 in TAC on October 2, 1996. As we describe later, Conboy's TAC investment was "rolled-over" into Paradigm.

Paradigm Capital Group

- ¶ 29 Hughes continued to raise money from the public in British Columbia for his business through Paradigm, an unincorporated sole proprietorship. Between March 19, 1998, and June 1, 1999, 14 individuals invested approximately \$300,000 in Paradigm.
- ¶ 30 Hughes represented to Paradigm investors that their funds would be invested in developing companies of merit and would earn a 25% return on 18 to 24 month terms. Staff testified that Hughes did not invest any of the money raised in Paradigm as represented to investors. In response to staff's questions, Hughes described how he spent the money as follows:
- A The investments into the company went into the general operating account, and the whole operation of the company was run off the investments. The intent was that once these companies hit pay dirt and I'd be sitting there with substantial ownership within the companies, then the dividends would have more than taken care of any -- any shareholder in the company, that was the idea.
- ¶ 31 Hughes also described how one investor's \$20,000 was going to generate a 25% return in 18 months:
- A Simply based on the expectations of the businesses that we

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were involved with.

Q This is November '97. Eighteen months following November '97, what type of business did you do that could possibly have generated 25 per cent?

A Well, during that time I was involved in numerous different businesses. A lot of them turned out to be simply avenues I should not have gone down, there was no reward. The first real business where the potential was there was in February of '99, which was Bondtech.

Q Can you tell me specifically what businesses you were involved in during this 18-month term?

A None -- none for a concentrated time. I just looked. I looked, I travelled, I met with people, I tried to source opportunities.

Q So, basically you travelled and looked for 18 months, approximately, you know, between '97, late '97 --

A Yes. Building a -- building a network and trying to create opportunities, and get involved in companies that would create some return.

Q But you were never actually involved in a company during that period?

A Superficially with many companies, just an advisory capacity, but nothing -- you know, no contracted work or nothing -- nothing specifically.

Q So, at the end of this 18 months Mr. Desmond earned \$5,000 in interest?

A Mm-hmm.

Q And he asked for it to be paid out?

A Mm-hmm.

Q Now, you have just told me that there were no revenues

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coming in?

A Mm-hmm.

Q Where did the \$5,000 come from?

A It came from the operational monies in the account, the other investments. It was the investments that kept the company afloat until such time as the interests I was trying to get involved in would begin to pay off.

Q So, in other words, Mr. Desmond's \$5,000 return came from new investment?

A Subsequent investment in the company, yes.

¶ 32 Hughes also admitted that he used Paradigm investors' funds to pay the \$5,000 the Commission ordered under his February 17, 1999 settlement. Investors were not told that their funds were used to pay out other investors or to pay out Hughes' settlement fine.

¶ 33 Because Paradigm was not yet incorporated, Hughes stated that he gave Paradigm investors "instruments of comfort". He advised investors that as soon as he was in a position to incorporate, their interests would be vended into the incorporated company and they would be issued shares to secure their investment.

¶ 34 Furthermore, Hughes told individuals who had previously invested through DOSH Marketing that he would "roll-over" their investments, which he claimed had matured, into Paradigm. However, the funds representing these investments had been long spent.

¶ 35 Patricia Conboy's investment illustrates how Hughes dealt with "roll-overs". In a letter dated May 18, 1998, Grigg confirmed Conboy's decision to re-invest her TAC investment with an enclosed "instrument of comfort" issued by Paradigm. Grigg stated how Hughes, as president of Paradigm, asked Grigg to convey the appreciation of the board of directors, for Conboy's continued support in helping Paradigm establish itself as leader in its field.

¶ 36 The instrument of comfort signed by Hughes, stated that Conboy had decided to "re-participate" with Paradigm in the amount of her original investment of \$6807 CDN plus the interest earned to date of \$1702 CDN for \$8509 CDN. The annual rate of return on this amount was fixed at 25% for a two-year term with interest being paid out at the end of the term in the form of a "balloon payment".

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- ¶ 37 Staff testified that Paradigm issued a total of 43 instruments of comfort or investment certificates, 16 for new investments of approximately \$300,000, and the balance for purported “roll-overs” of investments made in TAC or DOSH Marketing.
- ¶ 38 Most of the individuals who invested in Paradigm lost their entire investment. Three investors were subsequently paid some of their investment with funds from new investors in Reo-Tech. No offering documents or available exemption qualified the Paradigm investments for sale.

Reo-Tech

- ¶ 39 Hughes incorporated Reo-Tech on May 26, 1999. He was its sole owner, officer and director.
- ¶ 40 Although we briefly described Hughes’ business above, it is useful to refer in some detail to Reo-Tech’s promotional material as it gives context to the oral representations Hughes made to investors. It also is a fine example of how one can say everything and nothing at the same time. Prophetically, the corporate motto was “*When your Memories exceed your Dreams...Its Over*”.
- ¶ 41 Excerpts from Reo-Tech’s corporate profile, which was simply an update of Paradigm’s corporate profile, follow:

[Reo-Tech’s] decision-making philosophy is to consistently seek pragmatic solutions to opportunity evaluation through reduction of inherent uncertainties. To achieve such a goal we have adopted an insightful blended proactive approach which minimizes such uncertainties, meets client’s objectives and results in decisive and workable recommendations.

...

All aspects of Reo-Tech’s development has been strategically designed to appeal to the more sophisticated investor while at the same time enhancing the opportunity for participation by astute individual investors. The primary business activity of Reo-Tech is the identification, screening, valuation and structuring of Capital Investment opportunities, with the ultimate goal of engendering operating positions, in start up, maturing selected business ventures. Reo Tech will direct its expanding resources toward the purpose of engaging in a focused series of small sized, high growth potential, business acquisitions, forming a diversified multi-business unit. Reo-Tech offers a unique selection of “innovative” financial opportunities

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for the discriminating investor who is simply looking to further diversify his/her portfolio.

The goal is to maximize Reo-Techs shareholder wealth by exploiting manufacturing, marketing, financing and administrative synergies between the various businesses in which Reo-Tech engages or in which an interest is maintained. Reo-Tech will pursue “Operating Positions” (generally through controlled subsidiaries), in such industries as applied industrial technology, industrial and consumer products, entertainment industry and creative service enterprises....I am pleased to say that we have been successful in securing varying interests in a number of different companies.

...

The Company has developed a diversified portfolio of varying positions of participation's, in a number of Companies. These include interests in Manufacturing, The Internet, Management of Information Systems, Mining, International Trade Representation together with a number of other quality opportunities yet to pursue once time and capital allows.

...

Due in large part to the lack of exposure or contacts, the individual investor rarely gets the chance to invest during the early stages of financing entrepreneurial undertakings. Paradigm (sic) has been prepared as a vehicle through which small and large investors can gain lower risk access to early stage enterprise opportunities.

...

Reo-Tech strives to achieve the necessary balance and alignment between the just concerns for investor protection and the goals of the venturesome principals of emerging enterprise.

This goal is achieved, in part, by ensuring that our client enterprises are prudently managed and remain in good standing with all regulatory authorities, as well as on the positive side of investor sentiment in the capital markets.

...

Reo-Tech was incorporated in June 1999, previously, the Company conducted business successfully for 3 years under the name of Paradigm.... Due to the growth of the company, it became necessary to “grow and mature”...Prior to founding Reo-Tech, Mr. Hughes enjoyed a successful banking career for 22 years before leaving to start his own company in March of 96. Mr. Hughes is a proven, experienced financial executive, has broad expertise in conventional and private financing and a respected track record for providing

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innovative and workable solutions to asset and liability management challenges.

- ¶ 42 Nowhere in the promotional material, or elsewhere, did Hughes disclose a business plan or the true financial status of his business and its stunning lack of success. Neither did Hughes disclose his settlement and the order against him, and his bankruptcy. In contrast to what he disclosed to investors, he told staff that:

At this time, I had become concerned that I had taken in a substantial amount of investment into Paradigm, and it was time to incorporateThis would allow me to expand my Company ... allowing me to provide the opportunity for my investors to become shareholders of a legal corporate entity and for me to take the next step in corporate credibility by moving from Paradigm operating out of my car, to Reo-Tech, operating out of a nice new office The problem was I still had no income so to maintain continuity of operations, I had no option but to rely on further investment into Reo-Tech from my small group of investors.

- ¶ 43 Between June 8, 1999 and September 14, 2000, Hughes convinced this small group of investors to invest \$463,000 in Reo-Tech.
- ¶ 44 Reo-Tech's corporate records show that nine investors were registered as owning 463 Class C shares at \$1000 a share. One of these investors also had signed an agreement with Reo-Tech in which the investor was described as having provided a \$5,000 "investment/loan" for a one-year term with an annual return of 15% for a payout at maturity of \$5,750. The investor was also given the option of re-investing the money at terms to be agreed upon.
- ¶ 45 Between June 8, 1999 and September 14, 2000, Reo-Tech also issued 1,003 Class C shares, valued at \$1000 a share, to Paradigm investors to replace their investments in Paradigm, some of which were roll-overs from DOSH Marketing.
- ¶ 46 Between November 17, 2000 and May 16, 2001, Reo-Tech raised a further \$170,000 by issuing promissory notes to four investors in British Columbia. The notes had a 25% return and 24-month term. Again in response to staff's questions as to how Reo-Tech was going to generate a 25% return in 24 months, Hughes said this:

A The premise always was that the involvement I was able to secure in the member companies, would either collectively or individually generate substantial revenues into the

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company, that gave me the confidence to make that commitment.

I truly believed that the way we were going, and with the markets the way they were prior to April, May, June of 2001, that we would be successful. That's why I diversified and went away from sort of putting all my eggs in one basket with Bondtech, turned to the high-tech arena, and there was companies making money right, left and centre, and I honestly believed the companies that I had selected were quality companies that would fairly quickly get the necessary investment and start to produce.

Q I'm going to carry on that point now with these member companies.

....

Q Now, as a minority shareholder, whether it be Reo-Tech or yourself, how can you ensure that if those companies were to be successful –

A Mm-hmm.

Q -- that sufficient common dividends would be paid on common shares so that Reo-Tech can have enough cash flow not only to pay the 25-per-cent return back to these investors, but to repay them their principal?

A That would have all taken place at the time that the funding was offered. ... There was no legal -- there was no -- there was no legal mechanism in place to force them [the developing companies] but it would have taken place. You can't have an agreement to pay and place something when the money's not there, you know. Everything was based on potential.

¶ 47 As it turned out, none of this “potential” ever materialized. Contrary to what Hughes told investors, these developing companies were high-risk ventures and Reo-Tech did not hold any security of any kind for the approximately \$300,000 invested in them.

¶ 48 Soon investors began pressing Hughes to pay their investments as they became due. One investor, whose investment came due in December 2000, made several

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attempts to contact Hughes to get paid out. The investor finally spoke to Hughes in February 2001. At the time Hughes was on a “working holiday” in Mexico for six months. Hughes told the investor that he had no money to pay him out and then hung up.

- ¶ 49 Then on April 21, 2001, Hughes sent a corporate newsletter to this, and other Reo-Tech investors. In the letter, Hughes disclosed that Reo-Tech had no money to pay out any investors and was effectively insolvent.
- ¶ 50 However, Hughes told investors in the newsletter that the primary cause of his current inability to meet his commitments was the collapse of the high tech market and consequent damage to the financial markets. He assured investors that their Reo-Tech investments, although overdue, were safe because unlike the high tech industry, Reo-Tech had the prospect of “continual growth and expansion once investment is secured”. He solicited their continuing support and told them that he was working “day and night” to find a “third party investor” which would permit full restitution to all investors. In the meantime, he cautioned them that any vindictive acts or litigation would simply be counterproductive as he had no “intention to shirk or avoid [his] corporate, legal and moral responsibilities”.
- ¶ 51 While still in Mexico, Hughes sent a different corporate newsletter, dated May 16, 2001, to a client of Grigg’s from the Desert Gardens Senior Center. This client, Mrs. Grierson, was a retired widow living on a fixed income looking for a safe place to invest a small inheritance. The newsletter made highly positive representations about Reo-Tech's prospects but made no mention of the fact that it was insolvent. Hughes stated, in direct contrast to his April newsletter, that Reo-Tech had “made tremendous strides in solidifying its positions of participation in several new Hi-Tech Companies to add to our growing portfolio of high quality early stage Companies.” The letter then briefly described the companies Reo-Tech purported to hold in its portfolio.
- ¶ 52 With the newsletter, Hughes enclosed an executed copy of an “investment/loan” agreement between Reo-Tech and Grierson. The \$25,000 investment was for a two- year term with a 25% return. Although the investment was with Reo-Tech, Hughes, directly or indirectly through Grigg, had Grierson make the \$25,000 cheque payable to CEO Consulting. Hughes in turn used these funds to pay out an earlier investor who was demanding to be paid out.
- ¶ 53 By the end of May 2001, Hughes was back in Canada and began soliciting some of his existing investors for more funds. Unlike the April 21, 2001 letter, the letters sent to these investors focused almost entirely on Reo-Tech’s positive future prospects and only mentioned in passing its “short-term liquidity challenge”.

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- ¶ 54 However, by this time most investors were wary of investing further with Hughes and a shareholders meeting was set for July 24, 2001 to find out the true state of affairs. By all accounts, it was an emotional meeting as many investors learned for the first time that their investment funds were not invested as Hughes represented. Thereafter, several investors began legal action against Hughes and his company. Some investors also reported Hughes to the Commission.
- ¶ 55 On October 1, 2001 Hughes sent a further letter to Reo-Tech shareholders updating them on the company's affairs. Although Reo-Tech was insolvent, Hughes put forward another financing proposal for a concept company he was promoting. Again, Hughes offered to "roll-over" the Reo-Tech investors into a new shareholder company that would hold the investment interest in this concept company venture. Hughes assured investors that this process "will ensure that everyone is legally compensated and everyone will have the same opportunity of success." Hughes represented the concept company offer as a "a 1% ownership (potential value of \$14.8 Million US over the first 5-years of operation) in return for an initial investment of \$100,000US."
- ¶ 56 In the October 1, 2001 letter, Hughes raised the point that some shareholders had initiated legal action against him and reported him to the Commission staff. In response to Commission staff's investigation, Hughes wrote the shareholders:

I am perfectly prepared and able to comply with this request [for documents] as all funds invested can be accounted for and every investment has been properly documented. However, you should know that this vindictive and short sighted action by those who chose this course of action has only served to make my job to salvage everyone's investment that much more difficult.

In fact, after reviewing the material ... [the Commission] ... may restrict me from continuing the search for investment for any Company ... This is a hurdle none of us deserved but I do hope that those shareholders are happy now that you have put into serious jeopardy any chance of recovery of all our investments.

....

If we are successful in finding the initial \$100,000 investment for [the named concept company] then we will be able to put in place the corporate structuring required to give you all an equal opportunity to recover your original investment. Should this not happen then none of us will be able to recover our investment.

- ¶ 57 However, no investors took Hughes up on his latest offer to recoup their losses.

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- ¶ 58 In a final letter to shareholders dated January 30, 2002 Hughes, among other things, confirmed that their investment in Reo-Tech was worthless. He also stated that he intended to place the affairs of Reo-Tech in the hands of a neutral party because it was impossible to continue with the damage to his professional credibility.
- ¶ 59 Of the approximately \$600,000 new money invested in Reo-Tech, Hughes used \$52,000 to pay out some of the earlier Paradigm investors and invested \$75,000 in Bondtech Building Systems Ltd. (See next section).
- ¶ 60 Staff testified that Hughes used the rest of the money for his own purposes, including paying private school fees, travel costs and credit card payments. Hughes on the other hand said he used the rest of the money to develop Reo-Tech's business.
- ¶ 61 In the end, all but two investors in Reo-Tech lost their entire investment. One investor received her interest payment but not her principal. The other investor was fully paid out. She was Laureen Youds, then Hughes's girlfriend and subsequently his wife. On April 20, 2000 Youds' company, CEO Consulting Inc., invested \$15,000 in Reo-Tech. On February 15, 2001, Reo-Tech paid Youds \$17,440.80.
- ¶ 62 All but two of the new investments in Reo-Tech were under \$100,000. No offering documents or available exemption qualified the under \$100,000 investments. No exempt distribution reports were filed regarding the money raised through Reo-Tech.
- ¶ 63 On June 27, 2002, Commission staff interviewed Hughes. During the interview, staff questioned Hughes about the devastating consequences to the investors of having invested with him as follows:
- Q: Now are you aware that some of these investors had to move out of their home, move to a smaller home, move to a different location to live, because they can no longer afford the life-style that they had, due to the fact that their investment with you is gone?
- A Well, and you know what, that's terrible, that is absolutely terrible. But it's important also for you to realize what it's cost me. None of these people have lost what I have lost.
- Q Well, you being the CEO of the company --

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A I lost everything. I lost my previous marriage, I've lost my relationship with my boys. I lost my house. I've no car, I've no money, I've no job. I have no professional credibility. I'm living in a dump. My wife's supporting me.
Yes, I feel very, very bad for these shareholders, but it's important that I have -- I have been devastated for the last two years over this, and I always tried to do the right thing by everybody. I may have stepped out of line, certainly, but never at one point did I ever do anything that was not directed at creating success for the company through these participations in these other companies, and I truly believed, given the time that we were operating in, with the high-tech market and the high-tech companies I had assembled, that one of them, at least one of them, had to go, and that would have created a substantial capital injection that would have enabled me to meet some of these commitments, if not all of them.

¶ 64 During the interview, staff made several formal demands on Hughes to provide further information and documents to substantiate his statement that investors' funds were used for proper purposes. Hughes stated that he would comply with these demands. Hughes did not comply with any of these demands and he subsequently left the country for England.

BondTech

¶ 65 BondTech was one of the emerging companies in which Reo Tech invested. It had developed new technology for manufacturing insulated panels for residential basement systems. David Lockhart, the founder of BondTech, had been developing the technology since 1989. With the help of various grants he was ready to manufacture and market the panels by the late 1990's, but needed more investment capital to move forward.

¶ 66 In 1998, the University College of Caribou in Kamloops agreed to fund BondTech in exchange for a 6% royalty of gross revenues and the development of a demonstration unit. In the unit, BondTech would train students to manufacture the new structural panels. The arrangement with the University did not work out as expected and BondTech became indebted to the College for \$18,000.

¶ 67 In February 1999, BondTech hired Hughes as vice president of corporate finance. His job was to provide advice, find investment capital, market the product and take the company to the next step. The panels were suitable for low-income housing and third world countries were targeted as potentially good markets. Hughes said he made three trips to the Philippines to pursue these markets. However, it became clear that before any foreign market could be developed, more funds were needed for manufacturing and marketing.

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¶ 68 Between February 1999 and March 2000:

- Hughes said he invested \$40,000 for which he received 40 Class E shares (non voting preference with a par value of \$1000).
- Reo-Tech invested \$75,000 for which Hughes received 24 Class A common voting shares representing a 20% equity interest. In a written statement to staff Hughes said he earned the 20% interest in BondTech for his work as vice president of corporate finance. Hughes subsequently told staff that the lawyers had made a mistake in issuing the shares to him instead of to Reo-Tech and that this 20% interest really belonged to Reo-Tech.
- Hughes brought in two other investors: one for \$30,000 (30 Class E shares) and one for \$11,000 (10 Class E shares).

¶ 69 With Lockhart's approval Hughes then took steps to buy back the Caribou College's interest. Hughes said he withdrew \$18,000 from his RRSP, which in turn was deposited with Reo-Tech. However, there are no records to support Hughes statement.

¶ 70 Instead the records show that on May 19th, 2000 Reo-Tech issued a cheque for \$18,000 to CEO Consulting. CEO Consulting in turn paid \$18,000 to BondTech, which allowed it pay out Caribou College's 6% royalty. Lockhart testified that the understanding was that CEO Consulting was to receive 3% of the royalty from BondTech and the other 3% was to go back to BondTech. CEO Consulting prepared a draft agreement dated May 19, 2000 reflecting this. However, Lockhart did not agree with other terms in the agreement and it was never signed. Subsequent negotiations failed to settle the dispute over the \$18,000 CEO Consulting paid and by July 2000, the relationship between Hughes and Lockhart had completely soured.

¶ 71 In a letter dated July 28, 2000 Hughes notified Lockhart that, effective immediately, Reo-Tech would discontinue its capital raising efforts on behalf of Bondtech and have no further involvement with the company. Despite severing the relationship, Hughes held out to certain investors that he still acted for BondTech in an effort to recoup CEO Consulting's \$18,000 payment.

¶ 72 On August 16th, 2000, Hughes solicited an elderly Kamloops couple, Sterling and Rita Cousens, to invest in BondTech. The Cousens had already invested over \$70,000 in DOSH Marketing and Paradigm. Hughes did not tell the Cousens that he had terminated his relationship with BondTech.

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- ¶ 73 In a letter to the Cousens, Hughes invited them to acquire a one-quarter interest in a royalty Hughes said was valued at US\$100,000. The letter stated that, “each royalty is scheduled to return up to \$168,000 for the first year and a similar amount in year two making a two year ‘return on investment’ of \$236,000 US.”
- ¶ 74 After stating that he had received commitments of \$65,000 from other investors, Hughes led the Cousens to believe that they were one of a few key clients chosen to participate in these fractionalized royalty interests. Hughes also led the Cousens to believe that they had to invest by the end of the week. They were also told their \$18,000 investment would return US\$40,000 in two years.
- ¶ 75 The Cousens gave \$18,000 to Reo-Tech on these representations and on the belief they were acquiring a one-quarter interest in a BondTech royalty. Hughes did not forward the \$18,000 to BondTech nor did he have any investors firmly committed to investing \$65,000 in BondTech royalties. The Cousens’ money did not go into any investment, but was used to pay out an earlier investor.
- ¶ 76 As far as Lockhart was concerned, Hughes had absolutely no authority to act for BondTech after July 28, 2000. He believes Hughes solicited \$18,000 from the Cousens to recoup the \$18,000 CEO Consulting paid to buy out Caribou College. As far as Lockhart was concerned CEO Consulting had simply become one of several BondTech creditors. Lockhart testified that he knew nothing about the royalty returns, which he said were “dreamed up by Hughes to make it attractive” to the Cousens to part with more of their money.
- ¶ 77 The Cousens learned for the first time at the Reo-Tech shareholders meeting of July 24, 2001, that not only did they not have a royalty interest in BondTech, none of the \$18,000 they gave to Hughes to invest in BondTech was forwarded to BondTech.
- ¶ 78 The Cousens, now in their 80’s, lost the entire \$91,000 they invested with Hughes.

Analysis and Findings

- ¶ 79 The allegations in the notice of hearing raise four issues.
- ¶ 80 Did Hughes:
1. trade and distribute securities without being registered or filing a prospectus, contrary to sections 34 and 61 of the Act?
 2. make misrepresentations, contrary to section 50(1)(d) of the Act?

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3. perpetrate a fraud on persons in British Columbia, contrary to section 57(b) of the Act? and
4. act contrary to the public interest in dealing with investors?

1. Did Hughes fail to register or to file a prospectus?

¶ 81 Staff alleged that Hughes:

- acted as an advisor and sold securities in British Columbia without registration, contrary to section 34 of the Act; and
- sold securities of issuers which had not issued prospectuses and which did not have exemptions, contrary to section 61 of the Act.

¶ 82 Section 1(1) of the Act defines:

“distribution” to include

- (a) a trade in a security of an issuer that has not been previously issued.

“private issuer” as an issuer that is not a reporting issuer, does not have more than 50 shareholders and has not distributed any of its shares to the public.

“security” to include

- (a) a document, instrument or writing commonly known as a security,
- ...
- (c) a document evidencing an option, subscription or other interest in or to a security,
- (d) a bond, debenture, note or other evidence of indebtedness, share, stock, unit, unit certificate, participation certificate...

...

“trade” to include

- (a) a disposition of a security for valuable consideration whether the terms of payment be on margin, instalment or otherwise

...

- (f) any act, advertisement, solicitation, conduct or negotiation directly or indirectly in furtherance of any of the activities specified in paragraphs (a) to (e).

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“adviser” to mean a person engaging in, or holding himself, herself or itself out as engaging in, the business of advising another with respect to investment in or the purchase or sale of securities or exchange contracts.

¶ 83 Section 34(1)(c) of the Act provides a person cannot act as an adviser unless that person is registered as an adviser in British Columbia or can rely on an exemption from the adviser registration requirement.

¶ 84 Section 46(j) of the Act provides that, subject to the regulations, a person may, without being registered under section 34(1)(a) of the Act, trade in the securities of a private issuer if the securities are not offered for sale to the public.

¶ 85 Section 61 (1) of the Act provides that:

Unless exempted under this Act or the regulations, a person must not distribute a security unless a preliminary prospectus and a prospectus respecting that security

- (a) have been filed with the executive director, and
- (b) receipts obtained for them from the executive director.

¶ 86 Section 75 of the Act provides that section 61 does not apply to:

- (a) a distribution of a security described in section 46 (a) to (l)...

¶ 87 Section 133 of the Rules provides:

An offering memorandum required to be delivered in connection with a distribution under section 128 (a), (b) or (c) of these rules, or delivered in connection with a distribution under section 128 (h) of these rules, must

- (a) be delivered to the purchaser before an agreement of purchase and sale is entered into, ...

¶ 88 British Columbia residents invested funds in each of DOSH Marketing, Paradigm Capital Group and Reo-Tech on Hughes’ representation that they would earn returns of 25% on terms of 12 to 24 months.

¶ 89 Apart from the TAC investors, Hughes did not provide DOSH Marketing investors with any document evidencing their investment.

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- ¶ 90 The definition of security includes an investment contract, which has been defined in the common law as an investment of money in a common enterprise with profits to come from the efforts of others. It also includes note or other evidence of indebtedness. Because Hughes failed to keep any proper records it is difficult to say whether DOSH Marketing investors' security was an investment contract or a promissory note. Clearly most of the DOSH Marketing investors' funds were pooled. Some investors relied on the efforts of Hughes' to produce the profits. On that basis we find that some of the DOSH Marketing investments were investment contracts and therefore were securities within the meaning of the Act. Other investors simply relied on the fact that Hughes promised to pay them their capital and interest on a fixed term and with a fixed rate of return. On that basis we find that these DOSH Marketing investments were evidence of indebtedness and therefore were securities within the meaning of the Act.
- ¶ 91 Although some of the DOSH Marketing investments were initially made outside the six year limitation period set in section 159 of the Act, each of these investments were "rolled-over" into Paradigm.
- ¶ 92 Hughes then caused Paradigm to issue "instruments of comfort" or investment certificates that purported to secure and document the investor's investment interest. These investment certificates were issued to 14 new investors who invested approximately \$300,000 in Paradigm as well as those investors who were rolled over from DOSH Marketing.
- ¶ 93 We find that the instruments of comfort or investment certificates issued by Paradigm are evidence of indebtedness and therefore securities as they fall squarely within the definition of security in section 1(1) of the Act.
- ¶ 94 We also find that the shares and other promissory notes Reo-Tech issued are securities within the definition of security in section 1(1) of the Act.
- ¶ 95 The securities sold by DOSH Marketing, Paradigm Capital Group and Reo-Tech were sold for valuable consideration and were not previously issued. We find that the sale of securities constituted trading in securities in British Columbia and that such trading constituted a distribution in British Columbia.
- ¶ 96 None of Hughes, DOSH Marketing, Paradigm and Reo-Tech was registered under the Act, nor did any of DOSH Marketing, Paradigm and Reo-Tech file a prospectus with respect to its distribution of securities. No registration or prospectus exemptions were available.
- ¶ 97 We find that DOSH Marketing, Paradigm Capital Group and Reo-Tech distributed securities contrary to sections 34(1) and 61(1) of the Act. Hughes was DOSH

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Marketing, Paradigm Capital Group and Reo-Tech and was solely responsible for each of these entities' activities.

- ¶ 98 We also find that Hughes engaged in, and held himself out as engaging in, the business of advising members of the public about investing in or purchasing securities.
- ¶ 99 On February 17, 1999 Hughes had agreed, as part of his settlement, that he had breached sections 34(1) and 61(1) of the Act by participating in the sale of TAC securities. If he had any doubt about the need for registration and a prospectus before advising on and selling such securities, it was clearly eliminated on February 17, 1999, when a cease trade order was made against Hughes as part of his settlement.
- ¶ 100 Therefore, we find that Hughes deliberately distributed securities contrary to sections 34(1) and 61(1) of the Act.

2. Did Hughes make misrepresentations to investors?

- ¶ 101 Staff alleged that Hughes misrepresented to investors in all his ventures, the degree of risk and the likelihood of a return, contrary to section 50(1)(d) of the Act.
- ¶ 102 Section 50(1)(d) of the Act provides:
50. (1) A person, while engaging in investor relations activities or with the intention of effecting a trade in a security, must not
- ...
- (d) make a statement that the person knows, or ought reasonably to know, is a misrepresentation.

- ¶ 103 Section 1(1) of the Act provides:

“material fact” to mean, where used in relation to securities issued or proposed to be issued, a fact that significantly affects, or could reasonably be expected to significantly affect, the market price or value of those securities;

“misrepresentation” to mean

- (a) an untrue statement of a material fact, or
- (b) an omission to state a material fact that is
- (i) required to be stated, or

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(ii) necessary to prevent a statement that is made from being false or misleading in the circumstances in which it was made.

- ¶ 104 Hughes made many representations to investors about investing in DOSH Marketing, Paradigm, Reo-Tech and BondTech that misrepresented the degree of risk and the likelihood of a return. Individually and cumulatively they had the same effect. We will list a few of the most significant ones.
- ¶ 105 Hughes knew that his business under DOSH Marketing, Paradigm, Reo-Tech had no source of revenue other than from new investors. There was no business plan. There was no basis for Hughes to represent to investors that their investments, purportedly made in emerging companies of merit, would earn returns of 25% on terms up to 24 months. This misrepresentation was the most significant of all and was, as we state later, the core element of the overall fraud. Hughes deliberately withheld these facts from investors.
- ¶ 106 Hughes admitted that investors' funds were being used to pay interest and capital due to existing investors. Hughes deliberately withheld these facts from the investors.
- ¶ 107 Hughes represented to investors of DOSH Marketing and Paradigm that their investments had "matured" and their capital and interest were being rolled over into Reo-Tech. This was false. Hughes had spent all of the investors' capital and interest. Hughes deliberately withheld these facts from the investors.
- ¶ 108 Hughes was subject to a cease trade order but continued to trade securities in direct contravention of the order. Hughes deliberately withheld this fact from the investors.
- ¶ 109 Hughes represented to Mrs. Grierson that his business was financially healthy when he knew that it was insolvent. Hughes deliberately withheld this fact from Grierson.
- ¶ 110 Hughes used investors' funds to make improper payments to himself. Hughes used money from investors to pay his settlement penalty knowing that it was improper to do so. Hughes deliberately withheld these facts from the investors.
- ¶ 111 Hughes told investors that he had invested their funds in certain companies, including BondTech, when he did not. When he did use investors' funds to invest in developing companies, he did not, on behalf of the investors directly or through Reo-Tech, secure the interest representing the investment. Instead, in the case of

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BondTech he personally acquired the shares representing Reo-Tech's investment. Hughes deliberately withheld these facts from the investors.

- ¶ 112 Hughes represented to the Cousens that he had the authority, and purported to sell them a royalty interest in Bondtech for \$18,000 when no royalty interest existed. He represented to the Cousens that their \$18,000 was invested in BondTech. Instead Hughes converted the \$18,000 for his personal use and benefit. Hughes deliberately withheld these facts from the Cousens.
- ¶ 113 The degree of risk assumed is an important factor in the value of any security and consequently is important to an investor's decision to invest. It is axiomatic to state that Hughes' failure to disclose these egregious facts concealed the true degree of risk investing in the securities of DOSH Marketing, Paradigm, Reo-Tech and BondTech.
- ¶ 114 We find that each of the facts described above could reasonably be expected to significantly affect the market price or value of the securities of DOSH Marketing, Paradigm, Reo-Tech and BondTech and therefore each was a material fact. The investors' statements confirm to us that all of these facts would have affected their decision to invest in the securities of DOSH Marketing, Paradigm, Reo-Tech and BondTech.
- ¶ 115 We find that Hughes knew that each of these facts was material and that each was false and misleading when he made them. Therefore we find that each of these facts was a misrepresentation as defined in section 1(1) of the Act.
- ¶ 116 We find that Hughes deliberately made each of these misrepresentations to induce investors to invest in the securities of DOSH Marketing, Paradigm, Reo-Tech and BondTech.
- ¶ 117 We therefore find that Hughes breached section 50(1)(d) of the Act when he misrepresented to investors the degree of risk and the likelihood of a return in the securities of DOSH Marketing, Paradigm, Reo-Tech and BondTech.

3. Did Hughes perpetrate a fraud on persons in British Columbia, contrary to section 57(b) of the Act?

- ¶ 118 Staff alleged that Hughes perpetrated a fraud on persons in British Columbia, contrary to section 57(b) of the Act when he:
- failed to disclose to investors that new investment capital in his business would be used to make interest and capital payments to earlier investors and that his business had no other source of revenue;

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- took a \$25,000 investment from Mrs. Grierson for Reo-Tech when he knew that Reo-Tech was insolvent; and
- sold a royalty interest to the Cousens for \$18,000 in Bondtech when no royalty interest existed.

¶ 119 Section 57(b) provides:

57. A person must not, directly or indirectly, engage in or participate in a transaction or scheme relating to a trade in or acquisition of a security or a trade in an exchange contract if the person knows, or ought reasonably to know, that the transaction or scheme

...

(b) perpetrates a fraud on any person in British Columbia.

¶ 120 The test for fraud under section 57 of the Act was considered by the Commission *In the Matter of Timothy James Pinchin*, [1996] 41 BCSC Weekly Summary 7, *In the Matter of Mindoro Corporation et al.*, [1997] 7 BCSC Weekly Summary 13 and *In the Matter of Excel Asset Management Inc. et al.*, [1999] 18 BCSC Weekly Summary 29. In each of those decisions, the Commission referred to the decision of the Supreme Court of Canada in *R. v. Olan, Hudson and Hartnett* (1978) 41 C.C.C. (2d) 145 in which Dickson J. stated at page 150:

Courts, for good reason, have been loath to attempt anything in the nature of an exhaustive definition of ‘defraud’ but one may safely say, upon the authorities, that two elements are essential, ‘dishonesty’ and ‘deprivation.’ To succeed, the Crown must establish dishonest deprivation.

¶ 121 With regard to the element of dishonesty, in *R. v. Zlatic*, [1993] 2 S.C.R. 29, the Supreme Court of Canada considered the concept of dishonesty in the context of an allegation of fraud pursuant to section 380 of the Criminal Code. McLachlin J. observed at page 45:

... Would the reasonable person stigmatize what was done as dishonest? Dishonesty is, of course, difficult to define with precision. It does, however, connote an underhanded design which has the effect, or which engenders the risk, of depriving others of what is theirs. J.D. Ewart, in his *Criminal Fraud*, (1986), defines dishonest conduct as that “which ordinary, decent people would

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feel is discreditable as being clearly at variance with straightforward or honourable dealings” (p. 99). Negligence does not suffice. Nor does taking advantage of an opportunity to someone else's detriment, where that taking has not been occasioned by unscrupulous conduct, regardless of whether such conduct was willful or reckless. The dishonesty of “other fraudulent means” has, at its heart, the wrongful use of something in which another person has an interest, in such a manner that this other's interest is extinguished or put at risk. A use is “wrongful” in this context if it constitutes conduct which reasonable decent persons would consider dishonest and unscrupulous.

¶ 122 We have already found that Hughes:

- deliberately failed to disclose to investors that his business, operating as DOSH Marketing, Paradigm and Reo-Tech, had no source of income other than from new investors and that that investors’ funds were being used to pay interest and capital due to existing investors;
- represented to Mrs. Grierson that his business was financially healthy when he knew that it was insolvent; and
- represented to the Cousens that he had the authority, and purported to sell them a royalty interest in Bondtech for \$18,000 when no royalty interest existed.

¶ 123 We find that in doing so, Hughes was clearly dishonest in his dealings with the investors.

¶ 124 With regard to the element of deprivation, Dickson J. observed at page 150 of *Olan* that:

The element of deprivation is satisfied on proof of detriment, prejudice, or risk of prejudice to the economic interest of the victim. It is not essential that there be actual economic loss as the outcome of the fraud.

¶ 125 In this case, there was significant economic loss to investors as a result of Hughes’ fraudulent conduct. Approximately \$1.5 million was invested with Hughes in his business. Most investors lost all of their investment, including the Cousens and Mrs. Grierson.

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¶ 126 There is little doubt that ordinary, decent people would feel that Hughes's conduct was clearly dishonest and unscrupulous. Indeed most of the investors were ordinary, decent people who could ill afford, but bore, the brunt of Hughes' dishonest and unscrupulous conduct.

¶ 127 We find therefore that both dishonesty and deprivation were present in Hughes' transactions with DOSH Marketing, Paradigm and Reo-Tech investors generally, and specifically with the Cousens and Mrs. Grierson.

¶ 128 We found earlier that these transactions involved the distribution of a security from Hughes or DOSH Marketing, Paradigm and Reo-Tech to investors. Therefore, we find that Hughes perpetrated a fraud on these investors and specifically on the Cousens and Mrs. Grierson contrary to section 57(b) of the Act.

4. Was Hughes' conduct contrary to the public interest?

¶ 129 Staff allege that Hughes acted contrary to the public interest and damaged the capital markets in British Columbia when he:

1. engaged in conduct as alleged in the notice of hearing;
2. continued to trade throughout the period from February 16, 1999 forward, despite being subject to a cease trade order; and
3. used money from investors to pay his settlement penalty.

¶ 130 We found that Hughes traded and distributed securities without being registered and without filing a prospectus, made misrepresentations and committed fraud within the meaning of the Act.

¶ 131 We also find that Hughes continued to trade throughout the period from February 16, 1999 on, despite being subject to a cease trade order issued as part of his settlement with the Executive Director. We also find that Hughes knew he was violating the cease trade order when he continued with his business and traded securities of Paradigm, Reo-Tech and BondTech.

¶ 132 Finally, we find that Hughes used money from investors to pay his settlement penalty knowing that it was improper to do so.

¶ 133 In light of the evidence and the findings we have made, we find that Hughes' conduct was highly prejudicial to the public interest.

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- ¶ 134 Before closing, we feel it is appropriate to make a few comments about Hughes' conduct generally as it puts in better context the resulting damage to the public interest.
- ¶ 135 Although Hughes did not testify before us, we had the benefit of reading a transcript of his interview with Commission staff. We found his answers to staff to be evasive, deceitful and entirely self-serving. We found that this was exactly how he dealt with the investors in this case.
- ¶ 136 He deliberately breached securities legislation requirements he knew he was obliged to meet. As a previous registrant he knew about the duty to know and make suitable investments for clients and deal with them fairly. He deliberately preyed on senior citizens because he knew they were easy and trusting targets. Grigg led them to Hughes and Hughes abused them without a twinge of guilt.
- ¶ 137 When it was clear his business was insolvent and his house of cards was falling down he did not break stride in continuing to solicit funds from vulnerable seniors with the same specious representations that he had made all along.
- ¶ 138 Hughes' assurance that he had no intention to shirk or avoid his corporate, legal and moral responsibilities was one of many hollow representations in a litany of lies. His veiled threat to investors that suing him or reporting him to the Commission would jeopardize any prospect of recovery their investment is typical of many market fraudsters who simply wish to continue their fraudulent business unimpeded.
- ¶ 139 As characteristic of most abusers, Hughes diminished the damage done to his victims and bemoaned his own losses as being more significant.
- ¶ 140 All of this, including his contempt for the orders to produce documents he promised to produce, reveals his true character.
- ¶ 141 In our view, he is the most dangerous kind of market abuser there is.

Summary of Findings

- ¶ 142 In summary, we found that Hughes:
- traded and distributed securities without being registered and without filing a prospectus, contrary to section 34 and 61 of the Act;
 - made misrepresentations, contrary to section 50(1)(d) of the Act;

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- perpetrated a fraud on persons in British Columbia, contrary to section 57(b) of the Act; and
- acted contrary to the public interest.

¶ 143 We will hear further submissions before issuing orders in respect of our findings. If the parties wish to make written submissions, we direct Commission staff to file their submissions and to send a copy to Hughes at his last known address by February 2, 2004. If Hughes wishes to file a submission we direct him to file his submission with the Secretary to the Commission and to send a copy to Commission staff by March 2, 2004. If the parties wish to make oral submissions, we direct them to contact the Secretary to the Commission before January 16, 2004, to fix a date for the hearing of those submissions.

¶ 144 December 19, 2003

¶ 145 **For the Commission**

Joyce C. Maykut, Q.C.
Vice Chair

Joan L. Brockman
Commissioner

Marc A. Foreman
Commissioner