

2007 BCSECCOM 610

Settlement Agreement

StockDepot Information Services Corp. and Albert Stephen Budai

Securities Act, RSBC 1996, c. 418

¶ 1 The Executive Director of the British Columbia Securities Commission (the Executive Director) and StockDepot Information Services Corp. (StockDepot) and Albert Stephen Budai (Budai) (collectively, the Respondents) agree as follows:

Agreed Statement of Facts

1. StockDepot is a British Columbia company. Budai is the majority shareholder, president, secretary, and a director of StockDepot.
2. Budai has never been registered under the Securities Act, RSBC 1996, c. 418. StockDepot has never filed a prospectus with the Commission and has never been registered under the Act.

Misconduct

Illegal Trading and Distribution of Securities

2. Between December 2001 and January 2004, StockDepot and Budai issued shares in StockDepot to 49 investors (the Investors). Twenty-five of the Investors were from British Columbia. The Investors paid a total of \$1,450,911 for the shares.
3. StockDepot and Budai acted contrary to sections 34(1) and 61 of the Act by distributing shares without registration and without filing a prospectus.

Misrepresentations

4. StockDepot and Budai gave promotional documents to people in order to induce them to become Investors (the Promotional Documents). Among other things, the Promotional Documents stated that:
 - (a) Canadian Online Investor.com, a company owned by StockDepot, was profitable and had significant revenues; and
 - (b) independent business valuers would consider the price StockDepot paid for Canadian Online Investor.com to be at the lower end of fair market value.

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5. These statements were untrue because:
 - (a) Canadian Online Investor.com had minimal revenues and was not profitable; and
 - (b) there was no business valuation of Canadian Online Investor.com.
6. StockDepot and Budai knew or ought reasonably to have known that the statements about Canadian Online Investor.com were misrepresentations under the Act and in making them they contravened section 50(1)(d) of the Act.

Fraud - Scalping

7. Budai is the president, secretary and sole shareholder and director of a British Columbia company named CanStock Information Services Corp. (Canstock).
8. Canstock published various subscription-based publications that profiled various companies as potential investments (the Publications). Budai was the editor of and contributor to the Publications. Most of the Investors were subscribers to the Publications.
9. Budai also profiled certain companies during his appearances on a radio show and included shares in some of the companies in a virtual portfolio featured on the show.
10. Budai knew that profiling a company in the Publications and on the radio show could cause its share price to rise. At various times between January 2001 and December 2004 Budai purchased shares in eight different companies, which he then profiled in the Publications or on the radio show. In each case, the share price of the company rose after being profiled, and Budai then sold some or all of his shares in the profiled company. Budai never informed readers of the Publications or radio show listeners that he was going to sell, or had sold, his shares after profiling the companies. Budai made approximately \$115,000 in profit from trading shares of the profiled companies.
11. By buying shares, profiling the companies, selling his shares in the rising market, and not disclosing this selling and intention to sell, Budai engaged in series of transactions, colloquially known in the securities industry as “scalping”, that perpetrated a fraud against Investors and subscribers to the Publications, contrary to section 57.1 of the Act.

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12. Budai also advised some individual Investors to purchase shares in certain companies he profiled in the Publications. By doing so Budai acted as an adviser without being registered, contrary to section 34(1)(c) of the Act.

Fraud - Domain Names

13. Budai acquired various internet domain names, related to investing, for approximately \$76,000 (the Domain Names). Budai used his personal credit cards to acquire or renew registration for the Domain Names.
14. The Promotional Documents stated that the Domain Names were valued in an evaluation report (the Report) at \$750,000 and that Budai would contribute Domain Names to StockDepot.
15. These statements were untrue because:
- (a) the Promotional Documents omitted to state any of the material limitations, assumptions, or disclaimers that applied to the evaluation in the Report, which resulted in the Domain Names having a value of no more than \$50,000; and
 - (b) Budai did not contribute Domain Names to StockDepot, but rather sold them to StockDepot for approximately \$1.1 million which StockDepot incurred as a debt to Budai.
16. StockDepot and Budai knew or ought reasonably to have known that the statements about the Domain Names were misrepresentations under the Act and in making them they contravened section 50(1)(d) of the Act.
17. Budai also caused StockDepot to pay down the relevant balances on the credit cards he had used to pay for the Domain Names. As a result, StockDepot paid for the Domain Names twice.
18. In causing StockDepot to pay for the Domain Names, twice, and at an inflated price, Budai perpetrated a fraud against the Investors, contrary to section 57.1 of the Act.

Liability as Officer and Director

19. As an officer and director of StockDepot, Budai authorized, permitted or acquiesced in StockDepot's contraventions of sections 34(1), 50(1)(d), 57.1, and 61 of the Act and, therefore, pursuant to section 168.2 of the Act Budai also contravened the same provisions.

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Mitigating Factors

20. Budai and Stockdepot proposed that they compensate Investors and have consented to an order of the Supreme Court of British Columbia (the Court):
 - (a) pursuant to section 157(1)(b) of the Act, that Stockdepot pay to the Commission all proceeds from the sale of the Domain Names;
 - (b) pursuant to section 157(1)(d) of the Act, that all Budai's shares in Stockdepot be cancelled;
 - (c) pursuant to section 157(1)(h) of the Act, that Stockdepot repay to Investors all money paid to it by Investors for purchase of Stockdepot securities; and
 - (d) pursuant to section 157(1)(i) of the Act, that Budai compensate or make restitution to Investors.

21. Budai negotiated a sale of the Domain Names for US\$250,000 to be paid to Stockdepot in installments between September 15, 2007 and August 31, 2008. The Domain Name sale agreement also provides for possible additional payments to Stockdepot, contingent upon revenues earned by the purchaser of the Domain Names, up to a possible total of US\$100,000 per Domain Name. Budai and Stockdepot have directed that any payments from the sale of the Domain Names will be forwarded directly to the Commission by the purchaser of the Domain Names in satisfaction of the Court's order made pursuant to section 157(1)(b) of the Act.

22. Budai has provided satisfactory financial evidence that his liabilities exceed his assets and there is no reasonable prospect of Budai being able to pay the sanction amount of \$250,000 that would otherwise be assessed in the public interest for the misconduct described in this settlement. Regarding his financial circumstances:
 - (a) Budai is presently unemployed and has no assets of any significant value. His only significant asset, real property in Kamloops, is encumbered with mortgages and judgments totaling approximately \$313,000. The property's assessed value is only \$255,500;

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- (b) In March, 2007, Budai's trading account totaling approximately \$320,000 was entirely liquidated, pursuant to a court order, to satisfy a Canada Revenue Agency judgment (CRA). Budai currently owes CRA approximately \$105,000 in taxes;
- (c) Budai and Stockdepot are defendants in a British Columbia Supreme Court lawsuit brought by one investor arising from the misconduct outlined in this settlement; and
- (d) Budai advanced to Stockdepot approximately \$650,000 during the time Stockdepot was operational. Budai agrees to not seek or demand any repayment from Stockdepot for any money owing to him until after the Court order is satisfied and the Investors are repaid

Public Interest

23. StockDepot and Budai acted contrary to the public interest by engaging in the conduct set out above.

Order

¶ 2 The Executive Director will issue an order (the Order) that:

1. under section 161(1)(a) of the Act, StockDepot and Budai comply fully with the Act, the Securities Rules, and any applicable regulations;
2. under section 161(1)(b) of the Act, StockDepot permanently cease trading in and be prohibited from purchasing any securities;
3. under section 161(1)(b) of the Act, Budai cease trading in and be permanently prohibited from purchasing any securities, except that he may trade and purchase securities in one account in his own name for his own financial purpose, solely through a dealer registered to trade in securities under the Act and provided he gives the dealer a copy of the order before any trade takes place;
4. under section 161(1)(c) of the Act, that the exemptions under section 44 of the Act do not apply to Budai permanently;
5. under section 161(1)(d)(i) and (ii) of the Act, Budai resign any position he may hold, and be permanently prohibited from becoming or acting, as a director or officer of any issuer except a private issuer in which he or his immediate family members are the sole shareholders, and
6. under section 161(1)(d)(iii) of the Act, Budai be permanently prohibited from engaging in investor relations activities.

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Consent to Reciprocal Orders

¶ 3 Any securities regulator in Canada may rely on the facts admitted in this agreement solely for the purpose of making an order similar to the one contemplated above.

Waiver

¶ 4 The Respondents each waive any right they may have, under the Act or otherwise, to a hearing, hearing and review, judicial review or appeal related to, in connection with, or incidental to this settlement.

Counterpart

¶ 5 This Settlement Agreement may be executed in counterpart or by facsimile execution and all such counterparts of executed copies or faxed copies shall be read or construed together as if they formed one originally executed document.

¶ 6 September 28, 2007

¶ 7 StockDepot Information Services Corp.

Albert Budai
Authorized signatory

Albert Stephen Budai
Authorized signatory (please print name)

David Wright)
Witness Signature)

David Wright)
Witness Name (please print))

2429 W. Locust St., TX)
Address)
VP Sales)
Occupation)

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¶ 8 September 28, 2007

Albert Budai

¶ 9 Albert Stephen Budai

David Wright)
Witness Signature)
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¶ 10 October 9, 2007

Brenda M. Leong

¶ 11 Brenda M. Leong
Executive Director