



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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

- and -

ERIC INSPEKTOR

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

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

I. OVERVIEW

1. This proceeding involves the conduct of the Respondent, Eric Inspektor, in relation to the unregistered trading and illegal distribution of securities by Kaptor Financial Inc. (“Kaptor Financial”), 2025610 Ontario Ltd. (“202”), CarCap. Inc. (“CarCap”), and CarCap Auto Finance Inc. (“CarCap Auto Finance”) (collectively, the “Kaptor Group”).

2. Between January 2005 and September 2011 (the “Relevant Period”), the Kaptor Group raised an aggregate of approximately \$90,000,000 from investors in Ontario through the issuance and unregistered sale of various non-prospectus qualified securities, including short and long term debentures, convertible term debentures, co-tenancy agreements, share purchase agreements, and promissory notes.

3. The Kaptor Group was controlled and managed by Inspektor who was its directing mind. All of the capital raising activity of the Kaptor Group was carried out by or at the direction of Inspektor. Of the funds raised during the Relevant Period, approximately \$38,000,000 remains outstanding to investors.

4. As summarized below, the Kaptor Group entities have been the subject of two separate receivership proceedings, one of which remains ongoing.

II. THE RESPONDENT AND THE KAPTOR GROUP

5. Inspektor is a resident of Toronto, Ontario. During the Relevant Period, Inspektor was the self-titled “Group President and Chief Executive Officer” of the Kaptor Group. Inspektor has never been registered with the Ontario Securities Commission (“Commission”) in any capacity.

6. Kaptor Financial was incorporated in Ontario. During the Relevant Period, Kaptor Financial held itself out as boutique merchant bank and asset based lender. Inspektor was the President and Chief Executive Officer of Kaptor Financial. Kaptor Financial has never been a reporting issuer in Ontario and has never been registered with the Commission in any capacity. Kaptor Financial has never filed a prospectus or preliminary prospectus with the Commission.

7. 202 was incorporated in Ontario. 202 was a holding company owned by Inspektor, of which he was the sole officer and director. 202 held 48% of the common shares of Kaptor Financial and the remaining 52% were held by investors. 202 has never been a reporting issuer in Ontario and has never been registered with the Commission in any capacity. 202 has never filed a prospectus or preliminary prospectus with the Commission.

8. CarCap and CarCap Auto Finance (collectively, the “CarCap Companies”) were incorporated in Ontario and were subsidiaries of Kaptor Financial. Inspektor was a director of the CarCap Companies and was a part of its senior management. The CarCap Companies have never been reporting issuers in Ontario and have never been registered with the Commission in any capacity. The CarCap Companies have never filed a prospectus or preliminary prospectus with the Commission.

9. In December 2011, the CarCap Companies were placed into receivership (the “CarCap Receivership”) at the request of a secured institutional creditor of the CarCap Companies. The assets captured by the CarCap Receivership were sold and distributed to secured institutional creditors pursuant to an order of the Ontario Superior Court (Commercial List) dated March 13, 2012. Subsequently, the CarCap Companies were placed into bankruptcy. Individual investors did not receive distributions through the CarCap Receivership or following the bankruptcy proceeding.

10. Subsequently, in May 2012, a second receiver was appointed *inter alia* over the assets of Kaptor Financial and 202 at the request of a group of individual investors (the “Kaptor Receivership”). As of the date of the within proceeding, no distributions have been made to individual investors in the Kaptor Receivership.

III. BACKGROUND

A. Trading in Securities and Illegal Distribution

11. The most significant trading and capital raising activity of the Kaptor Group occurred in conjunction with the CarCap Companies, which provided sub-prime car lease financing and sub-prime auto loans. The capital raising activity in relation to the CarCap Companies was carried out by Kaptor Financial as well as through other entities, including 202 and the CarCap Companies (both directly and through special purpose investment vehicles referred to as “silos”), and was ongoing throughout the Relevant Period.

12. The balance of the Kaptor Group’s trading and capital raising activity was carried out by 202 for the benefit of Insignia Trading Inc. (“Insignia”), another subsidiary of Kaptor Financial of which Inspektor was a member of senior management, to support its operations. Insignia held itself out as a wholesaler and distributor of licensed household products. Insignia’s Confidential Offering Memorandum dated May 2011 indicated that investor funds raised through the Kaptor Group were one of Insignia’s two main sources of funding.

13. More particularly, during the Relevant Period, the respective entities within the Kaptor Group, at the direction and instruction of Inspektor, issued and sold the following securities:

- (a) Term debentures, preference shares and common shares of Kaptor Financial to at least 80 investors, for a total of at least \$31 million;
- (b) Debentures, promissory notes, co-tenancy agreements, and profit participation agreements of 202 issued to 39 investors for a total of at least \$30 million; and
- (c) Term debentures and preference shares of the CarCap Companies, directly and indirectly through the “silos”, to 60 investors, for a total of at least \$28 million.

14. The promissory notes, debentures, common shares, preference shares, co-tenancy agreements, and profit sharing agreements referred to above fall within one or more categories of “document, instrument or writing commonly known a security”, “evidence of indebtedness” and/or “investment contract” and are thereby “securities” as defined in subsection 1(1) of the Act.

15. In most cases, the documents evidencing the securities were signed by Inspektor on behalf of the Kaptor Group entity issuing the security.

16. Through their dealings with Inspektor, investors were led to believe that the Kaptor Group was investing in various business activities within the Kaptor Group which would generate substantial rates of return and would generally yield investors returns between 15% and 36% annually.

17. In some cases, Inspektor, either directly or through the Kaptor Group, sold securities to individuals who were unknown to him and with whom he did not meet or speak, either in person or by telephone.

18. As of September 2011, individual investors were owed at least \$38,000,000 by the Kaptor Group. This amount remains outstanding.

B. No Available Exemptions

19. Throughout the Relevant Period, Inspektor and the Kaptor Group traded in securities of the Kaptor Group entities in circumstances where the accredited investor exemption and other exemptions contained in Ontario securities law were improperly relied upon; where there was insufficient information for Inspektor or the Kaptor Group to determine if the investors qualified for the accredited investor exemption; or where the requirements for other exemptions from the prospectus and registration requirements contained in Ontario securities law were not met.

20. By engaging in the conduct described herein, Inspektor traded and engaged in, or held himself out as engaging in, the business of trading in securities and participated in acts, solicitations, conduct, or negotiations directly or indirectly in furtherance of the sale or

disposition of securities for valuable consideration, in circumstances where there were no exemptions available to him under the Act, contrary to sections 25 and 53 of the Act.

IV. BREACHES OF ONTARIO SECURITIES LAW AND CONDUCT CONTRARY TO THE PUBLIC INTEREST

21. The specific allegations advanced by Staff are:

- (a) During the Relevant Period, Inspektor traded and engaged in or held himself out as engaging in the business of trading in securities of the Kaptor Group entities without being registered to do so and without an available exemption from the registration requirements, contrary to subsection 25(1)(a) of the Act for the period before September 28, 2009 and contrary to subsection 25(a) of the Act for the period on and after September 28, 2009;
- (b) During the Relevant Period, Inspektor traded in securities of the Kaptor Group entities when a preliminary prospectus and prospectus had not been filed and receipts had not been issued for them by the Director, contrary to subsection 53(1) of the Act;
- (c) During the Relevant Period, Inspektor, as an actual and/or *de facto* officer and director of each of the entities within the Kaptor Group, authorized, permitted or acquiesced in the Kaptor Group's non-compliance with Ontario securities law and accordingly failed to comply with Ontario securities law, contrary to section 129.2 of the Act; and
- (d) Inspektor's conduct was contrary to the public interest and harmful to the integrity of the Ontario capital markets.

22. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

DATED at Toronto, March 28, 2014.