

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

-AND-

**IN THE MATTER OF
ANTHONY IANNO AND
SAVERIO MANZO**

**SETTLEMENT AGREEMENT OF
ANTHONY IANNO**

PART I – INTRODUCTION

1. The Ontario Securities Commission (the “Commission”) will issue a Notice of Hearing to announce that it will hold a hearing to consider whether, pursuant to section 127 of the *Securities Act*, R.S.O. 1990, c. S-5, as amended (the “Act”), it is in the public interest for the Commission to make certain orders in respect of Anthony Ianno (the “Respondent”).

PART II – JOINT SETTLEMENT RECOMMENDATION

2. Staff of the Commission (“Staff”) agree to recommend settlement of the proceeding commenced by Notice of Hearing dated March 8, 2010 (the “Proceeding”) against the Respondent according to the terms and conditions set out in Part VI of this Settlement Agreement. The Respondent agrees to the making of an order in the form attached as Schedule “A”, based on the facts set out below.

PART III – AGREED FACTS

3. For this proceeding, and any other regulatory proceeding commenced by a securities regulatory authority, the Respondent agrees with the facts as set out in Part III of this Settlement Agreement.
4. The Respondent is an individual resident in Ontario. The Respondent is not, and has never been, registered by any securities regulatory authority.

5. Covalon Technologies Ltd. (“Covalon”) is a reporting issuer in Ontario that trades on the Toronto Stock Exchange Venture Exchange (“TSXV”) under the trading symbol “COV”. Covalon is a medical biosystems company.
6. Commencing in 2007 and continuing into 2008, the Respondent accumulated a large position of shares in Covalon. The purchases were made, and the accounts at different brokerages were opened, at various points in time during this period, in 11 different accounts held at 8 different brokerages. Some of the accounts were in the Respondent’s name, and some were in the name of Roof-Can Corporation, a company owned in part by the Respondent.
7. As of May 2007, the Respondent had accumulated 1,896,700 shares of Covalon at an approximate average price of \$1.53. In the period June 2007 to April 2008 (the “Relevant Period”) the Respondent acquired a further 1,977,440 shares. At the end of April 2008 the Respondent held 3,874,100 shares of Covalon (or approximately 5% of the outstanding shares). The shares purchased during the Relevant Period were acquired at an approximate average price of \$2.80.
8. Throughout the Relevant Period the Respondent entered only two sell orders of Covalon shares, one for 4,000 shares in July 2007 and the other for 200,000 shares in April 2008, in order to address margin issues which occurred in connection with another security held by the Respondent.
9. Of the approximately 4 million shares that the Respondent purchased during the Relevant Period, approximately 2.7 million were held in accounts subject to margin requirements. This means that the shares were purchased on credit advanced by a brokerage and secured against the value of shares held in the trading account.
10. Each lending brokerage sets its own margin rules (subject to certain regulatory requirements), including minimum share prices and other loan security requirements. The regulatory requirements allow a brokerage to lend a client up to 50% of the current market value of a position in a security that is listed on a Canadian stock exchange provided that the security trades at a price of at least \$1.50 per share.

11. During the Relevant Period, the Respondent had accounts at various brokerages which each adhered to different margin requirements. The Respondent held the majority of his shares in Covalon in accounts at dealers which adhered to the regulatory standard. The Respondent also held shares in Covalon with brokerages which applied a higher minimum share price for margin requirements (i.e. a minimum higher than \$1.50 per share).
12. Brokerages generally assess the value of a share position for margin purposes based on the lower of the share's closing bid price (meaning the last bid for the shares at the close of the trading day), or the closing price. The value of a share position may result (depending on the value of other securities in the account) in a margin call being made by the brokerage.
13. A margin call means that the lending brokerage notifies the account holder that they do not have sufficient value in their account to secure the loans (margin) that had been made by the brokerage to purchase the shares and, as a result, the account holder is required to either provide additional funds to the brokerage or the brokerage will be entitled, at its discretion, to sell shares held in the account.
14. During the Relevant Period, the Respondent received calls from different brokerages where the Respondent held Covalon shares. The Respondent received a margin call from a brokerage requiring the deposit of additional cash to the account as a result of a decline in the closing price or closing bid price for shares of Covalon. The Respondent also received calls from certain brokerages in respect of accounts where the Respondent had purchased additional shares of Covalon and for which additional cash was required to be deposited in order to settle the trade. The Respondent also received two calls from brokerages where the Respondent held shares in Covalon notifying the Respondent that the brokerage had changed its margin policy and as a result requiring the Respondent to either deposit additional cash to the account or move the account to another brokerage. On each occasion the Respondent addressed the requirements as requested by the brokerage.

15. During the Relevant Period, the Respondent engaged in trading in shares of Covalon with knowledge of how such trading activity might impact on margin requirements in his own accounts and potentially in the accounts of others, including, the effect that margin calls may have on the market price of Covalon shares (that is, the potential that investors would be required to sell off shares to satisfy margin calls).
16. During the Relevant Period, the Respondent engaged in certain trades near the close of trading which had the effect of maintaining and/or increasing the closing price of Covalon shares to a price that would not affect margin eligibility.
17. In addition, between December 2007 and February 2008, the Respondent encouraged 4 individuals to open trading accounts at BMO InvestorLine and to purchase Covalon shares in those accounts. The Respondent, who did not have trading authority over these four accounts, on occasion spoke to the BMO Investor Line trader regarding purchases being made in those accounts.
18. In the period between November 2007 and April 2008, the Respondent communicated with Saverio Manzo ("Manzo") regarding his own interest, Manzo's interest and the potential interest of others in Covalon.

PART IV - THE RESPONDENT'S POSITION

19. The Respondent requests that the settlement hearing panel consider the following mitigating circumstances:
 - (a) all of the trades at issue were placed by the Respondent through various registered market intermediaries, all of whom agreed to execute the trade at the time and price requested by the Respondent; at no time did any market intermediary either decline to execute the trade or subsequently cancel the trade;
 - (b) with regard to the trading outlined in paragraph 17, above, the Respondent's intention was only to discuss the execution of trades otherwise properly authorized by the account holder via the BMO financial planner responsible for

the administration of these four accounts. At no time did the BMO Investor Line trader decline to engage in these discussions;

- (c) all of the trades at issue were open market arm's length purchases made by the Respondent further to his intention to accumulate a significant position in Covalon for the purposes of long term investment in a company ranked during this period as a "TSX Venture 50" company and as one of the top 10 technology and life sciences issuers on the TSXV;
- (d) as a result of the Respondent's investment in shares of Covalon, the Respondent sustained a net loss of approximately \$5 million;
- (e) the Respondent acknowledges and accepts responsibility for his conduct and now understands how the trading at issue could be regarded by the Commission as contrary to the public interest;
- (f) the Respondent cooperated with the investigation of this matter; and
- (g) The Respondent has not been the subject of any prior Commission proceedings or orders.

PART V – CONDUCT CONTRARY TO THE PUBLIC INTEREST

- 20. By engaging in the conduct described above the Respondent acted contrary to the public interest.

PART VI – TERMS OF SETTLEMENT

- 21. The Respondent agrees to the terms of settlement listed below.
- 22. The Commission will make an order pursuant to section 127(1) and section 127.1 of the Act that:

- (a) The settlement agreement is approved.
- (b) Trading in any securities by or of the Respondent cease for a period of 5 years commencing on the date of the Commission's order.
- (c) Acquisition of any securities by the Respondent is prohibited for a period of 5 years commencing on the date of the Commission's order.
- (d) Any exemptions contained in Ontario securities law do not apply to the Respondent for a period of 5 years commencing on the date of the Commission's order.
- (e) Clauses (b), (c) and (d) above are subject to the exception that the Respondent is permitted to trade through any registered retirement savings account and/or a registered retirement income fund (as defined in the *Income Tax Act (Canada)*) in which the Respondent has sole legal and beneficial ownership provided that:
 - 1. the securities traded are listed and posted for trading on the Toronto Stock Exchange or the New York Stock Exchange (or their successor exchanges) or are issued by a mutual fund which is a reporting issuer;
 - 2. the Respondent does not own legally or beneficially (in the aggregate, together or with others) more than one percent of the outstanding securities of the class or series of the class in question; and
 - 3. the Respondent carries out any trading through a registered dealer (which dealer must be given a copy of this Order) and through accounts opened in the Respondent's name only.
- (f) Clauses (b) , (c) and (d) are subject to the further exception that the Respondent is permitted to sell all securities which he holds, as of the date of the Commission's order, in any registered or non-registered account in the Respondent's name held with a registered dealer.
- (g) The Respondent is reprimanded.

- (h) The Respondent is prohibited from becoming or acting as a director or officer of a reporting issuer for a period of 5 years from the date of the Commission's order.
 - (i) The Respondent is prohibited from becoming or acting as a promoter for a period of 5 years from the Commission's order.
 - (j) The Respondent agrees to make a voluntary payment of \$50,000 to the Commission for the benefit of third parties, and a payment of \$50,000 to the Commission representing a partial repayment of the costs of the investigation of this matter.
 - (k) In the event that the payments set out in paragraph (j), above, are not made in full, the provisions of paragraphs (b) through (i) shall continue in force until such payments are made in full, without any limitation as to the time period.
23. The Respondent agrees to personally make a payment of \$50,000 towards the costs of the investigation by certified cheque when the Commission approves this Settlement Agreement. The Respondent agrees to make the remaining voluntary payment of \$50,000 within 5 years of the date of the Commission's order. The Respondent will not be reimbursed for, or receive a contribution toward, these payments from any other person or company.
24. The Respondent undertakes to consent to a regulatory Order made by any provincial or territorial securities regulatory authority in Canada containing any or all of the prohibitions set out in sub-paragraphs (b) through (i) above. These prohibitions may be modified to reflect the provisions of the relevant provincial or territorial securities law.

PART VII – STAFF COMMITMENT

25. If the Commission approves this Settlement Agreement, Staff will not commence any proceeding under Ontario securities law in relation to the facts set out in Part III of this Settlement Agreement, subject to the provisions of paragraph 26 below.
26. Subject to the provisions of paragraph 23, if the Commission approves this Settlement Agreement and the Respondent fails to comply with any of the terms of the Settlement

Agreement, Staff may bring proceedings under Ontario securities law against the Respondent. These proceedings may be based on, but are not limited to, the facts set out in Part III of this Settlement Agreement as well as the breach of the Settlement Agreement.

PART VIII – PROCEDURE FOR APPROVAL OF SETTLEMENT

27. The parties will seek approval of this Settlement Agreement at a public hearing before the Commission scheduled for a date to be agreed by Staff and the Respondent, according to the procedures set out in this Settlement Agreement and the Commission's Rules of Practice.
28. Staff and the Respondent agree that this Settlement Agreement will form all of the agreed facts that will be submitted at the settlement hearing on the Respondent's conduct, unless the parties agree that additional facts should be submitted at the settlement hearing.
29. If the Commission approves this Settlement Agreement, the Respondent agrees to waive all rights to a full hearing, judicial review or appeal of this matter under the Act.
30. If the Commission approves this Settlement Agreement, neither party will make any public statement that is inconsistent with this Settlement Agreement or with any additional agreed facts submitted at the settlement hearing.
31. Whether or not the Commission approves this Settlement Agreement, the Respondent will not use, in any proceeding, this Settlement Agreement or the negotiation or process of approval of this agreement as the basis for any attack on the Commission's jurisdiction, alleged bias, alleged unfairness, or any other remedies or challenges that may otherwise be available.

PART IX – DISCLOSURE OF SETTLEMENT AGREEMENT

32. If the Commission does not approve this Settlement Agreement or does not make the order attached as Schedule "A" to this Settlement Agreement:

- i. this Settlement Agreement and all discussions and negotiations between Staff and the Respondent before the settlement hearing takes place will be without prejudice to Staff and the Respondent; and
 - ii. Staff and the Respondent will each be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations contained in the Statement of Allegations. Any proceedings, remedies and challenges will not be affected by this Settlement Agreement, or by any discussions or negotiations relating to this agreement.
33. Both parties will keep the terms of the Settlement Agreement confidential until the Commission approves the Settlement Agreement. At that time, the parties will no longer have to maintain confidentiality. If the Commission does not approve the Settlement Agreement, both parties must continue to keep the terms of the Settlement Agreement confidential, unless they agree in writing not to do so or if required by law.

PART X – EXECUTION OF SETTLEMENT AGREEMENT

34. The parties may sign separate copies of this agreement. Together, these signed copies will form a binding agreement.

35. A fax copy of any signature will be treated as an original signature.

Dated this 30th day of August, 2011

"Anthony Ianno"

Anthony Ianno

"Jay Naster"

Witness

Dated this 31st day of August, 2011

"Tom Atkinson"

Tom Atkinson

Director, Enforcement Branch