

BRITISH COLUMBIA SECURITIES COMMISSION
Securities Act, RSBC 1996, c. 418

Citation: Re Danforth, 2022 BCSECCOM 220

Date: 20220614

Order under section 161(6)

Caroline Danforth
also known as Caroline Winsor and Caroline Meyers

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

Introduction

- [1] This is an order under sections 161(1) and 161(6)(a) of the *Securities Act*, RSBC 1996, c. 418.
- [2] The executive director of the Commission applied on November 22, 2021 (Application) for orders against Caroline Danforth also known as Caroline Winsor and Caroline Meyers (Danforth) under sections 161(1) and 161(6)(a) of the Act based upon certain orders made by the Provincial Court of Alberta and the United States District Court, Eastern District of Pennsylvania.
- [3] The United States District Court issued its Judgment in a Criminal Case on April 13, 2016 in *U.S.A. v. Caroline Winsor*, Case: 2:12-cr-00656-TJS (US Action).
- [4] The Provincial Court made its orders on June 27, 2016 in *Her Majesty the Queen v. Joseph Gaetano Bucci and Caroline Meyers*, Calgary Registry, Action No. 130092554P1 (Canadian Action).
- [5] In his Application, the executive director tendered affidavit evidence and submissions to the Commission. We find that the executive director provided notice of the Application to Danforth. Although Danforth was provided the opportunity to be heard, she did not participate in the hearing.
- [6] Section 161(6) facilitates cooperation between the Commission and other securities regulatory authorities, self-regulatory bodies, exchanges and the courts. If the requirements of the section are met and it is in the public interest, the Commission may issue orders without the need for inefficient parallel and duplicative proceedings in British Columbia (*McLean v. British Columbia (Securities Commission)* [2013] 3 S.C.R. 895 at para. 54) or before the Commission.

Background

US Action

- [7] On December 5, 2012, Danforth was charged with nine counts of violations, including securities fraud, wire fraud, and conspiracy to commit fraud and misrepresentation.

[8] Danforth pled guilty to conspiracy to commit fraud, misrepresentation, wire fraud, and securities fraud, and on April 13, 2016, Danforth was sentenced to:

- (a) Time served;
- (b) Supervised release for three years, to run concurrently with the sentence imposed in the Canadian criminal matter; and
- (c) Fine of \$10,000.

[9] Although the transcript of the sentence hearing in the US Action is under seal, the following facts are contained in the indictment for the counts Danforth pled guilty to:

- (a) Danforth was the managing partner of International Securities Group Inc. (ISG). ISG was a Canadian corporation that purportedly provided administrative support services and handled regulatory filings for various Over the Counter Bulletin Board (OTCBB) and Pink Sheet-listed companies. Two of ISG's clients were FACT Corporation and Viosolar Inc. ISG was also FACT's largest shareholder.
- (b) Viosolar was a Canadian corporation with its principal place of business in Athens, Greece. Viosolar's securities were traded on the OTCBB and the OTC Link. FACT was a Colorado corporation with its principal place of business in New Jersey, and its securities were traded on the OTC Link.
- (c) From approximately July 2008 through October 2008, Danforth and others conspired and agreed to willfully and knowingly, directly and indirectly, use and employ manipulative devices to defraud, make untrue statements of material facts and omitting material facts necessary to make the statements not misleading, and engaging in acts, practices, and courses of business which operated and would operate as a fraud, in connection with the purchase and sale of a security.
- (d) As part of a conspiracy, Danforth and her co-conspirators sought to generate illegal proceeds by causing manipulative market activity in Viosolar and FACT stock, by:
 - (i) agreeing to engage in manipulative and deceptive securities transactions to artificially increase the sales volume and price of Viosolar and FACT stock;
 - (ii) agreeing to bribe brokers to purchase and hold, on behalf of their retail customers, Viosolar and FACT stock;
 - (iii) agreeing to coordinate manipulative trading activity by issuing press releases to provide a false pretext for the increased volume and price of Viosolar and FACT stock; and
 - (iv) using wires and facilities of interstate and foreign commerce in furtherance of the conspiracy.

(e) In furtherance of the conspiracy, Danforth:

- (i) held many phone calls with co-conspirators, a cooperating government witness, and others. On these calls, Danforth provided information and discussed and made plans to further the stock manipulation scheme of FACT and Viosolar securities.
- (ii) used emails to discuss and attach press releases about FACT, and the “time line” for the stock buying campaign in FACT.
- (iii) wired money from ISG in Canada to make test purchases of stock in FACT and Viosolar.

Canadian Action

- [10] On September 9, 2015, Danforth was charged with four offences, including unregistered trading, distribution of securities without filing a prospectus, engaging in conduct relating to securities that resulted or contributed to a false or misleading appearance of trading activity, and engaging in conduct that resulted or contributed to an artificial price for securities.
- [11] On December 7, 2015, Danforth pled guilty to all counts in the Criminal Information. On June 27, 2016, Danforth received a two year jail sentence, as well as permanent market bans.
- [12] In an agreed statement of facts Danforth admitted, and the Provincial Court found, that:
- (a) Coastal Pacific Mining (Coastal) was incorporated on March 27, 2007 in Alberta at the direction of Joseph Bucci and Michael Vlahovic.
 - (b) All or most of the corporate activities for Coastal took place at or through Danforth’s company, ISG, under the direction of Bucci or Vlahovic.
 - (c) Coastal was described in public filings as an exploration stage mining company. Throughout its history, Coastal had no revenues nor full-time employees, and incurred repeated operating losses.
 - (d) In 2007, on instructions from Bucci and Vlahovic, Danforth directed and assisted her staff with preparing and filing a registration statement for Coastal with the SEC. No reference was made in that filing regarding Bucci’s and Vlahovic’s control and direction over Coastal.
 - (e) In early 2008, Danforth, Bucci, and Vlahovic arranged for 5.5 million Coastal shares to be issued from treasury in the names of friends and acquaintances (Seed Shares and Seed Shareholders). Many of the share certificates for the Seed Shares

were held at ISG offices. Despite the shares' issuance to the Seed Shareholders, Danforth, Bucci, and Vlahovic had effective control over the majority of these shares.

- (f) From late 2009 into mid-2010, Danforth and Bucci sought out buyers for Coastal. In May 2010, Danforth and Bucci began talking with British Columbia residents including Lawrence Chang. Chang offered to purchase the majority of the free trading shares of Coastal (Float). The terms of Chang's offer were finalized in September 2010 at a meeting in Calgary attended by Danforth and Bucci, where they discussed, a plan to transfer the control and direction over the Float to Chang. In particular:
 - (i) Chang would arrange to heavily promote Coastal with a view to increasing trading volumes, drive up the stock price, and then sell the Float into the market;
 - (ii) the amount that Danforth, Bucci, and Coastal could earn from the proceeds of the Plan for exchanging the Float; and
 - (iii) Chang provided Danforth with a list of offshore entities, into whose names the Coastal Float was to be transferred. The majority of these entities were controlled by Chang and others.
- (g) Eventually, all free-trading Coastal shares, except the limited amount that were in the hands of the general public, were transferred by Danforth and Bucci to the entities identified by Chang or a lawyer, Luis Carrillo.
- (h) On September 23, 2010, Danforth received a series of press releases from Bucci that were to be issued in conjunction with the promotional campaign orchestrated by Chang. At the time, there was zero trading activity in Coastal and the events described in the press releases had yet to happen.
- (i) Danforth knew that the purpose of the promotional campaign was to create a false appearance of trading activity in Coastal, and an artificial price for the shares.
- (j) Between October 6 and November 5, 2010, Coastal issued 15 news releases as part of the promotional campaign.
- (k) Following the issuance of the first news releases, and building with the others, Coastal shares went from zero trades and no value to significant trading volumes and prices. On November 1, 2010, approximately 60,000,000 shares of Coastal traded and the share price closed at \$0.50 per share. After the campaign, Coastal share volumes and prices crashed to almost nothing. In the end, over 12,000 shareholders invested in Coastal.

- (l) Chang was to move up to \$2 million in funds from the proceeds of the campaign to Coastal. Pursuant to this agreement, Chang wired \$1.1 million to Coastal.
- (m) During the campaign, at the request of Chang, Danforth sold 2.5 million Coastal shares from her account into the market, for proceeds of \$900,450. From these funds, the Seed Shareholders, creditors and finder's fees were paid. Danforth received approximately \$366,000 out of these funds as compensation.
- (n) At no time was Danforth registered with the executive director of the Alberta Securities Commission (ASC) to trade in or act as a dealer in relation to any securities. No preliminary prospectus or prospectus was ever filed with the ASC by anyone for any trades in the securities of Coastal.
- (o) Danforth engaged in a course of conduct relating to Coastal that she knew or reasonably ought to have known would result in both a false or misleading appearance of trading activity and an artificial price for Coastal securities.

Analysis and Order

- [13] The Commission is established under the Act to regulate the capital markets in British Columbia. Central to the Commission's mandate under the Act is to protect the investing public from those who would take advantage of them, and to preserve investor confidence in the regulated capital markets.
- [14] It is clear from the foregoing facts, and Danforth's admitted participation in the schemes resulting in the US Action, and the Canadian Action, that Danforth is a risk to the capital markets. She has participated on more than one occasion in sophisticated market manipulations in an attempt to deceive unwitting market participants.
- [15] We have no difficulty in finding that, given her convictions in both the United States, as well as in Alberta, for her involvement in market manipulations of publicly traded securities, Danforth is unfit to participate in the capital markets of British Columbia. Permanent prohibitions are warranted.
- [16] We find that it is in the public interest to order that:
 - (a) under section 161(1)(d)(i), Danforth resign any position she holds as a director or officer of an issuer or registrant;
 - (b) Danforth is permanently prohibited:
 - (i) under section 161(1)(b)(ii), from trading in or purchasing any securities or derivatives, a specified security or derivative or a specified class of securities or class of derivatives;
 - (ii) under section 161(1)(c), from relying on any of the exemptions set out in this Act, the regulations or a decision;

- (iii) under section 161(1)(d)(ii), from becoming or acting as a director or officer of any issuer or registrant;
- (iv) under section 161(1)(d)(iii), from becoming or acting as a registrant or promoter;
- (v) under section 161(1)(d)(iv), from advising or otherwise acting in a management or consultative capacity in connection with activities in the securities or derivatives markets;
- (vi) under section 161(1)(d)(v) from engaging in promotional activities by or on behalf of
 - (A) an issuer, security holder or party to a derivative, or
 - (B) another person that is reasonably expected to benefit from the promotional activity; and
- (vii) under section 161(1)(d)(vi) from engaging in promotional activities on Danforth's own behalf in respect of circumstances that would reasonably be expected to benefit Danforth.

June 14, 2022

For the Commission

Gordon Johnson
Vice Chair

Jason Milne
Commissioner