

**IN THE MATTER OF THE *SECURITIES ACT*,
R.S.O. 1990, c. S. 5, as amended**

-and-

**IN THE MATTER OF
LARRY WELTMAN**

SETTLEMENT AGREEMENT

I. INTRODUCTION

1. By Notice of Hearing dated March 30, 2001 (the "Notice of Hearing"), the Ontario Securities Commission (the "Commission") announced that it proposed to 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 an order:

- (a) that trading in securities by Larry Weltman ("Weltman") cease permanently or for such period as may be specified in the order;
- (b) to reprimand Weltman;
- (c) that Weltman resign any positions as a director or officer of an issuer;
- (d) to prohibit Weltman from becoming or acting as director or officer of any issuer; and
- (e) such further and other order as the Commission may deem appropriate.

II. JOINT SETTLEMENT RECOMMENDATION

2. Staff of the Commission ("Staff") agree to recommend settlement of the proceeding initiated in respect of the respondent Weltman by the Notice of Hearing in accordance with the terms and conditions set out below. Weltman agrees to the settlement on the basis of the facts agreed to as provided in Part III and consents to the making of an Order against him in the form attached as Schedule "A" on the basis of the facts set out in Part III.

III. FACTS

3. Larry Weltman is an individual residing in Ontario and was at all material times, a director of Laser Friendly Inc. ("the Company"). Weltman was executive vice president and chief financial officer of the Company. Weltman was also a principal member of the Company's management.

4. The Company, subsequently known as Gaming Lottery Corporation, GLC Limited and ultimately GalaxiWorld.com Limited, was a diversified gaming company that manufactured and supplied products to the lottery, parimutuel, bingo and charitable gaming industry.

5. Shares of the Company traded on the Toronto Stock Exchange ("the TSE") from August 1993 to July 1998.

The Roll Program

6. In November 1994 the Company's board of directors (including Weltman) resolved that the Company would participate in a program ("the Roll Program") described in the resolution as follows:

***WHEREAS** the Corporation intends to enter into a series of transactions whereby one or more offshore entities (individually a "Subscriber" and collectively, the "Subscribers") will enter into subscription agreements (the "Subscription Agreements") with the Corporation pursuant to which the Subscribers will subscribe for up to an aggregate of 30,000,000 common shares of the Corporation (the "Shares") at a subscription price of U.S.\$4.00 per Share;*

***AND WHEREAS** pursuant to the Subscription Agreements the Subscribers shall not be obligated to pay the subscription price until the expiry of one year following the date of the Subscription Agreement;*

***AND WHEREAS** the Corporation intends to conditionally allot and issue the Shares and to deposit a share certificate or certificates representing the Shares to be issued with an escrow agent (the "Escrow Agent") for safekeeping;*

***AND WHEREAS** the obligations of a Subscriber under a Subscription Agreement shall be secured by the issuance of a debenture (the "Debenture") of the Subscriber in favour of the Corporation in the principal amount equal to the*

subscription price for the Shares and bearing interest at the rate of 3% per annum (initially) calculated and payable monthly and granting the holder thereof a floating charge over the assets of the Subscriber;

AND WHEREAS the Subscriber is entitled to prepay all or part of the principal amount of the Debenture on any interest payment date and upon receipt of any such principal payment, interest will cease on the portion of the principal paid;

AND WHEREAS upon receipt by the Escrow Agent of the full principal amount of the Debenture, plus accrued an [sic] unpaid interest, the Corporation shall be entitled either (i) to accept the subscription for the Shares upon the approval of the holders of a majority of the outstanding voting securities of the Corporation and all regulatory authorities, including The Toronto Stock Exchange, or (ii) to reject such subscription for the Shares upon the approval of the Board of Directors of the Corporation;

AND WHEREAS pursuant to the Debenture, during each 90 day period during which the Debenture is outstanding, if there is a rise or fall in the market value of the Shares of more than 25% from the original subscription price therefor, at the option of the Corporation, either the number of Shares subscribed for or the subscription price per Share and the principal and interest payments under the Debenture shall be correspondingly adjusted by the Corporation such that either the aggregate market value of the Shares subscribed for shall be equal to the original subscription price therefor or the new aggregate subscription price shall reflect the new market price per Share;

AND WHEREAS the Subscription Agreement and the conditional allotment and issue of Shares pursuant thereto are exempt from the registration and prospectus requirements pursuant to Regulation S of the United States Securities Act of 1933 and securities legislation in Canada;

7. The Company gave formal notice to the TSE of a possible material change in the affairs of the Company. The Company reported that it intended to enter into the Roll Program, pursuant to which 15 million shares of the Company would be authorized for issue, and that any share certificates would be delivered to an escrow agent.

8. In deciding that the Company would participate in the Roll Program, Weltman knew that, while the Company intended to issue share certificates, the Company did not intend to actually issue any shares. In November and December of 1994 the Company entered into subscription agreements (providing for the issue of certificates) for 45 million shares. The weighted average number of outstanding shares for the year ended January 31, 1995 was approximately 17 million.

Issuance of Shares to Helix Capital Corporation and Delta West Management Trust

9. Pursuant to the November 1994 resolution, the Company entered into subscription agreements with each of Helix Capital Corporation (“Helix”) and Delta West Management Trust (“Delta West”). In each case:

- (a) the agreement purported to represent a subscription for 15 million shares of the Company at a price of US\$4 per share;
- (b) the subscriber issued a debenture in favour of the Company in the amount of US\$60 million, payable one year from the date of the agreement;
- (c) the subscriber promised to pay interest of 3% per year to the Company on the principal amount of the debenture;
- (d) the Company instructed its transfer agent to issue share certificates in the name of Helix or Delta West;
- (e) the Helix share certificates bore the following legend:

The shares represented by this certificate have not been registered under the United States Securities Act of 1933 (the “Act”), have no voting rights and are being transferred pursuant to an exemption under Regulation S. Until November 15, 1995 no shares of the stock may be offered, sold or transferred. Offers, sales or transfers in the United States or to a United States person (as defined in Regulation S promulgated under the Act) or for the account and benefit of a United States person are not permitted, except as provided in said Regulation S unless the shares are registered under the Act or with the prior consent of Laser Friendly Inc. pursuant to an application from exemption from such registration under the Act.

The Delta West certificates bore the following legend:

The shares represented by this certificate have not been registered under the United States Securities Act of 1933 (the “Act”), have no voting rights and are “restricted securities” as that term is defined in Rule 144 under the Act. The shares may not be offered for sale, sold or otherwise transferred except pursuant to an effective registration statement under the Act or pursuant to an exemption from registration under the Act, the availability of which is to be established to the satisfaction of Laser Friendly Inc.

- (f) the share certificates appeared to represent “fully paid and non-assessable common shares”, and did not bear any endorsement to indicate that the shares were not fully paid or that they were subject to an agreement.

10. The Company authorized delivery of share certificates representing 15 million shares registered in the name of Helix (the “Helix Certificates”) to Helix’s lawyer with no escrow agreement in place. Instead, the Company accepted Helix’s agreement that it would ensure that any share certificates provided pursuant to the Roll Program would be held in trust by Helix’s lawyer or a reputable financial institution and that, if the certificates were to be delivered elsewhere, Helix would notify the Company in writing immediately as to the location of the safekeeping account.

11. Several days later, Helix advised the Company that one of the share certificates delivered to Helix had been placed “in a Program”, but Helix did not provide the written notice of the location of the certificate as it had agreed to do.

12. The Company also authorized delivery of share certificates representing 15 million shares registered in the name of Delta West to Delta West’s lawyer. The Company asked Delta West to undertake not to release the share certificates delivered to it and to provide a form of escrow agreement. Delta West’s lawyer committed to hold the share certificates in trust and not to release them without the Company’s prior written approval. Delta West did not provide a form of escrow agreement.

13. In December 1994, pursuant to a separate resolution signed by the board of directors (including Weltman), the Company entered into a second subscription agreement with Delta West, representing a further 15 million shares. This agreement was in the same form as the other agreements except the interest rate was increased to 10%. The further share certificates issued in the name of Delta West purported to represent “fully paid and non assessable” shares of the Company and bore the following legend:

The shares represented by this certificate have not been registered under the United States Securities Act of 1933 (the “Act”), have no voting rights and are being transferred pursuant to an exemption under Regulation S. Until December 5, 1995 no shares of the stock may be offered, sold or transferred. Offers, sales or transfers in the United States or to a United States person (as defined in Regulation S promulgated under the Act) or for the account and benefit of a United States person are not permitted, except as

provided in said Regulation S unless the shares are registered under the Act or with the prior consent of the company pursuant to an applicable exemption from registration under the Act.

14. The additional certificates were delivered directly to Delta West without any agreement to provide for their safekeeping. Delta West completed part of the transfer portion of the share certificates on the same day as the certificates were delivered to it.

15. Despite the Company's representation to the TSE that it would deliver any Roll Program share certificates to an escrow agent, the Company did not advise the TSE that share certificates were delivered to counsel for Helix and Delta West in circumstances where an escrow agreement was not in place, or that the additional certificates were delivered directly to Delta West. The Company also did not notify the TSE that it had entered into further agreements relating to "subscriptions" for a further 30 million shares.

16. Delta West later advised the Company that the first certificates had been delivered to the wrong depository. Even though delivery of the certificates to anyone constituted a breach of the promise made by Delta West to the Company not to release the certificates, Delta West asked the Company to provide replacement certificates.

17. The Company obtained an undertaking from Delta West that it would return the original certificates and in reliance upon that undertaking, the Company instructed its transfer agent to issue replacement certificates representing a further 15 million shares. The Company delivered the replacement certificates as instructed by Delta West without securing the return of the original certificates.

18. In March 1995 Bank Leu AG sought to realize upon one of the Helix Certificates, purporting to represent 2.5 million fully paid shares of the Company, which certificate had been pledged to the Bank as security for a substantial loan advanced by the Bank. When the Bank notified the Company of its claim and sought to realize upon its security, the Company advised in response that the shares had not been validly issued because they had not been paid for.

Other Dispositions

19. Weltman was named as a respondent in an administrative proceeding brought by the United States Securities and Exchange Commission (“the SEC”). The SEC found that:

The decision of Weltman to participate in the subscription agreements led to millions of shares of Laser Friendly stock entering the stream of commerce and being used by the Fraud Defendants in violation of Securities Act Section 17(a), Exchange Act Section 10(b), and Exchange Act Rule 10b-5.

...

Based on the above, the Commission finds that within the meaning of Securities Act Section 8A and Exchange Act Section 21C the Respondent [Weltman] was a “cause” of violations of Securities Act Section 17(a), Exchange Act Section 10(b), and Exchange Act Rule 10b-5.

20. In criminal proceedings in the State of New York with respect to a matter unrelated to the Roll Program, Weltman pled guilty to the commission of a felony, in particular “intentionally engaging in a scheme constituting a systematic ongoing course of conduct with intent to defraud... while engaged in inducing and promoting the issuance, distribution, exchange, sale, negotiations and purchase of” shares of the Company.

CONDUCT CONTRARY TO THE PUBLIC INTEREST

21. By engaging in the conduct described above, Weltman acted contrary to the public interest, by reason of the following:

- (a) Weltman knowingly permitted share certificates of the Company to be delivered in circumstances where he knew or ought to have known that the certificates could be used to deceive third parties. Weltman knew that the share certificates purported to represent fully paid shares, when the Company did not receive payment for the shares. Weltman failed to ensure that sufficient controls existed to prevent the share certificates from being used for an improper purpose.
- (b) Weltman failed to take immediate steps to cancel and to attempt to retrieve share certificates and agreed to permit such certificates to remain in the possession of others, even after he had received notice that one or more of the share certificates may have been used for an improper purpose.

IV. TERMS OF THE SETTLEMENT

22. Weltman agrees to the following terms of settlement:
- (a) pursuant to paragraph 2 of subsection 127(1) of the Act, Weltman will cease trading in securities permanently, effective the date of the Order of the Commission approving the proposed settlement agreement herein;
 - (b) pursuant to paragraph 6 of subsection 127(1) of the Act, Weltman will be reprimanded by the Commission;
 - (c) pursuant to paragraph 7 of subsection 127(1) of the Act, Weltman will resign any position he holds as an officer and/or director of any issuer;
 - (d) pursuant to paragraph 8 of subsection 127(1) of the Act, Weltman is permanently prohibited from becoming or acting as an officer and/or director of any issuer, effective the date of the Order of the Commission approving the proposed settlement agreement herein;
 - (e) Weltman agrees to attend, in person, the hearing before the Commission on date to be determined by the Secretary to the Commission to consider this proposed settlement, or such other date as may be agreed to by the parties for the scheduling of the hearing to consider the proposed settlement; and
 - (f) Upon the approval of this settlement, Weltman will make a payment of \$30,000 to the Commission in respect of a portion of the Commission's costs with respect to this matter.

V. STAFF COMMITMENT

23. If this settlement is approved by the Commission, Staff will not initiate any other proceeding under the Act against Weltman respecting the facts set out in Part III of this Settlement Agreement.

VI. PROCEDURE FOR APPROVAL OF SETTLEMENT

24. Approval of the settlement set out in this Settlement Agreement shall be sought at the public hearing (the "Settlement Hearing") of the Commission scheduled for such date as is agreed to by Staff and Weltman.

25. Counsel for Staff or for Weltman may refer to any part, or all, of this Settlement Agreement at the Settlement Hearing. Staff and Weltman agree that this Settlement Agreement will constitute the entirety of the evidence to be submitted at the Settlement Hearing.

26. If this settlement is approved by the Commission, Weltman agrees to waive his right to a full hearing, judicial review or appeal of the matter under the Act.

27. Staff and Weltman agree that if this settlement is approved by the Commission, they will not make any public statement inconsistent with this Settlement Agreement.

28. Whether or not the settlement is approved by the Commission, Weltman agrees that he will not, in any proceeding, refer to or rely upon this Settlement Agreement, the settlement discussions/negotiations or the process of approval of this Settlement Agreement as the basis of any attack on the Commission's jurisdiction, alleged bias or appearance of bias, alleged unfairness or any other remedies or challenges that may otherwise be available.

29. If, for any reason whatsoever, this settlement is not approved by the Commission, or an order in the form attached as Schedule "A" is not made by the Commission;

- (a) this Settlement Agreement and its terms, including all discussions and negotiations between Staff and Weltman leading up to its presentation at the Settlement Hearing, shall be without prejudice to Staff and Weltman;
- (b) except as set out in paragraph 28 above, Staff and Weltman shall be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations in the Notice of Hearing and Statement of Allegations of Staff, unaffected by this Settlement Agreement or the settlement discussions/negotiations; and,

- (c) the terms of this Settlement Agreement will not be referred to in any subsequent proceeding, or disclosed to any person except with the written consent of Staff and Weltman, or as may be required by law.

VII. DISCLOSURE OF AGREEMENT

31. Except as permitted under paragraph 25 above, this Settlement Agreement and its terms will be treated as confidential by Staff and Weltman until approved by the Commission, and forever if, for any reason whatsoever, this settlement is not approved by the Commission, except with the written consent of Staff and Weltman, or as may be required by law.

32. Any obligations of confidentiality shall terminate upon approval of this settlement by the Commission.

VIII. EXECUTION OF SETTLEMENT AGREEMENT

33. This Settlement Agreement may be signed in one or more counterparts which together shall constitute a binding agreement.

34. A facsimile copy of any signature shall be as effective as an original signature.

DATED this 8th day of January, 2003.

“Larry Weltman”_____

LARRY WELTMAN

DATED this 8th day of January, 2003.

STAFF OF THE

ONTARIO SECURITIES COMMISSION

(Per) **”Melissa Kennedy”**_____

Michael Watson

Director, Enforcement Branch

Schedule "A"

**IN THE MATTER OF THE SECURITIES ACT
R.S.O. 1990, c. S.5, as amended**

- and -

IN THE MATTER OF LARRY H. WELTMAN

ORDER

WHEREAS on March 30, 2001, the Ontario Securities Commission (the "Commission") issued a Notice of Hearing pursuant to sections 127 of the *Securities Act*, R.S.O. 1990 c. S.5, as amended (the "Act") in respect of Larry Weltman ("Weltman");

AND WHEREAS Weltman entered into a settlement agreement dated **[insert date]** (the "Settlement Agreement") in which he agreed to a proposed settlement of the proceeding, subject to the approval of the Commission;

AND UPON reviewing the Settlement Agreement and the Statement of Allegations of Staff of the Commission ("Staff"), and upon hearing submissions from Weltman and from Staff;

AND WHEREAS the Commission is of the opinion that it is in the public interest to make this Order;

IT IS HEREBY ORDERED THAT:

- (1) the Settlement Agreement dated [**insert date**] attached to this Order, is hereby approved;
- (2) pursuant to paragraph 2 of subsection 127(1) of the Act, Weltman will cease trading in securities permanently, effective the date of this Order;
- (3) pursuant to paragraph 6 of subsection 127(1) of the Act, Weltman is reprimanded by the Commission;
- (4) pursuant to paragraph 7 of subsection 127(1) of the Act, Weltman will resign any position he holds as an officer and/or director of any issuer;
- (5) pursuant to paragraph 8 of subsection 127(1) of the Act, Weltman is permanently prohibited from becoming or acting as an officer and/or director of any issuer, effective the date of this Order;
- (6) Weltman will make a payment of \$30,000 to the Commission in respect of a portion of the Commission's costs with respect to this matter.

DATED at Toronto this day of January, 2003.

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