



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 -

**IN THE MATTER OF
NELSON FINANCIAL GROUP LTD., NELSON INVESTMENT GROUP LTD.,
MARC D. BOUTET, STEPHANIE LOCKMAN SOBOL,
PAUL MANUEL TORRES, H. W. PETER KNOLL**

**SETTLEMENT AGREEMENT BETWEEN
STAFF OF THE ONTARIO SECURITIES COMMISSION
AND STEPHANIE LOCKMAN SOBOL**

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 Stephanie Lockman Sobol (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 May 12, 2010 (the “Proceeding”) against the Respondent according to the terms and conditions set out in Part V 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. Between December 19, 2006 and January 31, 2010 (the “Material Time”), Nelson Financial, through Nelson Investment, raised investor funds of over \$50 million (net of redemptions) from approximately 500 Ontario investors by issuing non-prospectus qualified securities. Although Nelson Financial purported to rely upon the Accredited Investor Exemption in selling securities of Nelson Financial, a significant number of investors were not accredited. Sobol was not a salesperson in the offering of non-prospectus qualified securities and did not receive a commission for the sale of any Nelson Investment or Nelson Financial products.
4. Throughout the Material Time, Nelson Financial sustained operating losses each year and operated at an ever-increasing deficit. It was unable to meet its obligations to investors without the receipt of new investor capital. Nelson Financial deposited investor funds in the Nelson Financial operating account. These funds were then used to fund Consumer Loans (defined below), but also to fund operational expenses and to pay investors the returns on their investment. Nelson Financial continued to accept additional investor funds after the point at which it was insolvent and while it continued to inform investors that it was having unprecedented financial success.
5. At no time did Nelson Financial, or Sobol, advise investors that it was operating with a deficit or that their funds would be used either in whole or in part to pay interest or repay other investors. Marc Boutet was the directing mind of the Nelson Entities. Boutet was responsible for the strategic initiatives for the Nelson Entities and projected, with a consultant’s advice, that the companies would be profitable in 4-5 years beyond the Material Time. Sobol did not raise any concerns about this projection with Boutet during the Material Time. In fact, Sobol invested \$30,000 of her own funds in Nelson Investments.

II. THE RESPONDENTS

6. Nelson Financial was incorporated in Ontario on September 14, 1990. Nelson Financial is not a reporting issuer and is not registered under the Act. Nelson Financial provides vendor assisted financing for the purchase of home consumable products, either through a vendor (or an aggregator of vendors), or directly to the consumer (the “Consumer Loans”).
7. Nelson Investment was incorporated in Ontario on September 14, 2006 and sold securities of Nelson Financial. On December 19, 2006, Nelson Investment obtained registration under the Act as a dealer in the category of limited market dealer (“LMD”), now exempt market dealer (“EMD”).
8. Boutet is a resident of Ontario and was at all material times listed as the sole officer and director of Nelson Financial and Nelson Investment (together, the “Nelson Entities”). Boutet was the directing mind of the Nelson Entities. Throughout the Material Time, Boutet was registered with the Commission: first as a trading officer under the category of LMD with Nelson Investment and then subsequently as the ultimate designated person and chief compliance officer under the firm registration category of EMD.
9. Sobol was hired as the corporate controller for Nelson Financial in May, 2007, and was promoted to General Manager in May, 2008. Sobol replaced the Chief Operating Officer as General Manager and her role was to oversee the operations of Nelson Financial, including the loan department, collections and legal. As the senior finance employee at Nelson Financial and a Certified Management Accountant, Sobol was the *de facto* chief operating officer of Nelson Financial. Sobol was a key member of the management team of Nelson Financial. She continues to be employed as the General Manager of the successor corporation to Nelson Financial, Provider Capital Group. Sobol is not and has never been registered with the Commission.

III. BACKGROUND AND PARTICULARS

10. During the Material Time and through Nelson Investment, Nelson Financial raised approximately \$82 million through the sale and distribution of securities of Nelson Financial to (almost exclusively) Ontario investors. As of February 28, 2010, there were approximately 500 Nelson investors with a total investment amount outstanding of approximately \$51.2 million, net of redemptions.
11. The securities sold and distributed by Nelson Financial were in the form of fixed term promissory notes and preferred shares and were offered by Nelson Financial at fixed/guaranteed annual rates of return of 12% and 10%, respectively, typically paid to investors on a monthly basis.
12. Nelson Financial relied on investors' funds for liquidity throughout the relevant period.
13. In soliciting investors, Nelson Investment and Nelson Financial expressly and implicitly represented to investors that Nelson Financial's business model, and consequently the success of the Nelson Financial investments, was premised upon applying investor capital to fund the Consumer Loans so that Nelson Financial would generate a higher return on the Consumer Loans than the returns promised to investors, as follows: a) investors' funds are used directly to fund the Consumer Loans; b) the Consumer Loans are extended at interest rates ranging from 29.9%; c) the fixed rates of return of 10-12% on the securities are paid to investors from the high interest rates earned on the Consumer Loans; and d) the "remaining spread" is used by Nelson Financial for "portfolio management, administration, underwriting and profit".
14. Throughout the Material Time, Nelson Financial made all of its monthly interest and "dividend" payments to investors and, for those who elected to redeem their investments upon maturity or otherwise, Nelson Financial repaid investors their full principal.

15. Throughout the Material Time, however, Nelson Financial's operations did not generate sufficient revenue for it to cover its operating expenses, nor its interest, "dividend", and principal repayment obligations to investors. During the Material Time, Nelson Financial relied on the receipt of new investor capital to meet its obligations to investors.
16. In addition to its ongoing working capital requirements, Nelson Financial used at least part of the new investor funds that it obtained to offset its growing accumulated losses, to pay other investors their monthly returns and to repay investors their principal upon redemption.
17. Nelson Financial's continued acceptance of new investor funds in order to meet its obligations to investors was contrary to investor interests and the public interest. By using new investor funds in this fashion, during the Material Time, new investor funds were at risk because the total amount due to investors always exceeded Nelson Financial's total assets.
18. While Nelson Financial was making statements to investors that it was successful, at no time did Sobol advise investors that Nelson Financial was in fact operating at a deficit or that their funds would be used either in whole or in part to pay interest or repay other investors. Moreover, Sobol did not raise concerns with her direct report, Boutet, about continuing to offer securities during the Material Time .
19. On or about January 31, 2010, due to regulatory concerns raised by Staff following its on-site compliance review, Nelson Financial temporarily suspended the distribution of any of its securities.
20. On March 23, 2010, less than two months after suspending its capital raising activities, Nelson Financial was required to seek an order for creditor protection and restructuring under the *Companies' Creditors Arrangement Act* on the basis that it was insolvent.

21. On November 22, 2010, the Court made an order approving certain heads of agreement (the "Heads of Agreement") between Boutet, A. John Page & Associates Inc. and Representative Counsel which provided for the resignation of Boutet as a director, officer and employee of Nelson Financial and the appointment of Sherry Townsend, a member of the Noteholders' Committee, as the Interim Operating Officer of Nelson Financial to direct and manage the business operations of the company and to manage its efforts to develop a restructuring plan under the CCAA. Amongst other things and in addition to the above, the Heads of Agreement required Boutet to surrender his ownership interest in Nelson Financial and to surrender and release any and all claims Boutet might otherwise have against Nelson Financial under the CCAA.
22. On March 4, 2011, the Ontario Superior Court accepted for filing a Plan of Compromise and Arrangement in respect of Nelson Financial. The purpose of the Plan of Compromise and Arrangement is to "enable the business...to continue as a going concern" in its reorganized form.

IV. CONDUCT CONTRARY TO THE PUBLIC INTEREST

23. By engaging in the conduct described above, Sobol has acted contrary to the public interest.
24. Sobol, as a key member of the management team of the Nelson Entities and as a *de facto* chief operating officer of Nelson Financial acquiesced in Nelson Financial's continued distribution of securities and continued acceptance of new investor capital in circumstances where it was contrary to the public interest.

PART V – TERMS OF SETTLEMENT

25. Sobol agrees to the terms of settlement listed below.
26. The Commission will make an order pursuant to section 127(1) of the Act that:
 - (a) The settlement agreement is approved;

- (b) Sobol shall be permitted to continue her employment as General Manager of Provider Capital Group (the successor corporation of Nelson Financial) until June 13, 2011 but shall be otherwise be prohibited from acting as a director or officer of an issuer for a period of 6 years from the date of the order approving the settlement;
- (c) Sobol shall make a voluntary payment of \$10,000 to the Commission to be made by certified cheque at the time of the settlement hearing, to be distributed to or for the benefit of third parties as though it were a payment made pursuant to section 3.4(2)(b) of the Act.

PART VI – STAFF COMMITMENT

- 27. If the Commission approves this Settlement Agreement, Staff will not commence any proceeding against the Respondent 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.
- 28. 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 VII – PROCEDURE FOR APPROVAL OF SETTLEMENT

- 29. The parties will seek approval of this Settlement Agreement at a public hearing before the Commission scheduled for May 18, 2011, or on another date agreed to by Staff and the Respondent, according to the procedures set out in this Settlement Agreement and the Commission's Rules of Practice.
- 30. 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.

31. 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.
32. 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.
33. 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 X – DISCLOSURE OF SETTLEMENT AGREEMENT

34. 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.
35. 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

36. The parties may sign separate copies of this agreement. Together, these signed copies will form a binding agreement.
37. A fax copy of any signature will be treated as an original signature.

“Stephanie Lockman Sobol”

Stephanie Lockman Sobol
Respondent

“Joanna Raffa”

Joanna Raffa
Witness

“Tom Atkinson”

Tom Atkinson
Director, Enforcement Branch



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SCHEDULE "A"

**IN THE MATTER OF THE SECURITIES ACT
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- AND -

**IN THE MATTER OF
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PAUL MANUEL TORRES, H. W. PETER KNOLL**

ORDER

WHEREAS on May 12, 2010, the Ontario Securities Commission (the "Commission") issued a Notice of Hearing and a Statement of Allegations in this matter pursuant to section 127 of the Securities Act, R.S.O. 1990, c. S.5, as amended (the "*Act*");

AND WHEREAS on November 10, 2010, the Staff of the Commission amended the Statement of Allegations;

AND WHEREAS Stephanie Lockman Sobol ("Sobol") entered into a settlement agreement with Staff of the Commission ("Staff") dated May 16, 2011 (the "Settlement Agreement") subject to the approval of the Commission;

AND UPON reviewing the Settlement Agreement, and upon hearing submissions from counsel for Staff and Sobol.

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

IT IS ORDERED THAT

1. The Settlement Agreement is approved;
2. Pursuant to clause 8 of s. 127(1) of the Act, Sobol shall be prohibited from acting as a director or officer of an issuer for a period of 6 years from the date of the order approving the settlement, save and except in relation to her employment as general manager of Provider Capital Group until June 13, 2011.

DATED at Toronto this 18th day of May, 2011.
