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Notice of Hearing

NanoWorld Projects Corporation and Robert Papalia

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

¶ 1 A hearing will be held (the Hearing) to give NanoWorld Projects Corporation (NanoWorld) and Robert Papalia (Papalia) (collectively the Respondents) an opportunity to be heard before the British Columbia Securities Commission considers whether it is in the public interest to make orders under sections 161, 162 and 174 of the *Securities Act*, RSBC 1996, c. 418.

¶ 2 The Executive Director alleges that:

Background

1. NanoWorld is a Delaware corporation. Its principal place of business was listed as South Bothell, Washington until in or about November 2000, when it changed that location to New York, New York.
2. One of NanoWorld's business and mailing addresses on file with the United States Securities and Exchange Commission (SEC) was 4418 Patterdale Drive, North Vancouver, BC.
3. NanoWorld also carried on business in Vancouver, BC, where it maintained a corporate office and utilized the services of legal professionals located in Vancouver, BC.
4. Papalia became Chief Executive Officer of NanoWorld in or about December 2000. He was also a member of the Board of Directors (or a *de facto* director) and promoter of NanoWorld from at least April 2000, and Chairman of the Board from August 2000.
5. At all material times, Papalia was a resident of British Columbia and maintained a residence at 1935 Queens Avenue, West Vancouver, BC.
6. During the time Papalia was involved with NanoWorld, its stock was quoted publicly on the NASD OTC Bulletin Board (the OTCBB) until April 2001, when it was delisted for failing to file mandatory periodic reports.

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The Misrepresentations

7. While it was listed on the OTCBB, NanoWorld made and published press releases and related disclosure that contained materially false or misleading statements or omissions of material fact concerning NanoWorld (the Misrepresentations).
8. The press releases and related disclosure were reviewed, approved, and issued for public distribution by Papalia, who directed, participated, authorized, permitted, and acquiesced in the making of the Misrepresentations.
9. The Misrepresentations concerned NanoWorld's business, legal and financial relationships with, and financing commitments from, other business entities. The Misrepresentations were:
 - (a) *False press releases about partnership with Fiat*
 - (i) From September 2000 through January 2001, NanoWorld issued five press releases regarding an alleged strategic partnership with Centro Ricerche Fiat (Fiat), purportedly the research and development arm of the Fiat Group, representing that NanoWorld had received related financing commitments from third parties.
 - (b) *False press releases about financial backing*
 - (i) A press release issued on September 12, 2000 represented that the new alliance with Fiat had "financial backing from Venture Capital USA Inc." (Venture Capital), a Toronto-based firm whose principal was Harold Arviv.
 - (ii) In a September 27, 2000 press release, NanoWorld stated that the company had "the backing of a strong and supportive group of shareholders, international partners and the financial community".
 - (c) *False press release about Euroinks Agreement*
 - (i) On November 22, 2000, NanoWorld issued a press release and filed a Form 8-K with the SEC announcing that it had acquired a company named Euroinks s.r.l. (Euroinks), an Italian company purportedly engaged in the production of high quality, thick film screen printing inks.
 - (ii) On November 29 and 30, 2000, a massive "spam" e-mail campaign orchestrated by Papalia further distributed NanoWorld's

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press release concerning the Euroinks acquisition, resulting in the distribution of 15,000,000 e-mails (the E-mail Blast).

(d) *False press release about Frefax Agreement*

- (i) On January 30, 2001, NanoWorld issued a press release announcing an immediate loan from, and a broader financing “agreement in principle” with, Frefax, Inc. (Frefax), a reporting issuer whose securities had been traded through the OTCBB.

10. None of the foregoing statements were true.

Investor Losses

- 11. NanoWorld announced the purported partnership with Fiat on September 12, 2000. The closing price of NanoWorld on that day rose by approximately 13% to \$11.50, from \$10.19 on September 11, 2000, with volume increasing approximately 310% from 34,900 to 108,200 shares per day.
- 12. When NanoWorld announced the purported acquisition of Euroinks, the price of its stock increased from \$8.00 on November 21 to \$8.47 on November 22, 2000 and trading volume per day increased from 600 shares on November 22, 2000 to 28,900 shares within two days.
- 13. From November 28 to November 30, 2000, the dates the Euroinks press release was republished by the E-mail Blast, the trading volume per day of NanoWorld increased from 13,900 shares to 124,600 shares.
- 14. When NanoWorld announced the purported agreement with Frefax, the volume of shares traded per day increased from 126,800 shares on January 30, 2001 to 275,000 shares on January 31, 2001, the day after the announcement.

Benefits to Papalia

- 15. As of January 2000, Papalia beneficially owned shares of NanoWorld, including at least 300,000 shares that were held in the name of his wife. In January and February 2001, Papalia sold 300,000 shares of NanoWorld for proceeds of between \$120,000 and \$130,000 (the Sales).

SEC obtains permanent ban against Papalia

- 16. On March 17, 2003, the SEC commenced civil proceedings against Papalia that involved allegations that the Misrepresentations constituted securities fraud under applicable United States laws, under Case No. CV03-0683P, United States District Court, Western District of Washington (the SEC Civil Action).

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17. On September 1, 2004, the United States District Court issued Findings of Fact and Conclusions of Law against Papalia (the Decision) in the SEC Civil Action.
18. The Decision included a specific finding that “Papalia’s violation involved fraud, deceit, manipulation, or deliberate or reckless disregard of a regulatory requirement; and such violation directly or indirectly resulted in substantial losses or created a significant risk of substantial losses to investors.” This specific finding related, in part, to the making of the Misrepresentations.
19. The Decision imposed the following penalties upon Papalia:
 - (a) An order permanently enjoining Papalia from violating Sections 10(b) and 13(a) of the Securities Exchange Act of 1934 (the 1934 Act) and certain Rules made under the 1934 Act;
 - (b) An order that Papalia pay a civil money penalty in the amount of \$33,000 USD; and
 - (c) An order that Papalia be prohibited from acting as a director and officer of any issuer that has a class of securities registered pursuant to Section 12 of the 1934 Act.

Breaches of the Act and Acts Contrary to the Public Interest

20. While engaging in investor relations activities or with the intention of effecting a trade in a security, NanoWorld and Papalia each made statements that they knew, or ought reasonably to have known, were misrepresentations, contrary to section 50(1)(d) of the Act.
21. NanoWorld and Papalia each contravened sections 57 and 57.1 of the Act by directly or indirectly engaging in or participating in transactions relating to a trade in or acquisition of a security, namely the Misrepresentations and Sales, when they knew, or ought to have known, that the transactions:
 - (a) resulted in or contributed to a misleading appearance of trading activity in, or an artificial price for, any security anywhere; or
 - (b) perpetrated a fraud on any person in British Columbia, or anywhere.
22. By authorizing, permitting or acquiescing in NanoWorld’s conduct as described in this Notice of Hearing, and pursuant to section 168.2 of the Act, Papalia contravened sections 50(1)(d), 57 and 57.1 of the Act.

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23. NanoWorld and Papalia's conduct as set out in this Notice of Hearing was contrary to the public interest.

Hearing Process

- ¶ 3 At the Hearing, the Respondents may be represented by counsel, make representations and lead evidence. The Respondents are requested to advise the Commission of their intention to attend the Hearing by informing the Commission Secretary at PO Box 10142, Pacific Centre, 701 West Georgia Street, Vancouver, BC V7Y 1L2 phone: (604) 899-6500; email: commsec@bcsc.bc.ca.
- ¶ 4 The Respondents or their counsel are required to attend at the 12th Floor Hearing Room, 701 West Georgia Street, Vancouver, British Columbia, on Wednesday, February 9, 2005, at 9:00 am if they wish to be heard before the Commission sets a date for the Hearing.
- ¶ 5 Determinations may be made in this matter if the Respondents, or their counsel, do not appear at the Hearing.
- ¶ 6 January 20, 2005
- “Brenda M. Leong”
- ¶ 7 Brenda M. Leong
Executive Director