

UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION

Securities Act of 1933  
Release No. 8951 / August 7, 2008

Administrative Proceedings File No. 3-13123

IN THE MATTER OF ALEXANDER & WADE, INC. AND JAMES Y. LEE

The United States Securities and Exchange Commission announced the issuance of an Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 (Order) against Alexander & Wade, Inc. (AWI) and James Y. Lee.

In the Order, the Division of Enforcement alleges that, from mid-2002 through mid-2005, AWI and Lee caused violations of Sections 5(a) and 5(c) of the Securities Act of 1933 by introducing several microcap issuers to so-called employee stock option programs that enabled the issuers to raise millions of dollars in capital without providing the disclosures and rights afforded to investors by the registration requirements. The Division alleges that the programs essentially functioned as public offerings in that the issuers used their employees as conduits to offer shares to the public to raise capital. The Division further alleges that, under the advice and guidance of AWI and Lee, the issuers improperly registered the shares underlying their employee stock options on Form S-8 registration statements and then received at least 85% of the sale proceeds from the underlying shares as payment for the options' exercise price. Form S-8 statements may be used to register shares issued to compensate employees and consultants and have abbreviated disclosure requirements as compared to statements registering shares used to raise capital.

The Division alleges that the employee stock option programs, as designed and implemented, had features that, taken together, virtually guaranteed that the options would be exercised, and the underlying shares simultaneously sold, to the public at or near the time the options were granted: (1) the options' exercise price, which was typically set at 85% of the sale proceeds from the options' underlying shares, floated with the market value of an issuer's stock at the time of exercise, (2) the options vested immediately, meaning that no conditions needed to be met before the options could be exercised, and (3) a cashless exercise method was used so that the exercise price was remitted to the issuers from the underlying shares' sales proceeds. Other than opening brokerage accounts and signing blank authorizations, the issuers' employees typically did not make any decisions regarding the options' exercise or the sale of the underlying shares during the course of the employee stock options programs. The near-immediate sale of shares underlying the options, the Division alleges, resulted in millions and, in some cases, billions of shares in each issuer's stock being sold to the public, severely diluting the ownership interests of existing shareholders. The Division finally asserts that, by introducing the issuers to the programs, helping them implement the programs and advising them on the programs' administration, AWI and Lee knew, or should have known, that their conduct was contributing to the issuers' registration violations.

A hearing will be held by an Administrative Law Judge to determine whether the allegations in the Order are true, to provide respondents an opportunity to establish any defenses to the allegations and to determine what, if any, remedial actions are appropriate. The Order requires the Administrative Law Judge to issue an initial decision within 300 days from the date of service of the Order.