

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION
August 7, 2008

ADMINISTRATIVE PROCEEDING
File No. 3-13123

In the Matter of

**ALEXANDER & WADE,
INC. AND JAMES Y. LEE,**

Respondents.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 8A OF THE SECURITIES ACT
OF 1933**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) against Alexander & Wade, Inc. (“AWI”) and James Y. Lee (“Lee”) (collectively, the “Respondents”).

II.

After an investigation, the Division of Enforcement alleges that:

A. RESPONDENTS

1. **AWI** is a California corporation with its principal place of business in San Diego, California. It purports to provide investment banking services to young growth companies seeking access to capital markets. It is not registered with the Commission.

2. **Lee**, age 52, is a resident of Alameda, California. During the relevant time period, Lee held the title of Advisor at AWI and controlled AWI’s business.

B. SUMMARY

3. This proceeding concerns the abuse of Form S-8 registration statements by several microcap issuers that – under the advice and guidance of AWI and Lee – raised millions of dollars by selling their common stock to the public in violation of the registration requirements of the federal securities laws.

4. From mid-2002 through mid-2005, AWI and Lee caused violations of Sections 5(a) and 5(c) of the Securities Act by introducing at least fourteen clients (the “Issuers”) to so-called employee stock option programs, under which the Issuers sold billions of shares of common stock in unregistered offerings.

5. Under the programs, the Issuers improperly registered the shares underlying the stock options on Form S-8 registration statements and then received the bulk of the sales proceeds as payment for the options’ exercise price. The programs functioned as public offerings in which the Issuers’ employees were used as conduits to the market so that the Issuers could raise capital without complying with the registration requirements of the Securities Act.

6. AWI and Lee introduced the programs to the Issuers, helped implement the programs and provided advice on how to administer the programs, even though they knew, or should have known, that their conduct was contributing to the Issuers’ registration violations.

C. **FACTS**

The Issuers Violated Section 5 of the Securities Act through Employee Stock Option Programs

7. Beginning in mid-2002, the Issuers implemented virtually identical employee stock option programs set forth in documents titled Employee Stock Incentive Plans (“ESIPs”). All of the ESIPs used stock options and shares registered on Form S-8.

8. The Issuers were reporting companies under Section 13 of the Securities Act. Prior to implementing the ESIP programs,¹ the Issuers had limited operational histories and generated little revenue. During the course of the programs, the Issuers’ stocks were quoted on the OTC Bulletin Board at less than a penny per share and their stock prices generally trended downward.

9. The Issuers each filed Form S-8 registration statements during the relevant time period, resulting in millions and, in some cases, billions of shares being registered by individual Issuers. The following table details the Form S-8 filings and post-effective amendments registering options and shares under the ESIP programs for six of the Issuers:

<u>Issuer</u>	<u># of S-8 Filings</u>	<u># of Shares Registered</u>
Cybertel Capital Corp.	11	6,185,000,000
Marshall Holdings International, Inc.	7	16,793,496,800
Global Materials & Services, Inc.	15	13,316,000,000
Palomar Enterprises, Inc.	8	2,479,000,000
Winsted Holdings, Inc.	10	2,260,000,000
Zann Corp.	10	1,456,860,000

¹ As used herein, the term “ESIP programs” refers to the Issuers’ employee stock options programs where each Issuer issued Form S-8 shares under a series of ESIPs.

10. The ESIP documents were attached as exhibits to the Issuers' Form S-8 registration statements and were substantially similar in all material respects.

11. As implemented by the Issuers, the ESIP programs had several distinctive features that taken together virtually guaranteed that options would be exercised and the underlying shares simultaneously sold to the public at or near the time the options were granted:

a. The option exercise price floated with the market value of an Issuer's stock at the time of exercise. The exercise price was typically set at 85% of the proceeds from the sale of the shares underlying the options. This ensured that the options were immediately "in the money" – that is, the exercise price would always be less than the market price whenever the options were exercised – and that the Issuer, not the employee, would receive most of the benefit from an increase in stock price after the time of grant.

b. The options vested immediately, meaning that there was no waiting period after the options were granted or any other condition that needed to be met before the options could be exercised.

c. A cashless method was used to exercise the options, meaning that the exercise price was remitted to the Issuer from the sales proceeds of the shares underlying the options.

12. The ESIP programs were set up so that the Issuers and all of their employees had brokerage accounts at the same broker-dealer firm. When the broker-dealer opened the accounts for the employees, it typically obtained standing orders or other instructions from the employees that the options should be exercised immediately after grant. Also, it required the employees to fill out and have notarized multiple blank authorizations in advance of the Issuers' granting any options. The Issuers collected and forwarded these authorizations to the broker-dealer as part of setting up the Issuers' ESIP programs. The authorizations gave the broker-dealer authority to (1) sell the shares underlying any options granted by the Issuers and (2) exercise the options using the sales proceeds from the underlying shares to pay the exercise price.

13. When the Issuers granted the options, they sent the broker-dealer share certificates representing the number of shares underlying the options granted. Upon receipt of the certificates, the broker-dealer sold the shares underlying the options to the public. It then calculated the options' exercise price at 85% of the sales price, and routed the exercise price proceeds to the Issuers' accounts and the remainder, minus fees, to the employees' accounts.

14. The unique design of the ESIP programs (*i.e.*, the high-percentage exercise price that was based on the market value at the time of exercise, the immediate vesting and the use of cashless exercise) and the generally declining price of the Issuers' stock all but guaranteed that the employees exercised their options and simultaneously sold their shares within days of grant. Moreover, other than the initial decision to sign up for the program, the employees did not make any decisions concerning the options' exercise or the sale of the underlying shares during the course of the ESIP programs. The combination of the standing order, blank authorizations and the

cashless exercise meant that the stock was sold to the public nearly immediately upon the options' grant. In some cases, the employees were not notified of an option grant until after they received their portion of the sale proceeds of the underlying shares. By virtue of the programs' structure and administration, the Issuers controlled the timing of sales to the public through the timing of their option grants and received the vast majority of the sale proceeds. The employees simply served as conduits.

15. These near-immediate sales of shares underlying the options resulted in millions and, in many cases, billions of shares of each Issuer's stock being sold to the public, which severely diluted the ownership interests of existing shareholders and further decreased the Issuers' stock price.

16. The Issuers issued options to employees frequently, in some cases as many as five times in a given month. As a result, the Issuers were able to generate cash flows from the payments for the exercised options that greatly exceeded their revenues and allowed them to fund their otherwise failing operations. By comparison, the employees received relatively modest amounts (approximately 7%-8% of the sales proceeds).

17. Pursuant to the Securities Act, registrants may use Form S-8 registration statements to register securities issued to compensate employees and consultants for *bona fide* services not connected with the offer or sale of securities. Because of the compensatory purpose and the presumed familiarity of employees and consultants with the registrant's business, Form S-8's disclosure requirements are abbreviated as compared to statements registering shares used to raise capital.

18. The ESIP programs implemented by the Issuers functioned as public offerings to raise capital. The Issuers used their employees as conduits to offer shares to the public without providing the disclosures and rights afforded by registration.

19. Because Form S-8 statements cannot be used to raise capital, no registration statements were in effect or filed as to the shares issued under the ESIP programs. As a result, the Issuers violated Section 5 of the Securities Act by issuing shares in unregistered offerings.

AWI and Lee Caused the Issuers' Section 5 Violations

20. The Issuers hired AWI to provide general business consulting services.

21. Lee held the title of Advisor at AWI. He controlled AWI and held himself out to the Issuers as one of AWI's partners. On AWI's behalf, he met with the Issuers and performed most of the consulting services.

22. AWI entered into Independent Client Service Agreements with many of the Issuers. The agreements set forth the services AWI would provide, including advising and assisting the Issuers in setting up a "Form S-8 program." For three Issuers, the agreements also expressly

provided that AWI would “[a]dvice, assist and provide all documentation . . . in setting up S-8 for employee payroll and stock options *to pay monthly Client expenses.*” (emphasis added.)

23. AWI and Lee introduced the ESIP programs to the Issuers and described the programs’ structure in detail. They presented the programs to the Issuers as a means to compensate employees and generate funds to pay company expenses.

24. Lee represented to at least one Issuer that AWI had refined and perfected the program, that many companies used the ESIP program, and that the best attorneys – as well as the Commission – had reviewed the programs’ legality.

25. AWI and Lee helped the Issuers implement the ESIP programs, in part, by referring them to the broker-dealer that provided the brokerage services necessary to administer the programs and the attorney who provided the legal services necessary to implement the programs.

26. After the Issuers implemented the ESIP programs, AWI, through Lee, continued to advise some Issuers on their ESIP programs’ administration. This included monitoring the programs and advising the Issuers on how to determine the number of options to issue and when to file new Form S-8 statements.

27. The Issuers compensated AWI and Lee for their consulting services through cash payments of \$2,131,981 and Form S-8 stock liquidated for \$734,394, for a total of \$2,866,375. Of this amount, \$873,000 was transferred to Golden Capital Corp., another company associated with Lee.

28. AWI and Lee caused the Issuers’ registration violations under Section 5 of the Securities Act. AWI and Lee introduced the Issuers to the ESIP programs, explained the programs’ structure, referred them to the broker-dealer and attorney that were providing the programs’ brokerage and legal services and continued to advise some Issuers once they had launched their ESIP programs. Without AWI’s and Lee’s involvement, the Issuers would not have violated Section 5.

29. Furthermore, AWI and Lee knew or should have known that their conduct contributed to the Issuers’ violations. AWI and Lee pitched the program to the Issuers as a means to generate cash to fund operations. They knew that the Issuers were struggling financially and, in some cases, were hired specifically to help the Issuers locate funding. Additionally, because they continued to advise some Issuers after the programs’ implementations, they were aware that those Issuers were issuing huge numbers of Form S-8 shares to the public.

30. Thus, AWI and Lee knew or should have known that, by virtue of their advice and instruction to the Issuers, the ESIP programs would be used – and in fact were used – by the Issuers to raise capital to fund operations through the unregistered sale of shares to the public.

D. VIOLATIONS

31. As a result of the conduct described above, AWI and Lee caused violations of Sections 5(a) and 5(c) of the Securities Act, which prohibit the direct or indirect offer and sale of securities through the mails or in interstate commerce unless a registration statement is in effect or has been filed with the Commission or a registration exemption applies.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it appropriate that cease-and-desist proceedings be instituted to determine:

A. Whether the allegations set forth in Section II are true and, in connection therewith, to afford Respondents an opportunity to establish any defenses to such allegations; and

B. Whether, pursuant to Section 8A of the Securities Act, Respondents should be ordered to cease and desist from committing or causing violations of and any future violations of Sections 5(a) and 5(c) of the Securities Act and whether Respondents should be ordered to pay disgorgement pursuant to Section 8A(e) of the Securities Act.

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondents shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If Respondents fail to file the directed answer, or fail to appear at a hearing after being duly notified, the Respondents may be deemed in default and the proceedings may be determined against them upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondents personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not “rule making” within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Florence E. Harmon
Acting Secretary