

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9869 / July 23, 2015

SECURITIES EXCHANGE ACT OF 1934
Release No. 75511 / July 23, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16700

In the Matter of

ARTHUR W. LEWIS,

Respondent.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 8A OF THE SECURITIES ACT
OF 1933 AND SECTION 15(b) OF THE
SECURITIES EXCHANGE ACT OF 1934,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A
CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) and Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) against Arthur W. Lewis (“Lewis” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Lewis has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 15(b) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that:

A. RESPONDENT

1. **Arthur W. Lewis**, age 53, resides in Boca Raton, Florida. From 1998 to December 2013, Lewis was the Branch Office Manager ("BOM") of Oppenheimer's Boca Raton Branch Office. From approximately 2009 to December 2013, Lewis was also the branch manager for south Florida, an area that included Boca Raton, Palm Beach Gardens, and Delray Beach. In December 2013, Lewis took the position of Financial Adviser ("FA") in the firm's Fort Lauderdale Branch. He left Oppenheimer in May 2014, and he currently works as a registered representative, holding the position of FA, at another dually-registered broker-dealer and investment adviser. Lewis holds Series 7, 9, 10, and 63 licenses. He also holds an insurance license for variable annuities.

B. OTHER RELEVANT ENTITY

2. **Oppenheimer & Co. Inc.**, a New York corporation, is a broker-dealer and an investment adviser registered with the Commission and headquartered in New York, New York. Oppenheimer is a subsidiary of Oppenheimer Holdings, Inc., a publicly traded company with securities registered with the Commission pursuant to Section 12(b) of the Exchange Act. On January 27, 2015, Oppenheimer was the subject of a Commission enforcement action, in which it consented to the institution of an order admitting to the facts set forth in the Order and that it violated the federal securities laws, and consenting to the issuance of an order finding that it willfully violated Securities Act Sections 5(a) and 5(c) and Exchange Act Section 17(a) and Rules 17a-3(a)(2), 17a-3(a)(9) and 17a-8 thereunder, willfully aided and abetted and caused violations of Exchange Act Section 15(a), and, pursuant to Exchange Act Section 15(b)(4)(E), failed reasonably to supervise with a view to preventing and detecting the violations of Section 5 by Oppenheimer personnel. *Oppenheimer & Co. Inc.*, Sec. Act Rel. No. 33-9711, 2015 WL 33111 (January 27, 2015).

C. SUMMARY

3. Section 5 of the Securities Act generally requires registration of securities offerings, or an available exemption from registration, including for resales of securities acquired in private transactions. Brokers frequently rely on an exemption under Section 4(a)(4) of the Act, known as the brokers' transaction exemption. For this exemption to be available, brokers are required, before selling securities on their customers' behalf, to engage in a reasonable inquiry into the facts surrounding the customers' proposed sales to determine if the customers were engaging in an unlawful distribution of securities. The amount of inquiry a broker must conduct as part of this reasonable inquiry varies with the facts and circumstances of each transaction. When brokers are presented with red flags indicating that a customer could be

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

potentially engaging in an unlawful distribution of securities, brokers are required to conduct a searching inquiry to claim the brokers' transaction exemption. As part of a searching inquiry, brokers have a responsibility to know the requirements necessary to establish an exemption from the registration requirements of the Securities Act and, for each resale, they need to be reasonably certain that an exemption is available.

4. In the present case, from October 6, 2009 through December 10, 2010 (the "relevant period"), an Oppenheimer customer (the "Customer") repeatedly deposited into its Oppenheimer account large quantities of newly-issued penny stocks that it had recently acquired from little known, non-reporting companies through private transactions. Shortly after the Customer deposited these securities, an FA in the Boca Raton Branch Office who Lewis supervised sold the shares to the public ("resales") at the direction and on behalf of the Customer, without registration statements being on file or in effect, and then quickly wired the proceeds out of the Customer's account.

5. As the BOM, Lewis had general supervisory authority over all activity at the Boca Raton Branch Office and direct supervisory authority over the FA. Part of this supervisory authority required Lewis to make sure that, in the course of depositing the securities at issue, all necessary and appropriate information regarding the securities was collected by the FA. Lewis would then approve deposits of the securities at issue. Additionally, Lewis's explicit approval was required and provided for many of the FA's sales on behalf of the Customer. Prior to the sale of many of the relevant securities, an exception to an Oppenheimer policy adopted in 2009 intended to limit sales of penny stocks was required. In relation to many of the Customer's proposed sales, Lewis sought exceptions to this policy from Oppenheimer's senior management or, in some cases, granted them himself pursuant to authority provided to him. When senior management adopted a more restrictive policy in 2010 that effectively prohibited many of the FA's customers, including the Customer, from continuing to deposit and sell penny stocks through Oppenheimer, Lewis sought an exception to this policy from Oppenheimer's senior management in relation to the Customer's trading activity. This conduct qualified Lewis as a necessary participant and substantial factor in the FA's resales for the Customer.

6. In total, the FA sold over *2.5 billion* shares of newly issued penny stock for the Customer, under the supervisory oversight of Lewis, and oftentimes with Lewis' direct involvement and approval.

7. The Customer's trading activity raised numerous red flags indicative of illegal unregistered distributions, which the FA and Lewis knew about while selling shares at the direction of the customer. The FA and Lewis failed to make the reasonable inquiry necessary to ensure that the proposed resales of the Customer's securities were exempt from the registration requirement of Section 5, and therefore cannot claim to have relied on the brokers' transaction exemption to that registration requirement.

8. Furthermore, Lewis, the FA's direct supervisor, with the ability and authority to affect the FA's conduct, failed reasonably to supervise the FA with respect to the sales that the FA executed for the Customer. Lewis recognized and acknowledged numerous red flags indicative of illegal unregistered offers and sales, but failed to ensure that the FA was making a

searching inquiry into whether the resales complied with Section 5.

D. FACTS

The FA Illegally Sold Billions of Shares of Securities in Unregistered Distributions

9. In October 2009, the Customer opened an account at Oppenheimer with the FA and shortly thereafter electronically deposited millions of recently-issued shares of Quasar Aerospace, Inc. (“QASP”), a thinly-traded penny stock that the Customer had recently acquired.

10. Between October 6, 2009 and June 10, 2010, the Customer acquired and electronically deposited 575 million recently-issued shares of QASP, and the FA sold all of these securities for the Customer over the course of approximately 634 sales transactions, typically within days of the shares being deposited at Oppenheimer, and no later than 45 days after deposit.

11. Between March 23, 2010 and June 24, 2010, the Customer acquired and deposited physical certificates for 12.6 million recently-issued shares of My Social Income, Inc. (“MSOA”), another thinly-traded penny stock. The FA sold all of these securities for the Customer in 57 sales transactions, all of which took place within 21 days of deposit.

12. Between June 15, 2010 and July 27, 2010, the Customer acquired and deposited physical certificates for 540 million recently-issued shares of Sebastian River Holdings, Inc. (“SBRH”), another thinly-traded penny stock, and the FA sold all of these securities for the Customer in 48 sales transactions, all of which took place within 14 days of deposit.

13. Between June 29, 2010 and July 28, 2010, the Customer acquired and deposited physical certificates for 885 million recently-issued shares of Encounter Technologies, Inc. (“ENTI”), another thinly-traded penny stock, and the FA sold all of these securities for the Customer in 27 sales transactions, all of which took place within three days of deposit.

14. Between July 13, 2010 and July 16, 2010, the Customer acquired and deposited physical certificates for 270 million recently-issued shares of Strategic Rare Earth Metals, Inc. (“SREH”), another thinly-traded penny stock, and the FA sold all of these securities for the Customer in five sales transactions, all of which took place within three days of deposit.

15. Between November 18, 2010 and December 10, 2010, the Customer acquired and deposited physical certificates for 250 million recently-issued shares of Shot Spirit Corporation (“SSPT”), another thinly-traded penny stock, and the FA sold all of these securities for the Customer in five sales transactions, all of which took place within 22 days of deposit.

16. In total, between October 6, 2009 and December 10, 2010, the Customer deposited over 2.5 billion shares of recently-issued shares of QASP, ENTI, MSOA, SREH, SBRH, and SSPT (collectively, the “Customer’s Securities”), which the FA sold in approximately 776 unregistered resale transactions.

17. In facilitating and effecting the offers and sales of the Customer's Securities, the FA used email and made telephone calls from his office in Florida to Oppenheimer personnel in New York.

18. All of the Customer's Securities were quoted on the Pink Sheets (now known as OTC Link) and sold by the FA and Oppenheimer into interstate commerce.

19. The FA's unregistered resales of the Customer's Securities generated approximately \$12,000,000 in proceeds. The Customer paid Oppenheimer approximately \$588,400 in commissions for the FA's unregistered resales of the Customer's Securities. The remaining proceeds were credited to the Customer's account.

20. Oppenheimer wired the proceeds of the unregistered resales of the Customer's Securities, net of commissions, out of the Customer's account shortly after the sales transactions.

21. The Customer's pattern and practice of trading over the relevant period strongly indicated that it was engaging in the unlawful unregistered distribution of securities. The Customer acquired shares in QASP, MSOA, SBRH, and SSPT through wrap-around debt-purchase agreements. Specifically, the Customer purchased, with promissory notes, purportedly pre-existing debt that was owed to affiliates of each of these issuers using wrap-around agreements that modified the affiliates' pre-existing debt to include new debt-to-equity conversion rights. Shortly after the wrap-around agreements were executed, the Customer began to exercise the debt-to-equity conversion provision to have the companies issue new shares to the Customer. The Customer then deposited the newly-issued shares at Oppenheimer and ordered the FA to quickly sell them, repeating the process in which the shares were issued by the company, deposited by the Customer, and sold by the FA.

22. The Customer used stock purchase agreements to acquire shares in ENTI and SREH from unrelated third parties that were owed money by ENTI and SREH. Those third parties converted their pre-existing debt with ENTI and SREH into newly-issued equity securities just before selling the shares to the Customer. The Customer deposited all of these securities into its Oppenheimer account, and the FA sold them shortly after they were deposited.

23. None of the securities that the Customer deposited at Oppenheimer bore any legends indicating the securities were restricted, even though they had been recently acquired directly or indirectly from the issuer, or an affiliate of the issuer, in private transactions.

24. For all of the securities that the Customer deposited at Oppenheimer, no registration statement was filed or in effect for: (1) the issuance of shares upon conversion of the debt; (2) the third-party creditors' sales of the shares to the Customer; or (3) the Customer's subsequent resales of the shares into the public market through Oppenheimer.

25. The Customer represented to Oppenheimer that its resales qualified for the Securities Act Rule 144 safe harbor and the Securities Act Section 4(a)(1) exemption from registration.

26. Neither the Customer's acquisition of the Customer's Securities, nor its resale of these securities through Oppenheimer, qualified for an exemption from the registration requirements of Section 5.

27. In particular, the resale of the Customer's Securities did not satisfy Securities Act Rule 144's one-year holding period requirement for three reasons. *First*, a debt owed by an issuer (i.e., a mere obligation to pay a sum of money) in the absence of a conversion provision allowing the debt's conversion into the issuer's securities does not qualify as a "security" within the meaning of Rule 144(d)(3)(ii). None of the debts the Customer converted to acquire the shares had a conversion provision until just prior to or at the time of the Customer's acquisition of the shares, and Rule 144 does not permit the Customer to include in its holding period the period of time that the debt was owed before the conversion feature was added. *Second*, even if the debts at issue had been securities from the date they were incurred, the original debt holders were affiliates of QASP, MSOA, SBRH, and SSPT and, therefore, the Customer may not include the affiliate's holding period in its holding period. 17 C.F.R. §§ 230.144(a)(3) and 230.144(d)(1)(ii). *Third*, if a promissory note is used to pay for the purchase of securities, the Rule's holding period does not commence until the note has been discharged by payment in full prior to the sale of the securities. 17 C.F.R. § 230.144(d)(2). Here, the Customer used promissory notes to purchase the debt from affiliates that was converted into shares of QASP, MSOA, SBRH, and SSPT, and only paid for the shares at or around the time of the conversions, at which point the holding period could commence.

Lewis Was a Necessary Participant and Substantial Factor in the Unregistered Resales of the Customer's Securities

28. In June 2009, Oppenheimer instituted a policy restricting the sale of securities priced below one penny per share. In July 2010, the firm instituted another policy requiring that firm customers meet certain criteria in order to engage in penny stock transactions.

29. With regard to many of the Customer's Securities, Lewis used email and made telephone calls to petition Oppenheimer senior management in New York to grant exceptions to these sub-penny and penny stock policies so that the FA could sell the Customer's Securities.

30. Beginning in or around May 2010, Oppenheimer's Boca Raton Branch Office required its FAs to complete and submit a "Stock Cert Clearance" form to Lewis, the BOM, or to the Branch Administrative Manager ("BAM").

31. The branch also required certain related paperwork to accompany the Stock Cert Clearance form, including a copy of the share certificate and, in most cases, the agreement by which the Customer acquired the shares and an attorney opinion letter.

32. Lewis informed the FA that he needed to submit the Stock Cert Clearance form to Lewis or the BAM, along with the related paperwork, and that Lewis or the BAM had to approve the form before the Customer's Securities could be deposited in the Customer's Oppenheimer account and sold by the FA.

33. Throughout the relevant period, Lewis, or the BAM at Lewis' direction, signed Stock Cert Clearance forms approving the Customer's deposit of shares of MSOA, ENTI, SREH, SBRH, and SSPT. After these securities were deposited, the FA quickly sold them at the Customer's direction. The FA executed approximately 142 illegal sales transactions after Lewis approved the Stock Cert Clearance forms.

34. For some sales transactions, in addition to the Stock Cert Clearance form, the FA was required to get Lewis' approval before the trading desk could sell the securities. Lewis provided that approval in email communications to the FA and individuals on Oppenheimer's trading desk. The FA sold tens of millions of unregistered securities in numerous transactions with Lewis' direct approval.

35. Accordingly, Lewis was a necessary participant and a substantial factor in hundreds of unregistered resales of roughly two billion shares of the Customer's Securities into interstate commerce.

Lewis and the FA Were Aware of Substantial Red Flags Associated with the Customer's Trading Activity, Yet They Failed to Conduct a Reasonable Inquiry Before Engaging in Unregistered Resales of the Customer's Securities

36. Sections 5(a) and 5(c) of the Securities Act prohibit the offer and sale of securities through interstate commerce or the mails, unless a registration statement is filed with the Commission and is in effect, or the offer and sale are subject to an exemption. 15 U.S.C. § 77e(a) and (c). Liability for Section 5 violations extends to individuals who are necessary participants and substantial factors in the sales transactions. *SEC v. CMKM Diamonds, Inc.*, 729 F.3d 1248, 1255 (9th Cir. 2013).

37. Section 4(a)(4) of the Securities Act exempts from the registration requirements of Section 5 "brokers' transactions executed upon customers' orders on any exchange or in the over-the-counter market but not the solicitation of such orders." 15 U.S.C. § 77d(a)(4). Section 4(a)(4) of the Securities Act is unavailable, for example, when a broker "knows or has reasonable grounds to believe that the selling customer's part of the transaction is not exempt from Section 5 of the Securities Act." *John A. Carley*, Exch. Act Rel. No. 34-57246, 2008 WL 268598, *8 (Jan. 31, 2008) (Commission Opinion). To rely on this exemption, the broker must, among other things, engage in a "reasonable inquiry" into the facts surrounding the proposed unregistered sale, and after such inquiry, he must not be "aware of circumstances indicating that the person for whose account the securities are sold is an underwriter with respect to the securities or that the transaction is part of a distribution of the securities of the issuer." 15 U.S.C. § 77d(a)(4); 17 CFR § 230.144(g)(4). Section 2(a)(11) of the Securities Act defines an underwriter as "any person who has purchased from an issuer, with a view to, or offers or sells for an issuer in connection with, the distribution of any security, or participates or has a direct or indirect participation in any such undertaking, or participates or has a participation in the direct or indirect underwriting of any such undertaking." 15 U.S.C. § 77b(a)(11).

38. The Commission long ago explained that whether a broker has conducted a "reasonable inquiry" depends on the facts and circumstances surrounding the transaction:

A dealer who is offered a modest amount of a widely traded security by a responsible customer, whose lack of relationship to the issuer is well known to him, may ordinarily proceed with considerable confidence. On the other hand, when a dealer is offered a substantial block of a little-known security, either by persons who appear reluctant to disclose exactly where the securities came from, or where the surrounding circumstances raise a question as to whether or not the ostensible sellers may be merely intermediaries for controlling persons or statutory underwriters, then searching inquiry is called for.

Distribution by Broker-Dealers of Unregistered Securities, Sec. Act Rel. No. 4445 (Feb. 2, 1962) (Commission interpretative release).

39. On January 13, 2009, the Financial Industry Regulatory Authority (“FINRA”) issued Notice to Members 09-05 in which FINRA reminded firms of their obligations to determine whether sales comply with the registration requirements of the federal securities laws.

40. FINRA’s Notice to Members 09-05 listed examples of “red flags” that broker-dealers should be on the alert for in order to identify possible illegal unregistered distributions, including: (1) a customer opens a new account and delivers physical certificates representing a large block of thinly traded or low priced securities; (2) a customer has a pattern of depositing physical share certificates, immediately selling the shares, and then withdrawing the proceeds from the account; (3) a customer deposits share certificates that have been recently issued or represent a large percentage of the float of the security; and (4) the lack of a restrictive legend on deposited shares seems inconsistent with the date the customer acquired the securities or the nature of the transactions in which the securities were acquired.

41. The red flags in FINRA’s Notice to Members 09-05 had been previously identified by the Commission as red flags that are indicative of illegal unregistered distributions.

42. In October 2009, Oppenheimer’s Compliance Department issued a Compliance Alert that referenced FINRA Notice to Members 09-05 (“Compliance Alert”). The Compliance Alert addressed concerns about illegal unregistered distributions, and advised employees to be on alert for the red flags listed in FINRA’s Notice to Members 09-05.

43. Lewis and the FA received Oppenheimer’s Compliance Alert in October 2009 and specifically discussed by email with each other that trading activity by the FA’s customers appeared to exhibit eight of the red flags identified in the Compliance Alert.

44. From the time that the Customer began trading penny stocks through its Oppenheimer account in October 2009, the FA and Lewis knew that its business model was to acquire and immediately liquidate large blocks of shares.

45. The FA and Lewis were presented with the following recurring red flags in the Customer’s trading activity: (1) the Customer acquired substantial amounts of newly issued penny stocks; (2) directly from little known, non-reporting issuers; (3) through private,

unregistered transactions; (4) then immediately resold those shares; (5) wired out the sales proceeds; and (6) repeated the process over and over again.

46. Taken together, the red flags in the Customer's trading alerted the FA and Lewis that it may have been engaged in unlawful distributions.

47. Given the red flags associated with the Customer's deposited securities and resale transactions, the FA and Lewis were required to engage in a searching inquiry to properly rely on the Section 4(a)(4) brokers' transaction exemption.

48. As part of a searching inquiry, the FA and Lewis had a responsibility to be aware of the requirements necessary to establish an exemption from the registration requirements of the Securities Act, and for each resale transaction they needed to be reasonably certain that such an exemption was available. *World Trade Financial Corp., et al.*, Exch. Act Rel. No. 66114 (Jan. 6, 2012) (Commission Opinion), *petition denied*, 739 F.3d 1243 (9th Cir. 2014); *Stone Summers & Co., et al.*, 45 S.E.C. 105, 108 (1972) (Commission opinion).

49. The FA and Lewis made little to no effort to identify the specific exemptions from registration on which the Customer was claiming, relying on assertions from the Customer or third parties, and they did not become aware of any other exemptions potentially available.

50. When a broker is faced with recurring red flags suggesting that a customer is engaging in unregistered distributions of securities, he cannot satisfy his reasonable inquiry obligations by relying on the mere representations of his customer, the issuer, or counsel for the same, without reasonably investigating the potential for opposing facts. *See World Trade Financial Corp. v. SEC*, 739 F.3d 1243, 1249 (9th Cir. 2014) (rejecting the argument that under the circumstances the duty of reasonable inquiry was met by reliance on third parties in conformity with industry practice and stating "brokers rely on third-parties at their own peril, and will not avoid liability through that reliance when the duty of reasonable inquiry rests with the brokers"); *Wonsover v. SEC*, 205 F.3d 408, 415-16 (D.C. Cir. 2000) (rejecting broker's argument that under the circumstances he justifiably relied on the clearance of sales by his firm's restricted stock department, the transfer agent, and counsel); *see also, Distribution by Broker-Dealers of Unregistered Securities*, Sec. Act Rel. No. 4445 ("It is not sufficient for [a dealer] merely to accept self-serving statements of his sellers and their counsel without reasonably exploring the possibility of contrary facts." (internal quotation omitted)).

51. Because the FA and Lewis did not undertake a searching inquiry to be reasonably certain that the exemptions being claimed by the Customer were available, in light of other facts of which they were aware, the FA and Lewis cannot claim the brokers' transaction exemption under Section 4(a)(4) with respect to their facilitation of the Customer's resales of securities that were not registered under the Securities Act. As a consequence, they are liable for willfully violating Section 5.

Lewis Failed Reasonably to Supervise the FA

52. “The Commission has long emphasized that the responsibility of broker-dealers to supervise their employees is a critical component of the federal regulatory scheme.” *John H. Gutfreund*, Exch. Act Rel. No. 34-31554, 1992 WL 362753, at *12 (Dec. 3, 1992) (Exchange Act 21(a) Report). Supervisors have a duty “to investigate red flags that suggest that misconduct may be occurring and to act upon the results of such investigation.” *John A. Carley*, Exch. Act Rel. No. 34-57246, 2008 WL 268598, *16. Where a supervisor fails to investigate “red flags” or suggestions of irregularities, such failure constitutes a failure to supervise. *Id.* *16-17.

53. During the relevant period, Lewis was the FA’s direct supervisor, and had the ability and the authority to affect the FA’s conduct, including his sales of the Customer’s Securities.

54. As stated above, the FA violated Section 5 of the Securities Act by selling billions of shares of the Customer’s Securities without registration statements being on file or in effect, and without the existence of an applicable exemption from registration.

55. Lewis knew that the FA was accepting numerous deposits of the Customer’s Securities and then quickly selling them for the Customer. For example, as stated above, Lewis signed multiple Stock Cert Clearance forms relating to the same security within days of each other. As BOM, Lewis received branch trade activity reports on a daily basis and could observe the repetitive nature of the FA’s trading activity in the Customer’s Securities.

56. Lewis knew that the FA requested exceptions from the firm’s policies for the unregistered resales of the Customer’s Securities. As stated above, and at the FA’s request, Lewis personally requested and obtained from Oppenheimer senior management exceptions to the firm’s penny stock policies that otherwise prohibited the sale of ENTI, SBRH, and SSPT.

57. Lewis knew that the Customer’s trading exhibited many of the red flags identified in Commission precedent, the FINRA notice, and Oppenheimer’s Compliance Alert.

58. Lewis knew that the FA’s resales of the Customer’s Securities may be illegal unregistered distributions in violation of Section 5.

59. Lewis knew or should have known that the FA was not engaging in the searching inquiry necessary to ensure the Customer’s Securities and the sales transactions complied with the registration requirements of Section 5 or were exempt.

60. Lewis did not reasonably follow up on these red flags to prevent and detect the FA’s violations of Section 5.

F. VIOLATIONS

61. Based on the conduct described above, Lewis willfully violated Sections 5(a) and (c) of the Securities Act as a necessary participant and substantial factor in the illegal

unregistered sales of the Customer's Securities. As a result of the conduct described above, Lewis also failed reasonably to supervise the FA, with a view to preventing and detecting the FA's violations of Section 5 of the Securities Act, within the meaning of Sections 15(b)(4)(E) and 15(b)(6) of the Exchange Act.

G. UNDERTAKINGS

Respondent undertakes to appear and be interviewed by Commission staff at such times and places as the staff requests upon reasonable notice in connection with any hearing or trial against any other individual or entity relating to the facts at issue in this matter, and to cooperate with the Commission at any such hearing or trial upon reasonable notice.

IV.

In view of the foregoing, the Commission deems it appropriate, and in the public interest, to impose the sanctions agreed to in Lewis's Offer.

Accordingly, pursuant to Section 8A of the Securities Act and Section 15(b) of the Exchange Act it is hereby ORDERED:

1. Lewis cease-and-desist from committing or causing any violations and any future violations of Section 5 of the Securities Act;
2. Lewis be, and hereby is, barred from association in a supervisory capacity with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization with the right to apply for reentry after one (1) year to the appropriate self-regulatory organization, or if there is none, to the Commission;
3. Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order;
4. Lewis shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of \$50,000 to the Securities and Exchange Commission (for transfer to the general fund of United States Treasury in accordance with Exchange Act Section 21F(g)(3)). If timely payment is not made additional interest shall accrue pursuant to 31 U.S.C. § 3717. Payment must be made in one

of the following ways:

- a. Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- b. Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- c. Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Arthur W. Lewis as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Scott W. Friestad, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-5010.

5. shall comply with the undertakings enumerated in Section III.F above.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in the Commission's Order are true and admitted by Respondent, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields
Secretary