

3. Notwithstanding these restrictions, Solow engaged in a fraudulent trading scheme during 2003, in which he made numerous material misrepresentations and omissions to Archer Alexander regarding his inverse floater trading. Solow entered into non-riskless principal transactions in which he secretly purchased new issues of inverse floaters worth millions of dollars from other dealers for settlement at later dates without getting prior authorization or informing Archer Alexander's chief executive officer. The value of these proprietary positions far exceeded Archer Alexander's available net capital, thereby exposing the firm to substantial risk without its knowledge. Solow typically waited for weeks before selling these positions to other dealers or to his retail customers, hoping that the market would move in his favor. Then, to conceal the true nature of his trades, Solow created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and its clearing firm to make it appear as though he had purchased and sold the securities on the same day, and thus on a riskless principal basis. Archer Alexander paid Solow millions of dollars in compensation during 2003 for inverse floater trades that he carried out pursuant to this fraudulent scheme.

4. Solow knew, or was reckless in not knowing, that by engaging in this fraudulent trading scheme and concealing the existence of his forward settlement purchase transactions from Archer Alexander's chief executive officer and the firm, he caused Archer Alexander to create false and inaccurate books and records throughout 2003. Solow also knew, or was reckless in not knowing, that concealing the existence of his positions caused Archer Alexander to miscalculate and overstate its available net capital, continue to do business while undercapitalized, and file inaccurate Financial and Operational Combined Uniform Single ("FOCUS") reports regarding its financial condition with the Commission.

5. During 2003, Solow also made material misrepresentations and omissions when he sold inverse floaters to retail investors with conservative investment objectives for whom these complex and risky securities were unsuitable investments.

6. During the Commission staff's investigation, Solow invoked his privilege against self-incrimination under the Fifth Amendment to the Constitution of the United States ("Fifth Amendment"), and refused to answer questions regarding his dealer-to-dealer trading, trading for his retail customers' accounts, and the suitability of inverse floaters for his retail customers.

7. By engaging in the conduct alleged herein, Solow violated the antifraud provisions of the federal securities laws, Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder, and Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)]. Solow also aided and abetted Archer Alexander's violations of various broker-dealer liquidity, books and records, and reporting provisions, including Sections 15(c)(3) and 17(a) of the Exchange Act [15 U.S.C. §§ 78o(c)(3) and 78q(a)(1)], and Rules 15c3-1, 17a-3(a)(1), 17a-3(a)(2), 17a-3(a)(7), and 17a-5(a)(2) [17 C.F.R. §§ 240.15c3-1, 240.17a-3(a)(1), 240.17a-3(a)(2), 240.17a-3(a)(7), and 240.17a-5(a)(2)] thereunder. Unless enjoined, Solow is likely to commit such violations in the future.

8. The Commission seeks a judgment from the Court: (a) enjoining Solow from engaging, directly or indirectly, in further violations of the provisions specified in paragraph 7, above; (b) ordering Solow to disgorge, with prejudgment interest, the amount by which he was unjustly enriched as a result of his violations of the federal securities laws; and (c) ordering Solow to pay civil monetary penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

JURISDICTION AND VENUE

9. This Court has jurisdiction over this matter pursuant to Sections 20 and 22(a) of the Securities Act [15 U.S.C. §§ 77k and 77v(a)] and Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78aa].

10. Solow, directly or indirectly, used the means or instrumentalities of interstate commerce, the mails, or the facilities of a national securities exchange in connection with the conduct alleged in this Complaint.

11. Venue is appropriate in this District pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78aa] because Solow resides and transacts business in this District and many of the acts or transactions constituting federal securities law violations occurred within this District.

DEFENDANT

12. **Jamie L. Solow**, age 45, has his primary residence in Hillsboro Beach, Florida. Between September 1988 and July 2006, Solow was a registered representative associated with thirteen different registered broker-dealers, including Archer Alexander. In July 2006, Solow was permitted to resign from the firm with which he was then associated due to numerous arbitration filings and customer complaints against him. Solow holds a Series 7 general securities license as well as a Series 24 general securities principal license. Solow was an independent contractor associated with Archer Alexander from August 12, 2002 to December 9, 2003, when he was terminated for failure to abide by firm policies and procedures as a result of an unauthorized trade. During that time, he was the head of an Archer Alexander branch office located in Boca Raton, Florida.

OTHER RELEVANT ENTITY

13. Archer Alexander Securities Corp. (“Archer Alexander”) is a broker-dealer that has been registered with the Commission since December 1996. Archer Alexander is incorporated in Kansas and has its principal office in Overland Park, Kansas. From January to mid-December 2003, Archer Alexander had an agreement with another registered broker-dealer (the “Clearing Firm”), pursuant to which Clearing Firm cleared all of Archer Alexander’s securities transactions and maintained customer accounts. During 2003, the chief executive officer of Archer Alexander worked in the firm’s principal office in Overland Park, Kansas and had primary responsibility for overseeing the firm’s operations and supervising brokers associated with the firm, including Solow, who worked in branch offices around the country.

STATEMENT OF FACTS

I. SOLOW’S TRADING

14. During 2003, Solow’s business focused exclusively on trading inverse floating rate collateralized mortgage obligations (“inverse floaters”).

15. Collateralized mortgage obligations (“CMOs”) are securities issued by the Federal National Mortgage Association (“Fannie Mae”), the Federal Home Loan Mortgage Corp. (“Freddie Mac”), or the Government National Mortgage Association (“Ginnie Mae”). Inverse floaters are structured so that interest payments move in the opposite direction of a floating rate index, such as the London Interbank Offered Rate. They typically are highly leveraged and vulnerable to a high degree of price volatility as interest rates move. Increases in interest rates also may extend the expected maturity date of an inverse floater. Inverse floaters trade in the over-the-counter market, and are among the most thinly traded and volatile types of CMOs.

16. During 2003, Solow had between 200 and 250 retail customer accounts for whom he purchased and sold inverse floaters. Archer Alexander generated revenue from the difference between the price at which Solow purchased an inverse floater from a dealer and the price at which he sold it to a dealer or to his retail customers, known as a “markup.” Archer Alexander paid Solow ninety percent of the net markups – *i.e.*, after ticket charges and other such expenses were deducted – on his retail customers’ trades.

17. In late 2002 or early 2003, Solow requested and obtained the general approval of Archer Alexander’s chief executive officer to engage in dealer-to-dealer trading of inverse floaters. In such trades, Solow purchased inverse floaters for an Archer Alexander proprietary account from a dealer, and then sold the securities from the Archer Alexander proprietary account to another dealer, rather than to his retail customers. Archer Alexander paid Solow ninety-five percent of the net markups on such trades.

18. Solow was Archer Alexander’s leading producer, and markups from his inverse floater trading accounted for approximately half of the firm’s revenues during 2003.

II. ARCHER ALEXANDER’S POLICIES GOVERNING SOLOW’S TRADING

19. Archer Alexander’s internal policies and procedures governing Solow’s trading were consistent throughout 2003. The firm only allowed Solow to trade on a riskless principal basis. A riskless principal transaction occurs when a dealer receives from its customer an order to purchase (or sell) a security and purchases (or sells) that security from another person in a transaction that is proximate in time and designed to offset the customer’s order.

20. Archer Alexander imposed this restriction, which applied both to Solow’s retail customer and dealer-to-dealer trades, because it did not want to violate its net capital

requirements and did not want to assume the trading risk associated with holding proprietary positions. Archer Alexander's chief executive officer discussed this restriction and the reasons for it with Solow numerous times.

21. Archer Alexander's chief executive officer also imposed a special supervisory procedure that required Solow to get his authorization before entering into any specific transaction or trade. After obtaining the required pre-approval for a trade, Solow was required to fax trade tickets to Archer Alexander and Clearing Firm. These tickets should have accurately reflected the terms of the trades into which Solow had entered after obtaining the required pre-approval. The assistant of Archer Alexander's chief executive officer reviewed these tickets at his direction to verify that they matched the terms of the trades that the chief executive officer had approved.

III. SOLOW'S FRAUDULENT TRADING SCHEME

22. In fact, however, Solow consistently did not trade on a riskless principal basis during 2003. Rather, on numerous trades during the course of 2003, Solow, without authorization and in violation of firm procedures and restrictions, purchased new issues of inverse floater securities worth millions of dollars from other dealers for settlement one to two months after the trade date.

23. Solow did not have buyers for the new issues of inverse floaters at the time he purchased them and did not obtain authorization from Archer Alexander's chief executive officer before purchasing the positions. Moreover, in order to conceal these positions from Archer Alexander, Solow did not prepare or submit trade tickets at the time he entered into these purchase transactions. As a result, Solow committed Archer Alexander to multi-million dollar proprietary positions without the knowledge or authorization of Archer Alexander's chief

executive officer or the firm. Solow's failures to disclose the existence of these positions to Archer Alexander constituted material omissions.

24. Moreover, Solow knew that he was not authorized to establish these speculative, proprietary positions and knew, or was reckless in not knowing, that the value of these proprietary positions far exceeded Archer Alexander's available net capital, thereby exposing the firm to substantial risk.

25. Solow waited weeks, or sometimes even months, before selling the positions in the hope that the market would turn in his favor. In some cases, he sold the securities to his retail customers at a markup, but in many instances he sold them to other dealers. As the settlement dates approached, and after Solow had found buyers for the securities, he instructed his assistant to prepare two trade tickets: one ticket for the purchase that reflected a false trade date, and another ticket for the sale with a trade date that matched the purported purchase date, thereby making it appear as though he had purchased and sold the securities on the same day (*i.e.*, on a riskless principal basis). At Solow's direction, his assistant then faxed these falsified trade tickets to Archer Alexander's main office and to Clearing Firm. These falsified trade tickets constituted material misrepresentations to Archer Alexander and Clearing Firm by Solow.

A. Solow's Fraudulent Dealer-to-Dealer Trading During the First Half of 2003

26. During mid-March through early April 2003, Solow, without authorization and in violation of firm procedures and restrictions, secretly made a large bet on the direction of the inverse floater market by purchasing eleven different inverse floater positions, with a combined value of over \$95 million, for settlement at the end of May and end of June. Solow's failure to disclose these positions to Archer Alexander at the time he purchased them constituted material omissions.

27. The market moved in Solow's favor before the settlement dates for these purchases, enabling him to sell most of these positions for substantial gains in dealer-to-dealer trades. In each instance, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm to conceal the fact that he had not been trading on a riskless principal basis. By doing so, Solow made material misrepresentations to Archer Alexander and Clearing Firm.

28. Solow's fraudulent dealer-to-dealer trades during the first half of 2003 included, among others, the following transactions:

a. On or about May 22, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm stating that on that day he had purchased a block of the FHR 2585 SA inverse floater with a current face value of over \$16.6 million from Dealer A at \$95.5625 for settlement on May 30, and that same day had sold the entire block of securities back to Dealer A at \$97.25, also for settlement on May 30. In reality, Solow, without authorization, had purchased the position from Dealer A on March 11 for settlement on May 30 without an offsetting order in place to sell the securities. Nearly two months later, on May 7, Solow sold the position back to Dealer A, also for settlement on May 30. Archer Alexander, unaware of the actual circumstances of this transaction, paid Solow more than \$267,000 in compensation for this trade.

b. On or about May 27, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm stating that on that day he had purchased a block of the FNR 03-24 SC inverse floater with a current face value of over \$9.35 million from Dealer A at \$95.875 for settlement on May

30, and that same day had sold the entire block of securities back to Dealer A at \$97.75, also for settlement on May 30. In reality, Solow, without authorization, had purchased the position from Dealer A on March 10 for settlement on May 30 without an offsetting order in place to sell the securities. Nearly two months later, on May 7, Solow sold the position back to Dealer A, also for settlement on May 30. Archer Alexander, unaware of the actual circumstances of this transaction, paid Solow more than \$166,000 in compensation for this trade.

c. Also on or about May 27, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm stating that on that day he had purchased a block of the FHR 2609 WS inverse floater from Dealer B with a current face value of over \$22 million at \$96 for settlement on May 30, and that same day had sold the entire block of securities to other dealers in three different trades at prices ranging from \$97.6875 to \$97.75, also for settlement on May 30. In reality, Solow, without authorization, had purchased the position from Dealer B on April 21 for settlement on May 30 without an offsetting order in place to sell the securities. Almost three weeks later, on May 9, Solow sold a block with a face value of \$5.6 million back to Dealer B and a block with a face value of \$5 million to Dealer C, both for settlement on May 30. Archer Alexander, unaware of the actual circumstances of these transactions, paid Solow more than \$362,000 in compensation for his trades in the FHR 2609 WS inverse floater.

d. On or about June 23, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm stating that on that day he had purchased a block of the FNR 03-40 MS inverse floater with a

face value of over \$10.1 million from Dealer D at \$89.75 for settlement on June 30, and that same day had sold the entire block of securities back to Dealer D at \$97, also for settlement on June 30. In reality, Solow, without authorization, had purchased the position from Dealer D on March 26 for settlement on June 30 without an offsetting order in place to sell the securities. Nearly two months later, on May 12, Solow sold the position back to Dealer D, also for settlement on June 30. Archer Alexander, unaware of the actual circumstances of this transaction, paid Solow more than \$698,000 in compensation for this trade.

e. Also on or about June 23, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm stating that on that day he had purchased a block of the FNR 03-36 SK inverse floater from Dealer D with a face value of over \$4.4 million at \$87.75 for settlement on June 30, and that same day had sold the entire block of securities back to Dealer D at \$97 and \$97.75, also for settlement on June 30. In reality, Solow, without authorization, had purchased the position from Dealer D on March 24 for settlement on June 30 without an offsetting order in place to sell the securities. Nearly two months later, on May 12, Solow sold the position back to Dealer D, also for settlement on June 30. Archer Alexander, unaware of the actual circumstances of this transaction, paid Solow more than \$393,000 in compensation for this trade.

f. Solow invoked his Fifth Amendment privilege against self-incrimination when questioned under oath by the Commission staff about his dealer-to-dealer trades during the first half of 2003.

29. To further conceal and facilitate his fraudulent trading scheme, Solow also entered into “roll trades” or “dollar rolls” with other dealers, in which he sold blocks of inverse floaters to other dealers while simultaneously agreeing, without authorization, to repurchase the securities for settlement on a future date. These roll trades enabled Solow to maintain control of the securities, without Archer Alexander’s knowledge or authorization, while giving him more time to find buyers for the positions. Solow’s failure to disclose to Archer Alexander and Clearing Firm these agreements to repurchase such positions constituted material omissions. To conceal the true nature of these trades, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm that made it appear as though each roll trade had been two, separate riskless principal transactions. Solow’s falsified trade tickets constituted material misrepresentations to Archer Alexander and Clearing Firm.

30. Solow’s unauthorized roll trades during the first half of 2003 included, among others, the following transactions:

a. On or about May 22, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm stating that on that day he had purchased a block of the FNR 03-23 SN inverse floater with a face value of \$3.7 million from Dealer D at \$97 for settlement on May 30, and sold the entire block back to Dealer D on the same day at the same price, also for settlement on May 30. On or about July 1, Solow knowingly created, or caused to be created, falsified tickets that were submitted to Archer Alexander and Clearing Firm stating that on that day he had purchased the same block of the FNR 03-23 SN inverse floater from Dealer D at \$96.1875 and sold the position back to Dealer D at \$101.25, both for settlement on

July 7. In reality, Solow, without authorization, purchased the securities from Dealer D on March 10 for settlement on May 30 without an offsetting order in place to sell the securities. Then, on April 16, he entered into an unauthorized roll trade with Dealer D to extend the settlement date to July 7. On June 3, after the market had moved in his favor, Solow sold the block back to Dealer D at \$101.25, also for settlement on July 7. Archer Alexander, unaware of the actual circumstances of this transaction, paid Solow more than \$179,000 in compensation for this trade.

b. Also on or about May 22, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm stating that on that day he had purchased a block of the FHR 2583 ST inverse floater with a face value of over \$5.1 million from Dealer D at \$96.75 for settlement on May 30, and sold the entire block back to Dealer D on the same day at the same price, also for settlement on May 30. On or about July 1, Solow knowingly created, or caused to be created, falsified tickets that were submitted to Archer Alexander and Clearing Firm stating that on that day he had purchased the same block of the FHR 2583 ST inverse floater from Dealer D at \$95.9375 and sold the position back to Dealer D at \$101, both for settlement on July 7. In reality, Solow, without authorization, purchased the securities on March 11 for settlement on May 30 without an offsetting order in place to sell the securities. Then, on April 16, he entered into an unauthorized roll trade with Dealer D to extend the settlement date to July 7. On May 27, after the market had moved in his favor, Solow sold the block back to Dealer D at \$101, also for settlement on July 7. Archer Alexander, unaware of the actual circumstances of this transaction, paid Solow more than \$206,000 in compensation for this trade.

c. During the first half of 2003, Solow engaged in similar roll trades involving blocks of the FHR 2604 SM, FNR 03-32 BS, and FHR 2582 XS inverse floaters before selling these positions to other dealers at a profit. In each instance, Solow made material omissions by not informing Archer Alexander or Clearing Firm that he was doing roll trades, and made material misrepresentations by creating, or causing to be created, falsified trade tickets that concealed the true nature of these transactions.

d. Solow invoked his Fifth Amendment privilege against self-incrimination when questioned under oath by the Commission staff about his roll trades.

31. On one occasion during 2003, Archer Alexander's chief executive officer questioned Solow regarding a trade in which Solow purportedly purchased and sold the same block of inverse floaters with the same counterparty on the same day at approximately a ten point spread. Solow falsely told the chief executive of Archer Alexander that he had been able to make such a large spread on the same day because after he had purchased the block of securities from a dealer, he had received a call from a representative of that dealer who said that he had another customer willing to pay much more for the securities and asked Solow to sell them back. Solow's response was false, and constituted a material misrepresentation.

32. Altogether, Archer Alexander paid Solow more than \$2.5 million in compensation for dealer-to-dealer inverse floater trades settling in May, June, and early July 2003. Solow generated markups resulting in these payments from Archer Alexander by knowingly taking unauthorized proprietary positions, not trading on a riskless principal basis, and creating, or causing to be created, falsified tickets that concealed the true nature of his speculative trades.

B. Solow's Fraudulent Trading for his Retail Customer Accounts

33. Solow also made material misrepresentations and omissions to Archer Alexander by concealing the fact that in a number of instances during 2003 he was not trading for his retail customers' accounts on a riskless principal basis. Instead, Solow purchased new issues of inverse floaters from other dealers for settlement at a later date without authorization and without offsetting orders in place to sell the securities. He then waited to submit tickets to Archer Alexander or Clearing Firm for these purchases until he also was ready to submit tickets for the sale of these securities to his retail customers. Frequently, he waited to submit tickets until after he had sold an existing inverse floater position out of his retail customers' accounts, thereby freeing up money in their accounts to purchase the new inverse floater.

34. For example, on June 24 and 25, 2003, Solow submitted tickets to Archer Alexander and Clearing Firm for his retail customers' sales of the FHR 2604 SM inverse floater for settlement on June 30. These sales generated cash in his retail customers' accounts. On or about July 2, 2003, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander stating that on that day he had purchased a block of the FNR 03-37 SA inverse floater with a face value of \$10.1 million at \$95.1875 from Dealer D for settlement on July 7. That same day, Solow also submitted tickets for his retail customers' purchases of the FNR 03-37 SA at \$100, also for settlement on July 7.

35. In reality, Solow, without authorization, first purchased the FNR 03-37 SA inverse floater position from Dealer D on March 17 at \$96 for settlement on May 30 without offsetting orders in place to sell the securities. On April 16, he entered into an unauthorized roll trade with Dealer D to extend the settlement date to July 7. To conceal the nature of the roll trade, Solow knowingly created, or caused to be created, falsified trade tickets that were

submitted to Archer Alexander and Clearing Firm on or about May 22 stating that he had purchased and sold the block of the FNR 03-37 SA with Dealer D on the same day at the same price, both for settlement on May 30. By entering into the roll trade, Solow was able to extend the settlement date on his purchase of the FNR 03-37 SA to early July, thereby enabling him to sell the FHR 2604 SM inverse floater out of his customers' accounts before he submitted tickets for their purchase of the FNR 03-37 SA. Solow engaged in a similar trade involving the FHR 2582 XS inverse floater, which certain of Solow's customers purchased on July 2 and 3 for settlement on July 7. Archer Alexander, unaware of the actual circumstances of these transactions, paid Solow nearly \$470,000 in compensation for his customers' purchases of the FNR 03-37 SA and the FHR 2582 XS inverse floaters.

36. On or about August 12, 2003, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm stating that on that day he had purchased a block of the FHR 2648 BS inverse floater, with a face value of almost \$29 million, from Dealer B and sold most of these securities to his retail customers, all for settlement on August 29. In reality, Solow, without authorization, had first purchased the FHR 2648 BS inverse floater from Dealer B on July 15 for settlement on August 29 without offsetting orders in place to sell the securities. Archer Alexander, unaware of the actual circumstances of this transaction, paid Solow nearly \$700,000 in compensation for his retail customers' purchases of the FHR 2648 BS inverse floater.

37. Solow invoked his Fifth Amendment privilege against self-incrimination when questioned under oath by the Commission staff about his trading for his retail customers' accounts.

38. Altogether, during 2003 Archer Alexander paid Solow approximately \$2.3 million in compensation for his retail customers' trades. Solow made material omissions by not disclosing to Archer Alexander and Clearing Firm that he had purchased positions for forward settlement without offsetting orders in place to sell the securities, and made material misrepresentations by knowingly submitting, or causing to be submitted, falsified trade tickets and otherwise concealing the fact that he was not trading on a riskless principal basis for his customers' accounts.

C. **Solow's Fraudulent Dealer-to-Dealer Trading During the Second Half of 2003**

39. During mid-July through early August 2003, Solow secretly made another large bet on the direction of the inverse floater market by purchasing seven different inverse floaters, with a combined value of over \$128 million, for forward settlement at the end of August and end of September. Solow made material misrepresentations and omissions to Archer Alexander and Clearing Firm in connection with these trades. He did not have buyers for these securities at the time he purchased them, and did not obtain authorization, submit tickets, or otherwise disclose the trades to Archer Alexander or Clearing Firm at the time he entered into these purchase transactions.

40. However, the market value of many of these positions declined before Solow sold them, forcing him to engage in additional fraudulent maneuvers in an attempt to minimize or postpone incurring losses on these positions. Among other things, he: (a) engaged in unauthorized roll trades to postpone the dates on which he had to take delivery of large blocks of inverse floaters, including the FNR 03-81 SA inverse floater; (b) temporarily parked the FHR 2655 DS inverse floater in his retail customers' accounts even though they did not have sufficient funds to purchase the securities at the time; and (c) generated almost \$800,000 in

illusory profits on a dealer-to-dealer trade in the FNR 03-89 SE inverse floater by not disclosing to Archer Alexander that he had agreed to repurchase most of the position a month later from the counterparty at a higher price.

41. In addition, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm in order to conceal the fact that he had not been trading on a riskless principal basis. These transactions included, among others, the following:

a. On or about September 26, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm stating that on that day he had purchased a block of the FNR 03-89 S inverse floater with a face value of almost \$17 million from Dealer B at \$94.99852 for settlement the same day, and that same day had sold the entire block to Dealer F at \$95, also for same day settlement. In reality, Solow, without authorization, had purchased the position from Dealer B on July 18 and July 23 for settlement on September 26 without an offsetting order in place to sell the securities. Solow did not sell the position to Dealer F until September 26, nearly two months after he purchased the position from Dealer B.

b. Also on or about September 26, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm stating that on that date he had purchased a block of the FNR 03-89 DS inverse floater with a face value of almost \$21 million from Dealer B at \$93.875 for settlement the same day, and that same day had sold the entire block back to Dealer B at \$93.625, also for same day settlement. In reality, Solow, without authorization, had purchased the position from Dealer B on July 23 for settlement on September 26 without an offsetting order in

place to sell the securities. Solow did not sell the position back to Dealer B until September 26, more than two months after he purchased it.

c. Also on or about September 26, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm stating that on that date he had purchased a block of the FNR 03-89 US inverse floater with a face value of \$19.8 million from Dealer B at \$74 for same day settlement, and that same day had sold the entire block to Dealer A at \$75, also for same day settlement. In reality, Solow, without authorization, had purchased the position from Dealer B on July 29 for settlement on September 26 without an offsetting order in place to sell the securities. Solow did not sell the position to Dealer A until September 26, almost two months after he had purchased it.

d. On or about September 25, Solow knowingly created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm stating that as of September 26, 2003 he had purchased a block of the FNR 03-92 SL inverse floater with a face value of \$28.6 million from Dealer E at \$87 for settlement on September 30, and had sold the block to Dealer E and Dealer F as of that same day in several pieces at various prices, all for settlement on September 30. In reality, Solow, without authorization, had purchased the position from Dealer E on July 28 for settlement on September 30 without an offsetting order in place to sell the securities. Solow did not sell the first piece of this position until September 11, approximately a month and a half after he purchased it, and sold different pieces of the position on different days ranging from September 11 through September 25.

42. Solow invoked his Fifth Amendment privilege against self-incrimination when questioned under oath by the Commission staff about his dealer-to-dealer trades during the second half of 2003.

D. Solow's Unauthorized Purchase of the FHR 2693 AS Inverse Floater

43. Eventually, in early December 2003, Archer Alexander lost \$1.9 million when it was forced to take delivery and then sell a large block of the FHR 2693 AS inverse floater that Solow had purchased without authorization and without having an offsetting order in place to sell the securities. The loss left Archer Alexander with insufficient net capital, forced the firm to cease operations for several weeks, and resulted in Solow's termination. Solow made material misrepresentations and omissions to Archer Alexander in connection with this transaction.

44. The sequence of events leading to this loss began in mid-October 2003, when Solow, without authorization, purchased a block of the FHR 2693 AS inverse floater with a face value of almost \$25 million from Dealer E at \$94.25 for settlement on November 28. Solow purchased the FHR 2693 AS inverse floater as part of a swap transaction, in which he also sold a large block of the FHR 2655 DS inverse floater to Dealer E. Solow did not have offsetting orders in place to sell the FHR 2693 AS position at the time he purchased it.

45. Sometime after he purchased the FHR 2693 AS inverse floater in mid-October 2003, Solow falsely told Archer Alexander's chief executive officer that he only had given an "indication of interest" to Dealer E regarding the securities, and did not tell the chief executive officer that he actually had purchased the position.

46. The market value of the FHR 2693 AS position dropped significantly between mid-October and the November 28 settlement date, and Solow was unable to sell the securities except at prices that would have resulted in a substantial loss.

47. Beginning on Friday, November 28, Dealer E attempted to deliver the FHR 2693 AS position and Archer Alexander advised Clearing Firm to refuse acceptance of the trade.

48. On December 3, Archer Alexander's chief executive officer received a call from a representative of Dealer E, who told him that if Archer Alexander did not accept delivery of the FHR 2693 AS position that day, Dealer E would liquidate the position and take Archer Alexander to arbitration to recover its losses.

49. Solow told Archer Alexander's chief executive officer that bids for the FHR 2693 AS position had dropped into the \$88 range, \$6.25 below the price at which Solow had purchased the securities. Solow said that he would pledge his personal assets to help cover any losses, and asked the firm to accept delivery of the securities. With Clearing Firm's consent, Archer Alexander's chief executive officer agreed to take delivery of the securities from Dealer E at \$94.25.

50. The next day, Thursday, December 4, Solow falsely told Archer Alexander's chief executive officer that he had negotiated the sale of 22.3 million of the FHR 2693 AS position to Dealer A at \$88.25 for settlement on December 9, and sold the rest of the block to some of his retail customers and retail customers of other Archer Alexander brokers. Solow knowingly created, or caused to be created, a falsified trade ticket for the sale to Dealer A that was submitted to Archer Alexander and Clearing Firm.

51. In fact, however, Solow had never negotiated a confirmed sale to Dealer A. Rather, Solow had given a conditional sell order to Dealer A's trader on December 4, after which that trader began to contact traders at other dealers to see if any were interested in buying the FHR 2693 AS position at \$88.25. Solow subsequently called the trader at Dealer A and

cancelled the conditional sell order. Solow never disclosed this to Archer Alexander's chief executive officer.

52. Archer Alexander's chief executive officer continued to believe there was a valid sale to Dealer A until December 9, when Dealer A rejected the trade after Archer Alexander attempted to deliver the securities. Solow falsely informed Archer Alexander's chief executive officer that there had been an "administrative error" on Dealer A's part, and that there was nothing to worry about. Later in the day, however, Archer Alexander's chief executive officer was told by the trader at Dealer A that Solow had cancelled the conditional sale order placed on December 4. That day, Archer Alexander filed a Form U-5 on CRD terminating Solow for "failure to abide with firm policy and procedures."

53. The next day, December 10, another registered representative associated with Archer Alexander sold the FHR 2693 AS position to Dealer A at \$85.625, resulting in a loss by Archer Alexander of approximately \$1.9 million. The loss caused a net capital deficiency that forced the firm to cease operations for several weeks.

54. Solow invoked his Fifth Amendment privilege against self-incrimination when questioned under oath by the Commission staff about this transaction.

IV. SOLOW CAUSED ARCHER ALEXANDER TO MAINTAIN INACCURATE BOOKS AND RECORDS

55. Solow knew, or was reckless in not knowing, that by engaging in his fraudulent trading scheme and knowingly concealing the existence of his forward settlement purchases and proprietary positions from Archer Alexander, he caused Archer Alexander to create false and inaccurate books and records throughout 2003.

56. Because Solow concealed the existence of his numerous purchase transactions for forward settlement, Archer Alexander's purchase and sales blotter did not reflect these transactions and its general ledger did not reflect the resulting proprietary positions.

57. Moreover, Solow created, or caused to be created, fraudulent trade tickets for purchases of inverse floaters reflecting false trade dates that purportedly matched the dates of subsequent sell transactions to make it appear as though he had effected purchase and sale transactions on a riskless principal basis. As a result, Archer Alexander did not have accurate records of these trades.

V. SOLOW CAUSED ARCHER ALEXANDER TO MISCALCULATE ITS NET CAPITAL, DO BUSINESS WHILE UNDERCAPITALIZED, AND FILE INACCURATE REPORTS WITH THE COMMISSION REGARDING ITS FINANCIAL CONDITION

58. Solow also knew, or was reckless in not knowing, that by secretly committing Archer Alexander to more than ten non-riskless principal transactions totaling tens of millions of dollars worth of proprietary positions that he had purchased for forward settlement, he caused the firm to miscalculate its available net capital throughout 2003.

59. Section 15(c)(3) of the Exchange Act [15 U.S.C. § 78o(c)(3)] makes it unlawful for a broker or dealer to engage in any securities business while not in compliance with Exchange Act Rule 15c3-1 [17 C.F.R. § 240.15c3-1], commonly referred to as the "net capital rule." The Commission previously has stated that the principal purposes of the net capital rule are "to protect customers and other market participants from broker-dealer failures and to enable those firms that fall below the minimum net capital requirements to liquidate in an orderly fashion without the need for a formal proceeding or financial assistance from the Securities Investor Protection Corporation." *See* Exchange Act Release No. 49830 (June 8, 2004).

60. During 2003, Archer Alexander calculated its net capital in accordance with Section 15(c)(3) of the Exchange Act and Rule 15c3-1(a)(2)(vi) thereunder, [17 C.F.R. § 240.15c3-1(a)(2)(vi)], which required that the firm maintain minimum net capital of only \$5,000. However, a broker-dealer that engages in more than ten non-riskless principal transactions for its own account in a calendar year is required to calculate its net capital in accordance with Rule 15c3-1(a)(2)(iii) [17 C.F.R. § 240.15c3-1(a)(2)(iii)], which requires a broker-dealer to maintain net capital of not less than \$100,000.

61. The Commission's net capital rule requires that, when computing net worth, brokers or dealers must deduct certain specified percentages of the market values of marketable securities in their proprietary accounts. These deductions are generally referred to in the securities industry as "haircuts." Because Solow fraudulently concealed the existence of his purchases transactions, Archer Alexander's purchase and sales blotter did not reflect these purchases and its general ledger did not reflect the resulting proprietary positions. Consequently, Archer Alexander's calculation of net worth was incorrect and the firm did not take "haircuts" on these positions when performing its net capital computations.

62. As a result of not using the appropriate minimum amount when calculating net capital and failing to take haircuts on Solow's proprietary positions, Archer Alexander's net capital computations were incorrect throughout 2003 and it continued to do business while undercapitalized.

63. Exchange Act Rule 17a-5(a)(2) [17 C.F.R. § 240.17a-5(a)(2)] requires brokers and dealers to file Financial and Operational Combined Uniform Single ("FOCUS") reports regarding their financial condition with the Commission. Because Archer Alexander never computed haircuts on Solow's proprietary positions during 2003, its net capital computations

were similarly incorrect, and it filed inaccurate FOCUS reports regarding its financial condition with the Commission for the first three quarters of 2003.

64. Solow knew, or was reckless in not knowing, that concealing the existence of his forward settlement purchase transactions would cause Archer Alexander to miscalculate its net capital, continue to do business while undercapitalized, and file inaccurate FOCUS reports with the Commission during 2003.

VI. SOLOW SOLD INVERSE FLOATERS TO RETAIL CUSTOMERS FOR WHOM THESE VOLATILE AND RISKY SECURITIES WERE UNSUITABLE INVESTMENTS

65. Inverse floaters are complex, volatile, and risky securities. As stated in the Fannie Mae prospectus for a tranche of inverse floaters sold by Solow to his retail customers:

Market and Liquidity Considerations

We cannot be sure that a market for resale of the certificates will develop. Further, if a market develops, it may not continue or be sufficiently liquid to allow you to sell your certificates. Even if you are able to sell your certificates, the sale price may not be comparable to similar investments that have a developed market. Moreover, you may not be able to sell small or large amounts of certificates at prices comparable to those available to other investors.

These risks will be greatest in the case of certificates that are especially sensitive to interest rate or market risks, that are designed for specific investment objectives or strategies or that have been structured to meet the investment requirements of limited categories of investors. Such certificates are more likely to have a limited market for resale, little or no liquidity and more price volatility than other similar mortgage-backed securities. Limited liquidity may have a severely adverse effect on the market value of these types of certificates.

...

The interest rate of an inverse floating rate class of certificates will change in the opposite direction of changes in the specified interest rate index. The prices of such certificates typically are more volatile than those of other similar floating rate mortgage-backed securities based on the same index with otherwise comparable terms. Increased volatility occurs because an increase in the index not only decreases

the interest rate (and consequently the value) of the certificate, but also reflects an increase in prevailing interest rates, which further diminishes the value of such certificate.

...

You should not purchase certificates unless you understand and are able to tolerate the risk that certain certificates may not be resold easily, that the value of certificates will fluctuate over time, and that these fluctuations may be significant and could result in losses to you. This risk is greatest if your circumstances do not permit you to hold the certificates until maturity.

66. The NASD previously has advised its members that inverse floaters “are only suitable for sophisticated investors with a high-risk profile and the investor must be made aware of the risks and characteristics” of the inverse floater being purchased. *See NASD Notice to Members 93-73: Member’s Obligations to Customers When Selling Collateralized Mortgage Obligations (CMOs).*

67. The account opening forms used by Archer Alexander asked customers to identify which of five investment objectives best reflected the customer’s risk tolerance. Listed from the most conservative to most aggressive, these objectives were Preservation of Principal/Income, Balanced/Conservative Growth, Growth, Aggressive Growth, and Speculation.

68. In the account opening forms they filled out when opening accounts at Archer Alexander, approximately forty-one of the retail customer accounts for whom Solow traded inverse floaters identified the most conservative, Preservation of Principal/Income, as their investment objective. Approximately sixteen of the retail customer accounts for whom Solow traded inverse floaters identified Balanced/Conservative Growth as their investment objective. Approximately seventy of the retail customer accounts for whom Solow traded inverse floaters identified Growth, the midpoint of the alternatives from which customers could choose, as their investment objective.

69. Solow knew, or was reckless in not knowing, that inverse floaters were not suitable investments for retail customers with these conservative to moderate investment objectives due to the volatile and highly risky nature of inverse floaters.

70. In addition, Solow's typical practice during 2003 was to buy and sell the same inverse floater for all of his retail customers at the same time, regardless of whether they had conservative or speculative investment objectives.

71. Furthermore, Solow failed to ensure that customers adequately understood the characteristics and risks associated with inverse floaters before investing in them.

72. Solow also made material misrepresentations or omissions when communicating with customers or potential customers regarding inverse floaters. Among other things:

a. Solow conveyed to his retail customers, including those with conservative to moderate investment objectives, that inverse floaters were suitable investments for them;

b. Solow conveyed to retail customers that there was relatively little risk associated with inverse floaters because their principal was guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae, without adequately disclosing to these customers that (i) this principal guarantee only applied if they held their inverse floater positions until maturity, or that (ii) the performance of interest rates could extend the expected maturity date of the inverse floaters they purchased;

c. Solow assured retail customers that his expertise would allow him to profitably manage their portfolios of inverse floaters in both falling and rising interest rate environments;

d. Solow failed to advise his retail customers that Archer Alexander had placed procedures and supervisory restrictions in place that restricted him to trading on a riskless principal basis and required him to get prior approval from the firm's chief executive officer before purchasing inverse floaters; and

e. Solow failed to advise his retail customers that he failed to obtain authorization from Archer Alexander for inverse floater purchases, concealed purchase transactions from Archer Alexander, did not trade on a riskless principal basis, and created, or caused to be created, falsified trade tickets that were submitted to Archer Alexander and Clearing Firm.

73. Solow invoked his Fifth Amendment privilege against self-incrimination when questioned under oath by the Commission staff about the suitability of inverse floaters for his retail customers.

FIRST CLAIM

[Solow's Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder]

74. Paragraphs 1-73 are realleged and incorporated by reference.

75. As described above, Solow, knowingly or recklessly, directly or indirectly, in connection with the purchase or sale of securities, by use of means or instrumentalities of interstate commerce or of the mails: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons.

76. By engaging in the foregoing conduct, Solow violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder.

SECOND CLAIM

[Solow's Violations of Section 17(a) of the Securities Act]

77. Paragraphs 1-76 are realleged and incorporated by reference.

78. As described above, Solow, knowingly or recklessly, in the offer or sale of securities, by use of means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly: (a) employed devices, schemes, or artifices to defraud; (b) obtained money or property by means of untrue statements of a material fact or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon the purchaser.

79. By engaging in the foregoing conduct, Solow violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

THIRD CLAIM

[Solow's Aiding and Abetting of Archer Alexander's Violations of Section 17(a) of the Exchange Act and Rules 17a-3(a)(1), 17a-3(a)(2), and 17a-3(a)(7)]

80. Paragraphs 1-79 are realleged and incorporated by reference.

81. Section 17(a) of the Exchange Act [15 U.S.C. § 78q(a)] and Rule 17a-3 [17 C.F.R. § 240.17a-3] thereunder require that brokers and dealers shall make and keep certain books and records. Such books and records must be accurate.

82. Rule 17a-3(a)(1) [17 C.F.R. § 240.17a-3(a)(1)] requires brokers and dealers to make and keep current “[b]lotters (or other records of original entry) containing an itemized daily record of all purchases and sales of securities.”

83. Rule 17a-3(a)(2) [17 C.F.R. § 240.17a-3(a)(2)] requires brokers and dealers to make and keep current “[l]edgers (or other records) reflecting all assets and liabilities, income and expense and capital accounts.”

84. Rule 17a-3(a)(7) [17 C.F.R. § 240.17a-3(a)(7)] requires brokers and dealers to make and keep current “[a] memorandum of each purchase and sale for the account of the member, broker, or dealer showing the price and, to the extent feasible, the time of execution.”

85. Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)] provides that any person that knowingly provides substantial assistance to another person in violation of a provision of the Exchange Act, or any rule or regulation thereunder, shall be deemed to be in violation of such provision to the same extent as the person to whom such assistance is provided.

86. As described above, Solow knowingly or recklessly provided substantial assistance to Archer Alexander’s violations of Rules 17a-3(a)(1) and 17a-3(a)(2) by, among other things, knowingly failing to record or otherwise report transactions to Archer Alexander when he purchased inverse floaters for forward settlement, or knowingly creating, or causing to be created, trade tickets containing falsified information, thereby causing the firm’s purchase and sales blotter to not reflect these transactions and its general ledger to not reflect the resulting proprietary positions.

87. As described above, Solow knowingly or recklessly provided substantial assistance to Archer Alexander’s violations of Rule 17a-3(a)(7) by, among other things,

knowingly creating, or causing to be created, trade tickets that contained falsified trade dates to make it appear as though he had effected purchase and sale transactions on a riskless principal basis, thereby causing Archer Alexander to have inaccurate records of these trades.

88. By engaging in the foregoing conduct, Solow aided and abetted Archer Alexander's violations of Section 17(a) of the Exchange Act and Rules 17a-3(a)(1), 17a-3(a)(2), and 17a-3(a)(7) thereunder.

FOURTH CLAIM

[Solow's Aiding and Abetting of Archer Alexander's Violations of Section 15(c)(3) of the Exchange Act and Rule 15c3-1]

89. Paragraphs 1-88 are realleged and incorporated by reference.

90. Section 15(c)(3) of the Exchange Act [15 U.S.C. § 78o(c)(3)] makes it unlawful for a broker or dealer to engage in any securities business while not in compliance with the net capital rule, Rule 15c3-1 [17 C.F.R. § 240.15c3-1].

91. As described above, Solow knowingly or recklessly provided substantial assistance to Archer Alexander's violations of Section 15(c)(3) of the Exchange Act and Rule 15c3-1 by, among other things, concealing the existence of his purchases for forward settlement and the resulting proprietary positions, thereby causing Archer Alexander to fail to take these transactions and positions into account when determining its net capital requirements and calculating its net capital, which resulted in the firm miscalculating its net capital and continuing to do business while undercapitalized.

92. By engaging in the foregoing conduct, Solow aided and abetted Archer Alexander's violations of Section 15(c)(3) of the Exchange Act and Rule 15c3-1 thereunder.

FIFTH CLAIM

**[Solow's Aiding and Abetting of Archer Alexander's
Violations of Section 17(a) of the Exchange Act and
Rule 17a-5(a)(2)]**

93. Paragraphs 1-92 are realleged and incorporated by reference.

94. Exchange Act Rule 17a-5(a)(2)(iii) [17 C.F.R. § 240.17a-5(a)(2)(iii)] requires brokers and dealers that do not clear trades or carry customer accounts to file FOCUS reports. Such reports must be accurate.

95. As described above, Solow knowingly or recklessly provided substantial assistance to Archer Alexander's violations of Rule 17a-5(a)(2) by, among other things, concealing the existence of his purchases for forward settlement and the resulting proprietary positions, thereby causing Archer Alexander to fail to take these transactions and positions into account when determining its net capital requirements and calculating its net capital, and thus to file incorrect FOCUS reports for the first three quarters of 2003.

96. By engaging in the foregoing conduct, Solow aided and abetted Archer Alexander's violations of Section 17(a) of the Exchange Act [15 U.S.C. § 78q(a)] and Rule 17a-5(a)(2) thereunder.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court enter a judgment:

a. Permanently enjoining Solow from, directly or indirectly, violating Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder;

b. Permanently enjoining Solow from, directly or indirectly, violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)];

c. Permanently enjoining Solow from, directly or indirectly, violating Section 17(a) of the Exchange Act [15 U.S.C. § 78q(a)(1)] and Rules 17a-3(a)(1), 17a-3(a)(2), 17a-3(a)(7), and 17a-5(a)(2) [17 C.F.R. §§ 240.17a-3(a)(1), 240.17a-3(a)(2), and 240.17a-3(a)(7), and 240.17a-5(a)(2)] thereunder;

d. Permanently enjoining Solow from, directly or indirectly, violating Section 15(c)(3) of the Exchange Act [15 U.S.C. § 78o(c)(3)] and Rule 15c3-1 [17 C.F.R. § 240.15c3-1] thereunder;

e. Ordering Solow to disgorge, with prejudgment interest, the amount by which he was unjustly enriched as a result of his participation in the conduct described above;

f. Ordering Solow to pay civil monetary penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)];

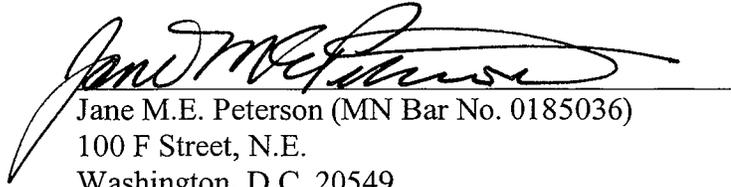
g. Awarding such other and further relief as this Court may deem just and appropriate; and

h. Retaining jurisdiction over this action to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction of the Court.

Date: November 7, 2006

Respectfully submitted,

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