

**IN THE MATTER OF THE SECURITIES ACT,
R.S.O. 1990, c. S.5, as amended**

- and -

**IN THE MATTER OF AFFINITY FINANCIAL GROUP INC., INTERNATIONAL
STRUCTURED PRODUCTS INC., AFFINITY RESTRICTED SECURITIES INC.,
DIONYSUS INVESTMENTS LTD., BRIAN KEITH MCWILLIAMS, DAVID JOHN
LEWIS and LOUIS SAPI**

**SETTLEMENT AGREEMENT BETWEEN
STAFF OF THE ONTARIO SECURITIES COMMISSION AND
DAVID JOHN LEWIS**

I. INTRODUCTION

1. In a notice of hearing and statement of allegations issued September 19, 2005, (the “Notice of Hearing”), the Ontario Securities Commission (the “Commission”) announced that it proposes to hold a hearing to consider whether, pursuant to sections 127 and 127.1 of the *Securities Act* (the “Act”), it is in the public interest for the Commission to make an order:
 - (a) that this Settlement Agreement be approved;
 - (b) that the registration of International Structured Products Inc. (“ISP”), Brian Keith McWilliams (“McWilliams”) and David John Lewis (“Lewis”) be terminated;
 - (c) that trading in any securities by Affinity Financial Group Inc. (“Affinity”), ISP, Affinity Restricted Securities Inc. (“ARS”) and Dionysus Investments Ltd. (“Dionysus”), cease permanently;
 - (d) that the exemptions contained in Ontario securities law do not apply to Affinity, ISP, ARS and Dionysus permanently;
 - (e) that McWilliams, Lewis and Louis Sapi (“Sapi”) be required to resign any positions that they hold as a director or officer of a registrant;
 - (f) that McWilliams, Lewis and Sapi be permanently prohibited from acting as a director or officer of a registrant; and
 - (g) that McWilliams, Lewis and Sapi be required to pay costs of the investigation of this matter.

II. JOINT SETTLEMENT RECOMMENDATION

2. Staff of the Commission (“Staff”) agree to recommend settlement of the proceeding initiated in respect of Lewis by the Notice of Hearing in accordance with the terms and conditions set out below. Lewis consents to the making of an order against him in the form attached as Schedule “A” on the basis of the facts set out below.

III. STATEMENT OF FACTS

Acknowledgment

3. For the purposes of this settlement agreement, Lewis agrees with the facts set out in this Part III.

Factual Background

The Affinity Respondents

4. Affinity is an Ontario corporation with a registered address at 195 The West Mall in Etobicoke, Ontario.
5. ISP, formerly Affinity Capital Markets Inc., is an Ontario corporation with a registered address at 195 The West Mall in Etobicoke, Ontario. Under the name Affinity Capital Markets Inc., ISP was registered with the Commission as a Dealer in the category of Limited Market Dealer from August 28, 2000 to August 28, 2002.
6. ARS is an Ontario corporation with a registered address at 195 The West Mall in Etobicoke, Ontario. ARS has never been registered with the Commission.
7. Dionysus is a company incorporated in the Bahamas. Dionysus has never been registered with the Commission. Dionysus was struck off the companies register of the Bahamas on May 3, 2004.
8. ISP and ARS are direct and indirect wholly-owned subsidiaries of Affinity. Affinity is jointly owned by McWilliams, Lewis and Sapi.
9. Affinity had a number of other subsidiaries and related companies, including Dionysus. These companies provided financial planning and reporting services to their clients and sold mutual funds and insurance products.

The Individual Respondents

10. McWilliams is an individual who was registered with the Commission as a Salesperson in the category of Limited Market Dealer between August 28, 2000 and December 31, 2002. At all material times, he was the Treasurer, Secretary and a Director of Affinity. He was also the President and a Director of ISP, and the President and a Director of ARS.
11. Lewis is an individual who was registered with the Commission as a Salesperson in the category of Mutual Fund Dealer from April 13, 1993 to May 6, 2002 and in the category of Limited Market Dealer from April 13, 1993 to December 31, 2002. At all material times, he was the President and a Director of Affinity. He was also the Secretary, Treasurer and a Director of ISP, and the Vice-President, Secretary, Treasurer and a Director of ARS.
12. Sapi is an individual who has never been registered with the Commission. He was a Director of ARS from March 30, 2001 to July 6, 2001. He was a Director of Affinity at all material times.

The Rule 144 Loan Program

13. In the period between October 1998 and June 2002 (the “Material Period”) ISP and then ARS and Dionysus (collectively, “ARS”) solicited their clients to invest in a program where their funds would be used to make loans to insiders of reporting issuers located in the United States. The insiders would pledge restricted securities of the issuer as collateral for the loans. Clients would receive either the interest payments on the loans or the proceeds of the sale of the restricted securities in return for their investment. This was referred to as the Rule 144 Loan Program.
14. The Rule 144 Loan Program was established, managed and operated by a company named American Financial Group (“AFG”) that operated out of Miami, Florida and its principal David Siegel (“Siegel”) (collectively, the “Americans”).
15. ARS’ marketing materials relating to the Rule 144 Loan Program stated that “[ARS], at its discretion, may determine to which deals and to what amount, an investor’s funds will be allocated”. They further stated that “[i]nvestors will have no right to participate in the management of any of the investment programs, and each investor must be willing to entrust all aspects of the management of his investments to [ARS]”.
16. ARS executed an Investment Advisory Agreement with its clients who invested in the Rule 144 Loan Program. This agreement authorized ARS to “continuously review, supervise and administer the investment programs of the [i]nvestor, to determine in the discretion of [ARS] the assets to be held uninvested”. It further stated that “the investment and reinvestment of the assets of the [i]nvestor, including the purchase or sale of any securities or the borrowing of any funds on behalf of the [i]nvestor...shall be exclusively within the control and discretion of [ARS]”.

17. As noted above, the Rule 144 Loan Program was managed by the Americans. The Americans provided ARS with monthly statements for each investor. ARS prepared monthly account statements on its letterhead for its clients based solely on information provided to it by the Americans.
18. ARS employed sales representatives, all of whom were licensed as mutual fund salespeople and/or limited market dealers, to promote the Rule 144 Loan Program to its clients.
19. During the Material Period, at least 161 of ARS' clients invested at least \$30,937,941 in the Rule 144 Loan Program. ARS thereby acted as an adviser without registration, contrary to section 25(1)(c) of the Act.

Disclosure and Due Diligence

20. ARS orally disclosed to most of its clients that the Americans, and in particular Siegel, would select and administer the Rule 144 loans and would make all Rule 144 Loan Program investment decisions.
21. Before beginning to solicit its clients for the Rule 144 Loan Program, ARS reviewed AFG's history with the Rule 144 Loan Program and its history with other investments. ARS did not research Siegel's regulatory status or history. Siegel had previously been enjoined as a result of an enforcement action brought by the United States Securities and Exchange Commission (the "SEC") in response to his participation in a stock manipulation scheme.

ARS' Commissions and Fees from the Rule 144 Loan Program

22. ARS' clients were charged an initial commission of between 0% and 3% of the money invested in the Rule 144 Loan Program. This commission was disclosed to ARS' clients in its marketing materials. ARS represents that its sales agents received 75% of this commission and ARS received the remaining 25%.
23. The Rule 144 Loan Program generated earnings in two ways. If a loan was repaid partially or in full, all of the interest paid by the borrower was transferred directly to ARS' client. If a loan went into default, 80% of the gain generated on the disposition of the share collateral was paid to ARS' client, 10% was retained by the Americans and 10% was paid to ARS. This fee was titled a "performance fee" and was disclosed to ARS' clients in the Investment Advisory Agreement.
24. ARS also received a "loan origination fee" from the Americans for every investment in the Rule 144 Loan Program made by its clients. ARS represents that it believed that this fee was paid out of the money earned by the Americans in the Rule 144 Loan Program and not from its clients' investments in the program.
25. ARS represents that it received approximately \$1,336,000 from loan origination fees, performance fees and commissions during the Material Period. Of this amount, ARS

represents that it paid at least \$395,000 to brokers and referring companies. In total, ARS represents that it earned net proceeds of approximately \$950,000.

Outcome of the Rule 144 Loan Program

26. On June 19, 2002, ARS was advised by AFG that Siegel had gone missing and had taken all records relating to the Rule 144 Loan Program with him. Three days later, McWilliams and Lewis flew to Florida to investigate the situation. The FBI was contacted as were securities regulators, including the Ontario Securities Commission.
27. When Siegel was finally located several weeks later, he stated that he had lost investor funds through poor hedging strategies and general mismanagement of the Rule 144 loans. Siegel also stated he had provided false statements to ARS while he tried to “trade his way out of trouble”.
28. On July 24, 2002, the SEC initiated enforcement proceedings against the Americans, and later secured the appointment of a Receiver to attempt to recover the proceeds of the Rule 144 Loan Program.
29. On January 27, 2005, the Receiver stated in a report to investors that Siegel may have lost the majority of their funds through bad loans and bad stock purchases. The Receiver also stated that despite Siegel’s representations that he was selling shares short to offset the shares taken as collateral for the loans, there were very few short sales actually made. The Receiver also stated that although Siegel represented to investors and their reporting agents [such as ARS] that he was selling the shares held as collateral at a profit, this was not the case.
30. On March 28, 2005, the SEC obtained a final judgment against Siegel affirming his violations of US securities laws in the course of the Rule 144 Loan Program, barring him from acting as a director or officer of any issuer, and requiring him to pay disgorgement as well as interest and civil penalties.
31. At the date of this agreement, the court-appointed Receiver is continuing his efforts to locate and redistribute the investor funds entrusted to Siegel and AFG through the Rule 144 Loan Program. No funds have been redistributed, and the receiver has informed investors that they should expect to receive “very little, if anything” from his efforts.
32. The Affinity Respondents represent that, as a result of the collapse of the Rule 144 Loan Program, they have ceased carrying on business and are now dormant. They represent that they do not expect to operate ever again.

Lewis’ Role

33. Lewis was a director and officer of Affinity, ISP and ARS. As the owner of one third of Affinity's shares, Lewis benefited financially from ARS' participation in the "Rule 144 Loan Program".
34. Lewis therefore acquiesced in ARS' breaches of Ontario securities law as outlined above.

IV. TERMS OF SETTLEMENT

35. Lewis agrees that it is in the public interest that the Commission make an order:
 - (a) terminating his registration under Ontario securities law;
 - (b) requiring him to resign any positions that he holds as director or officer of a registrant;
 - (c) permanently prohibiting him from becoming or acting as a director or officer of a registrant; and
 - (d) requiring him to pay the sum of \$10,000 towards the costs of Staff's investigation of this matter.
36. In addition, Lewis undertakes not to re-apply for registration under Ontario securities law for a period of at least 7 years from the date of this agreement. He further undertakes to enroll in and successfully complete the Conduct and Practices Handbook Course before making any re-application for registration.
37. Lewis undertakes to pay the sum of \$10,000 as set out in paragraph 35(d) above to the Commission by October 1, 2005, failing which this settlement agreement will be null and void and the order in the form attached as Schedule "A" will not be made by the Commission.

V. STAFF COMMITMENT

38. If this settlement agreement is approved and an order in the form attached as Schedule "A" is made by the Commission, Staff will not initiate any proceeding under Ontario securities law in respect of any conduct or alleged conduct of Lewis in relation to the facts set out in Part III of this settlement agreement, subject to the provisions of paragraph 42 below.

VI. PROCEDURE FOR APPROVAL OF SETTLEMENT

39. Approval of this settlement will be sought at a public hearing before the Commission scheduled for a date to be agreed to by Staff and Lewis, in accordance with the procedures set out in this settlement agreement and the Commission's Rules of Practice.
40. Staff and Lewis agree that if this settlement agreement is approved by the Commission, it will constitute the entirety of the evidence to be submitted respecting Lewis in this matter, and Lewis agrees to waive his rights to a full hearing, judicial review or appeal of the matter under the Act.
41. Staff and Lewis agree that if this settlement agreement is approved by the Commission, neither Staff nor Lewis will make any public statement inconsistent with this settlement agreement.
42. If Lewis fails to honour the agreements contained in paragraph 36, 37 or 41 of this settlement agreement, Staff reserve the right to bring proceedings under Ontario securities law against Lewis based on the facts set out in Part III of this settlement agreement, as well as the breach of the agreement.
43. If, for any reason whatsoever, this settlement agreement is not approved by the Commission or an order in the form attached as Schedule "A" is not made by the Commission, each of Staff and Lewis will be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations in the Notice of Hearing, unaffected by this agreement or the settlement negotiations.
44. Whether or not this settlement agreement is approved by the Commission, Lewis agrees that he will not, in any proceeding, refer to or rely upon this agreement or the negotiation or process of approval of this agreement as the basis for any attack on the Commission's jurisdiction, alleged bias, appearance of bias, alleged unfairness or any other remedies or challenges that may otherwise be available.

VII. DISCLOSURE OF AGREEMENT

45. The terms of this settlement agreement will be treated as confidential by all parties hereto until approved by the Commission, and forever if, for any reason whatsoever, this settlement agreement is not approved by the Commission, except with the written consent of both Lewis and Staff or as may be required by law.
46. Any obligations of confidentiality shall terminate upon approval of this settlement agreement by the Commission.

VIII. EXECUTION OF AGREEMENT

47. This settlement agreement may be signed in one or more counterparts which together shall constitute a binding agreement.

48. A facsimile copy of any signature shall be effective as an original signature.

Dated this 21st day of September, 2005

“David John Lewis”
David John Lewis

Dated this 21st day of September, 2005

**Staff of the Ontario Securities
Commission**
Per:

“Michael Watson”
Michael Watson
Director, Enforcement Branch

Schedule "A"

**IN THE MATTER OF THE SECURITIES ACT,
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LEWIS and LOUIS SAPI**

**ORDER
DAVID JOHN LEWIS**

WHEREAS on September 19, 2005 the Ontario Securities Commission (the "Commission") issued a Notice of Hearing and Statement of Allegations pursuant to sections 127 and 127.1 of the Securities Act, R.S.O. 1990 c.S-5, as amended (the "Act") in respect of Affinity Financial Group Inc., International Structured Products Inc., Affinity Restricted Securities Inc., Dionysus Investments Ltd., Brian Keith McWilliams, David John Lewis ("Lewis") and Louis Sapi;

AND WHEREAS Lewis entered into a settlement agreement with Staff of the Commission dated September 21, 2005 (the "Settlement Agreement") in which he agreed to a proposed settlement of the proceeding, subject to the approval of the Commission;

AND UPON reviewing the Settlement Agreement and the Statement of Allegations of Staff of the Commission, and upon hearing submissions from counsel for Lewis and from counsel for Staff of the Commission;

AND WHEREAS the Commission is of the opinion that it is in the public interest to make this Order;

IT IS THEREFORE ORDERED THAT:

1. the Settlement Agreement dated September 21, 2005 attached to this Order is approved;
2. pursuant to clause 1 of subsection 127(1) of the Act, Lewis' registration under Ontario securities law is terminated;

