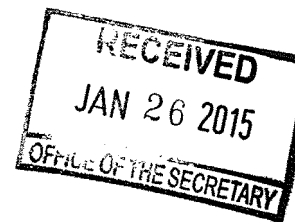


UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-15974



In the Matter of

JAMES E. COHEN and
JOSEPH A. CORAZZI,

Respondents.

DIVISION OF ENFORCEMENT PRE-
HEARING BRIEF

INTRODUCTION

The Division alleges in the Order Instituting Proceedings (“OIP”) that Respondents James Cohen (“Cohen”) and Joseph Corazzi (“Corazzi”) engaged in a scheme to defraud in violation of Sections 17(a)(1) and 17(a)(3) of the Securities Act of 1933 (the “Securities Act”). In early 2009, Cohen and Corazzi founded and controlled Natural Blue Resources, Inc. (“Natural Blue”) and just a few months later, orchestrated its reverse merger into a public company then called Datameg. Once Natural Blue became public, Cohen and Corazzi continued to exercise a high degree of control over the company, acting as *de facto* officers, and obtaining substantial money and stock from the company. They obscured their actual roles at Natural Blue by referring to themselves as “consultants” and later papering their supposed roles with “consulting” agreements, ultimately netting more than half of all the compensation paid out by Natural Blue. Through their fraudulent scheme, Cohen and Corazzi were able to avoid public disclosure of the prominent roles they played at Natural Blue, and to conceal from investors the fact that Cohen had been convicted of crimes of fraud and that Corazzi had been barred by the Commission from serving as an officer or director of a public company.

As the evidence at the February 9, 2015 hearing will show, Cohen and Corazzi intentionally perpetrated this scheme so that they could profit from a public company. As a

direct result of both Cohen and Corazzi's intentional acts and additional failures by the company's officers (former Chief Executive Officers Toney Anaya and Erik Perry), Natural Blue failed to disclose Cohen and Corazzi's past disciplinary histories and roles as *de facto* officers to Natural Blue investors.

SUMMARY OF ANTICIPATED FACTS

Respondents James Cohen and Joseph Corazzi have, by their own accounts, known each other and worked together on and off for at least two decades. See Cohen Investigative Testimony at p. 75-79 (noting that Cohen met Corazzi in the late 1980's, and that Cohen served as a consultant to a company controlled by Corazzi called Las Vegas Entertainment); see also Corazzi Investigative Testimony at p. 28-29, 33-34, 89 (recalling that Corazzi had known Cohen for "maybe 20 years or more").

Both Cohen and Corazzi had previously faced allegations of financial fraud, and both had been sanctioned in connection with such conduct – Cohen had been incarcerated in New York in the mid-2000's, and Corazzi had been barred in 2002 as an officer or director of a public company. Prior to founding Natural Blue in 2009, Cohen was a registered representative for various broker-dealers from 1987 to 1997 and subsequently was barred from association by the National Association of Securities Dealers ("NASD"). On April 5, 2004, the Supreme Court of the State of New York sentenced Cohen to prison for a term of one to three years and ordered him to pay \$545,000 in restitution following his guilty pleas to attempted enterprise corruption and attempted grand larceny in the first degree. From 1990 to 1999, Corazzi served as Chairman and Chief Executive Officer of Las Vegas Entertainment Network, Inc., a public company registered with the Commission that was sued by the Commission for fraudulently overstating its assets. On October 24, 2002, the Commission obtained a final judgment by consent against Corazzi that permanently enjoined him from violating the antifraud provisions, imposed a civil

penalty of \$75,000, and barred him permanently from acting as an officer or director of a public company.¹

Natural Blue had, in essence, three stages – first, the initial reverse merger into Datameg, second, its day-to-day operations and shift in corporate mission from water purification to the recycling of steel, and finally, the transaction relating to the contracts at Atlantic Dismantling. During all three stages of the company's existence, Cohen and Corazzi served as *de facto* officers of Natural Blue. Notwithstanding the formal titles of the officers and directors of Natural Blue, it was Cohen and Corazzi who set corporate strategy, policies and agendas, and made day-to-day management decisions that were critical to the company. Among other things, Cohen and Corazzi founded Natural Blue as a private company, orchestrated its reverse merger into the public company Datameg, helped to run the company as purported outside consultants to Natural Blue beginning in November 2009, and then singlehandedly negotiated a major transaction in January 2011 when its financial prospects were foundering, whereby Natural Blue issued 35 million shares to the counterparty and its designees, and Natural Blue's directors and officers resigned and were replaced by executives of the counterparty. As the corporate governance expert retained by the Division, Professor Robert Daines, sets forth in his direct examination (filed contemporaneously here), Cohen and Corazzi's conduct, as alleged by the Division, fulfilled the core functions of senior executives and directors of a public company.

Below, the Division sets forth the key facts that will be established through the documents and testimony of witnesses with personal knowledge about Natural Blue Resources, and the legal analysis for the claims brought by the Division.

¹ *SEC v. Las Vegas Entertainment, et al.*, 2:02-cv-07852-JFW-FMO (C.D. Cal.), Lit. Rel. 17779 (October 9, 2002).

Stage I: Natural Blue Becomes Public Through a Reverse Merger with Datameg (February 2009-August 2009)

In or about February 2009, the CEO of Datameg, Jim Murphy, received a telephone call from Leonard Tocci. Tocci, who was the President of American Marketing and Sales, a plastics business in Massachusetts and a subsidiary of Datameg, reported that he had received a telephone call from James Cohen, expressing interest in a business transaction with Tocci's company. See Vuksich Investigative Testimony at 18-19 ("Vuksich Tr.") (noting that Cohen had contacted American Marketing and Sales, and according to Murphy, Cohen was "interested in acquiring that subsidiary"). As Murphy will testify, he immediately called Cohen, and the two men had further discussions over the following weeks that came to include Datameg's counsel, Paul Vuksich. Those discussions included, among other things, a proposal to merge a private company called Natural Blue Resources ("Natural Blue") with the public company Datameg, as well as a proposal for the public company Blue Earth Solutions ("Blue Earth") to purchase American Marketing and Sales. While Cohen did not have a formal position with either Natural Blue (which was still in formation) or Blue Earth (for which Cohen's wife, Patricia, formally served as CEO), he nonetheless led negotiations with Datameg on behalf of both Natural Blue and Blue Earth. See Vuksich Tr. at 19 (believed Cohen was the CEO of Blue Earth Solutions). Those discussions ultimately culminated in the reverse merger of Natural Blue into Datameg.

Prior to the formal creation of Natural Blue as a public company, Cohen and Corazzi built Natural Blue into a functioning business that could become public. Significantly, Cohen and Corazzi recruited and selected the company's management and board of directors and identified the companies (virtually all of which were tied to Cohen) in which Natural Blue would invest. For his part, Corazzi – a long-time resident of New Mexico – solicited the involvement of former New Mexico governor Toney Anaya in the company. Anaya had recently (and

unsuccessfully) invested in a “high-yield” investment program with Corazzi as well as giving him money for a real estate opportunity in or about 2008. After those deals failed to pan out, Corazzi introduced Anaya to Cohen, and they asked him to be CEO of Natural Blue. See Anaya Investigative Testimony at 14-15 (“Anaya Tr.”). Similarly, Cohen had been introduced by a mutual acquaintance to Paul Pelosi, Jr. (son of the former speaker of the House), who had a long-standing interest in “green” technology. See Pelosi Investigative Testimony at 24-25 (“Pelosi Tr.”). Pelosi joined the board of directors for Blue Earth, and was later persuaded by Cohen to become the president of Natural Blue as well. Shortly thereafter, both Cohen and Corazzi began soliciting investors² with both Anaya and Pelosi’s names prominently featured in their presentations about Natural Blue.

Neither Anaya nor Pelosi had any prior experience in the management of public companies; however, Anaya was informed by Cohen before coming on board that Natural Blue would eventually become public through a reverse merger with Datameg, and Pelosi learned of the plans to take Natural Blue public after those plans were well underway. While the Natural Blue board minutes will reflect that there was a vote approving the Datameg transaction, the reverse merger – like so many of Natural Blue’s later financial transactions -- was a *fait accompli* long before the board’s votes were counted.

Stage II: Cohen and Corazzi Continue to Exert Dominance Over the Day-to-Day Management of Natural Blue (August 2009 through January 2011)

Natural Blue formally became a public company in late July 2009. In August 2009, Natural Blue held an initial meeting in Orlando, Florida (where Cohen lived) for the new board members and executives, with post-meeting activities including a dinner at Cohen’s private club. See Vuksich Tr. at 19 (only interaction with Patricia Cohen was at dinner in Orlando when in

² The Natural Blue investors who have been subpoenaed and are expected to testify to these facts are Elizabeth Flaherty, Joseph “Sandy” Robinson, and Edward Wolf.

attendance for meeting). At that time, Natural Blue's mission was to create, acquire or otherwise invest in "green" companies, with a focus on locating, purifying and selling water recovered from underground aquifers in New Mexico. As the witnesses will testify, shortly after this kickoff board meeting, Natural Blue rapidly moved away from the water purification project, which had been of great interest to Anaya and Pelosi, and toward recycling and harvesting steel, at the direction of Cohen and Corazzi.

From the moment Natural Blue became public, Cohen and Corazzi had substantial influence over day-to-day management decisions, and asserted control over Natural Blue almost immediately. In addition to having hand-picked the President and the CEO, Cohen dictated that Walter Cruickshank, the CFO of Blue Earth, be made the CFO of Natural Blue. Moreover, the physical Natural Blue office was located in the same Florida offices as Blue Earth, where Cohen worked, and the corporate books and records were maintained there, while the CEO and President were located in the western United States. Also at Cohen's direction, the company quickly changed lawyers, terminating Vuksich and hiring Jeffrey Decker, an Orlando-based lawyer recommended by Cohen. Decker, in turn, recommended another Orlando-based firm (Cross, Fernandez and Riley) to become Natural Blue's auditor. Accordingly, Cross, Fernandez and Riley became the new auditors for both Natural Blue and Blue Earth. And, despite being CEO in name, Anaya was required to submit all invoices to Cohen and Pelosi for approval.

Cohen and Corazzi were also the primary fundraisers for Natural Blue, and shortly after the company went public, insisted that Natural Blue enter into consulting agreements with a company controlled by Cohen called "JEC Corp." See Investigative Testimony Exhibits 98 and 99 (JEC Corp. consulting agreements). Indeed, Cohen and Corazzi threatened to cancel and/or delay a fundraising trip in November 2009 if the consulting agreements (through which they would be paid) were not immediately approved by the board. In November 2009, Natural Blue

entered into an Advisory Agreement with JEC Corp., pursuant to which JEC Corp agreed to research and present potential merger and acquisition targets for Natural Blue. Also in November 2009, Natural Blue entered into a separate Management Agreement with JEC Corp. to organize and manage a new steel subsidiary called Natural Blue Steel (“NBS”). Both the Advisory and Management agreements specified that JEC would provide services through Cohen and Corazzi. When Pelosi expressed significant discomfort with the consulting agreements, Cohen and Corazzi garnered sufficient shareholder votes to oust Pelosi, and ultimately forced him off the board. See Pelosi Tr. at 192-196; see also SEC-Modaz-P-0000036-40 (December 29, 2009 e-mail from Corazzi to Jane Bartell attaching consent to remove Pelosi from board of directors and directing to sign).

Cohen and Corazzi’s outsized influence over the company, which extended well beyond the facial scope of the “consulting” agreements, continued throughout 2009 and 2010. Indeed, one of Natural Blue’s former auditors will testify at the hearing that his firm resigned in 2010 because they were concerned about the high level of control that Cohen exercised over the company and had learned that Cohen had a disciplinary history with NASD.³ After Pelosi was forced out in January 2010, Murphy resigned just a few weeks later, and Anaya’s ongoing efforts to assert control over the company were largely ineffectual. Among other things, Anaya sought to hire New Mexico-based counsel and to move the company’s books and records to his city of residence; Cohen refused and instead, the company stayed in Cohen’s home town and Natural Blue hired Corazzi’s former counsel, Steve Rountree. In September of 2010, Anaya clashed with Cohen and Corazzi (going so far as to threaten to terminate their contracts) and it was shortly after that confrontation that Corazzi began the negotiations with Atlantic that led to the

³The audit partner, Paul Horowitz, is expected to testify that at the time his firm resigned, he was aware of the prior NASD matter involving Cohen, but not Cohen’s prior criminal conviction and incarceration in New York.

issuance of 35 million shares to Atlantic and its designees and the resignation of Natural Blue's directors and officers in late January 2011.

Cohen and Corazzi profited financially from Natural Blue through their receipt of both monetary payments and shares of Natural Blue stock. From May 2009 to August 2010, Cohen and JEC Corp. received at least \$249,000, with another \$101,000 going to Blue Earth, the microcap company controlled by Cohen. Companies affiliated with Corazzi also received more than \$171,000 in payments. Indeed, as a Division staff accountant (Sofia Hussain) will demonstrate, Cohen and Corazzi together were paid approximately 54% of all of the compensation paid by Natural Blue, whereas the company's CEO and President, respectively, were paid only approximately 14% and 6% of the compensation. Cohen also arranged for Natural Blue to "loan" Blue Earth \$100,000 in connection with the purported acquisition of Blue Earth by Natural Blue; however, the acquisition never occurred and the "loan" was never repaid by Blue Earth. Cohen and Corazzi also received large amounts of Natural Blue stock, although they disguised that fact by having the shares, in which they had a beneficial interest, issued to others.

Stage 3: Corazzi and Cohen Orchestrated Major Corporate Transaction for Natural Blue in January 2011, and in June 2011, Cohen Stage-Managed the Ouster of CEO Erik Perry

In January 2011, Natural Blue announced that it had entered into an agreement with Massachusetts-based Atlantic Acquisitions and its wholly-owned subsidiary, Atlantic Dismantling (collectively, "Atlantic"). According to press releases issued by Natural Blue in January and February 2011, the agreement resulted in a dramatic change in Natural Blue's business prospects. In fact, the Natural Blue/Atlantic transaction was orchestrated by Cohen and Corazzi, with virtually no input from Natural Blue's management.

As the evidence at the hearing will show, in or about October 2010, Perry (then the CFO

of Atlantic) came into contact with Corazzi, who promptly introduced him to Cohen. Perry, working with Eric Ross, a venture capitalist in New York, discussed various financing options with Cohen and Corazzi, and later introduced both Cohen and Corazzi to Atlantic's management. Perry, Ross, Cohen and Corazzi negotiated over the coming months, and eventually both Atlantic and Natural Blue approved the transaction that was consummated on January 27, 2011.

The transaction between Atlantic and Natural Blue resulted in a complete change in Natural Blue's management and business focus, which was orchestrated entirely by Respondents Cohen and Corazzi. The principals of Atlantic dealt exclusively with Cohen and Corazzi throughout the negotiations. Indeed, throughout the negotiations, and until the eve of closing, the Atlantic principals believed that Cohen and Corazzi were the people who ran Natural Blue.

However, the Atlantic transaction fell far short of Natural Blue's expectations, and did not result in improved financial prospects for the company. Instead, as this Court has already found in issuing a default judgment against Natural Blue,⁴ the company (under Perry's direction) made misrepresentations to investors beginning in January 2011 about its financial condition, including the value and existence of contracts purportedly entered into by Atlantic/Natural Blue, and ceased making its required periodic filings with the Commission.

On February 11, 2011, Natural Blue issued a press release announcing that it had incorporated a wholly-owned subsidiary, NBS/Atlantic. The press release announced that NBS/Atlantic "has entered into two new environmental restoration/demolition contracts totaling \$2.5 million dollars... involving remediation of contaminated soil and ground water as part of a major infrastructure project taking place with the transit authority in Boston, MA." The

⁴ See Initial Decision Release No. 710 (File No. 3-15974) (Nov. 26, 2014) (finding Natural Blue Resources, Inc. in default, and issuing findings of fact and law) ("Initial Decision"); see also Release No. 9696 (File No. 3-15974) (Jan. 7, 2015) (initial decision is the final decision of the Commission). Since this Court has made findings of fact with regard to the misrepresentations by Natural Blue and Perry, the Division does not expect to adduce further proof at the hearing with regard to the (non-)existence of the MBTA contracts and/or the misrepresentations made to investors or on the Natural Blue website, since those facts have already been deemed established as a matter of law.

February 11, 2011 release further quoted CEO Perry as saying: "This is a great beginning to our revenue stream and I'm thrilled that our team [has] secured these contracts so quickly given the rough weather we've all experienced." These statements were false and misleading because NBS/Atlantic had not entered into these or any other contracts with the transit authority in Boston (the Massachusetts Bay Transit Authority or MBTA), nor had Natural Blue or Atlantic.

Beginning in or about January 2011, Natural Blue also made false and misleading statements on its website in a section under the heading "Natural Blue Steel." As of January 2011, the NBS section of the website bearing the headline "Current Projects" contained a chart listing 19 projects divided among three categories: "In Process," "Work on Hand," and "End of Process." This information was false and misleading, because none of the listed projects were NBS contracts or contracts of Natural Blue or its subsidiaries. Rather, most of the projects were Atlantic contracts, which had not been and never were assigned to NBS or NBS/Atlantic. In addition, in the category "Work on Hand," the Natural Blue Steel website chart listed MBTA Fairmont Line Readville and MBTA Fairmont Line New Market. As discussed above, these statements were false and misleading because neither NBS, NBS/Atlantic, nor Natural Blue had such contracts with the MBTA. Not even Atlantic had such contracts with the MBTA. In addition, the NBS chart included a heading, "Total Revenue Expected Thus Far for 2011" and, under it, the amount of \$45,359,068.00." That statement was false and misleading because none of the projects listed in the chart were NBS projects, and there was no basis in fact for the revenue figure.

None of the misrepresentations by Natural Blue during Perry's tenure resulted in improved financial prospects for the company. Rather, the company continued to founder, and

in June 2011,⁵ Perry was abruptly dismissed as the CEO of Natural Blue at a board meeting. Yet again, the change in Natural Blue management was directed, in part, by James Cohen. Cohen secretly attended the telephonic board meeting during which Perry was ousted and replaced with Joseph Montalto, the founder of Atlantic. As the audio recording of the meeting reveals, Cohen directed Perry's ouster because a plan being proposed by Perry would have significantly decreased Cohen's and Corazzi's influence over Natural Blue and their ownership interest.

Natural Blue, Anaya and Perry All Misled Investors by Failing to Disclose that Cohen and Corazzi Were De Facto Officers

As the evidence at the hearing will show, Cohen and Corazzi's scheme to conceal their disciplinary backgrounds and role as *de facto* officers afforded them the ability to raise substantial funds from investors. Those investors will testify at the hearing that, had they known of Cohen's prior conviction and/or Corazzi's officer/director bar, they would never have invested in Natural Blue. Moreover, certain of the investors will testify that they understood Cohen and Corazzi to be involved in the day-to-day management of Natural Blue, notwithstanding their purported role as "consultants" to the public company. And, of course, all of those investors lost money as a result of their decision to invest in Natural Blue.

While the Division expects to meet and exceed the burden of proof as to Cohen and Corazzi, the evidence at the hearing will show that the individuals who had management titles at Natural Blue were not blameless with regard both the misrepresentations and omissions to the investors. To be sure, Cohen and Corazzi intentionally obscured their central role at Natural Blue from investors, to avoid disclosure of their disciplinary backgrounds, and the Division will ask this Court to find them liable and to impose sanctions at the close of the case. However, as

⁵ As reflected in the default judgment against Natural Blue, the company is now defunct – and while Natural Blue had some limited business operations after June 2011, the Division does not expect to present more than minimal evidence about the company's activities after that date. See Initial Decision (finding, *inter alia*, that Natural Blue's corporate charter was declared forfeited by the Secretary of State in November 2010, is delinquent in its periodic findings with the Commission, and failed to appear or answer the Order Instituting Proceedings in this case).

the evidence will also show, Anaya (who has settled with the Commission) was negligent in failing to disclose material information about Cohen and Corazzi, and in deferring to Cohen and Corazzi in the day-to-day management of Natural Blue – despite knowing (prior to becoming CEO) that Corazzi had been barred by the Commission as an officer or director, and (by April 2010) that Cohen had been incarcerated. Furthermore, Erik Perry⁶ (who has also settled with the Commission) made intentional misrepresentations to investors about Natural Blue's financial condition, including false statements about non-existent contracts with the transit authority. Finally, the company itself has been found liable for violating the federal securities laws by making intentional misrepresentations and omissions to investors. Due both to Anaya's negligence, and the fact that Cohen and Corazzi had schemed to conceal both their disciplinary backgrounds and their roles as *de facto* officers, Natural Blue failed to disclose publicly the degree of influence that Cohen and Corazzi exercised as *de facto* officers of the company, including the extent of their involvement in its creation, selection of officers and directors, policy making, and management. Natural Blue also failed to disclose Cohen's conviction and Corazzi's permanent officer and director bar and permanent injunction against further violations of antifraud provisions of the securities laws.

Natural Blue's Form 10-K for the year ended December 31, 2009 states that, in November 2009, Natural Blue entered into a Management Agreement and an Advisory Agreement with JEC Corp. However, it states only that JEC Corp. "is owned by one of our shareholders and the shareholder is related to one of our consultants." The 2009 Form 10-K does not specifically identify Cohen nor does it disclose the fact that he recently had served time in state prison for committing the felonies of attempted enterprise corruption and attempted grand

⁶ Anaya is expected to testify at the hearing; Perry (who recently returned from Bulgaria, where he had resided since mid-2011) is not expected to testify.

larceny in the first degree.⁷ The same materially incomplete disclosure about the Management Agreement and the Advisory Agreement with JEC Corp. was included in the company's Form 10-Q filings for the first three quarterly periods of 2010 (the "2010 10-Qs").

LEGAL ANALYSIS

A. Cohen and Corazzi Were De Facto Officers of Natural Blue

Whether a person is an "officer" under the securities laws is a fact-intensive inquiry that focuses on the concrete attributes of the individual's role with the company, including the level of influence over company policy and affairs, rather than on any formal title. *See, e.g., SEC v. Prince*, 2013 WL 1831841 at *23 (D.D.C. May 2, 2013), Fed. Sec. L. Rep. P. 97, 408 (finding that a "functional, fact-intensive analysis of an alleged officer's duties and responsibilities" to determine whether he is a *de facto* officer is "a fair and reasonable approach which is consistent with the SEC's overriding obligation to protect the investing public"); *SEC v. Solucorp*, 274 F. Supp. 2d 379, 420 (S.D.N.Y. 2003) (finding that "consultant" was an officer because he performed a policymaking function and duties analogous to those of an officer); *SEC v. Enterprises Solutions*, 142 F. Supp. 2d 561, 574 (S.D.N.Y. 2001) (executive officers include "not only those formally designated as such, but also any person who performs a similar role for the company"); *CRA Realty Corp. v. Crotty*, 878 F.2d 562, 563 (2d Cir. 1989) (employee's functions, rather than title, determine whether he is an officer). Among other things, courts look to the functions of an executive officer⁸ set forth in Rule 3b-7 of the Exchange Act, which

⁷ Although the Form 10-K itself does not identify Cohen or Corazzi by name, copies of the JEC Corp. Advisory and Management agreements were filed as exhibits to that document, and those agreements do refer to both Respondents by name. However, neither the Form 10-K, including the exhibits, nor any other Commission filing made by Natural Blue discloses the actual extent of the roles Cohen and Corazzi played at Natural Blue or their significant disciplinary histories.

⁸ In addition, the Division will introduce the testimony of Professor Robert Daines of Stanford Law School, an expert on corporate governance. *See Daines Direct Testimony for the Division* (being filed contemporaneously). In his direct examination, Professor Daines explains the discipline of corporate governance and outlines the typical roles and responsibilities of a public company's directors, CEO, President, and other senior executives. Professor Daines also considers the facts alleged by the Division here and, after weighing factors and information germane to

defines an executive officer as its “president, any vice president . . . in charge of a principal business unit, division or function (such as sales, administration, or finance), any other officer who performs a policy making function or any other person who performs similar policy making functions for the registrant.”

Cohen and Corazzi meet the definition of executive officers. Although they were publically referred to as consultants hired for specific projects by Natural Blue, they played a much more significant role in the company’s daily management and policy-making functions. As the witnesses and documentary evidence at the February 9 hearing will establish, Cohen and Corazzi were the individuals who were truly running the company and controlling its day-to-day affairs, leaving the formally titled officers and directors unable to independently make significant decisions on behalf of the company. *See, e.g., Enterprise Solutions*, 142 F.Supp.2d at 570 (“consultant” was *de facto* officer where witnesses testified that the consultant “made it absolutely clear that he was . . . running the company.”); *Solucorp*, 274 F.Supp.at 385 (company’s president had to check with *de facto* officer before responding to questions, including matters involving company’s outside auditor). Cohen and Corazzi placed a number of their associates on the Natural Blue board, which allowed them to further control the direction of the company. Significantly, Cohen negotiated the reverse merger with Datameg that created the public company in the first place, and Corazzi and Cohen were responsible for negotiating the deal with Atlantic. *See, e.g., Enterprise Solutions*, 142 F.Supp.2d at 570 (proof of *de facto* officer status included negotiating a proposed acquisition of another company). Cohen and Corazzi had the authority to both make and implement certain important policy decisions for the

corporate governance, opines that Respondents’ directives and activities on behalf of Natural Blue, taken together, would ordinarily be within the purview of corporate officers and directors. Professor Daines also confirms that, although companies regularly retain outside consultants to provide any number of services, it would be highly unusual for such consultants to take over substantially all of the core functions of a company’s directors, CEO and President, as was done here.

company and were *de facto* officers of Natural Blue. *Compare Enterprises Solutions*, 142 F.Supp.2d at 574, and *Solucorp*, 274 F.Supp.2d at 420 (both finding sufficient evidence that “consultants” were *de facto* officers), with *Prince*, 2013 WL at *26 (individual not *de facto* officer because, although involved in company strategy and policy, he lacked authority to make or implement policy decisions).

B. Cohen and Corazzi Engaged in a Fraudulent Scheme By Concealing Their Roles as De Facto Offices and Thus Their Disciplinary Backgrounds

Sections 17(a)(1) and 17(a)(3) of the Securities Act make it unlawful to employ any device, scheme, or artifice to defraud, or to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon any purchaser in the offer or sale of securities. Violations of Section 17(a)(1) of the Securities Act require a showing of scienter (Section 17(a)(3) of the Securities Act does not have a scienter requirement). *Aaron v. SEC*, 446 U.S. 680, 701-02 (1980). Scienter has been defined as a state of mind embracing intent to deceive, manipulate or defraud. *Aaron*, 446 U.S. at 687, n. 5. Recklessness can satisfy the scienter requirement. *See, e.g., SEC v. Steadman*, 967 F.2d 636, 641-42 (D.C. Cir. 1992). Cohen and Corazzi engaged in a scheme and fraudulent course of business to create and operate Natural Blue as a vehicle for Cohen and Corazzi to control and profit from the company while concealing their roles as *de facto* officers and their past criminal and regulatory violations from potential investors.⁹ From the creation of Natural Blue through its business relationship with

⁹ While some courts have held that alleged fraudulent conduct under (a) and (c) must be more than a reiteration of misrepresentations, the Commission has stated that, “The three main subdivisions of Section 17 and Rule 10b-5 have been considered to be mutually supporting rather than mutually exclusive.” *Cady Roberts & Co.*, 40 S.E.C. 907, 913 (1961); *Cf. U.S. v. Najafin*, 441 U.S. 768, 774 (1979) (“Each succeeding prohibition [in Section 17(a)] is meant to cover additional kinds of illegalities – not narrow the reach of the prior sections.”). These actions went beyond misrepresentations and omissions. *See SEC v. Kovzan*, 2013 WL 5651401 (D. Kan. Oct. 15, 2013) (on summary judgment motion, following appellate rulings that plaintiff must show evidence of deceptive acts beyond misrepresentations and finding that it had done so); *SEC v. Alternative Green Tech, Inc.*, 11-cv-9056, slip op. at 15 (S.D.N.Y. Sept. 24, 2012) (where complaint specifically alleges “inherently deceptive” conduct in addition to misrepresentations, scheme liability may be invoked); *SEC v. Brown*, 2012 WL 2927712, at *6 (D.D.C. July 19, 2012) (where officer alleged to have taken affirmative steps to ensure that records concealed omissions in corporate

Atlantic, Cohen and Corazzi acted as high-level officers of the company while publically calling themselves “consultants” to hide their past violations and mislead investors. They were able to profit through “consulting” contracts and other payments for failed efforts during a time when the company had no revenue. Both Cohen and Corazzi knew or were reckless in not knowing that they committed deceptive acts in furtherance of a fraudulent scheme.

CONCLUSION

As a result of the conduct described above, Cohen and Corazzi willfully violated Section 17(a)(1) and 17(a)(3) of the Securities Act, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities, by engaging in a device, scheme and/or artifice to defraud and/or engaging in a transaction, practice and/or course of business which operated or would have operated as a fraud or deceit upon the purchaser. Cohen and Corazzi violated these laws and regulations by creating and operating Natural Blue as a vehicle for Cohen and Corazzi to control and profit from the company, while failing to disclose their roles as *de facto* officers or their past criminal and regulatory violations to potential investors. Both Cohen and Corazzi knew or were reckless in not knowing that they committed deceptive acts in furtherance of this fraudulent scheme.

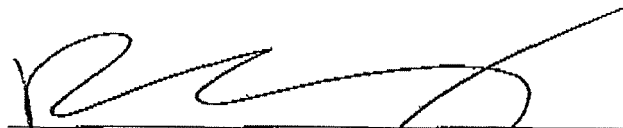
filings, such acts construed as deceptive conduct to satisfy requirement of scheme liability).

Accordingly, this Court should find both Cohen and Corazzi liable for the violations set forth in the Order Instituting Proceedings, and impose sanctions including a cease-and-desist order, disgorgement, civil penalties, and such other relief as the Court deems appropriate.

Respectfully submitted,

DIVISION OF ENFORCEMENT

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Dated: January 26, 2015

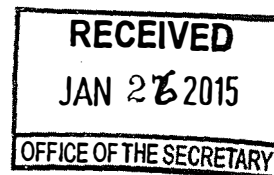


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SECURITIES AND EXCHANGE COMMISSION

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DIVISION OF ENFORCEMENT

January 26, 2015



By Fax and Overnight Mail

Mr. Brent Fields
Office of the Secretary
Securities & Exchange Commission
100 F Street, N.E.
Washington DC 20549

Re: *In the Matter of Natural Blue Resources, Inc., James E. Cohen, and Joseph Corazzi, Respondents*
Administrative Proceeding File No. 3-15974

Dear Secretary Fields:

Relative to the above Administrative Proceeding, enclosed please find an original and three copies of the Division's Revised Exhibit List, Expert Report and Pre-Hearing Brief.

Very truly yours,

Stephanie DeSisto
Paralegal

cc: Honorable Carol Fox Foelak (by electronic mail)
Maranda Fritz (counsel for Respondent Cohen) (by electronic and overnight mail)
Joseph Corazzi, *Pro Se* (by electronic and overnight mail)

UNITED STATES
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