

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73248 / September 29, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16180

In the Matter of

ROTHMAN SECURITIES, INC. and
THEODORE ROTHMAN,

Respondents.

ORDER INSTITUTING
ADMINISTRATIVE PROCEEDINGS
PURSUANT TO SECTION 15(b) OF THE
SECURITIES EXCHANGE ACT OF 1934,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) against Rothman Securities, Inc. and Theodore Rothman (collectively “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, Respondents consent to the Commission’s jurisdiction over them and the subject matter of these proceedings and to the entry of this Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions (“Order”), as set forth below.

III.

On the basis of this Order and Respondents’ Offers, the Commission finds¹ that:

¹ The findings herein are made pursuant to Respondents’ Offers of Settlement and are not binding on any other person or entity in this or any other proceeding.

1. These proceedings arise out of a fraud conducted by David L. Rothman (“David”), Theodore Rothman’s son and a registered representative of Rothman Securities, Inc.

Respondents

2. Rothman Securities, Inc. (“RSI”), is a Pennsylvania corporation that has been registered with the Commission as a broker-dealer pursuant to Section 15(b) of the Exchange Act since October 1983. RSI is headquartered in Southampton, PA and is a mutual fund retailer and municipal securities broker. RSI has transferred the majority of its customers, is no longer conducting broker-dealer activities, and is in the process of winding down its business and operations.

3. Theodore Rothman (“Rothman”), age 76, is the founder, owner, President and Director of RSI. Until 2013, Rothman served as RSI’s Chief Compliance Officer. From 1963 through July 28, 2014, Rothman was a registered representative associated with broker-dealers registered with the Commission.

Other Relevant Individual

4. David L. Rothman, age 50, is Rothman’s son and, during the relevant period, was a registered representative and partial owner of RSI. On September 21, 2012, the Commission filed a civil injunctive action against David in the United States District Court for the Eastern District of Pennsylvania. SEC v. David L. Rothman, Civ. Action No. 12-cv-5412-BMS (E.D.Pa.). As described in more detail below, the Commission’s complaint alleges that, from 2006 to 2011, David engaged in fraudulent conduct in connection with his position as a registered representative with RSI. Based on that misconduct, the complaint alleges that David violated Section 17(a) of the Securities Act of 1933, Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder. On January 27, 2014, the district court entered a final judgment as to David, based upon his consent to judgment on the Commission’s complaint.

5. On the same date that the Commission filed its complaint, the United States Attorney’s Office for the Eastern District of Pennsylvania filed an indictment against David stemming from the same conduct. On March 26, 2013, David pled guilty to one count of wire fraud in violation of Title 18 United States Code, Section 1343 and one count of engaging in a monetary transaction in criminally derived property in violation of Title 18 United States Code, Section 1957 before the United States District Court for the Eastern District of Pennsylvania, in United States v. David L. Rothman, Crim. No. 12-513. The counts of the criminal indictment to which David pled guilty alleged that, in connection with RSI, David schemed to defraud several customers of RSI and obtain money by means of false representations; that he did so by use of the means of wire communications in interstate commerce; and that he executed the scheme and artifice to defraud by making misrepresentations concerning, among other things, the value of customers’ investments.

Overview

6. From 2006 through 2011, David issued inflated account statements to several investors that materially overstated the value of their investment accounts. When the investors discovered that David had misrepresented the value of their investments, he engaged in a scheme to conceal his fraudulent conduct by agreeing to pay those investors the investment returns he reported on the inflated account statements. When David could no longer afford to make those payments, he misappropriated funds from an elderly and unsophisticated RSI customer and from two trust accounts (established by former RSI customers but not maintained at RSI) for which he served as trustee, and borrowed funds from Rothman. David also used a substantial portion of the misappropriated funds for his personal benefit.

7. RSI and Rothman failed reasonably to supervise David with a view to preventing and detecting his violations of the federal securities laws.

David Rothman's Conduct

8. Beginning at least as early as 2006, David prepared and sent cover letters and account statements that overstated the value of two of his customers' investment accounts. David inflated the customers' investment accounts by increasing the amount or price of the shares they owned. David continued to send false account statements and cover letters to customers at least through May 2011.

9. By issuing inflated account statements, David at times exaggerated these customers' returns and at other times concealed the fact that their account values were in decline. As a result, David was able to maintain his business relationship with these customers and he continued to earn compensation from the investment products he sold to them.

10. In 2010, the customers who had been receiving inflated account statements from David discovered that their holdings were, in fact, worth substantially less than the amount reported by David. The customers confronted David and he agreed to compensate them until the true value of their holdings equaled the amount he reported they held in their accounts.

11. David misappropriated funds from an elderly customer and two trusts for which he served as trustee and used a portion of the misappropriated funds to pay the customers that had received the inflated statements. In particular, on at least six occasions from May 6, 2011 until May 11, 2011, David caused an elderly customer to redeem mutual funds worth approximately \$335,000. David deposited the proceeds of each of these sales into a bank account that he controlled.

Respondents Failed Reasonably to Supervise David Rothman

12. RSI and Rothman failed reasonably to supervise David with a view to preventing and detecting his fraudulent acts. Rothman was responsible for overall supervision at RSI, including the development and implementation of reasonable supervisory policies and procedures. RSI and Rothman failed to develop reasonable policies and procedures, and a system for implementing such procedures, which would reasonably be expected to prevent and detect the

fraudulent conduct described herein. In particular, RSI and Rothman failed to adopt and implement adequate supervisory policies, procedures and systems that would have prevented and detected David's misappropriation of customer funds and misrepresentations to customers. Specifically, RSI's procedures failed to require the review and monitoring of transmittals of customer funds resulting from the liquidation of mutual funds. In addition, RSI and Rothman failed to develop reasonable policies and procedures with respect to follow-up of red flags indicating that registered representatives may be making misrepresentations to customers regarding account values. If RSI and Rothman had developed policies and procedures reasonably designed to address the review and monitoring of transmittals of funds resulting from customers' mutual fund redemptions and reasonable policies and procedures to provide guidance on appropriate follow-up to red flags indicating possible misrepresentations by registered representatives to customers, it is likely that RSI would have prevented and detected David's misconduct.

13. Rothman, David's supervisor, failed reasonably to supervise his son with a view to preventing his violations of the federal securities laws. At all times, Rothman was solely responsible for supervising David. Rothman exercised inadequate supervision over David. Specifically, Rothman failed reasonably to supervise David with respect to his misrepresentations to customers. RSI's procedures required Rothman to review incoming and outgoing correspondence, including periodic account statements and cover letters, and to document his review of such communications. Rothman failed to regularly review communications that David prepared. If Rothman had reviewed the customer account statements and customer cover letters that David sent to customers, he would have prevented and detected David's misrepresentations to customers regarding their account values and could have prevented David's subsequent misappropriation of another customer's funds that David used to pay back the customers for inflated account values.

14. Moreover, once Rothman became aware of a customer complaint indicating that David had sent many false statements to customers, he failed to take reasonable steps to address the red flags reflected in the multiple account statements sent over several years, such as by subjecting David to heightened supervision, closely monitoring his communications with customers, or restricting his business activities at RSI in a timely manner. David continued to send false account statements and cover letters to customers at least through May 2011. If Rothman had taken appropriate follow-up action with respect to David's misrepresentations to customers, he would have prevented David's ongoing misconduct.

Failure to Supervise

15. Section 15(b)(4)(E) of the Exchange Act provides for the imposition of a sanction against a broker or dealer who has failed reasonably to supervise, with a view to preventing violations of the securities laws, another person who commits such a violation, if such other person is subject to his supervision. Section 15(b)(6)(A)(i) incorporates by reference Section 15(b)(4)(E) and provides for the imposition of sanctions against persons associated with a broker or dealer.

16. As a result of the conduct described above, Respondents RSI and Rothman failed reasonably to supervise David with a view to preventing and detecting his violations of the federal securities laws.

IV.

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

Accordingly, it is hereby ORDERED pursuant to Section 15(b) of the Exchange Act that:

- A. RSI is hereby censured.
- B. Rothman shall be, and hereby is barred from association in a supervisory capacity with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization.
- C. Any reapplication for association by Rothman will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against Rothman, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.
- D. Rothman shall pay a civil money penalty in the amount of \$40,000 to the United States Treasury as follows: \$20,000 to be paid within 10 days of the entry of this Order, and the remaining \$20,000 to be paid within nine months of the entry of this Order. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. Payment must be made in one of the following ways:
- (1) Rothman may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
 - (2) Rothman may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
 - (3) Rothman may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341

6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Theodore Rothman as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Kingdon Kase, Assistant Regional Director, Division of Enforcement, Securities and Exchange Commission, One Penn Center, 1617 JFK Boulevard, Suite 520, Philadelphia, PA 19103.

E. RSI shall pay a civil money penalty in the amount of \$90,000 to the United States Treasury as follows: \$45,000 to be paid within 10 days of the entry of this Order, and the remaining \$45,000 to be paid within nine months of the entry of this Order. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. Payment must be made in one of the following ways:

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

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

Payments by check or money order must be accompanied by a cover letter identifying Rothman Securities, Inc. as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Kingdon Kase, Assistant Regional Director, Division of Enforcement, Securities and Exchange Commission, One Penn Center, 1617 JFK Boulevard, Suite 520, Philadelphia, PA 19103.

By the Commission.

Brent J. Fields
Secretary