

# HARD COPY

UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING  
File No. 3-16795



In the Matter of

Joseph J. Fox,  
Respondent.

DIVISION OF ENFORCEMENT'S  
MOTION FOR SUMMARY AFFIRMANCE OF INITIAL DECISION

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**PRELIMINARY STATEMENT**

Pursuant to Rules 154 and 411(e) of the Securities and Exchange Commission's Rules of Practice, the Division of Enforcement (the "Division") respectfully moves for summary affirmance of the Initial Decision entered on April 25, 2016 ("Initial Decision"), which barred Respondent Joseph J. Fox ("Fox") from the securities industry for a period of five years and from participating in an offering of penny stock. This case is appropriate for summary affirmance because Fox failed to demonstrate that any prejudicial error was committed in the conduct of the proceeding or that the Initial Decision embodied an exercise of discretion or decision of law or policy that is important and should be reviewed by the Securities and Exchange Commission ("Commission").

As the result of a settlement agreement, the proceedings before the Administrative Law Judge ("ALJ") were limited to the determination of a single issue: whether non-financial remedial sanctions against Fox pursuant to Section 15(b)(6) of the Securities Exchange Act of 1934 ("Exchange Act") were in the public interest. The parties were given

ample opportunity to express their views on this issue during several rounds of exhaustive briefing and a lengthy prehearing conference. Based on the undisputed record and a detailed consideration of the public interest factors established in Steadman v. SEC, 603 F.2d 1126, 1140 (5<sup>th</sup> Cir. 1979), the ALJ found that Fox should be barred from the securities industry and from participating in an offering of penny stock, with the right to apply for reentry after five years. This conclusion is supported by the record, which established that Fox committed numerous violations of the registration provisions of the Securities Act of 1933 (“Securities Act”) and which Fox agreed would be taken as true for the purposes of this proceeding. In fact, the ALJ even expanded upon his conclusions in his Order Denying Respondent’s Motion to Correct a Manifest Error of Fact. Despite its length, Fox’s Petition for Review does not identify any issue that warrants further proceedings. Accordingly, the Commission should summarily affirm the Initial Decision and bar Fox from the securities industry and penny stock industry, with the right to apply for reentry after five years.

## **STATEMENT OF FACTS**

### **A. The Administrative Proceedings**

Fox consented to the entry of an Order Instituting Proceedings (“OIP”) finding that he willfully violated Sections 5(a) and 5(c) of the Securities Act, ordering him to cease and desist from committing such violations and requiring him to pay disgorgement of \$125,210, prejudgment interest of \$5,426 and a civil penalty of \$75,000. Fox also consented to additional proceedings to determine what, if any, additional non-financial remedial sanctions pursuant to Section 15(b)(6) of the Exchange Act were in the public interest. In connection with the additional proceedings, Fox agreed that (i) he would be precluded from arguing that he did not violate the federal securities laws as described in the OIP; (ii) he

could not challenge the validity of the OIP; (iii) the findings of the OIP would be accepted as and deemed true by the hearing officer; and (iv) the hearing officer could determine the issues raised in the additional proceedings on the basis of affidavits, declarations, excerpts of sworn deposition or investigative testimony, and documentary evidence or in-person testimony at a public hearing. (OIP at 6.)

The parties' settlement agreement established a set of undisputed facts as detailed in the OIP and resolved all issues except for the non-financial remedial sanctions to be imposed under Section 15(b)(6) of the Exchange Act. Thus, the proceedings before the ALJ were confined to determining the single issue of whether it would be in the public interest to suspend or bar Fox from the securities industry and from participating in an offering of penny stock. From November 6, 2015 to February 26, 2016, the parties thoroughly briefed the facts and law related to the public interest factors outlined in Steadman. On March 21, 2016, the parties participated in a lengthy telephonic prehearing conference with the ALJ during which the parties provided additional information about the public interest factors. On April 25, 2016, the ALJ issued an Initial Decision barring Fox from the securities industry with the right to apply for reentry after five years and from participating in an offering of penny stock. On May 6, 2016, Fox filed a motion to correct manifest errors in the Initial Decision, and on May 19, 2016, the ALJ issued an Order Denying Respondent's Motion to Correct a Manifest Error of Fact. In reviewing Fox's motion, the ALJ considered numerous exhibits submitted by Fox that were not properly part of the record and construed each assignment of manifest error liberally because Fox is *pro se*. In the Order, the ALJ found no manifest error of fact and expanded upon and further explained the reasoning that supported the conclusions reached in his Initial Decision.

## **B. Fox's Violations of the Federal Securities Laws**

Fox began his career in the securities industry when he co-founded Web Street Securities, a registered broker-dealer, in 1996. (Response to Motion for Summary Disposition ("Fox Resp.") at 6.) Fox raised more than \$22 million for Web Street through private placements before taking the company public in 1999. (Id. at 7.) In 2005, Fox co-founded Iggy's House, Inc., an online real estate company. (Id. at 10.) Fox raised more than \$14 million for Iggy's House through private placements before trying to take it public in 2007. (Id.) Fox incorporated Ditto Holdings, Inc. in January 2009. (Id.) Fox was the Chief Executive Officer of Ditto Holdings and served as the Chief Executive Officer of Ditto Trade, Inc., a registered broker-dealer, from its inception until December 2014. (OIP at ¶ 1.) He was a registered representative with Ditto Trade from 2010 to December 2014. (Id.) During that time he held the following FINRA licenses: Series 7 (General Securities Representative), Series 24 (General Securities Principal), Series 28 (Introducing Broker/Dealer Financial and Operations Principal) and Series 63 (Uniform Securities Agent State Law Examination). (Id.)

As Chief Executive Officer and a member of the Board of Directors of Ditto Holdings, Fox played an integral role in Ditto Holdings' efforts to raise capital. (OIP at ¶ 3.) Among other things, Fox was involved in determining when Ditto Holdings would offer to sell securities, what types of securities it would offer to sell, the terms of the securities offerings, and the manner in which the securities offerings would be communicated to potential investors. (Id.)

From April 2009 to September 2013, Ditto Holdings raised approximately \$10 million from more than two hundred investors located throughout the United States

through a series of common and preferred stock offerings. (OIP at ¶ 4.) At least 54 non-accredited investors purchased securities from Ditto Holdings during that period. (Id.) No registration statement was filed in connection with any of Ditto Holdings' securities offerings. (Id. at ¶ 10.)

Ditto Holdings did not maintain a complete and accurate set of financial records from its inception through at least September 2013, and it did not regularly prepare financial statements during that time period. (OIP at ¶ 5.) It never had an audit performed on any of its financial statements. (Id.) Ditto Holdings did not provide offering documents to everyone who was offered the opportunity to purchase its securities, and the offering documents that were distributed did not include financial statements or certain other required financial information about Ditto Holdings. (Id. at ¶ 6.)

Beginning in August 2012, Ditto Holdings entered into a series of agreements with Marc S. Mandel ("Mandel"), under which Mandel agreed to provide a number of services to Ditto Holdings. (OIP at ¶ 7.) Mandel also hosted a radio program, on which Ditto Trade advertised, and distributed an investing newsletter. (Id.) Mandel introduced his newsletter subscribers to Ditto Holding's securities offerings. (Id.) From September 2012 to September 2013, Ditto Holdings paid Mandel at least \$265,000 and granted him warrants to purchase more than 800,000 shares of Ditto Holdings' common stock at a favorable exercise price. (Id.) Mandel sent numerous e-mails to his roughly 350 newsletter subscribers about Ditto Holdings and hosted a series of online webinars and in-person meetings for investors with Fox. (Id. at ¶ 8.) From late 2012 to September 2013, more than 70 of Mandel's subscribers purchased securities from Ditto Holdings at a total cost of approximately \$3.7 million. (Id. at ¶ 9.)

At the time that Ditto Holdings was formed in 2009, it issued shares of common stock to its founders, including Fox. (OIP at ¶ 11.) Beginning in February 2013, Fox discussed with Mandel whether any of Mandel's newsletter subscribers were interested in purchasing any of Fox's shares of Ditto Holdings stock. (Id. at ¶ 12.) Fox provided Mandel with a stock purchase agreement, which included instructions for how to wire investment funds to Fox, and told Mandel that the stock purchase agreement was the only document interested purchasers would need to complete. (Id.)

In March 2013, Mandel began sending e-mails to some of his roughly 350 newsletter subscribers praising Ditto Holdings and telling them about the opportunity to buy Fox's shares of Ditto Holdings stock. (OIP at ¶ 13.) When individuals indicated an interest in buying Fox's shares of Ditto Holdings stock, Mandel provided them with a copy of the stock purchase agreement and told them to contact Fox if they needed more information. (Id.) From April 2013 to July 2013, approximately 28 of Mandel's subscribers purchased approximately 1.21 million shares of stock from Fox at a total cost of approximately \$1.25 million. (Id. at ¶ 14.) During the same period, Fox paid Mandel at least \$124,000 in three installments. (Id. at ¶ 15.) The payments Fox made to Mandel corresponded to roughly 10% of the amount of Fox's sales. (Id.)

Neither Fox nor anyone acting on his behalf took any steps to determine whether any of the individuals who purchased Fox's shares of Ditto Holdings stock were sophisticated investors. (OIP at ¶ 16.) In fact, at least two of the purchasers had previously identified themselves to Ditto Holdings as non-accredited investors. (Id.) The investors did not have access to financial statements or other required information about Ditto Holdings in connection with Fox's sales of Ditto Holdings common stock. (Id. at ¶ 17.) No

registration statement was filed in connection with any of Ditto Holdings' securities. (Id. at ¶ 18.)

Three days after the OIP was entered, Fox and Ditto Holdings issued a press release stating that their settlements with the Commission involved "inadvertent rules issues." (See Wert Decl., attached as Ex. 1 to Motion for Summary Disposition.) The following week, Fox sent an e-mail message to Ditto Holdings' investors including a link to the press release and stating that he and the company had "been vindicated" and that "the SEC backed into what we consider inadvertent technical rules violations." (Id.)

## ARGUMENT

### A. Standard for Summary Affirmance

The Commission may summarily affirm an initial decision "if it finds that no issue raised in the initial decision warrants consideration by the Commission of further oral or written argument." Rule of Practice 411(e)(2); See also In the Matter of Joseph Contorinis, Exchange Act Rel. No. 72031 (April 25, 2014) (Granting summary affirmance of Initial Decision imposing associational and penny stock bars). Summary affirmance is appropriate where no "prejudicial error was committed in the conduct of the proceeding" and the decision does not embody "an exercise of discretion or decision of law or policy that is important and that the Commission should review." Rule of Practice 411(e)(2); See also In the Matter of Eric S. Butler, Exchange Act Rel. No. 65204, n.2 (August 26, 2011) (Summary affirmance may apply where "the relevant facts are undisputed and the initial decision does not embody an important question of law or policy warranting further review by the Commission."). In order to summarily affirm a law judge's decision to impose an industry-wide bar, the Commission must find that the law judge's analysis explained, based

on the facts and circumstances of the case, why the industry-wide bar was in the public interest. See, e.g., In the Matter of Mark Feathers, Exchange Act Rel. No. 73634 (November 18, 2014); In the Matter of Ross Mandell, Exchange Act Rel. No. 71668 (March 7, 2014). Under these standards, summary affirmance is appropriate.

#### **B. Barring Fox from the Securities Industry is in the Public Interest**

Fox committed blatant and repeated violations of key provisions of the federal securities laws governing investor access to information relating to their investment decisions. “The registration provisions are a keystone of the entire system of securities regulation, and set forth basic requirements for the protection of investors.” Sirianni v. SEC, 677 F.2d 1284, 1289 (9<sup>th</sup> Cir. 1982). Fox’s misconduct is not, as he told his investors, limited to “technical rules violations.” The Commission has found in both litigated and settled cases that associational and penny stock bars are in the public interest when individuals violate the securities registration provisions. See, e.g., In the Matter of Charles F. Kirby and Gene C. Geiger, Securities Act Rel. No. 8174, 2003 WL 71681, at \*10-11 (January 9, 2003) (litigated action barring two registered individuals from associating with a broker or dealer and from participating in penny stock offerings with a right to apply for reentry after five years based on violations of Section 5); In the Matter of Robert Patrick Stephens, Securities Act Rel. No. 9461, 2013 WL 5427958 (September 30, 2013) (settled action imposing collateral and penny stock bars based on violations of Section 5); In the Matter of Joseph A. Padilla, Exchange Act Rel. No. 66683, 2012 WL 1066120 (March 29, 2012) (settled action imposing collateral bar against registered individual with a right to apply for reentry after three years based on violations of Section 5); In the Matter of Gary J. Yocum, Exchange Act Rel. No. 66682, 2012

WL 1066119 (March 29, 2012) (settled action imposing collateral bar against registered individual with a right to apply for reentry after three years based on violations of Section 5).

To determine whether a sanction is in the public interest, the Commission considers “the factors identified in Steadman v. SEC: the egregiousness of the respondent’s actions, the isolated or recurrent nature of the infraction, the degree of scienter involved, the sincerity of the respondent’s assurances against future violations, the respondent’s recognition of the wrongful nature of his conduct, and the likelihood that the respondent’s occupation will present opportunities for future violations.” In the Matter of Gary M. Kornman, Exchange Act Rel. No. 59403, 2009 WL 367635, at \*6 (February 13, 2009). The inquiry is a flexible one and no one factor is dispositive. In the Matter of Ronald S. Bloomfield, Securities Act Rel. No. 9553, 2014 WL 768828, at \*18 (February 27, 2014). In this case, the ALJ properly applied the Steadman factors to the facts of the case and correctly determined that the factors overwhelmingly weigh in favor of entering associational and penny stock bars against Fox.<sup>1</sup>

**i. Fox’s Conduct was Egregious**

The ALJ correctly found that Fox’s violations of the securities registration requirements were egregious. In leading Ditto Holdings’ securities offerings, not only did Fox fail to ensure that non-accredited investors received the financial information that they were entitled to, but he also failed to ensure that Ditto Holdings maintained complete and accurate financial records. In connection with his personal sales, Fox did not take any steps to

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<sup>1</sup> Ditto Holdings’ stock was a penny stock. As the ALJ correctly noted, “a stock priced at less than five dollars per share can be a penny stock, even if it is not traded publicly.” (Order Denying Respondent’s Motion to Correct a Manifest Error of Fact at 4.) (citing 17 C.F.R. § 240.3a51-1.) At no time did Ditto Holdings’ stock sell for more than five dollars per share. (Pre-Hearing Conference Tr. at 23-24.) There is no evidence to suggest that Ditto Holdings met any of the other criteria specified in 17 C.F.R. § 240.3a51-1 that would prevent its stock from being considered a penny stock.

determine whether the investors who purchased his personal shares of Ditto Holdings stock were sophisticated or provide them with access to financial statements or other required information about Ditto Holdings. Fox harmed investors by failing to provide them with the information that they were entitled to and that they needed in order to make fully informed investment decisions.

Fox has repeatedly attempted to rely on the fact that Ditto Holdings' subsidiary, Ditto Trade, had its financial statements audited to mitigate the egregiousness of his violations. However, as the ALJ correctly pointed out, investors purchased shares of Ditto Holdings, not Ditto Trade. Ditto Trade's financial statements did not provide any information related to how Ditto Holdings used the investors' funds or other information that would have been pertinent to investors. In any event, there is no evidence to suggest that any of the non-accredited investors received even Ditto Trade's audited financials.

**ii. Fox's Violations were Recurrent**

Fox's violations were not isolated, but rather they were frequent and continued over the course of more than four years. Fox assisted Ditto Holdings in selling roughly \$10 million of unregistered securities to more than two hundred investors, including more than fifty non-accredited investors through several separate securities offerings. He also illegally sold roughly \$1.25 million of unregistered securities to 28 investors for his own benefit. Fox claims in his Petition for Review that his illegal sales occurred during a smaller window, but his claim is contradicted by the findings in paragraphs four and fourteen of the OIP which are accepted as and deemed true for the purposes of this proceeding. (OIP at 6.)

### **iii. Fox Acted with Scienter**

As the ALJ properly noted, Fox, as a securities professional, was required to be knowledgeable about regulatory requirements and to comply with those requirements. See In the Matter of Abraham and Sons Capital, Inc., Exchange Act Rel. No. 44624 (July 31, 2001) (“Securities professionals are required to be knowledgeable about, and to comply with, the regulatory requirements to which they are subject.”) Fox’s failure to be knowledgeable about, and to comply with, the registration provisions establishes recklessness. *Id.*

At the time Fox committed the registration violations at issue in this case, he was an experienced securities professional. Fox founded and served as CEO for two separate brokerage firms. He raised more than \$40 million for three separate companies through private placements. He held various FINRA licenses between 1993 and 2003, including licenses required to exercise supervisory responsibility. In addition, Fox held the following FINRA licenses from 2010 to 2014, the time period of the conduct at issue: Series 7, Series 24, Series 28, and Series 63.

In light of his credentials and experience, Fox must have known the basic requirements for complying with the securities registration provisions and foreseen the risk of violating those provisions by selling securities to non-accredited investors. Nevertheless, Fox repeatedly violated the registration provisions over the course of several years by selling millions of dollars of unregistered securities to hundreds of investors without complying with any exemption from registration. There is no dispute that Fox knew that Ditto Holdings was selling securities to non-accredited investors as Ditto Holdings made a series of Form D filings claiming that its offerings were exempt under Rule 506 and reporting that it sold securities to

non-accredited investors.<sup>2</sup> Further, Fox did not take any steps to determine whether any of the individuals who purchased his personal shares of Ditto Holdings stock were sophisticated investors.

Fox argues that Abraham and Sons Capital is not relevant because the facts of this case are different. To the contrary, Abraham and Sons Capital sets forth a standard requiring securities professionals to be familiar with and to follow regulatory requirements and is not limited to its facts. This standard has been expressed in other cases as well. See, e.g., In the Matter of Jacob Wonsover, Exchange Act Rel. No. 41123 (March 1, 1999) (“Members of the securities industry agree to be subject to the statutes, rules, and regulations administered by the Commission and self-regulatory organizations, and, before entering the business, generally must apply for registration and pass examinations demonstrating their knowledge of the securities laws. Thereafter, these professionals are subject to ongoing obligations to secure compliance with the law in order to protect public investors from illegality.”). Securities professionals play a vital role in the operation of the securities markets, and it is imperative that they know and follow the rules.

Fox fails to appreciate or even acknowledge that he had a responsibility to ensure that his and Ditto Holdings’ sales complied with the registration requirements. Instead, Fox goes to great lengths in his Petition for Review to attempt to show that his decades of experience in the securities industry did not result in him gaining an understanding of the difference between Rule 504 and Rule 506 and to place blame on others for his own violations. As the ALJ correctly noted, Fox’s “claim that he mistakenly applied Rule 504’s disclosure requirements to his (attempted) Rule 506 offerings hurts rather than helps his

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<sup>2</sup> See Ditto Holdings’ Form D filings (available at <http://www.sec.gov/cgi-bin/browse-edgar?company=Ditto+Holding&owner=exclude&action=getcompany>).

case.” (Initial Decision at 6.) By his own admission, Fox raised over \$40 million through private placements and yet never bothered to gain an understanding of the rules pursuant to which he was raising the funds.

Fox’s new claim he relied on counsel does not change the scienter analysis. As noted by the ALJ, Fox’s assertions regarding reliance on counsel relate only to his personal sales of stock and not to Ditto Holdings’ sales. (Initial Decision at 7.) Further, Fox has not made any demonstration or provided any evidence that he made a complete disclosure to counsel as is required to show a good faith reliance on counsel. See, e.g., Markowski v. SEC, 34 F.3d 99, 104-05 (2d Cir. 1994).

**iv. Fox Failed to make Sincere Assurances against Future Violations and to Recognize the Wrongful Nature of his Conduct**

In his Petition for Review, Fox points to a handful of times in which he made self-serving statements about taking responsibility for his actions. However, Fox did not and cannot point to a single instance in which he took any steps beyond these self-serving statements to acknowledge his wrongdoing or to provide assurances against future violations. To the contrary, Fox has continuously minimized his violations, attempted to lay blame on others, and failed to comply with his settlement agreement with the Division.

Just days after the OIP was entered, Fox and Ditto Holdings issued a press release stating that their settlements with the Commission involved “inadvertent rules issues” and sent an e-mail message to Ditto Holdings’ investors stating that he and the company had “been vindicated” and that “the SEC backed into what we consider inadvertent technical rules violations.” Although Fox has attempted to explain away these statements, the ALJ correctly pointed out that “the email is an obvious attempt to downplay and excuse his misconduct.” (Initial Decision at 5.)

Fox has repeatedly attempted to place responsibility for his violations and their consequences on others. For example, Fox asserted that his prior dealings with FINRA and the Commission led him to believe that he was not violating the securities laws and that if he were to be sanctioned then “FINRA themselves would need to be sanctioned.” (Petition for Review at 6.) In addition, Fox has continually placed blame for his and Ditto Holdings’ troubles on purported “false and malicious whistle-blowers.” (See, e.g., Petition for Review at 20; Fox Resp. at 2-4; Wert Decl., attached as Ex. 1 to Motion for Summary Disposition.)

The ALJ found that Fox’s settlement with the Commission “suggests a recognition of his misconduct.” (Initial Decision at 5.) However, Fox has failed to adhere to the settlement agreement. As part of the settlement agreement, Fox agreed not to challenge the validity of the OIP and acknowledged that he entered into the agreement voluntarily. However, Fox’s claim in his Petition for Review that he “was forced to ultimately agree to an OIP that had inaccurate facts (which were made clear to the Division before signing the OIP under duress)” is patently false. (Petition for Review at 20.) While Fox has proceeded *pro se* during these proceedings, he was represented by counsel during settlement negotiations. The Division and Fox, through his counsel, spent months negotiating the terms and the language of Fox’s Offer of Settlement, which contained factual findings identical to the OIP. Further, Fox agreed to pay disgorgement, prejudgment interest and a civil penalty pursuant to a payment plan with the final payment due on June 18, 2016. (OIP at 5.) To date, Fox has not made any payments. (Pre-Hearing Conference Tr. at 19.)

**v. Fox’s Occupation Will Present Opportunities for Future Violations**

Fox has spent the majority of his career in the brokerage industry and raising money in the capital markets. Fox began his career in the securities industry 20 years ago, and since

that time he has founded and controlled two separate brokerage firms, held various FINRA licenses, including supervisory licenses, and raised more than \$40 million for three separate companies through private placements. Although Fox currently claims to be unemployed and have no intention of working in the securities industry (Pre-Hearing Conference Tr. at 17, 20), there is reason to doubt his claims. In December 2014, Fox voluntarily withdrew his FINRA licenses and informed the Division staff that he had no intention of working in the brokerage industry going forward. (Id. at 14.) However, less than one year later, Fox applied to FINRA for a Financial and Operations Principal license. (Id. at 33.) Given his history, it is reasonable to believe that Fox will attempt to find work in the securities industry in the future and therefore have myriad opportunities to commit future violations.

## CONCLUSION

For these reasons, the Division hereby respectfully requests that the Commission summarily affirm the Initial Decision.

Dated: June 30, 2016

Respectfully submitted,

  
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June 30, 2016

**Via Facsimile & UPS**

Mr. Brent J. Fields  
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100 F. Street, NE  
Washington, DC 20549-1090  
Facsimile: (202) 772-9324

**Re:      In the Matter of Joseph J. Fox**  
**Administrative Proceeding File No. 3-16795**

Dear Mr. Fields:

Please find enclosed the Division of Enforcement's Motion for Summary Affirmance of Initial Decision. Feel free to call me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Jedediah B. Forkner".

Jedediah B. Forkner

Enclosures

cc:      Mr. Joseph J. Fox

UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION

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**JOSEPH J. FOX,**

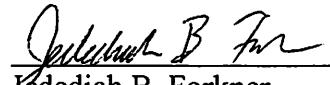
**Respondent.**

**CERTIFICATE OF SERVICE**

Jedediah B. Forkner, an attorney, certifies that on June 30, 2016, he caused true and correct copies of the Division of Enforcement's Motion for Summary Affirmance of Initial Decision to be served on Respondent Joseph J. Fox by electronic mail and by UPS Overnight Delivery at the following addresses:

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Dated: June 30, 2016