ADMINISTRATIVE PROCEEDING
FILE NO. 3-3668

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

In the Matter of	
COTZIN, WOOLF & CO. ALEXANDER H. WOOLF	
File No. 8-16029 8-12452	

INITIAL DECISION

Edward B. Wagner
Administrative Law Judge

Washington, D. C.
September 7, 1973

ADMINISTRATIVE PROCEEDING
FILE NO. 3-3668

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

In the Matter of	
COTZIN, WOOLF & CO. ALEXANDER H. WOOLF	INITIAL DECISION
File No. 8-16029 8-12452	

APPEARANCES: Arthur F. Carr, Willis H. Riccio and Allan R. Campbell of the Boston Regional Office for the Division of Enforcement.

Richard M. Phillips and Alan J. Berkeley of Hill, Christopher and Phillips, P.C., Washington, D. C., for Respondents Cotzin, Woolf & Co., Sumner B. Cotzin, and Alexander H. Woolf.

BEFORE: Edward B. Wagner, Administrative Law Judge

THE PROCEEDINGS

This public proceeding pursuant to Sections 15(b) and 15A of the Securities Exchange Act of 1934 (Exchange Act) was instituted by Commission Order (Order), dated April 18, 1972. The Order charged Cotzin, Woolf & Co. (Registrant), Sumner B. Cotzin (Cotzin) and Alexander H. Woolf (Woolf) with having willfully violated or willfully aided and abetted violations of Sections 5(a) and 5(c), and 17(a) of the Securities Act of 1933 (Securities Act); Sections 7(c)(1), 10(b), 15(c), and 17(a) of the Exchange Act, and Rules 10b-5, 15c2-4, 15c3-1, 17a-3, 17a-11(a)(1), 17a-11(a)(2), 17a-11(b), 17a-11(c) and Regulation T, all under the latter act.

A hearing was held in Boston, Massachusetts on February 28 and March 1, 1973. After a pre-trial conference a written stipulation between the parties was offered and received in evidence in which it was agreed that the Division's charges, other than those alleging affirmative fraud, were true. However, as to the affirmative fraud charges no stipulation was reached, and as to all charges it was understood that an evidentiary record could be developed to show the nature and scope of the violations and the intent to violate, or absence thereof, for consideration with respect to the imposition of appropriate sanctions. At the evidentiary hearing, the testimony of 15 witnesses was taken, and 31 exhibits were received in evidence.

Proposed Findings, Conclusions and Briefs were filed by the

Division of Enforcement (Division) on April 6, 1973 and by the Respondents[1/] on May 10, 1973. A Reply Brief was filed by the Division on May 25, 1973. On April 6, 1973 Cotzin submitted an offer of settlement which neither admitted nor denied the allegations of the Order. The offer was accepted, and on May 1, 1973, prior to Respondents' filing and in accordance with the offer, the Commission found willful violations on Cotzin's part and issued an order permanently barring him from the securities business.

The findings and conclusions herein are based upon the evidence as determined from the record and upon observation of the witnesses. Preponderance of the evidence is the standard of proof applied.

Respondents and Cotzin

Registrant is a partnership which became registered with the Commission under the Exchange Act on September 30, 1970. Registrant is a member of the National Association of Securities Dealers (NASD) and maintains its offices at 340 Main Street, Worcester, Massachusetts.

Cotzin was a general partner of Registrant and was so affiliated during the periods in which violations have been charged. Woolf is a general partner of Registrant and was so affiliated during the periods in which violations have been charged. Woolf has been in the insurance

---

1/ As used herein, the term "Respondents" means Registrant and Woolf.

business for about 20 years and has continued to operate his own life insurance business while associated with Registrant. In the day-to-day operations of Registrant Cotzin supervised the back-office operations, and Woolf had primary responsibility for underwriting operations.

Section 5 and Record-Keeping Violations

In August, 1971 Louis Cooper (Cooper) of Bangor, Maine placed orders with Registrant to purchase a total of 125,000 shares of Consolidated Virginia Mining Corp. (CVM) stock for a total amount of $248,819.22. 10,000 of the shares purchased were placed in the name of Ernest Zoidis as nominee for Cooper. On August 16, 1971 and August 18, 1971 Cooper had $40,000 and $10,000 transferred into his account with the Registrant. The balance of the purchase price was to be paid on delivery of the stock to a bank designated by Cooper, but upon such presentation the drafts were not honored. In the interim, the stock was delisted from the Canadian Stock Exchange on which it had been traded, and all trading in the stock stopped. Accordingly, Registrant could not sell out the stock.

After learning of Cooper's default, Cotzin and Woolf met with Cooper in Bangor, Maine on August 27, 1971. At that meeting, Cooper stated that he did not have sufficient funds to honor the trade. At the request of Cotzin and Woolf, he gave them a series of six personal notes to come due monthly over a six-month period. The six

notes totalled $205,000 - one was in the amount of $30,000 and the other five were for $35,000 each. Cotzin and Woolf knew that Cooper had invested $1.1 million in Paradox Production Corp. (Paradox) and also owned an option to purchase 92,500 shares of Paradox common stock exercisable to 1980. Cooper advised them that his stock in Paradox was pledged with a bank but stated that he would transfer to them as security for the notes, the option, which he stated was "free and clear." Prior to accepting Cooper's option as security for his personal notes, Cotzin and Woolf examined the latest annual report of Paradox which stated at page 39 that Cooper had an option for 92,500 shares of the common stock of Paradox, exercisable at any time or from time to time through January 2, 1980 (R-1). Cotzin and Woolf received a letter from Cooper, dated September 7, 1971, purporting to transfer the rights to the option to Registrant [D-6(a)].

Cooper's default created net capital problems for the Registrant. To deal with these problems Cotzin and Woolf personally borrowed $130,000 of which $127,803.17 was placed in the Cooper and Zoidis accounts. On August 31, 1971 they obtained a loan on a three-month note in the amount of $130,000 from the Worcester County National Bank, Worcester, Massachusetts. They pledged as collateral for this loan the personal notes of Louis Cooper totalling $205,000. The loan was for the purpose of acquiring Cooper's notes from the partnership so as not to impair its capital. Having obtained the loan, respondents deposited the funds in Woolf's Provident Life and Accident Insurance Company account at the Worcester

County National Bank.

On the day the loan was made Woolf drew three checks on his other business, Provident Life and Accident Insurance Company, payable to Registrant. These checks were in the amounts of $10,628.55 and $96,977.50 and $20,197.12. On the same day, August 31, 1971, Registrant's blotter was posted as having received $20,197.12 into the account of Ernest Zoidis; Registrant's customer ledger card for the account of Ernest Zoidis was posted as having received payment of $20,197.12. Registrant's blotter was posted as having received $107,606.05 into the account of Louis Cooper; and Registrant's customer ledger card for the account of Louis Cooper was posted as having received payment of $107,606.05.

On or about September 27, 1971, Cooper defaulted on the first of his notes payable to the Respondents. At this point Cotzin and Woolf determined to sell the option to their customers.

Commencing on October 20, 1971, and continuing through October 29, 1971, Registrant made sales to customers of 92,500 "warrants" of Paradox. Cotzin and Woolf had subdivided the option into interests which they designated 'warrants'. This designation originated with them. Thirty-six (36) sales of warrants were made to customers of the Registrant during the period October 20, 1971 through October 29, 1971 at 1/2. Total proceeds realized were $43,465. These thirty-six (36) transactions were "dual agency" transactions, that is, Registrant acted as agent for both buyer and seller. In each instance the seller in the

thirty-six transactions between October 20, 1971 and October 29, 1971, was recorded upon the Registrant's customer ledger card for the account of Louis Cooper as being Cooper, and the Cooper account was credited with the $43,465.00 proceeds from the sales.

Commencing on October 22, 1971 and continuing through November 30, 1971, Registrant made resales of Paradox warrants to customers at prices ranging from 1/2 to 3/4. There was an overlapping period from October 22, 1971 through October 29, 1971 when Registrant was making, simultaneously, original sales at 1/2 and resales at 3/4. There were thirty-two (32) such resales. Sales and resales of Paradox warrants were made to the discretionary account customers of both Cotzin and Woolf. Respondents commenced to offer and sell Paradox warrants to customers on October 20, 1971 without having made any attempt, except for the statement from Cooper that they were "free and clear", to ascertain whether or not the option assigned to them by Cooper was assignable or marketable. Respondents continued to offer to sell, sell and resell so-called Paradox warrants until mid-November, 1971 before trying to get in touch with Paradox's corporate secretary to ascertain or clarify the terms and conditions of the option assigned to them by Cooper. Respondents were told by Paradox's corporate secretary, Earl C. Cooley, at some point in November, 1971 that the Cooper options were unregistered and not marketable. Despite having been so advised, Respondents continued to buy and sell so-called Paradox warrants until November 30, 1971.

The facilities of interstate commerce and of the mails were used in connection with the offer and sale of so-called Paradox warrants.

In fact, the instrument evidencing the option to purchase 92,500 shares of Paradox itself recited that it and the underlying shares were being acquired "for investment and not with a view to, or for sale in connection with, any distribution or public offering thereof within the meaning of the Securities Act of 1933" (D-5).

On or about December 20, 1971, Cotzin received a letter from Cooley, dated December 14, 1971, which formally advised Cotzin that the option was restricted as to transferability and not registered.

After receipt of Cooley's letter Cotzin and Woolf requested their attorney, Edward J. McCormack, for advice as to what they should do. McCormack discussed the matter with the Commission Staff which then had the matter under investigation. After McCormack had discussed the matter with the Staff and after a number of investors in the Paradox warrants had testified in the Staff investigation, all transactions in the warrants were cancelled and adjustments were made so that no losses were suffered by any customer. Customers who had bought and sold prior to the time the transactions were cancelled received no adjustment if the price at which they sold was equal to or greater than their purchase price. In these instances Registrant retained the commissions which it had charged at the time of the transaction.

On February 14, 1972 Cotzin and Woolf re-negotiated their existing loan with the Worcester County National Bank which had been reduced to $75,000 and obtained new loans - $65,000 in Cotzin's name and $40,000 in Woolf's name, a total of $105,000. The note executed by Woolf was secured by an assignment of renewal commissions from his insurance company and an assignment of a life insurance policy. Cotzin's note was secured by a mortage on his home, and assignment of a mortgage receivable on land in Florida, and an assignment of life insurance policies. On February 14, 1972 $130,000 was contributed to Registrant's capital.

Although Respondents concede and have stipulated that Section 5 and Record-Keeping violations have occurred, they contend that the record shows only at most, "a series of inadvertent violations of the securities laws arising primarily from a fraud perpetrated. . . by a third party" (Brief for Respondents, p. 2). Respondents contend that they were deprived of a full and fair hearing because they were not permitted to inquire into facts which may have been developed by the Staff in a putative investigation concerning Louis Cooper with respect to CVM (Tr. 246-49).

The attempt to interrogate the Staff investigator on this matter appears to have constituted a "fishing expedition," and no specific offer of proof was made. The basis seems to have been that the testimony might have developed that a criminal reference as to Cooper was imminent and thus have tended to prove that

respondents were victimized in a related matter (Tr. 247). Noting that such investigative material is usually kept non-public for policy reasons, Respondents' argument is rejected for the following reasons:

(1) Such evidence, assuming that it existed, would have been only remotely relevant to the thesis that respondents were swindled and then only in a supportive sense. Respondents were not deprived of a fair hearing when as to the issue of deception they were free in all respects to adduce evidence of the representations made to them by Cooper, the context in which they were made and their reasons for accepting them at face value.[2/]

(2) Respondents' thesis is accepted and it is found that they were, in fact, deceived by Cooper as to the transferability of the options. Accordingly, such evidence is unnecessary.

However, to accept the thesis that Respondents were deceived is not to absolve them of all blame. Respondents were negligent in the extreme in not heeding the warning signs that were clearly visible.[3/]

2/ The Division's Reply Brief points out that Respondents have never filed a complaint with the Staff that they were swindled (p. 7), and it should be noted that the complaint filed by Cotzin and Woolf against Cooper in a Massachusetts state court makes no such allegations (R-10).

3/ See Securities Act Release No. 4445 (February 2, 1962).

Respondents should have known that Cooper was probably a controlling person of Paradox and for that reason alone - disregarding the terms under which the options were issued, their source, or whether they had previously been registered - options belonging to him could not have been distributed without registration.[4/] Woolf knew that Cooper had invested $1.1 million in Paradox, and it was known that Cooper was a factor in related companies, such as CVM. The very annual report of Paradox upon which Respondents relied for their representations concerning the existence of the options and their investment merit was issued over the signature of Louis Cooper as Vice President.[5/] (R-1,p. 47). There are numerous references to Cooper in the annual report, and at p. 37 it is stated that in January, 1970 Cooper was one of two directors of Paradox. At the very least, these facts, which must have been known to Respondents, should have caused them to refrain from any distribution until definitive information had been received.

Further, the record is clear that Cooley advised Cotzin in a telephone call in November - either on November 12 or shortly thereafter in a second telephone conversation (Tr. 174-77) - that the options were unregistered and unmarketable, and that Registrant

---

4/ The Securities Act in its definition of "underwriter" in Section 2(11) includes controlling persons within the term "issuer".

5/ In fact, Cooper owned in excess of 50% of the stock of Paradox (Tr. 159).

continued to distribute the so-called warrants thereafter until the end of November. Respondents seek to discount Cooley's testimony on the ground that he is mistaken, but it is significant that the statement came on cross-examination, that Cooley had confirmed a second conversation in November by earlier reference to his lawyer's diary (Tr. 178), and that he insisted upon the accuracy of his statement despite efforts by Respondents' Counsel to get him to alter his testimony. (Tr. 177). Respondents also argue that if they had been so advised it would have been inconceivable for Cotzin to have written to Cooley concerning the option on November 20, 1971 (R-5). However, since Cotzin's letter merely asks for written evidence of Cooper's ownership and does not request information concerning transferability, no basic inconsistency appears.

The record-keeping entries involved in the Cooper transaction and its aftermaths are stipulated to be in violation of applicable provisions, and Cotzin, the partner in charge of these matters, has conceded that the entries were false (Tr. 380-81). Respondents contend that the entries were made in the belief that they were proper, while the Division argues that the arrangement was devised to conceal the fact "that the sales of the so-called Paradox 'warrants' were actually an effort in their part to recoup some of the monies owed them by Cooper as a result of the trades of CVM" (Division Brief, p. 17). While it is not concluded that the entries were made with such a deliberate intent, it is indisputable that the manner in which

the entries were made tended to disassociate the two transactions, i.e., the CVM purchase and the sale of the Paradox warrants. Despite the fact that Staff investigators were able to reach through to the realities of the transactions, the entries were impossible to rationalize convincingly and clearly improper.

As stipulated, it is concluded that in connection with the sale of the so-called Paradox warrants Registrant and Woolf, during the period from on or about October 10, 1971 to on or about November 30, 1971 willfully violated Sections 5(a) and 5(c) of the Securities Act. As further stipulated, it is concluded that from on or about May 28, 1969 to September 30, 1970 and during the period from on or about September 30, 1970 to February 15, 1972, Registrant willfully violated and Woolf willfully aided and abetted violations of, Section 17(a) of the Exchange Act and Rule 17a-3 thereunder in that Registrant, aided and abetted by Woolf, failed to accurately make and keep current certain of its books and records including, but not by way of limitation: Blotters, ledger accounts, securities record or ledgers, memoranda of brokerage orders, memoranda of purchases and sales of securities and a record of the computation of aggregate indebtedness and net capital as to the trial balance date in accordance with the capital rules of the Commission. This conclusion includes the record-keeping violations in connection with the CVM and Paradox transactions.

Paradox Antifraud Violations

Respondents have conceded and stipulated that certain allegations contained in Paragraph II(B)(1) of the Order of violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder are admitted and may be deemed to be true.

These allegations involve omission to state the inability of Registrant to deliver Paradox Warrants, the limitation of Registrant's interest to a purported assignment of an option to purchase Paradox shares and the improper assignment of that option, and that the underlying shares covered by this option were unregistered.

As indicated, there is no dispute as to these charges, and it is found and concluded that these omissions constituted willfull violations of the antifraud provisions referred to above.

Respondents were also charged in the same paragraph with violations of the same antifraud provisions with respect to statements made to investors as to (a) the investment merit of Paradox securities; (b) the time when the Paradox warrants could be exercised; (c) the exercise price of the Paradox warrants; and (d) that Respondents failed to disclose that Paradox at no time issued warrants. The record shows that investors were told that the price of the warrants was probably a good price and that they were exercisable at $1 per share at any time from the present to 1980. Disregarding the infirmity in the warrants stemming from their unmarketability, the first statement appears adequately to have been based upon the Paradox annual

report and other information available to Respondents. The statement with respect to the right to exercise the option was, of course, literally true. Accordingly, it is concluded that, apart from the omissions previously found to constitute violations, the affirmative representations relating to (a), (b), and (c) do not, under the circumstances, constitute violations of the antifraud provisions.

A more difficult question is presented concerning the use by Respondents of the term "warrants". The Division argues that use of this term rather than the term "option" violated the antifraud provisions.[6/] It is stipulated that the term "warrant" originated with Respondents. The only explanation for using the term which appears in the record is the testimony of Cotzin. He states that he used the term warrant because in his opinion "when. . . a corporation issues an option or a warrant, it is the same thing. . . ." (Tr. 336). He stated he believed that all warrants are options, although all options may not be warrants. Other testimony in the record includes the opinion "there is basically no inherent difference between an option and a warrant" (Tr. 355).

That the two terms are synonymous is hardly a reason for switching from one term to the other. It is believed that the term "warrant" may generally have more favorable connotations to investors.

6/ The precise charge is that failure to disclose "that Paradox at no time issued warrants" is a material omission. Paragraph II(B)(1)(d) of the Order.

See 1 Loss, Securities Regulation 467 (2nd ed. 1961). However, it is concluded that failure to employ the term "option" does not rise to the level of a violation of the antifraud provisions of the securities laws.

Violations in Connection with the May Lee Offering

Registrant was the underwriter for a Regulation A offering of 200,000 shares of May Lee Import-Export Corporation (May Lee), which became effective December 30, 1971. In connection with the May Lee offering, Registrant employed an offering circular which stated on the cover sheet:

> "(1) The underwriter has agreed to offer the shares of Common Stock offered by this Offering Circular on a 'best efforts, three-fifths or none' basis as agent for the Company. Unless at least 120,000 of the shares offered hereby are sold within 60 days from the date thereof (which period may be extended for an additional 60 days if so agreed between the Company and the Underwriter) none of the shares will be sold and all funds collected from the subscribers will be promptly refunded without interest. Until completion of the offering all funds received will be deposited in a special bank account entitled, 'Cotzin, Woolf & Co. as Trustee for the Subscribers of May Lee Import-Export Corporation Common Stock', at Chemical Bank, 20 Pine Street, New York, New York."
> (underlining added). (D-9).

A similar statement was made at page 16 of the offering circular. Registrant first received collections from the May Lee offering on February 1, 1972 and continued to receive collections until February 29, 1972. No payments were made to the special bank account until February 22 and 29, 1972.

The Division points out that Registrant and respondents co-mingled

the monies received by them from the May Lee offering with other funds at various times throughout the month of February, 1972. This occurred at times when the Registrant's cash balance position was overdrawn in amounts ranging from $7,593.79 to $62,616.95. On only three occasions during the month of February, 1972 did the Registrant's books indicate that the amount of cash available was either equivalent to or greater than the collections realized from the May Lee offering. Respondents argue that no appreciable advantage was gained by Registrant by such action, since the cost of borrowing sufficient funds to make up all deficiencies would have amounted to only $33.

Respondents have stipulated that failure promptly to deposit monies received in the special bank account violated Section 15(c)(2) of the Exchange Act and Rule 15c2-4 thereunder.[7/] Woolf professes not to have known of this requirement at the time, and in later offerings has made the prompt deposit required.

The only question remaining, which the Division and the Respondents dispute, is whether, in light of the representation made in the offering circular, failure promptly to deposit collected funds in the special bank account was a violation of the antifraud provisions of the Exchange Act and of the Securities Act. The question is whether the representation made would reasonably have lead the prospective investor

---

7/ The rule requires that such funds be "promptly deposited in a separate bank account, as agent or trustee for the persons who have the beneficial interest therein. . ."

to conclude that during the selling period his payment would be secure, apart from considerations of the financial condition of Registrant, and placed in a special fiduciary bank account. This was the clear import of the language quoted. The fact that these monies were improperly made subject to the vagaries of Registrant's financial condition is the relevant consideration - not that the advantage gained by Registrant was an insignificant one.

Accordingly, it is concluded that not only did Registrant, willfully aided and abetted by Woolf, willfully violate Section 15(c)(2) of the Exchange Act and Rule 15c2-4 thereunder by the course of conduct described above, but that Registrant also willfully violated, and Woolf willfully aided and abetted violations of, Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

Net Capital, Notice and Regulation T Violations

As conceded and stipulated, it is concluded as follows:

(1) During the period from on or about August 31, 1971 to on or about February 15, 1972, Registrant and Woolf, willfully violated and willfully aided and abetted violations of Section 15(c)(3) of the Exchange Act and Rule 15c3-1 thereunder in that Registrant made use of the mails and means and instrumentalities of interstate commerce to effect transactions in and to induce and attempt to induce the purchase and sale of securities (other than an exempt security or commercial paper, bankers' acceptances, or commercial bills) otherwise

than on a national securities exchange when Registrant's aggregate indebtedness to all other persons exceeded 2,000 per centum of its net capital and from about October 31, 1971 to January 31, 1972 Registrant did not have and maintain net capital of not less than $5,000.

(2) During the period from on about September 15, 1971 to the date hereof, Registrant and Woolf, willfully violated and willfully aided and abetted violations of Section 17(a) of the Exchange Act and Rule 17a-11 thereunder in that Registrant aided and abetted by Woolf failed:

a. to give the Commission telegraphic notice that the net capital of Registrant was less than required by Section 15(c)(3) and Rule 15c3-1 thereunder, as required by Rule 17a-11(a)(1);

b. to file the reports of its financial condition with the Commission, as required by Rule 17a-11(a)(2) and 17a-11(b); and

c. to give the Commission telegraphic notice that the Registrant's books and records were not kept current and to file a report stating what steps were being taken to correct the situation, as required by Rule 17a-11(c).

(3) During the period from on or about September 30, 1970 to on or about February 15, 1972 Registrant, while transacting business as a broker-dealer in securities, willfully violated, and Woolf willfully aided and abetted Registrant's violation of, Section 7(c)(1) of the Exchange Act and Regulation T promulgated thereunder by the Board of Governors of the Federal Reserve System in that Registrant and Woolf, directly and indirectly, extended and maintained credit and arranged

for the extension and maintenance of credit to and for customers on securities (other than exempted securities) in contravention of the aforesaid rules and regulations. As part of the aforesaid conduct and activities, Registrant and Woolf, among other things, failed promptly to cancel or otherwise liquidate the transactions or unsettled portions thereof of customers who purchased securities (other than exempted securities) in special cash accounts and did not make full cash payment for the securities within seven business days after the dates on which the securities were so purchased or prior to the sales of the securities.

Injunction and Receivership

On February 24, 1972 in the U. S. District Court at Boston, Massachusetts, Registrant and Woolf were permanently enjoined from further violations of the registration, anti-fraud, credit, net capital and record-keeping provisions of the Federal Securities Laws. A temporary receiver was appointed in connection with the entry of the injunction. After the receiver was appointed Registrant could not operate for four days until the receiver was satisfied as to Registrant's solvency. Subsequently, the receiver permitted Registrant to commence doing business and ultimately reported to the Court. Upon completion of the receiver's report, the receiver was discharged, and the discharge occurred without any requirement that additional capital be put into Registrant. Out-of pocket expenses to Registrant for the receiver were $14,000.

Public Interest

The Division contends that the violations involved here are sufficiently serious to warrant revocation of registration of Registrant and a permanent bar for Woolf.

Respondents recommend no particular sanction but argue that those suggested by the Division are inappropriate and unwarranted. They point out that the receivership proved unjustified and resulted in expense and damage to the reputation of Registrant. They argue that no clients have suffered any losses and state that Respondents have placed "in every instance their clients' interest well ahead of their own" (Respondents Brief, p. 16). On the contrary, it is concluded that in the Paradox situation Respondents clearly placed their own interest above that of their clients and sought to bail themselves out of a bad situation at their clients' expense. Proper steps were not taken to ascertain whether the "warrants" were marketable, and Respondents continued to sell them even after they had been specifically advised to the contrary. Such conduct hardly measures up to the high standards required. See Arleen Hughes, 27 S.E.C. 629 (1948), aff'd. 174 F. 2nd 969 (D.C. Cir. 1949). The May Lee violations further reflect a disregard of their clients' interest.

With respect to the public interest issue, records of two NASD proceedings were received in evidence. These records were properly admitted to show previous conduct inconsistent with Respondents' protestations of innocence and for consideration in connection with

the imposition of sanctions.[8/] In one proceeding the Board of Governors of the NASD affirmed action by a District Business Conduct Committee in censuring and fining Cotzin $2,500 and suspending him from membership for 10 days and in fining Woolf $1,000.[9/] This proceeding involved net capital violations and engaging in "parking" transactions.[10/] In the other proceeding the District Business Conduct Committee approved a finding that Cotzin and Woolf be censured, Registrant be expelled from membership in the association and that the principal registrations of Cotzin and Woolf be revoked. The latter proceeding involved setting up personal transactions in a customer account in new "hot" issue offerings. It is recognized, of course, that neither of these determinations is final, and they have been viewed accordingly.

It has been determined that the violations which have been established in this proceeding are sufficiently serious to warrant revocation of Registrant's registration, and it will be so ordered. The further question remains as to the imposition of an individual sanction upon Woolf. On Woolf's behalf, it should be noted that he had no conversations with, and made no representations to, customers concerning the Paradox "warrants" and was not directly responsible for the

---

8/ Respondents have renewed their motion made during the hearing for a mistrial based upon admission of records of the NASD proceedings. This motion is again denied.

9/ This decision has been appealed to the Commission (Tr. 201).

10/ "Parking" involves purchases at month-ends from the firm inventory of securities by the principals and subsequent resales early in the following month to the firm for the purpose of achieving an appearance of compliance at month-end with the net capital rule.

bookkeeping and record-keeping aspects of the business which were managed by his partner, Cotzin. While Cotzin has been in the securities business for around 15 years, Woolf has been in the business for less than 5 years and during this period has continued to operate his insurance agency. On the other hand, it would appear that primary responsibility for the May Lee violations was Woolf's, since his main sphere of operations was underwriting. It has been concluded that a two-year bar from the securities business with an opportunity thereafter to apply to the Commission for reinstatement in a supervised capacity will best serve the public interest. Such a period of exclusion will serve the purpose of adequately impressing upon Woolf the necessity for strict compliance with the federal securities laws in the future.

Accordingly, IT IS ORDERED that the registration of Cotzin, Woolf & Co. as a broker-dealer is revoked and that Alexander H. Woolf is barred from association with any broker or dealer, except that after two years from the effective date of this order he may apply to the Commission for permission to become associated with a broker-dealer in a position in which he will receive adequate supervision.

This order shall become effective in accordance with and subject to Rule 17(f) of the Commission's Rules of Practice.

Pursuant to Rule 17(f), this initial decision shall become the final decision of the Commission as to each party who has not,

within fifteen (15) days after service of this initial decision upon him, filed a petition for review of this initial decision pursuant to Rule 17(b), unless the Commission, pursuant to Rule 17(c), determines on its own initiative to review this initial decision as to him. If a party timely files a petition for review, or the Commission takes action to review as to a party, the initial decision shall become final with respect to that party. 11/

Edward B. Wagner
Administrative Law Judge

Washington, D. C.
September 7, 1973

11/ All proposed findings and conclusions submitted by the parties have been considered, as have their contentions. To the extent such proposals and contentions are consistent with this initial decision, they are accepted.