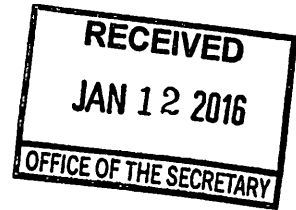


UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION



ADMINISTRATIVE PROCEEDING  
File No. 3-16795

In the Matter of  
**JOSEPH J. FOX,**  
Respondent.

**Respondent Fox's Response Brief to Division's Motion for Summary Disposition**

In response to the Division of Enforcement's Motion for Summary Disposition, Respondent Joseph J. Fox respectfully responds as follows.

**Introduction**

In the interest of cooperating with the Commission to resolve this matter, as well as to resolve the matter between the Commission and the Company Ditto Holdings, Inc. ("Company") of which I am the CEO for the benefit of the Company's shareholders, I consented to an Order Instituting Administrative and Cease-and-Desist Proceedings ("Order").

In agreeing to the Order, I neither "admitted nor denied the findings except as to the Commission's jurisdiction over him and the subject matter of these proceedings, which are admitted, and except as provided herein in Section VI". In the Order, I agreed to cease and desist from committing or causing any violations and any future violations of Sections 5(a) and 5(c) of the Securities Act. I also agreed to pay disgorgement of \$125,210, prejudgment interest of \$5,426, and a civil penalty of \$75,000.

In this follow-on administrative proceeding, the Division of Enforcement ("Division") seeks additional non-financial relief against me, in the form of a collateral bar from the securities industry for five years.

The Division places great weight on its claim that my actions soon after the Order was entered demonstrated that I do not "appreciate the importance of the securities registration provisions, and therefore an order barring (me) from participating in the securities industry is in the public interest". This premise of the proposed bar is a complete mischaracterization of the facts and far from the truth, and the proposed bar is wholly unwarranted. I ask the Commission to take into account the following.

First, during the 18 months of the investigation conducted in these proceedings, the Division never once claimed that I intentionally, or knowingly, violated any securities laws. That is because I never did. I adhered to the same practices that I, in connection with our prior company, had followed and did so in good faith.

Because of the financial condition of the Company, and the state of the economy between 2009 and 2012, we were not in a position to engage an outside securities attorney. We hired a part-time general corporate attorney starting in 2011, but he was not actively involved in our capital raising efforts, and in any case did not have securities law expertise.

Based on prior experience with start-up companies, it was my understanding that the financial disclosure rules as they pertain to non-accredited investors under Rule 504 applied to Rule 506 as well. (See “Reliance on prior dealings with the SEC” below.) I made this known to the Division at the outset of the investigation. I also told the Division that I take full responsibility for this mistake and that we would never repeat it.

It is also important to note that I (and the Company) fully cooperated in the investigation in the course of producing tens of thousands of documents. In no instance did the Division express any criticism of my or the company’s degree of cooperation with the investigation. In fact, I requested (and was granted) at least two meetings with the Division to voluntarily provide additional information.

Also, while the Commission’s uses of the word “willful” in the Order, the footnote clearly states:

“A willful violation of the securities laws **means merely** “that the person charged with the duty knows what he is doing.” *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). ***There is no requirement that the actor “also be aware that he is violating one of the Rules or Acts.”*** Id. (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).” (emphasis added)

To be clear, it was only for the addition of this footnote that I agreed to the inclusion of the word “willful”. “Willful” was not a term used in the Company’s Order.

I will now address specific aspects of the investigation and the Motion for Summary Disposition.

### **Facts – Cause of the investigation**

Since the Division is putting so much weight on my recent communication with Company shareholders, it is important to understand what initiated the Division’s investigation of myself and the Company. It was not a concerned investor or even a FINRA regulator (who, by the way, have seen every one of our shareholders completed investment documents since our inception).

It was actually the unfounded (i.e., since 100% discredited) accusations brought to the Division by a recently hired Officer and Director of the Company who rushed a letter containing unfounded accusations to the SEC shortly after learning he was going to be terminated by the Company.

On the morning of Monday, September 9, 2013, just days after learning that his termination was imminent (Tuesday September 10, 2013 (Ex. 1)), former employee Paul M. Simons of

Purchase, NY delivered an extensive demand letter on our company's Board of Directors. This Demand Letter included knowingly false accusations of fraud and misuse of corporate funds. While it was apparent this was done in an effort to stave off termination, we informed Mr. Simons within the hour of our willingness to hold a special meeting of the Board two days later (this was decided due to his status as a Board member, as well as for the benefit of our shareholders).

- The demand letter was just a ruse as Simons waited barely four hours before having his attorney, Paul Huey-Burns, contact the Division's Chicago office with Simons' false claims of fraud and misuse of corporate funds.
- Neither Simons, nor Huey-Burns, ever made the claim that the Company or myself might have lost an exemption due to missing disclosures for any of the Company's or my share sales (as stated in the Order).
- At the time Huey-Burns told the Division that the allegations of fraud are "substantive and well documented" (Ex. 2). Based on documents since reviewed by the Company, Huey-Burns had received almost no documentation whatsoever at the time of his "well documented" representation to the Division.
- Huey-Burns did not receive documentation until days after his communication with the SEC.
- Huey-Burns abruptly quit as Simons attorney only one week later.

The Company acceded to Simons' demand that it form a special committee of the Board which met in September 2013. The special committee engaged the law firm of Goldberg Kohn, Ltd. to independently investigate Simons' allegations in the Board Demand Letter. On January 29, 2014, Goldberg Kohn released its 68-page report, accompanied by 41 exhibits, comprising 300 pages of documents ("the Independent Investigation Report").

The Independent Investigation Report noted that the investigators had reviewed and considered more than 60,000 pages of electronic and hard copy documents and conducted more than a dozen interviews (including Simons). The Company incurred more than \$300,000 in attorneys' fees for this independent investigation.

The Independent Investigation Report found no evidence of fraud, misuse of funds, malfeasance or dishonest business practices of any kind.

However, the report did confirm that Jeremy M. Mann, the 26 year old interim CFO (and the source of many of Simons' false accusations of misappropriation) misled Company management via email about meeting with an outside accountant who was hired to get the parent Company's books in order for an institutional capital raise (as stated in the Order, the Company's sole operating subsidiary was audited every year since 2010).

The outside accountant confirmed that Mann (who emailed management on at least 11 different occasions that he was meeting with the accountant and that he would be unreachable) met with him on exactly one occasion when he was initially engaged. (Ex. 3)

Simons was copied on at least 7 of those misleading emails. Hence, at best, Simons knew that in his haste after learning of his termination, he delivered to the SEC knowingly unverified information from an unreliable source. At worst, Simons knew the information was false and defamatory. Either way, Simons' effort was to permanently harm my reputation and to take over the Company, and if not, destroy it. Which he succeeded in doing.

### **Shareholder Communication**

As the CEO of a small Company (with 200+ shareholders) that has been under siege for over two years, I believe it is my obligation to communicate regularly with our shareholders, and I have done so.

On Wednesday, September 11, 2013, the day following his termination as Officer of the Company's brokerage subsidiary Ditto Trade, Inc., Simons sent a form email to all of the Company's investors (using a misappropriated stockholders' email list). Simons led the shareholders to believe that he had been fired for going to the Board of Directors with his demand letter and he asserted that he was "*aware of information and circumstances which raised serious questions and concerns regarding company expenditures and related transactions...*"

Simons further damned the Company and myself with a postured and disingenuous "concession" that he was not asserting "*any allegations of conclusive wrongdoing; the facts and circumstances of which I became aware, with credible documentation, were of a nature serious enough to request an independent examination and presentation of findings.*," thereby falsely implying that he had in good faith made preliminary findings of wrongdoing by me and the Company.

Simons misleadingly omitted in his letter to shareholders (and to the SEC) that he knew he was being fired when he delivered his letter to the Board two days earlier. He also misleadingly omitted that he disregarded the Company's willingness to meet and discuss his letter, and that he had already sought to instigate an SEC investigation.

It was incumbent upon me, as Company CEO, to respond to this email. (Ex. 4), and I did so approximately two hours later with the help of our outside attorneys. This was the first of many shareholder communications sent over the next two years updating shareholders on the Company, as well as issues related to Simons (including our litigation against him). Every shareholder update email since September 11, 2013 that was sent to our shareholders were carefully written and was thoroughly reviewed by the company's counsel.

### **Use of the word "vindication" and the phrase "inadvertent technical rules violations"**

It is true that I sent a shareholder letter and press release a few days after the Order was entered. It was my obligation to our shareholders to inform them and the public that the SEC

investigation was behind us and that we would hopefully now have an opportunity to once again realize our Company's potential. It is also true that I stated the Company and I had been "vindicated" by the settlement, but that statement was qualified as explained below

In the Division's Motion for Summary Disposition, the Division has misconstrued my use of the term "vindication." As the headline, several sentences, and the context make clear, I was writing solely that I had been vindicated vis-à-vis Simons' false accusations. I stand on that statement. I neither stated nor implied that I or the Company had been vindicated vis-à-vis the Division or the SEC.

There is simply no basis on which to conclude that I asserted that I or the company had been vindicated vis-à-vis the SEC. I was vindicated vis-à-vis Simons' (false) accusations, consisting of his claims that: (1) I fraudulently misappropriated shareholder funds for my own personal purposes, and (2) my sale (as distinct from the process) of some of my own shares of Ditto Holdings, purportedly at the same time as the Company was selling shares, in and of itself violated the securities laws. After a thorough investigation the SEC made no finding, formally or informally, that I had done either.

The Division never alleged that I had committed either type of violation, nor did the Division attempt to make either type of violation claimed by Simons a bargaining chip in the negotiations over the Order. True, the SEC enforcement attorneys did not issue a formal explicit statement of exoneration of me about the informant's false accusations, but to the best of my knowledge and information from my former SEC attorneys, they never do that.

As a layman, since the SEC thoroughly investigated Simons' false accusations and did not suggest to me or anyone else in the world on the completion of their investigation or even now that any of Simons' accusations were well-founded to any extent, I have been vindicated and exonerated against Simons, and that's all I meant to say. More importantly, I believe that is what the public believed as well. I believe I was entirely justified in contrasting the specifics of the allegations which I settled to the accusations that launched the investigation, but regardless, at no time did I state or imply that I or the Company had been vindicated with respect to the allegations that were the subject of the settlement and the Order. Indeed, I and the Company, have scrupulously adhered to my agreement in the Order that I am permitted to state to third parties only that the allegations were neither admitted nor denied.

It is true that I used the phrase "inadvertent technical rules violations."

In the Division's Motion for Summary Disposition, the Division has misconstrued not only the definition of the phrase "inadvertent technical rules violations", but my intent as well.

First, the violation was "inadvertent" as is explained above.

Second, the rules violation was "technical" in nature. Merriam Webster's dictionary defines the word technical in this context as: "*based on or marked by a strict or legal interpretation*" (Ex. 5)

It is apparent that use of the word “technical” was not meant to diminish the severity of a rules violation. If, on the other hand, I used a qualifier such as “merely an inadvertent technical rules violation” or “an inadvertent minor technical rules violation” then perhaps the Division could have justifiably argued my intent was to diminish the rules violation.

I have abided by and will continue to abide by the Order. I have complete respect for the federal securities laws and those who enforce them. That does not mean, of course, that I agree with the Division’s rebuke for my characterizing the proceedings to date as a vindication against Simons’ false accusations. Nor does it mean that I believe that any violation of the United States securities laws is not a serious matter.

I think that the record is clear that I have had high regard for the SEC, its staff and the laws they uphold for my entire 22-year career. That will not change even if the Division is successful in their efforts to bar me from the securities industry. An industry where I have done more to protect investors than just about any other executive of any other company.

#### **Reference to raising additional funds and using a Crowdfunding campaign**

In the Division’s Motion for Summary Disposition, the Division states the following:

*“In the e-mail message, Fox went on to describe how he and the company plan to raise additional funds through a crowdfunding campaign. Fox’s actions demonstrate that he does not appreciate the importance of the securities registration provisions and that an order barring him from participating in the securities industry is in the public interest.”*

I fail to understand why the Division believes that a Company that is not yet profitable and has just resolved a two-year SEC investigation (which precluded it from accessing the capital markets) should not do all it can to access necessary capital for the benefit of its shareholders – all the more so because the Company had recently received consolidated audited financials for the years 2012 through 2014, with a clean opinion. That audit report was attached to the referenced shareholder email in question.

Was it because I referenced the possibility of a crowdfunding campaign? The Division misleadingly omits to mention that I stated the following in reference to a crowdfunding campaign:

*“Understand that unlike traditional private offerings, there is a regulatory process for us to launch a crowdfunding campaign.”* (emphasis added)

Under the Jobs Act, crowdfunding is an acceptable means of capital raising if done correctly.

#### **Reliance on prior dealings with the SEC**

In September 1996, my brother, Avrohom, and I co-founded an online stock brokerage firm Web Street Securities. Web Street pioneered many innovations that are commonplace today

(such as streaming real-time quotes on a browser, real-time balances and positions, one-click trading and more).

In August 1999, Web Street filed an S-1 to take Web Street public. The company was represented by Katten Muchin & Zavis, a large Chicago-based law firm. Web Street's underwriters were represented by the New York-based law firm Cravath, Swaine & Moore.

- During the course of the S-1 review process, the SEC specifically inquired about all of Web Street's capital raises.
- The SEC reviewed all investments and corresponding Subscription Agreements dating from the Company's inception in September 1996.
- This encompassed over 150 shareholders who invested over \$22 million.
- Of the 150 shareholders, approximately 100 investors purchased over \$15 million in Web Street stock when the Company had audited financials for its sole operating subsidiary, Web Street Securities, Inc., but prior to having audited financial statements that included the holding company Web Street, Inc.
- Of these 100 investors, approximately two dozen were non-accredited investors.
- The majority of these non-accredited investors purchased stock while the Company was utilizing exemptions under Rule 505 or 506.
- The SEC did not report any issues related to any of Web Street's private offerings.
- The S-1 was declared effective by the SEC in November 1999.
- The SEC also reviewed the private share sale made by my brother and me in early 1998.
- The SEC did not report any issues related to mine or my brother's private share sales.

In addition to the SEC not reporting any issues with our level of financial disclosures to non-accredited investors, neither our counsel nor underwriters' counsel ever raised the possibility of any securities law violation.

### **Background of Ditto Holdings, Ditto Trade and the Ditto Technology**

In December 2008, I came up with the idea of developing a first-of-its-kind social investing firm that would give the retail investor a fighting chance against institutional traders and High Frequency Trading. In January 2009 we founded Ditto Holdings, Inc.

In September 2009, we incorporated a wholly owned subsidiary, Ditto Trade, Inc., and soon began the process of getting Ditto Trade approved as a new Broker/Dealer. Due to financial constraints, and our desire to best understand the compliance issues surrounding our new model,

we utilized our outside regulatory counsel on a very sparing basis (our entire legal bill was only \$10,000). I, along with my brother and one other (non-attorney) executive devoted a significant amount of effort in getting our unique Broker/Dealer approved.

In January 2010, we began developing the technology.

In July 2010, we received FINRA approval.

In October 2010, we launched Ditto Trade in “Beta”. During our “Beta” period we were conducting live trades for real customers. What we didn’t do was to actively promote the Company through advertising.

We had hoped to go to market by January 2011; however, the technology turned out to be much more complicated than we originally anticipated or budgeted for. It wasn’t until October 2012, nearly two years longer than expected, that we finally felt comfortable marketing the web site.

The “Beta” period was extremely expensive. The Company generated negligible revenues while still having to pay employees, technology costs, clearing firm charges, regulatory fees, professional fees, rents, etc. In addition, the Company came out of pocket nearly \$200,000 in order to protect our clients because of trade issues related to our technology.

We worked hard to keep the business alive during the unintended, extended Beta period. We were fortunate to have friends and family members who sought fit to invest during this time. They believed that the Company’s proprietary technology would ultimately have broad application and that our management team was capable of maximizing the opportunity.

I have spent the past six years as the primary guardian and proponent of that objective, using my relationships, my personal assets, my time and my considerable energy building momentum, corporate identity, selling the concept and moving toward realizing on that potential, for the benefit of every investor.

From the time the Company came out of Beta in October 2012, through September 2013 it made a great deal of progress. This included; developing a unique marketing strategy and TV campaign, signing of several important partnership agreements, improving on the core technology and mobile trading capabilities and achieving a high of \$150,000 in monthly revenues.

Ditto Trade received quite a bit of media intention for its innovative business model and proprietary technology. This included Fortune, Forbes, Barron’s, Newsweek, USA Today and CNBC who called Ditto Trade the “Facebook for Traders”.

That momentum came to a halt on Friday September 6, 2013 when Paul Simons became aware of the Company’s final determination to terminate his employment with the Company.



## **Proprietary technology that developed, tested and deployed by Ditto Trade**

### **Technology – Ditto Trading**

- Technology that allows investors to attach to the actual trade of someone they trust (“Lead Traders”).
- Lead Traders can be professional traders, Registered Investment Advisors, money managers, newsletter publishers, friends or family members.
- Allows investors to match the strategy of whomever they’re following. Using pre-determined settings to determine their individual participation size, investors receive the same price at the same time as their Lead Trader, thus avoiding any slippage.
- The investor has complete transparency and control, including the ability to instantly detach a position from a Lead Trader with the click of a button.

### **Technology – Ditto Trade Mobile App**

- First-of-its-kind social brokerage application for both iPhone and Android mobile devices.
- Allows users to maintain continuous, real-time connectivity with the Lead Trader they are following.
- Users can instantly detach a position with a Lead Trader with a click of a button on the app.
- User can instantly toggle between participating in the actual trade of their Lead Trader, and choosing to receive an Actionable Trade Alert.
- An Actionable Trade Alert arrives within seconds of their Lead Trader placing a trade.
- User has the ability to instantly decide to either Ignore, Modify or Accept the trade (based on pre-determined settings).
- Allows users to follow a Lead Trader and learn from the Lead Trader’s trades in real time.
- User can Ditto a Lead Trader’s trades for certain securities but only be notified of the Lead Trader’s trades in other securities, thus provides virtually limitless flexibility for investors.
- Provides standard features – streaming quotes, account information, trading, etc.

### **Technology – Mobile Investment Groups**

- Innovative feature on our mobile app that allows users to chat and share trade ideas through push notification.
- Easy registration does not require a brokerage account.
- Create Groups and easily invite Members through your contacts on your mobile device.
- Each time a member who is a Ditto Trade brokerage account holder places a trade, all other members receive an Actionable Trade Alert.
- When a Group member places a trade based on an Actionable Trade Alert, every Group member benefits from a progressively reduced commission, according to the number of members who join the trade. Once 10 members “ditto” the same trade on the same day, each member (including the one who made the original trade) pays only \$1.95 per trade.

## Technology – DittoSync

- Enables customers to purchase instantly (on a pro-rata basis) the entire portfolio of another investor (a Lead Trader).
- Once that portfolio is synced, each new position is then attached to the original block trade of the Lead Trader.
- Users can automatically take part in all subsequent trades of the Lead Trader while maintaining the ability to take control of any position with a single click.
- Eliminates the slippage factor in the portfolio's future returns that is an inherent flaw of the other "mirror trading" platforms available from social investing, or robo-advising companies.

### **Background of Joseph Fox**

The Division is correct in that I have been a longtime participant in the financial services and securities industries, and until Simons launched his calculated attack against me and the Company, I have enjoyed a spotless reputation with industry and security regulators.

I have a lengthy record of protecting investor value and putting investors', and customers', interests above my own personal interests. I was first licensed as a securities broker and principal in 1993. As the CEO of two innovative Broker/Dealers, I have facilitated more than five million trades for customers all over the world **without** a solitary customer complaint. (Compliance record available on BrokerCheck at FINRA.org)

In March 2000 when Web Street's stock was at \$6, my brother and I refused to take "at the money" options granted by the Web Street board. Instead, we had our option grant have an exercise price of \$11, the IPO price. (Filing available on SEC.gov)

From the expiration of the underwriters lock-up in May 2000 (when the stock was over \$4 per share), through the sale to E\*TRADE in May 2001 (where the company sold for \$1.87 per share), my brother and I chose to NEVER sell a share of stock, because it was below the \$11 IPO price. (Filing available on SEC.gov) **It is important to note that there were never any shareholder lawsuits related to Web Street, Inc.**

In April 2005, my brother and I co-founded Iggys House, Inc., an innovative online real estate company. There were approximately 140 shareholders who purchased over \$14 million in Iggys House stock. An S-1 was filed in August 2007 and withdrawn in January 2008 due to adverse market conditions. My brother and I, in attempt to protect these shareholders, put in the majority of the last few million dollars that went into the Company after the S-1 was withdrawn and before that company went out of business in July 2008. **It is important to note that there were never any shareholder lawsuits related to Iggys House notwithstanding its collapse.**

The demise of Iggys House put a strain on my brother's and my personal financial condition. This made it difficult for us to engage outside counsel after incorporating Ditto Holdings in January 2009. In fact, we had personally handled nearly all of the FINRA registration process (along with all 50 state registrations) that led to our approval as a brokerage firm with our

unique business model/strategy. Our entire legal bill from inception through our approval in July 2010 was kept to only \$10,000 (Ex. 6).

From its launch in October 2010 through the closing of its doors in December 2015, Ditto Trade, on behalf of customers, has executed over **500,000** trades utilizing its innovative social trading platform. Even with Ditto Trade innovative technology and business model, it had **zero** customer issues during its 5 years of operations.

### **“Steadman v. SEC”**

The factors identified in “Steadman v. SEC” absolutely **do not** weigh in favor of entering associational and penny stock bars against me.

**Factors:**                    *The egregiousness of the respondent's actions, the isolated or recurrent nature of the infraction & the respondent's recognition of the wrongful nature of his conduct*

Response: The fact that the Company sold \$10 million worth of stock over four years does not make my actions “egregious” (defined as “outstandingly bad, shocking”). Nor does my limited sales of my shares over a three-month period in 2013 make my actions “egregious”.

- Not all of the share sales were void of exemption. Nor does the Order state as such.
- If it can be agreed that I unintentionally relied on a different exemptions financial disclosures, then the fact that the Company sold any amount over four years does not make it “egregious”.
- No shareholders were harmed, intentionally or otherwise.
- While the holding company did not have audited financials, ***“Ditto Trade, Ditto Holdings’ sole operating subsidiary, has had its financial statements audited annually since 2010. Some investors were provided with certain historical and projected financial information about Ditto Trade.”*** (Footnote #3 of the Order)
- Most of the investors in the Company were unsolicited.

I believe it was incredible disingenuous of the Division to state in the Motion for Summary Disposition the following: ***“He also illegally sold roughly \$1.25 million of unregistered securities for his own benefit.”***

- I informed the Division that I relied on advice of outside counsel in the sale of my personal shares.
- I sold shares under the so-called Section 4(1½) exemption.

- I informed that Division that the sale of my shares were not just “for [my] own benefit” (not that I needed a reason to sell my shares under Section 4(1½) exemption).
- I informed that Division that I sold shares to reduce the financial burden my compensation would naturally have on the Company. In fact, after selling my shares, I had the Company reduce my payroll (made through ADP) from \$150,000 to \$100,000, even though my Employment Agreement calls for \$250,000.
- I informed that Division that in lieu of the Company having to increase management pay, or provide bonuses, it allowed me to provide substantial gifts to five other executives and several employees.
- I informed that Division that I sold shares to be able to assist my brother and his family after he was just diagnosed with life threatening leukemia and suffered eight fractured vertebrae.
- I informed that Division that I made a sizable charitable donation.
- There was no offering as such, as I individually negotiated each of the purchases of my personal shares, and the sale prices were not uniform.
- I mistakenly believed that all of the individuals that purchased my shares were accredited, as the majority of the purchasers were existing (accredited) shareholders.
- Only 2 purchasers of my shares, who purchased 39,227 shares for a total \$43,150, were non-accredited (which I offered to the SEC to repurchase during settlement discussions).

**Factors:**                    *The degree of scienter involved and the sincerity of the respondent's assurances against future violations*

Response: Any violations of Section 5(a) and Section 5(c) were inadvertent.

- During the 18 months of the investigation, the Division never alleged that I intentionally violated any securities laws.
- I mistakenly believed that the financial disclosure rules as it pertains to non-accredited investors under Rule 504 applied to Rule 506 as well.
- I informed the Division that I take full responsibility for this mistake and that we would never repeat it.
- In September 2013 the Company put in place a self-imposed freeze on new capital raising until the audit of the holding company could be completed.
- In September 2014 the Company completed a Rights Offering, limited to existing shareholders, to keep the Company alive. In talks with the Division, the Company was

told not to allow non-accredited investors to participate in the Rights Offering until we the holding company's audit was completed (even if it meant that these investors would be significantly diluted). The Company complied.

- At the time, I told these non-accredited investors that they had my word that we would hold enough Rights Shares for them to maintain their equity, and that we would do everything to complete the holding company's consolidated audit.
- It took approximately 12 months to complete the audit and the majority of the non-accredited investors participated in Rights Offering and avoided dilution.

**Factor:** *The likelihood that the respondent's occupation will present opportunities for future violations*

Response: The Division states *"Fox's employment will provide ample opportunities for future violations as Ditto Holdings owns a broker-dealer firm."*

- As stated in the Order, I voluntarily withdrew my brokerage licenses in December 2014.
- Unfortunately, on December 18, 2015, our sole operating subsidiary Ditto Trade ran out of capital and had to withdraw its Broker/Dealers license with FINRA and cease all brokerage operations.
- At no time were customer funds ever impacted (let alone impaired) by any of my actions.
- I have no intention to affiliate with any Broker/Dealer now, or anytime in the future. However, that does mean that I can accept an industry bar based on mischaracterizations of the facts.

### Conclusion

I never intended to violate any securities laws. Any violations were inadvertent. The Company needed to raise additional capital to keep to stay alive and crowdfunding was an option if the Company could comply with the regulatory process.

I have a well-documented history of consistently putting investors' and customers' interest first. In every conversation I have ever had with new shareholders over the last 20 years, I have always discussed the risk of investing in a young company that is not yet profitable.

The Company put its shareholders' invested funds to good use. Ditto Trade developed leading edge proprietary technology (with patents pending) that have a broad based appeal for all types of market participants. In late 2013, the Company had a valuation of over \$40 million (Ex. 7) and all signs pointed to that value increasing.

I respectfully reject any suggestion that I misstated the Order, failed to comply with any aspect of the Order, or violated any securities laws since the Order was agreed to and entered.

Accordingly, I respectfully submit that the five-year collateral and penny stock bar sought by the Commission is not in the public interest and the Division's Motion should be denied.

Dated: January 8, 2016

Respectfully submitted,

A handwritten signature in black ink that reads "Joseph Fox". The signature is written in a cursive, flowing style with a large, prominent "F" and "X".

**Joseph J. Fox**

# Exhibit #1

from: Paul M. Simons [REDACTED]  
Sent: Sunday, September 08, 2013 5:49 PM  
To: Jeremy Mann  
Subject: Re: RE: RE:

Cool- what did he say and to whom did he say it - any reasons, etc - and does he know  
i am in chicag - can only email right niw

Paul M. Simons  
[REDACTED]

On Sep 8, 2013, at 6:47 PM, Jeremy Mann <[REDACTED]> wrote:

Ok. Joe is firing you Tuesday.

from: Paul M [REDACTED]  
Sent: Sunday, September 08, 2013 5:46 PM  
To: Jeremy Mann  
Subject: Re: RE;

Do not mention t am coming to Chicago pls - on plane now

Paul M. Simons

Work (312) 263-5400  
Cell (310) 610-7002  
[REDACTED]

On Sep 8, 2013, at 6:44 PM, Jeremy Mann <[REDACTED]> wrote;

Paul,

Call me or Adam ASAP.

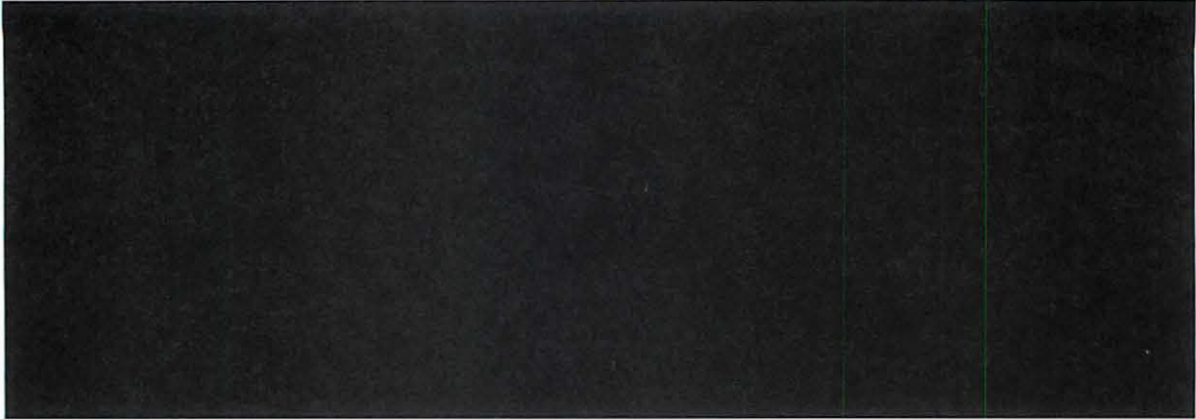




## **Exhibit #2**

**From:** [Paul Huey-Burns](#)  
**To:** ["Paul M. Simons"; "██████████ Mann"; "Adam Stillman"; Danny Krakower](#)  
**Subject:** FW: Referral of Matter for Potential Investigation  
**Date:** Monday, September 09, 2013 4:28:03 PM  
**Attachments:** [image001.ipg](#)  
[CCE00000.pdf](#)

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PAUL HUEY-BURNS

[phuey-burns@shulmanrogers.com](mailto:phuey-burns@shulmanrogers.com) | T 301.945.9241 | F 301.230.2891

SHULMAN, ROGERS, GANDAL, PORDY & ECKER, P.A.  
12505 PARK POTOMAC AVENUE, 6TH FLOOR, POTOMAC, MD 20854

[ShulmanRogers.com](http://ShulmanRogers.com)



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**From:** Paul Huey-Burns  
**Sent:** Monday, September 09, 2013 4:20 PM  
**To:** 'Phillips, Eric M.'  
**Cc:** 'warrent@sec.gov'; 'bursonr@sec.gov'  
**Subject:** Referral of Matter for Potential Investigation

Eric,

I realize that you are busy preparing for trial in the True North matter, but I'm hoping that you could review the attached letter or refer it to someone who is in a position to consider the allegations that it contains. (I've copied Bob and Tim as well.) The letter describes allegations of significant financial misfeasance by Joseph Fox, the Chairman of Ditto Holdings, Inc., the holding company for Ditto Trade, Inc. (a registered BD). Both Ditto Holdings and Ditto Trade have substantial operations in the Chicago area. These allegations were brought to our attention by Paul Simons, the signer of the attached letter, who is a Director and EVP of Ditto Holdings and CEO of Ditto Trade. (Mr. Simons, among many other things, is a former Managing Director of Credit Suisse Securities, where he served as

co-head of the US Private Banking Division.) The allegations are substantive and well-documented and, I believe, raise serious questions as to whether Mr. Fox and certain others involved in senior management have perpetrated or are in the process of perpetrating a fraud on Ditto Holdings' shareholders, and perhaps others. (Ditto Holdings currently is raising capital through a Reg D offering.) Mr. Simons and I would be happy to discuss these allegations with you or any of your colleagues.

Mr. Simons delivered the attached letter to Mr. Fox (and also to Jonathan Rosenberg, the other member of Ditto Holdings' Board of Directors, and to Stuart Cohn, Ditto Holdings' General Counsel) this morning. Mr. Simons requested that the Board initiate an investigation into the matters described in detail in the letter. Mr. Simons has received no direct response and is concerned that Mr. Fox and others involved in senior management have decided not to respond and may be preparing to take retaliatory action against Mr. Simons and two other more junior executives, Jeremy Mann and Adam Stillman, who agree with Mr. Simons that there is significant evidence of Mr. Fox's misfeasance and who support Mr. Simons' actions. Messrs. Simons, Mann and Stillman also are concerned that Mr. Fox and others may attempt to create post-hoc documents or other materials to justify the apparently illegal transactions.

As I said, Mr. Simons and I are available to discuss these issues at your earliest convenience.

Thanks

Paul

PAUL HUEY-BURNS

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## **Exhibit #3**

**AFFIDAVIT**

I, Joshua B. Smith, am over the age of 21 and I state the following:

1. I am the proprietor of JBS Life Chartered, a certified public accounting firm.
2. On or about February 22, 2013 I was engaged by Ditto Holdings, Inc. (the Company) to perform certain specified accounting work for the Company.
3. I met at my office with Jeremy Mann on behalf of the Company on February 22, 2013. Thereafter all further communications between me and Mr. Mann took place by e-mail and telephone; none took place in person.
4. Under penalties as provided by law pursuant to Section 1-109 of the Illinois Code of Civil Procedure, I certify that the statements set forth in this instrument are true and correct.

Dated: December 5, 2013

  
\_\_\_\_\_  
Joshua B. Smith, CPA

## Jeremy Mann

---

**From:** Jeremy Mann <jmann@dittoholdings.com>  
**Sent:** Friday, February 22, 2013 6:53 AM  
**To:** Joseph Fox  
**Subject:** Re: Save these images separately as PDFs

Stu has all the docs for this. I forwarded it to him.

I'm walking into the accountants office now.

Sent from my iPhone

On Feb 22, 2013, at 8:48 AM, Joseph Fox <jfox@dittoholdings.com> wrote:

> <image.png>  
>  
>  
> <image.png>  
>  
> Joseph J. Fox  
> Chief Executive Officer  
>  
> Ditto Holdings, Inc.  
> www.DittoTrade.com

## Jeremy Mann

---

**From:** Jeremy Mann <jmann@dittoholdings.com>  
**Sent:** Friday, March 1, 2013 7:32 AM  
**To:** Jon Rosenberg  
**Subject:** Late

Jon,

Let Ray know I'll be in shortly. I had to meet with our accountant this morning for a quick meeting.

Tell him that.

Sent from my iPhone

## Jeremy Mann

---

**From:** Jeremy Mann <jmann@dittoholdings.com>  
**Sent:** Thursday, March 7, 2013 6:24 AM  
**To:** Jon Rosenberg  
**Subject:** Late

Jon,

I have to run to our accountant's office. I should be in around 9:30-10.

Please let finra know.

Sent from my iPhone



## Joseph Fox

---

**From:** Jeremy Mann <jmann@dittoholdings.com>  
**Sent:** Thursday, April 04, 2013 6:29 AM  
**To:** customerservice@dittoholdings.com; operations@dittoholdings.com; Joe Fox  
**Subject:** Meeting

I'm about to go into a meeting with the accountant. I should be done around 10. Call if needed.

Sent from my iPhone

## Joseph Fox

---

**From:** Jeremy Mann <jmann@dittoholdings.com>  
**Sent:** Thursday, April 11, 2013 6:33 AM  
**To:** customerservice@dittoholdings.com; operations@dittoholdings.com; Tech; psimons@dittoholdings.com; Joe Fox  
**Subject:** Meeting

All,

I am about to walk into our accountant's office. Email or call if needed.

## Jeremy Mann

---

**From:** Jeremy Mann <jmann@dittoholdings.com>  
**Sent:** Wednesday, May 15, 2013 4:30 AM  
**To:** Tech; operations@dittoholdings.com; customerservice@dittoholdings.com;  
psimons@dittoholdings.com  
**Subject:** Meeting in AM

Guys, I have a meeting with our accountant at 9:30. I will probably be there for a couple hours. Call me if needed. Otherwise, I'll be in the office after.

## Joseph Fox

---

**From:** Jeremy Mann <jmann@dittoholdings.com>  
**Sent:** Wednesday, May 29, 2013 6:42 AM  
**To:** operations@dittoholdings.com; customerservice@dittoholdings.com;  
psimons@dittoholdings.com; Joe Fox  
**Subject:** Meeting

All,

I am walking into the accountant's office now. I will be here about an hour and then in the office. Call if needed.

## Joseph Fox

---

**From:** Jeremy Mann <jmann@dittoholdings.com>  
**Sent:** Tuesday, June 18, 2013 6:59 AM  
**To:** Joe Fox; psimons@dittoholdings.com; customerservice@dittoholdings.com; operations@dittoholdings.com  
**Subject:** Meeting.

All,

I am just getting to our accountants office. Should be a quick meeting. Call me if needed.

**Joseph Fox**

---

**From:** Jeremy Mann <jmann@dittoholdings.com>  
**Sent:** Tuesday, July 16, 2013 6:56 AM  
**To:** operations@dittoholdings.com; customerservice@dittoholdings.com; Joe Fox  
**Subject:** Meeting

I'm walking into our accountants office now. I don't get good service but will have Internet. Email if needed.

## Jeremy Mann

---

**From:** Jeremy Mann <jmann@dittoholdings.com>  
**Sent:** Monday, July 29, 2013 5:49 AM  
**To:** operations@dittoholdings.com; psimons@dittoholdings.com;  
compliance@dittoholdings.com

Guys,

I have a meeting within our accountant this morning. I will be in the office after. Email me if needed.

## Joseph Fox

---

**From:** Jeremy Mann <jmann@dittoholdings.com>  
**Sent:** Monday, August 05, 2013 6:59 AM  
**To:** customerservice@dittoholdings.com; operations@dittoholdings.com; Joe Fox; psimons@dittoholdings.com  
**Subject:** Meeting

All,

I am walking into our accountants office now for a meeting. Cell service is awful here, email is the best way to reach me.

Sent from my iPhone



## **Exhibit #4**

**From:** [Joseph Fox](#)  
**To:** [jfox@dittoholdings.com](mailto:jfox@dittoholdings.com)  
**Subject:** Important - Ditto Holdings  
**Date:** Wednesday, September 11, 2013 7:57:44 PM

---

Dear Joseph,

I am writing because of a communication that you may have received earlier today from Paul M. Simons, former CEO of Ditto Trade.

I am sure that you, as well as my family members and friends that are also shareholders, were at a minimum confused by his email.

Let me share with you the following.

Unfortunately, it is an unavoidable fact of life that, as we are building this new business, not every hire will turn out as expected. This can create hiccups now and then, and we will manage through them.

We have begun the process to address the assertions made by Mr. Simons. We are confident that once that process has been concluded, any questions will have been satisfactorily addressed. We are also in the process of hiring a seasoned CFO and engaging an independent accounting firm to audit Ditto Holdings' financial statements going forward (Ditto Trade is already audited annually). This is all beneficial as we hope to one day become a public company. I look forward to sharing with all of our shareholders the appropriate financial reports when they are completed.

As you know, we have an excellent management team and terrific outside counsel and I want to reassure you that the business of the Company is proceeding uninterrupted. Our attention will not be diverted from our first priority, which is to turn the business concept that I believe in so deeply into opportunity and profit for all shareholders. Along these lines, tomorrow we plan on rolling out the biggest enhancements to the post login portion of our site in the history of our Company. Also, I am happy to report that our monthly revenues have grown more than fivefold since January of this year.

Joseph, as always, I will make myself available to you and all of our shareholders. I want you to know that I will be more than happy to have a phone call and answer ANY questions you may have. Just let me know when you would like to talk.

Regards,

Joe

## **Exhibit #5**



MENU

Dictionary

technical



### Full Definition of TECHNICAL

- 1 a : having special and usually practical knowledge especially of a mechanical or scientific subject <a *technical* consultant>  
b : marked by or characteristic of specialization <*technical* language>
- 2 a : of or relating to a particular subject  
b : of or relating to a practical subject organized on scientific principles <a *technical* school>  
c : **TECHNICAL**
- 3 a : based on or marked by a strict or legal interpretation  
b : **LEGAL 6**
- 4 : of or relating to **technique**
- 5 : of, relating to, or produced by ordinary commercial processes without being subjected to special purification <*technical* sulfuric acid>
- 6 : relating to or caused by the functioning of the market as a discrete mechanism not influenced by macroeconomic factors <a *technical* rally>

-tech·ni·cal·ly ◀ \-k(ə-)lē\ *adverb*



BROWSE DICTIONARY

technetronic



technic

**technical**

technical estoppel

technical felony



enroll by January 15  
for coverage starting

## **Exhibit #6**

**From:** [Van De Graaff, James D.](#)  
**To:** [Joseph Fox](#)  
**Subject:** Billing Information  
**Date:** Friday, December 6, 2013 8:58:36 AM

---

Joe:

From inception through July 2010 we billed you a total of just over \$10,000. By November 2010 that amount had risen to just over \$15,000, and we wrote off \$5,000 on all outstanding invoices at that time.

Let me know if you need anything further.

James

**JAMES D. VAN DE GRAAFF**  
Partner  
[Katten Muchin Rosenman LLP](#)



p / (312) 902-5227 f / (312) 577-8709  
[james.vandegraaff@kattenlaw.com](mailto:james.vandegraaff@kattenlaw.com) / [www.kattenlaw.com](http://www.kattenlaw.com)

=====  
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=====

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=====

## **Exhibit #7**



FBR Capital Markets & Co.  
Financial Institutions Investment Banking

## **Presentation to Ditto Holdings, Inc.**

October 2013

Strictly Private and Confidential



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TR-118

## **Preliminary Valuation**

---

# Projections Provided by Management

Projections Provided By Management  
DITTO Holdings, Inc.

|         | 2012         | 2013          | 2014           | 2015           |
|---------|--------------|---------------|----------------|----------------|
| Revenue | \$ 458,555   | \$ 839,290    | \$ 7,700,000   | \$ 18,250,000  |
| Growth  |              | 83.0%         | 817.4%         | 137.0%         |
| AUM     | \$ 3,903,300 | \$ 70,000,000 | \$ 200,000,000 | \$ 450,000,000 |

Publicly Traded Comps

|                  |      |      |
|------------------|------|------|
| Median           | 13.1 | 10.0 |
| Weighted Average | 12.9 | 9.9  |

Private Company Discount

|                  |       |       |
|------------------|-------|-------|
| Series B/C Round | 50.0% | 50.0% |
| Median           | 6.53  | 4.98  |
| Weighted Average | 6.47  | 4.95  |

Implied Private Company Valuation

|                  |               |               |
|------------------|---------------|---------------|
| Median           | \$ 50,257,438 | \$ 90,848,923 |
| Weighted Average | \$ 49,785,225 | \$ 90,394,196 |

Preliminary Valuation, Subject to Change

## Preliminary Valuation Based on Public Company Analysis

| Social Media Trading Comps |        |                             |                           | LTM Pricing Ratios |               |            |            | 2013 Pricing Ratios |                |             |             | 2014 Pricing Ratios |                |             |             | 2015 Pricing Ratios |                |             |             |
|----------------------------|--------|-----------------------------|---------------------------|--------------------|---------------|------------|------------|---------------------|----------------|-------------|-------------|---------------------|----------------|-------------|-------------|---------------------|----------------|-------------|-------------|
| Name                       | Ticker | Closing Price<br>10/21/2013 | Market Cap<br>\$ millions | Price/<br>LTM      | Price/<br>LTM | EV/<br>LTM | EV/<br>LTM | Price/<br>2013      | Price/<br>2013 | EV/<br>2013 | EV/<br>2013 | Price/<br>2014      | Price/<br>2014 | EV/<br>2014 | EV/<br>2014 | Price/<br>2015      | Price/<br>2015 | EV/<br>2015 | EV/<br>2015 |
|                            |        |                             |                           | Revenue            | EPS           | Revenue    | EBITDA     | Revenue             | EPS            | Revenue     | EBITDA      | Revenue             | EPS            | Revenue     | EBITDA      | Revenue             | EPS            | Revenue     | EBITDA      |
| Facebook, Inc.             | FB     | \$53.85                     | \$131,142.0               | 21.8x              | NM            | 21.3x      | 48.4x      | 17.7x               | 74.8x          | 17.6x       | 31.6x       | 13.3x               | 54.9x          | 13.3x       | 24.1x       | 10.3x               | 41.1x          | 10.2x       | 18.6x       |
| LinkedIn Corporation       | LNKD   | \$249.79                    | \$29,464.1                | 24.8x              | NM            | 23.5x      | NM         | 19.5x               | NM             | 19.3x       | 78.7x       | 13.8x               | 111.5x         | 13.7x       | 51.5x       | 10.2x               | 73.5x          | 10.1x       | 35.1x       |
| Angie's List, Inc.         | ANGI   | \$15.36                     | \$896.8                   | 4.5x               | NM            | 4.3x       | NM         | 3.6x                | NM             | 3.5x        | NM          | 2.6x                | 52.1x          | 2.5x        | 27.7x       | 2.1x                | 16.9x          | 2.0x        | 11.9x       |
| Yelp Inc.                  | YELP   | \$71.06                     | \$4,634.4                 | 25.1x              | NM            | 25.4x      | NM         | 20.6x               | NM             | 20.2x       | 162.1x      | 14.0x               | NM             | 13.7x       | 77.2x       | 10.2x               | 124.7x         | 10.0x       | 45.1x       |
| Zynga, Inc.                | ZNGA   | \$3.69                      | \$2,968.0                 | 2.6x               | NM            | 2.5x       | 79.3x      | 3.4x                | NM             | 3.2x        | 100.6x      | 3.9x                | NM             | 3.6x        | 50.4x       | 3.7x                | (94.0x)        | 3.5x        | 48.9x       |
| Low                        |        |                             |                           | 2.6x               | NM            | 2.5x       | 48.4x      | 3.4x                | 74.8x          | 3.2x        | 31.6x       | 2.6x                | 52.1x          | 2.5x        | 24.1x       | 2.1x                | (94.0x)        | 2.0x        | 11.9x       |
| Median                     |        |                             |                           | 21.8x              | NM            | 21.3x      | 63.8x      | 17.7x               | 74.8x          | 17.6x       | 89.6x       | 13.3x               | 54.9x          | 13.3x       | 50.4x       | 10.2x               | 41.1x          | 10.0x       | 35.1x       |
| Average                    |        |                             |                           | 15.8x              | NM            | 15.4x      | 63.8x      | 13.0x               | 74.8x          | 12.7x       | 93.2x       | 9.5x                | 72.8x          | 9.3x        | 46.2x       | 7.3x                | 32.4x          | 7.2x        | 31.9x       |
| Wt. Avg.                   |        |                             |                           | 22.0x              | NM            | 21.4x      | 38.9x      | 17.8x               | 58.0x          | 17.7x       | 44.4x       | 13.2x               | 62.3x          | 13.1x       | 30.8x       | 10.1x               | 46.5x          | 10.0x       | 22.7x       |
| High                       |        |                             |                           | 25.1x              | NM            | 25.4x      | 79.3x      | 20.6x               | 74.8x          | 20.2x       | 162.1x      | 14.0x               | 111.5x         | 13.7x       | 77.2x       | 10.3x               | 124.7x         | 10.2x       | 48.9x       |

### Weighted Average Valuation - 2014

|                  |               | Discount Rate to Revenue Multiple |               |               |               |               |               |
|------------------|---------------|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
|                  |               | 25%                               | 30%           | 35%           | 40%           | 45%           | 50%           |
| Revenue Multiple | 10.7          | \$ 61,885,422                     | \$ 57,759,727 | \$ 53,634,032 | \$ 49,508,337 | \$ 45,382,643 | \$ 41,256,948 |
|                  | 11.2          | \$ 64,772,922                     | \$ 60,454,727 | \$ 56,136,532 | \$ 51,818,337 | \$ 47,500,143 | \$ 43,181,948 |
|                  | 11.7          | \$ 67,660,422                     | \$ 63,149,727 | \$ 58,639,032 | \$ 54,128,337 | \$ 49,617,643 | \$ 45,106,948 |
|                  | 12.2          | \$ 70,547,922                     | \$ 65,844,727 | \$ 61,141,532 | \$ 56,438,337 | \$ 51,735,143 | \$ 47,031,948 |
|                  | 12.7          | \$ 73,435,422                     | \$ 68,539,727 | \$ 63,644,032 | \$ 58,748,337 | \$ 53,852,643 | \$ 48,956,948 |
|                  | 13.2          | \$ 76,322,922                     | \$ 71,234,727 | \$ 66,146,532 | \$ 61,058,337 | \$ 55,970,143 | \$ 50,881,948 |
|                  | 13.7          | \$ 79,210,422                     | \$ 73,929,727 | \$ 68,649,032 | \$ 63,368,337 | \$ 58,087,643 | \$ 52,806,948 |
|                  | 14.2          | \$ 82,097,922                     | \$ 76,624,727 | \$ 71,151,532 | \$ 65,678,337 | \$ 60,205,143 | \$ 54,731,948 |
|                  | 14.7          | \$ 84,985,422                     | \$ 79,319,727 | \$ 73,654,032 | \$ 67,988,337 | \$ 62,322,643 | \$ 56,656,948 |
|                  | 15.2          | \$ 87,872,922                     | \$ 82,014,727 | \$ 76,156,532 | \$ 70,298,337 | \$ 64,440,143 | \$ 58,581,948 |
| 15.7             | \$ 90,760,422 | \$ 84,709,727                     | \$ 78,659,032 | \$ 72,608,337 | \$ 66,557,643 | \$ 60,506,948 |               |

Based on preliminary information provided by Ditto, FBR believes that Ditto could achieve a valuation of between \$40 to \$60mm



Source: SNL Financial, Factset, Ditto  
Valuation based on internal Ditto 2014 Revenue Estimate of \$7.7mm, subject to diligence

## **Private Company - Private Financing**

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## Overview - Motif Investing, Inc.

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Motif is a investment portal that allows customers to easily invest in real-world ideas

- ▶ Customers find investing ideas
  - Customers look for trends, ideas and world events that could create an investment opportunity
- ▶ Motif builds portfolios
  - Motif finds related stocks and intelligently weights a portfolio based on exposure to the underlying idea
- ▶ Customers can then tailor the portfolio
  - Using Motif's website customers can customize the weights and stocks in the portfolios
- ▶ Purchase up to 30 stocks in one portfolio
  - No matter how much the customer customizes the portfolio there is only one commission charged, per transaction

## Motif Investing, Inc. – Private Financing

*Motif Investing has raised an estimated \$50mm to date, through four different rounds*

### MOTIF PRIVATE FINANCING

Motif Investing, Inc.

Venture Capital Backed - Investment Rounds

Total Active Investors: 6

Total Est. Amt Raised: 50,000,000 USD

Series C - 12-Apr-2013

Round Amount: 25,000,000 USD

% of Total Est. Amt Raised: 100.0%

| Investor Name                 | Fund Name                         | Status | Location      |
|-------------------------------|-----------------------------------|--------|---------------|
| Foundation Capital            | Foundation Capital VI Fund        | Active | California/US |
| Goldman Sachs & Co.           | -                                 | Active | New York/US   |
| Ignition Venture Partners LLC | Ignition Venture Partners IV Fund | Active | Washington/US |
| Norwest Venture Partners      | Norwest Venture Partners XI LP    | Active | California/US |

Series B - 25-Jul-2011

Round Amount: 20,000,000 USD

% of Total Est. Amt Raised: 80.0%

| Investor Name                 | Fund Name                         | Status | Location      |
|-------------------------------|-----------------------------------|--------|---------------|
| Foundation Capital            | Foundation Capital VI Fund        | Active | California/US |
| Ignition Venture Partners LLC | Ignition Venture Partners IV Fund | Active | Washington/US |
| Norwest Venture Partners      | Norwest Venture Partners XI LP    | Active | California/US |

Series A - 01-Oct-2010

Round Amount: 6,000,000 USD

% of Total Est. Amt Raised: 24.0%

| Investor Name            | Fund Name                      | Status | Location      |
|--------------------------|--------------------------------|--------|---------------|
| Foundation Capital       | Foundation Capital VI Fund     | Active | California/US |
| Norwest Venture Partners | Norwest Venture Partners XI LP | Active | California/US |

Founders Shares - 01-Jan-2010

Round Amount: -

| Investor Name     | Fund Name | Status | Location |
|-------------------|-----------|--------|----------|
| Hardee Walia, MBA | -         | Active | --       |
| Tariq Hilaly, MBA | -         | Active | --       |

# Motif Investing – Private Financing Valuation

| Series C - 12-Apr-2013 |                       |                            |              |               |
|------------------------|-----------------------|----------------------------|--------------|---------------|
| Amount Raised          | Shares <sup>(1)</sup> | Price/Share <sup>(1)</sup> | Pre-Money    | Post-Money    |
| \$25,000,000           | 7,692,308             | \$3.25                     | \$93,294,620 | \$118,294,620 |

| Series B - 25-Jul-2011 |           |             |              |              |
|------------------------|-----------|-------------|--------------|--------------|
| Amount Raised          | Shares    | Price/Share | Pre-Money    | Post-Money   |
| \$20,000,000           | 8,982,303 | \$2.23      | \$43,916,875 | \$63,916,875 |

| Series A - 01-Oct-2010 |            |             |             |              |
|------------------------|------------|-------------|-------------|--------------|
| Amount Raised          | Shares     | Price/Share | Pre-Money   | Post-Money   |
| \$6,000,000            | 10,129,658 | \$0.59      | \$5,682,764 | \$11,682,764 |

| Founders Shares - 01-Jan-2010 |           |             |           |            |
|-------------------------------|-----------|-------------|-----------|------------|
| Amount Raised                 | Shares    | Price/Share | Pre-Money | Post-Money |
| NA                            | 9,594,076 | NA          | NA        | NA         |

## 2013 Implied Revenue Multiple - Private Financing

| Estimated 2013 Revenue (\$mm) | Post-Money Valuation (\$mm) |       |       |       |       |       |       |       |       |
|-------------------------------|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
|                               | \$80                        | \$85  | \$90  | \$95  | \$100 | \$105 | \$110 | \$115 | \$120 |
| \$0.5                         | 160.0                       | 170.0 | 180.0 | 190.0 | 200.0 | 210.0 | 220.0 | 230.0 | 240.0 |
| \$1.0                         | 80.0                        | 85.0  | 90.0  | 95.0  | 100.0 | 105.0 | 110.0 | 115.0 | 120.0 |
| \$1.5                         | 53.3                        | 56.7  | 60.0  | 63.3  | 66.7  | 70.0  | 73.3  | 76.7  | 80.0  |
| \$2.0                         | 40.0                        | 42.5  | 45.0  | 47.5  | 50.0  | 52.5  | 55.0  | 57.5  | 60.0  |
| \$2.5                         | 32.0                        | 34.0  | 36.0  | 38.0  | 40.0  | 42.0  | 44.0  | 46.0  | 48.0  |
| \$3.0                         | 26.7                        | 28.3  | 30.0  | 31.7  | 33.3  | 35.0  | 36.7  | 38.3  | 40.0  |
| \$3.5                         | 22.9                        | 24.3  | 25.7  | 27.1  | 28.6  | 30.0  | 31.4  | 32.9  | 34.3  |
| \$4.0                         | 20.0                        | 21.3  | 22.5  | 23.8  | 25.0  | 26.3  | 27.5  | 28.8  | 30.0  |
| \$4.5                         | 17.8                        | 18.9  | 20.0  | 21.1  | 22.2  | 23.3  | 24.4  | 25.6  | 26.7  |
| \$5.0                         | 16.0                        | 17.0  | 18.0  | 19.0  | 20.0  | 21.0  | 22.0  | 23.0  | 24.0  |



1. FBR Estimate



## Overview – Covestor, Inc.

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Covestor is a investment company that allows customers to find managers to invest with

- › Wide range of Portfolio Managers
  - Over 150 Portfolio Manager whose portfolios can be viewed, studied, and mirrored
- › Clients can find Portfolio Managers who have similar goals
  - Covestor will help customers find Portfolio Managers who have similar investment goals
  - No penalties for switching between Portfolio Managers
- › Portfolio Sync
  - Once the customers account is created, Covestor will automatically re-create the customers Portfolio Managers account
  - All securities are held in the customers name, in a separate brokerage account

## Covestor Inc. – Private Financing

*Covestor Inc. has raised an estimated \$26.9mm to date through five Series A1-B financing rounds*

### COVESTOR, INC. PRIVATE FINANCING

Covestor, Inc. (075T05-E)

Venture Capital Backed - Investment Rounds

Total Active Investors: 10

Total Est. Amt Raised: 26,850,000 USD

Series B - 13-Jun-2013

Round Amount: 12,750,000 USD

% of Total Est. Amt Raised: 47.5%

| Investor Name                 | Fund Name                     | Status | Location         |
|-------------------------------|-------------------------------|--------|------------------|
| Amadeus Capital Partners Ltd. | Amadeus Fund III              | Active | United Kingdom   |
| Bay Partners LLC              | Bay Partners XI Fund          | Active | California/US    |
| Spark Capital Partners LLC    | Spark Capital Fund II         | Active | Massachusetts/US |
| Union Square Ventures LLC     | Union Square Ventures 2008 LP | Active | New York/US      |

Series A4 - 31-Aug-2011

Round Amount: 4,000,000 USD

% of Total Est. Amt Raised: 14.9%

| Investor Name             | Fund Name                     | Status | Location    |
|---------------------------|-------------------------------|--------|-------------|
| Union Square Ventures LLC | Union Square Ventures 2008 LP | Active | New York/US |

Series A3 - 05-Mar-2010

Round Amount: 3,600,000 USD

% of Total Est. Amt Raised: 13.4%

| Investor Name | Fund Name | Status | Location |
|---------------|-----------|--------|----------|
|---------------|-----------|--------|----------|

Series A2 - 07-Apr-2008

Round Amount: 6,500,000 USD

% of Total Est. Amt Raised: 24.2%

| Investor Name                          | Fund Name   | Status | Location         |
|--|---|--------|------------------|
| Amadeus Capital Partners Ltd.          | Amadeus Fund III  | Active | United Kingdom   |
| John K. L. Borthwick                   | -   | Active | -                |
| Knight's Bridge Capital Partners, Inc. | Knight's Bridge Capital Partners Internet Fund No. 1 LP | Active | Canada           |
| Spark Capital Partners LLC             | Spark Capital Fund II                                   | Active | Massachusetts/US |
| Union Square Ventures LLC              | Union Square Ventures 2008 LP                           | Active | New York/US      |

Series A1 - 18-Jul-2007

Round Amount: -

| Investor Name                | Fund Name                | Status | Location    |
|------------------------------|--------------------------|--------|-------------|
| IA Capital Partners LLC      | IA Capital Partners Fund | Active | New York/US |
| Independent News & Media Plc | -                        | Active | Ireland     |

## Additional Revenue Generation

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## Publically Traded – Online Financial Brokerage Firms

| Online Broker/Dealer Trading Comps |        |                             |                           | 2013 Pricing Ratios |                |                |             |             | 2014 Pricing Ratios |                |                |             |             |       |
|------------------------------------|--------|-----------------------------|---------------------------|---------------------|----------------|----------------|-------------|-------------|---------------------|----------------|----------------|-------------|-------------|-------|
| Name                               | Ticker | Closing Price<br>10/22/2013 | Market Cap<br>\$ millions | Price/<br>2013      | Price/<br>2013 | Price/<br>2013 | EV/<br>2013 | EV/<br>2013 | Price/<br>2014      | Price/<br>2014 | Price/<br>2014 | EV/<br>2014 | EV/<br>2014 |       |
|                                    |        |                             |                           | Revenue             | EPS            | Book           | Revenue     | EBITDA      | Revenue             | EPS            | Book           | Revenue     | EBITDA      |       |
| Charles Schwab Corporation         | SCHW   | \$23.35                     | \$30,003                  | 5.6x                | 30.7x          | 3.2x           | 4.9x        | 13.9x       | 5.1x                | 25.7x          | 2.8x           | 4.5x        | 11.7x       |       |
| E*TRADE Financial Corporation      | ETFC   | \$17.44                     | \$5,006                   | 3.0x                | 26.6x          | 1.0x           | 7.1x        | 29.5x       | 3.0x                | 22.1x          | 1.0x           | 7.1x        | 19.9x       |       |
| Interactive Brokers Group, Inc.    | IBKR   | \$20.01                     | \$1,000                   | 0.9x                | 23.8x          | NA             | 3.1x        | 5.6x        | 0.8x                | 17.3x          | NA             | 2.6x        | 4.2x        |       |
| TD Ameritrade Holding Corporation  | AMTD   | \$28.32                     | \$15,583                  | 5.6x                | 23.2x          | 3.3x           | 5.7x        | 12.7x       | 5.2x                | 21.0x          | 3.1x           | 5.3x        | 11.4x       |       |
|                                    |        |                             |                           | Low                 | 0.9x           | 23.2x          | 1.0x        | 3.1x        | 5.6x                | 0.8x           | 17.3x          | 1.0x        | 2.6x        | 4.2x  |
|                                    |        |                             |                           | Median              | 4.3x           | 25.2x          | 3.2x        | 5.3x        | 13.3x               | 4.0x           | 21.5x          | 2.8x        | 4.9x        | 11.5x |
|                                    |        |                             |                           | Average             | 3.8x           | 26.1x          | 2.5x        | 5.2x        | 15.4x               | 3.5x           | 21.5x          | 2.3x        | 4.8x        | 11.8x |
|                                    |        |                             |                           | High                | 5.6x           | 30.7x          | 3.3x        | 7.1x        | 29.5x               | 5.2x           | 25.7x          | 3.1x        | 7.1x        | 19.9x |

| Name                              | Description   |
|-----------------------------------|---|
| Charles Schwab Corporation        | The Charles Schwab Corporation (NYSE: SCHW) is a leading provider of financial services, with more than 300 offices and 9.0 million active brokerage accounts, 1.3 million corporate retirement plan participants, 930,000 banking accounts, and \$2.15 trillion in client assets as of September 30, 2013. Through its operating subsidiaries, the company provides a full range of securities brokerage, banking, money management and financial advisory services to individual investors and independent investment advisors. Its broker-dealer subsidiary, Charles Schwab & Co., Inc. (member SIPC, www.sipc.org), and affiliates offer a complete range of investment services and products including an extensive selection of mutual funds; financial planning and investment advice; retirement plan and equity compensation plan services; referrals to independent fee-based investment advisors; and custodial, operational and trading support for independent, fee-based investment advisors through Schwab Advisor Services. Its banking subsidiary, Charles Schwab Bank (member FDIC and an Equal Housing Lender), provides banking and lending services and products.  |
| E*TRADE Financial Corporation     | The E*TRADE Financial family of companies provides financial services including online brokerage and related banking products and services to retail investors. Specific business segments include Trading and Investing and Balance Sheet Management. Securities products and services are offered by E*TRADE Securities LLC (Member FINRA/SIPC). Bank products and services are offered by E*TRADE Bank, a Federal savings bank, Member FDIC, or its subsidiaries and affiliates.   |
| Interactive Brokers Group, Inc.   | Interactive Brokers Group, Inc., together with its subsidiaries, is an automated global electronic broker that specializes in catering to financial professionals by offering state-of-the-art trading technology, superior execution capabilities, worldwide electronic access, and sophisticated risk management tools at exceptionally low costs. The brokerage trading platform utilizes the same innovative technology as the Company's market making business, which specializes in routing orders and executing and processing trades in securities, futures, foreign exchange instruments, bonds and funds on more than 100 electronic exchanges and trading venues around the world. As a market maker, we provide liquidity at these marketplaces and, as a broker, we provide professional traders and investors with electronic access to stocks, options, futures, forex, bonds and mutual funds from a single IB Universal Account. Employing proprietary software on a global communications network, Interactive Brokers is continuously integrating its software with a growing number of exchanges and trading venues into one automatically functioning, computerized platform that requires minimal human intervention. |
| TD Ameritrade Holding Corporation | Millions of investors and independent registered investment advisors (RIAs) have turned to TD Ameritrade's (NYSE: AMTD) technology, people and education to help make investing and trading easier to understand and do. Online or over the phone. In a branch or with an independent RIA. First-timer or sophisticated trader. Our clients want to take control, and we help them decide how – bringing Wall Street to Main Street for nearly 38 years. An official sponsor of the 2014 and 2016 U.S. Olympic and Paralympic Teams, TD Ameritrade has time and again been recognized as a leader in investment services.   |



Source: SNL

## Additional Revenue Generation for Potential Acquirers

| As of 6/30/2013   | End of Period<br>Active Trading<br>Accounts | Daily Average<br>Revenue<br>Trades | Monthly<br>Average<br>Revenue<br>Trades | Annual<br>Average<br>Revenue<br>Trades | Implied<br>Price/Trade |
|---|---|------------------------------------|---|--|------------------------|
| Charles Schwab Corporation                              | 8,962,000                                   | 301,500                            | 6,256,125                               | 75,073,500                             | \$12.52                |
| E*TRADE Financial Corporation                           | 2,962,731                                   | 149,670                            | 3,105,653                               | 37,267,830                             | \$15.76                |
| Interactive Brokers Group, Inc.                         | 224,000                                     | 506,000                            | 10,499,500                              | 125,994,000                            | \$4.38                 |
| TD Ameritrade Holding Corporation                       | 5,943,000                                   | 399,216                            | 8,283,732                               | 99,404,784                             | \$12.92                |
| <b>Additional Active Trading Accounts<sup>(1)</sup></b> | <b>1.00%</b>                                | <b>0.50%</b>                       | <b>0.25%</b>                            | <b>0.10%</b>                           | <b>0.05%</b>           |
| Charles Schwab Corporation                              | 89,620                                      | 44,810                             | 22,405                                  | 8,962                                  | 4,481                  |
| E*TRADE Financial Corporation                           | 29,627                                      | 14,814                             | 7,407                                   | 2,963                                  | 1,481                  |
| Interactive Brokers Group, Inc.                         | 2,240                                       | 1,120                              | 560                                     | 224                                    | 112                    |
| TD Ameritrade Holding Corporation                       | 59,430                                      | 29,715                             | 14,858                                  | 5,943                                  | 2,972                  |
| Average New Trading Accounts                            | 45,229                                      | 22,615                             | 11,307                                  | 4,523                                  | 2,261                  |
| <b>Daily Average Revenue Trades (#)</b>                 |   |                                    |   |  |                        |
| Charles Schwab Corporation                              | 3,015                                       | 1,508                              | 754                                     | 302                                    | 151                    |
| E*TRADE Financial Corporation                           | 1,497                                       | 748                                | 374                                     | 150                                    | 75                     |
| Interactive Brokers Group, Inc.                         | 5,060                                       | 2,530                              | 1,265                                   | 506                                    | 253                    |
| TD Ameritrade Holding Corporation                       | 3,992                                       | 1,996                              | 998                                     | 399                                    | 200                    |
| Average New DARTs                                       | 3,391                                       | 1,695                              | 848                                     | 339                                    | 170                    |
| <b>Annual Average Revenue Trades (#)</b>                |   |                                    |   |  |                        |
| Charles Schwab Corporation                              | 750,735                                     | 375,368                            | 187,684                                 | 75,074                                 | 37,537                 |
| E*TRADE Financial Corporation                           | 372,678                                     | 186,339                            | 93,170                                  | 37,268                                 | 18,634                 |
| Interactive Brokers Group, Inc.                         | 1,259,940                                   | 629,970                            | 314,985                                 | 125,994                                | 62,997                 |
| TD Ameritrade Holding Corporation                       | 994,048                                     | 497,024                            | 248,512                                 | 99,405                                 | 49,702                 |
| Average New AARTs                                       | 844,350                                     | 422,175                            | 211,088                                 | 84,435                                 | 42,218                 |
| <b>Additional Daily Average Revenue Trades (#)</b>      |   |                                    |   |  |                        |
| Ditto Traders trade 2x more often                       | 6,782                                       | 3,391                              | 1,695                                   | 678                                    | 339                    |
| Ditto Traders trade 3x more often                       | 10,173                                      | 5,086                              | 2,543                                   | 1,017                                  | 509                    |
| <b>Additional Annual Average Revenue Trades (#)</b>     |   |                                    |   |  |                        |
| Ditto Traders trade 2x more often                       | 1,688,701                                   | 844,350                            | 422,175                                 | 168,870                                | 84,435                 |
| Ditto Traders trade 3x more often                       | 2,533,051                                   | 1,266,525                          | 633,263                                 | 253,305                                | 126,653                |
| <b>Incremental Annual Revenue w/ 2x</b>                 |   |                                    |   |  |                        |
| Price per transaction of \$15                           | \$25,330,509                                | \$12,665,254                       | \$6,332,627                             | \$2,533,051                            | \$1,266,525            |
| Price per transaction of \$20                           | \$33,774,011                                | \$16,887,006                       | \$8,443,503                             | \$3,377,401                            | \$1,688,701            |
| <b>Incremental Annual Revenue w/ 3x</b>                 |   |                                    |   |  |                        |
| Price per transaction of \$15                           | \$37,995,763                                | \$18,997,881                       | \$9,498,941                             | \$3,799,576                            | \$1,899,788            |
| Price per transaction of \$20                           | \$50,661,017                                | \$25,330,509                       | \$12,665,254                            | \$5,066,102                            | \$2,533,051            |



Source: SEC filings from 6/30/2013

1. Percentage represents potential acquisition of current active trading accounts  
Valuation based on 249 trading days per year

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