

**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

COMPLAINANT,

v.

**WILSON-DAVIS & CO., INC.
(CRD No. 3777),**

[REDACTED] (CRD No.

[REDACTED]

AND

PAUL DAVIS (CRD No. 62435),

RESPONDENTS.

**DISCIPLINARY PROCEEDING
No. 2007008724701**

HEARING OFFICER: SNB

**ORDER ACCEPTING OFFER OF SETTLEMENT
BY RESPONDENT WILSON-DAVIS & CO., INC. (CORRECTED)**

INTRODUCTION

Disciplinary Proceeding No. 2007008724701 was filed on December 27, 2010, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondent Wilson-Davis & Co., Inc. (WDCO) submitted an Offer of Settlement (Offer) to Complainant dated September 28, 2011. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

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Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Complaint, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, to the entry of findings and violations consistent with the allegations of the Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Respondent Wilson-Davis & Co., Inc. (CRD No. 3777) was at all times relevant to this Complaint a registered broker-dealer and member of FINRA based in Salt Lake City, Utah. The firm has been a member of FINRA since 1968. WDCO is a full service brokerage firm with approximately 35 registered representatives. The firm has branch offices in Denver, Colorado, Portland, Oregon, and New York, New York, and is a market maker in Nasdaq and OTC Bulletin Board securities.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:¹

Ever-Glory International

EGLY was formed in July 2005 as a result of a reverse merger between Andean Development Corp (ANDN), a public shell with no operating business, and Perfect Dream Limited, a British Virgin Islands company that had acquired all the assets of a Chinese clothing manufacturer in December 2004. In November 2005, ANDN changed its name to Ever-Glory International, Inc. Ever-Glory International, Inc., an SEC reporting company trading under the

¹ The findings herein are pursuant to Respondent Wilson-Davis & Co., Inc.'s Offer of Settlement and are not binding on any other person or entity named as a respondent in this or any other proceeding.

symbol EGLY, describes itself as a company engaged in international garment manufacturing, based in California with a fully-owned subsidiary located in China.

During the period at issue here, the common stock of EGLY was traded on the OTC Bulletin Board. Prior to January 9, 2006, the stock rarely traded. For instance, the average daily volume for the 130 days prior to January 9, 2006 was 1,319 shares per day, with a closing price ranging from \$0.15 to \$0.625 per share. On January 11, 2006, the day certain WDCO customer accounts began selling their shares, as described in more detail below, the daily volume for EGLY increased to 100,490 shares and the price of the stock increased to \$1.80. Three trading days later, on January 17, 2006, the price of EGLY common stock closed at \$2.79 per share. Over the next few months the price of the stock gradually declined but still remained above \$1.00 (with the exception of four days in June when it fell as low as \$0.93). From August through November 2006, the price of the stock traded between \$0.28 and \$0.87 per share.

The Issuance and Distribution of the Unregistered EGLY Shares

On or about January 31, 2005, ANDN issued five convertible promissory notes in the aggregate amount of \$57,000. On July 31, 2005, the notes were converted to 2.5 million restricted common shares. After a reorganization on or about August 22, 2005, these shares represented approximately 24% of the company's issued and outstanding shares.

The 2.5 million shares were issued to seven entities. Three of those entities, [REDACTED] [REDACTED] and [REDACTED] received a total of 1,243,860 shares, or approximately 12% of the shares of EGLY, as of August 22, 2005, as follows:

- (a) [REDACTED] received 517,544 shares, or approximately 5% of the total shares outstanding;

- (b) [REDACTED] received 500,000 shares, or approximately 5% of the total shares outstanding; and
- (c) [REDACTED] received 226,316 shares, or approximately 2% of the total shares outstanding.

As noted, in November 2005, ANDN changed its name to EGLY. In November 2005, EGLY effected a 7.6 to 1 forward stock split of its common shares, increasing the number of outstanding shares to more than 79 million shares. The 2.5 million shares issued on July 31, 2005 were converted into 19 million shares, and the ownership of the three entities listed in paragraph 9 was increased to the following amounts:

- (a) [REDACTED] 3,933,334 shares;
- (b) [REDACTED] 3,800,000 shares; and
- (c) [REDACTED] 1,720,002 shares.

The percentage of shares outstanding owned by each entity remained unchanged.

Thus, as of November 2005, the three entities, [REDACTED] [REDACTED] [REDACTED] and [REDACTED] owned a total of 9,453,336 unregistered EGLY shares, or approximately 12% of the issued and outstanding shares of EGLY. These entities subsequently sold their EGLY shares through WDCO in an illegal unregistered distribution, as described in more detail below.

Opening of Accounts at WDCO

Beginning in or about February 2005, numerous accounts were opened at WDCO to receive and sell into the public markets the unregistered EGLY shares owned by the three entities.

Many of the accounts, as described below, were referred to WDCO by, or controlled by,

[REDACTED] a Canadian national and stock promoter.

In November 2005, [REDACTED] opened an account at WDCO in the name of [REDACTED]

In September 2006, [REDACTED] opened an account at WDCO in the name of [REDACTED]

In February 2005, [REDACTED] opened three accounts at WDCO. The accounts were opened in the names of [REDACTED] [REDACTED] [REDACTED] and [REDACTED]

[REDACTED] also referred four entities and two individuals to WDCO to open accounts at WDCO. Those accounts were the following:

- (a) [REDACTED] which opened an account at WDCO in October 2005;
- (b) [REDACTED] which opened an account at WDCO in November 2005. [REDACTED] had been organized as a corporate entity on or about July 19, 2005, less than four months before opening its account at WDCO;
- (c) [REDACTED] which opened an account at WDCO in January 2006.
- (d) [REDACTED] which opened an account WDCO in July 2006. [REDACTED] had been organized as a corporate entity on or about April 25, 2006, only three months before opening its account at WDCO;
- (e) [REDACTED] who opened an account at WDCO in January 2006; and
- (f) [REDACTED] who opened an account at WDCO in August 2006.

In January 2006, [REDACTED] opened an account at WDCO.

In August 2006, [REDACTED] opened an account at WDCO.

Three of the accounts that had been opened had also entered into agreements to promote EGLY, in return for EGLY shares. In January 2006, [REDACTED] [REDACTED] and [REDACTED] each entered into investor relations/public relations agreements to promote EGLY in return for EGLY shares.

Deposit of EGLY Shares Into the WDCO Accounts

In 2005 and 2006, 2,500,000 (pre-conversion) and some 19 million post-split unregistered EGLY shares were deposited into and transferred among the WDCO accounts described above.

On or about December 2, 2005, [REDACTED] deposited 3,933,334 EGLY shares into its newly-opened account at WDCO in original certificate form. Four of the five certificates were dated only days before, November 16, 2005, while the remaining certificate (issued in EGLY's predecessor ANDN) was dated July 31, 2003.

Between February and September 2006, [REDACTED] transferred 1,500,000 of the shares to the [REDACTED] account at WDCO and 2,000,000 shares to an account held at another FINRA member firm.

On or about November 16, 2006, [REDACTED] deposited 1,700,000 EGLY shares into its account at WDCO. In December 2006, [REDACTED] transferred the 1,700,000 shares to the [REDACTED] account.

On or about December 1, 2005, [REDACTED] transferred 1,500,000 EGLY shares that it obtained from the issuer into the [REDACTED] account. On or about February 2, 2006, [REDACTED] transferred an additional 1,000,000 EGLY shares to [REDACTED]

Between December 2005 and October 2006, the [REDACTED] account transferred more than 1.1 million EGLY shares to five WDCO accounts, as follows:

- (a) 100,000 shares to the WDCO account of [REDACTED]
- (b) 750,000 shares to the WDCO account of [REDACTED]
- (c) 600,000 shares to the WDCO account of [REDACTED]

(d) 150,000 shares to the WDCO account of [REDACTED] and,

(e) 60,000 shares to the WDCO account of [REDACTED]

Between December 2005 and November 2006, [REDACTED] transferred 3,800,000 EGLY shares to the [REDACTED] and [REDACTED] accounts at WDCO.

Between June and August 2006, the [REDACTED] account transferred 350,000 EGLY shares to the WDCO account of [REDACTED] and 100,000 EGLY shares to the WDCO account of [REDACTED]. On or about February 3, 2006, [REDACTED] transferred 175,000 EGLY shares to the WDCO account of [REDACTED] and 10,000 EGLY shares to the WDCO account of [REDACTED]. [REDACTED] also transferred a total of 630,000 EGLY shares to four other FINRA member firms.

Sales of Unregistered EGLY Shares From WDCO Accounts Into The Public Market

The accounts that received unregistered EGLY shares as described above sold approximately 2 million unregistered shares of EGLY from their accounts at WDCO into the public markets from January to November 2006.

Between January 11, 2006, and November 3, 2006, WDCO and the registered representative assigned to the customer accounts discussed herein sold 1,081,400 EGLY shares into the market on behalf of customer [REDACTED]. [REDACTED] realized approximately \$1,663,200 in proceeds from these sales.

On or about June 29, 2006, [REDACTED] also transferred 250,000 shares out of its WDCO account to an account at another FINRA member firm.

Between January 11, 2006, and December 13, 2006, WDCO and the registered representative sold 600,000 EGLY shares into the market on behalf of customer [REDACTED]

[REDACTED] realized approximately \$846,999 in proceeds from these sales.

Between July 26, 2006, and August 15, 2006, WDCO and the registered representative sold 365,000 EGLY shares into the market on behalf of customer [REDACTED] [REDACTED] realized approximately \$338,326 in proceeds from these sales.

On February 6, 2006, WDCO and the registered representative sold 10,000 EGLY shares into the market on behalf of customer [REDACTED] [REDACTED] realized approximately \$20,951 in proceeds from the sale.

On October 19, 2006, WDCO and the registered representative sold 25,000 EGLY shares into the market on behalf of customer [REDACTED] [REDACTED] realized approximately \$9,780 in proceeds from these sales.

Between February 14, 2006, and April 5, 2006, WDCO and the registered representative sold 4,750 EGLY shares into the market on behalf of customer [REDACTED] [REDACTED] realized approximately \$8,401 in proceeds from these sales.

Between February 6, 2006, and February 9, 2006, WDCO and the registered representative sold 3,000 EGLY shares into the market on behalf of customer [REDACTED] [REDACTED] realized approximately \$6,242 in proceeds from these sales.

On February 9, 2006, WDCO and the registered representative sold 1,000 EGLY shares into the market on behalf of customer [REDACTED] [REDACTED] realized approximately \$2,028 in proceeds from this sale.

No registration statement covering these sales of EGLY shares was ever filed with the Securities and Exchange Commission. Neither EGLY nor its predecessor had filed a registration statement for the sale of its stock.

Respondent's Failure to Fulfill Its Obligations in Connection with the Sale of Unregistered Securities

The activity described above presented red flags that the sales were part of an illegal unregistered distribution. Despite these red flags, WDCO failed to take steps necessary to determine whether the EGLY shares could be sold without violating Section 5 of the Securities Act.

WDCO knew or should have known information regarding the issuer and its securities which required that they conduct further inquiry to determine whether the securities sold as described above were registered or going to be sold in transactions which were exempt from the registration requirements of Section 5 of the Securities Act of 1933.

For instance, WDCO knew or should have known that:

- (a) EGLY was a little-known development stage issuer that had a very short operating history;
- (b) EGLY had recently undergone a reverse merger, forward stock split, and a name change;
- (c) EGLY had never filed a registration statement with the SEC;
- (d) EGLY's stock was thinly traded in the over-the-counter market and quoted on the OTC Bulletin Board; and
- (e) EGLY's stock had little or no trading prior to the trading engaged in by the WDCO customers described herein.

WDCO was also in possession of information regarding the activity at the firm from various sources, including stock certificates, account information and documents in its possession, as well as from sell orders and wire and transfer instructions that should have alerted

them that sales of EGLY through WDCO may have been part of an illegal unregistered distribution. Specifically, WDCO was aware that:

- (a) [REDACTED] controlled WDCO accounts [REDACTED] and [REDACTED] each deposited a large amount of EGLY shares into their WDCO accounts in the form of newly issued certificates and transferred large amounts of that stock to several newly-opened WDCO accounts, which were referred to WDCO by [REDACTED] himself. Upon receiving the shares from [REDACTED] and [REDACTED] these accounts quickly began either selling the shares into the open market or transferring them to additional newly opened WDCO accounts. At the same time, [REDACTED] was aggressively selling shares into the open market through WDCO.
- (b) [REDACTED] and [REDACTED] each deposited a large amount of EGLY shares into their WDCO accounts in the form of newly issued certificates and over the next several months transferred most or all of the EGLY stock they deposited in their account to either [REDACTED] or another broker-dealer. These accounts were also opened by WDCO in response to referrals from [REDACTED]
- (c) [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] and [REDACTED] all received large transfers of EGLY stock from [REDACTED] controlled accounts, either directly or, in the case of [REDACTED] and [REDACTED] through [REDACTED] within days of opening accounts with WDCO and after being referred to WDCO by [REDACTED]
- (d) [REDACTED] was a stock promoter and there was a public relations campaign surrounding EGLY. As part of this stock promotion campaign, [REDACTED] and the accounts he referred to WDCO were involved in a coordinated attempt to influence the market price for EGLY. In fact, WDCO provided information to [REDACTED] and other customers to whom [REDACTED] had transferred EGLY stock about customer trading activity in EGLY, including whether there was buying and selling activity and the amounts and prices of transactions.

Despite these facts, WDCO failed to perform an adequate inquiry into the registration or exemption status of the unregistered shares deposited into and sold from the accounts of [REDACTED]

[REDACTED] [REDACTED] [REDACTED] [REDACTED]
[REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] and
[REDACTED] Among other things, WDCO failed to determine when, how or under what circumstances the accounts received the shares, whether any of these customers were

affiliated with the issuer, how long they held the shares, whether or when they had paid for the shares, or what percentage of the outstanding shares of EGLY each of the customers owned.

WDCO thus failed to ascertain facts necessary under the circumstances to determine whether the shares were exempt from the registration requirements of the Securities Act of 1933. In addition, WDCO failed to sufficiently follow-up with respect to red flags on WDCO compliance forms that contained information that contradicted WDCO records, SEC filings and other compliance forms. Moreover, WDCO failed to adequately ascertain missing information on WDCO compliance forms and resolve information that was inaccurately calculated on the forms.

Instead of taking these steps, WDCO executed numerous sales of unregistered EGLY shares for the accounts and thereby participated in and facilitated the unregistered distribution of EGLY shares.

As described in detail above, WDCO sold approximately two million unregistered shares of EGLY into the public markets for 10 customer accounts at WDCO. The sales constituted an unregistered distribution of EGLY shares and did not qualify for an exemption from registration, including the exemptions under Section 4(1) or 4(4) of the Securities Act. The sales thus violated Section 5 of the Securities Act of 1933.

WDCO participated in the unregistered distribution of EGLY shares by executing numerous sales of unregistered EGLY shares for the customer accounts. This activity resulted in proceeds of over \$2.9 million to the accounts and profits of \$35,269 to WDCO. Respondent participated in these transactions despite red flags indicating that these sales were part of an illegal unregistered distribution and without conducting sufficient inquiry into the circumstances.

As a result, Respondent WDCO participated in the sale of unregistered shares in violation of Section 5 of the Securities Act of 1933. By doing so, it violated NASD Conduct Rule 2110.

WDCO had access to information, from documents that it received and/or reviewed or should have reviewed, showing that numerous WDCO customers were receiving and selling large quantities of unregistered securities of EGLY as described above. These documents included WDCO compliance forms, copies of stock certificates, account statements, trade blotters, and order tickets.

In fact, as described in detail above, the activity in the accounts described above presented red flags that an illegal unregistered distribution was underway. These included that EGLY was a little-known development stage issuer with a short operating history, had recently undergone a reverse merger, forward stock split, and a name change, was thinly traded in the over-the-counter market and quoted on the OTC Bulletin Board, and had little or no trading activity prior to the activity alleged in this complaint. In addition, as described in detail above, numerous accounts controlled or referred by one customer, [REDACTED] had deposited millions of unregistered EGLY shares into accounts at WDCO, in the form of newly issued certificates. After receiving the shares, numerous WDCO accounts began selling them into the open market or transferring them to other newly-opened WDCO accounts. [REDACTED] moreover, was a stock promoter and at the times of the sales activity in EGLY there was a public relations campaign surrounding the company.

These red flags should have led WDCO to supervise the registered representative more closely to ensure that his activities complied with the requirements of Section 5 of the Securities Act and that he was not facilitating an illegal unregistered distribution through activity conducted through WDCO. However, despite these red flags, WDCO failed to take adequate measures to

reasonably supervise the registered representative and instead allowed him to engage in these activities without adequate supervision.

No one at WDCO reviewed any SEC filings by EGLY. Such filings would have alerted the firm that the stock had a very small public float, that [REDACTED] was the source of some 3.8 million shares deposited in two [REDACTED] accounts, that two other WDCO accounts, [REDACTED] and [REDACTED] had each received large amounts of restricted stock directly from the issuer EGLY, and that the stock was unregistered.

No one at WDCO determined if the large amounts of stock deposited into WDCO accounts were freely tradable without restriction. Nor did anyone at WDCO ever request a legal opinion from independent counsel concerning the tradability of the EGLY shares.

Based on the foregoing, WDCO failed reasonably to supervise the registered representative. WDCO thus violated NASD Conduct Rules 3010(a) and 2110.

During the period from January 2006 to November 2006, WDCO failed to establish, maintain and enforce a supervisory system, including written procedures, reasonably designed to achieve compliance with the requirements of FINRA rules and the federal securities laws concerning the sale of unregistered securities. Among other things, WDCO failed to establish a supervisory system that was reasonably designed to ensure that registered representatives or any other firm personnel determined whether shares of stock deposited in customer accounts were registered or being sold in transactions that were exempt from registration, or otherwise determine whether shares in customer accounts were being sold in compliance with Section 5 of the Securities Act.

While WDCO had procedures for handling Rule 144 transactions and private offerings, it did not have adequate procedures for preventing the sale of unregistered securities, for

determining whether securities were registered, for determining whether securities were restricted, for determining whether transactions were subject to any exemption from registration, or for determining whether transactions were in violation of Section 5 of the Securities Act.

WDCO's written supervisory procedures contained inadequate procedures addressing the circumstances under which firm personnel should inquire into the registration or exemption status of shares in customer accounts, such as a list of factors that required attention or inquiry such as those involving a little-known issuer, a thinly-traded security, or the deposit of certificates or large volumes of shares. Nor did the written supervisory procedures contain an adequate description of steps that firm personnel could or should take to inquire into shares' registration or exemption status, such as asking how, when, and under what circumstances the shares were obtained.

WDCO's supervisory system for preventing unregistered sales of stock was also inadequate because compliance forms, in which customers supplied critical information, were optional but not required. These forms were used on an ad hoc basis, which was insufficient to ensure compliance with the federal securities laws and NASD rules.

By failing to establish, maintain and enforce a supervisory system, including written procedures, reasonably designed to achieve compliance with the requirements of FINRA rules and the federal securities laws concerning the sale of unregistered securities, WDCO violated NASD Conduct Rules 3010(a) and (b) and 2110.

Based on the foregoing, Respondent Wilson-Davis & Co., Inc. violated NASD Conduct Rules 3010(a) and 2110.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that Respondent be:

1. censured;
2. fined in the amount of \$75,269, \$35,269 of which represents disgorgement of the firm's profits; and
3. subject to a requirement that, within thirty days of issuance of the Order accepting this Offer, an officer of WDCO certify to FINRA that WDCO has reviewed its policies, systems and procedures for the liquidation of securities delivered in certificate or electronic form and has determined that they are reasonably designed to achieve compliance with FINRA rules and the federal securities laws. At the time WDCO provides this certification, it shall provide a written description of the policies, systems and procedures that are the subject of the certification.

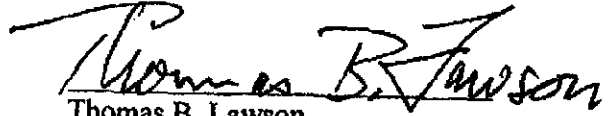
The sanctions imposed herein shall be effective on a date set by FINRA staff.

SO ORDERED.

Dated: October 5, 2011

FINRA

Signed on behalf of the
Director of ODA, by delegated authority

A handwritten signature in black ink, appearing to read "Thomas B. Lawson". The signature is written in a cursive, flowing style with a large initial "T" and "L".

Thomas B. Lawson
Vice President and Chief Counsel
FINRA Department of Enforcement
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Washington, DC 20006