

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 77595 / April 12, 2016

ADMINISTRATIVE PROCEEDING
File No. 3-17206

In the Matter of

**CRAIG SCOTT CAPITAL,
LLC, CRAIG S. TADDONIO,
and BRENT M. PORGES**

Respondents.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTIONS 15(b) AND 21C
OF THE SECURITIES EXCHANGE ACT OF
1934, MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Craig Scott Capital, LLC (“CSC” or the “Firm”), Craig S. Taddonio (“Taddonio”), and Brent M. Porges (“Porges”) (collectively, “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondents' Offers, the Commission finds that

Summary

These proceedings arise out of CSC's failure to adopt written policies and procedures reasonably designed to insure the security and confidentiality of customer records and information, in violation of Rule 30(a) of Regulation S-P (17 C.F.R. § 248.30(a)) (the "Safeguards Rule"), and to make and keep certain communications relating to its business, in violation of Section 17(a) of the Exchange Act and Rule 17a-4 thereunder. From January 20, 2012 until approximately June 2014 (the "Relevant Period"), CSC used email addresses other than those with the Firm's domain name—@craigscottcapital.com—to electronically receive more than 4,000 faxes from customers and other third parties. These faxes routinely included sensitive customer records and information, such as customer names, addresses, social security numbers, bank and brokerage account numbers, copies of driver's licenses and passports, and other customer financial information. During the Relevant Period, Taddonio and Porges, CSC's principals, as well as other CSC employees and registered representatives, also used their personal (i.e., non-Firm) email addresses for matters relating to the business of CSC. CSC did not maintain and preserve either these faxes or this email correspondence as required by Section 17(a) of the Exchange Act and Rule 17a-4 thereunder. Though CSC had written supervisory procedures ("WSPs") during the Relevant Period, these WSPs were not reasonably designed to protect customer records and information, as required by the Safeguards Rule—they failed to designate the responsible supervisor, they failed to address how customer records and information transmitted through the electronic fax system was to be handled, they contained blanks as to how CSC was to comply with the Safeguards Rule, and they were not tailored to the actual practices at CSC.

Respondents

1. **CSC** is a New York limited liability company headquartered in Uniondale, New York. Since January 20, 2012, CSC has been a broker-dealer registered with the Commission pursuant to Section 15(b) of the Exchange Act. While in operation, CSC generated revenues primarily through commission income from retail customer accounts.
2. **Taddonio**, age 32, resides in Babylon, New York. He is a co-founder and co-owner of CSC. From January 2012 until January 28, 2016, he served as a Chief Executive Officer and President of CSC; beginning in October 2015, he also served as Chief Compliance Officer of CSC ("CCO"). Between 2004 and 2012, Taddonio was a registered representative associated with other broker-dealers registered with the Commission. Taddonio holds Series 7, 24, and 63 securities licenses.
3. **Porges**, age 38, resides in Garden City, New York. He is also a co-founder and co-owner of CSC. Between January 20, 2012 and October 20, 2015, Porges served as Chief Operating Officer of CSC. Prior to co-founding CSC, between 1999 and 2010, Porges was a

registered representative associated with other broker-dealers registered with the Commission. Porges holds Series 7, 24, 55, and 63 securities licenses.

Background

CSC's Email and eFax System

4. In the days following approval of CSC's new membership application by FINRA on January 20, 2012, CSC set up email addresses for all CSC employees with the @craigscottcapital.com domain name.
5. During the Relevant Period, CSC maintained and preserved emails sent to and from @craigscottcapital.com email addresses using a third-party service provider that archived such correspondence in order to comply with Commission rules.
6. During the Relevant Period, this third-party service provider did not retain an email unless the email was sent or received by an @craigscottcapital.com email address.
7. On or about January 31, 2012, CSC set up a fax system that converted the contents of all messages sent to CSC's fax number into an electronic file that was automatically sent by email to a designated email address ("eFaxes," or the "eFax System").
8. Between January 31, 2012 and May 22, 2014, CSC designated two email addresses to receive eFaxes that did not contain the @craigscottcapital.com domain name.
9. First, between January 31, 2012 and January 4, 2013, faxes sent to CSC's fax number were routed to the personal email address of a CSC administrative assistant. Second, between January 8, 2013 and May 22, 2014, faxes were routed to another non-Firm email address that was set up by a CSC administrative assistant for the purpose of receiving eFaxes, and which was owned and paid for by CSC. In total, approximately 1,795 eFaxes were sent to the first email address, while approximately 2,287 eFaxes were sent to the second email address.
10. During the Relevant Period, the eFaxes received by these two non-Firm email addresses routinely contained customer records and information, including:
 - a. Copies of account opening documents, asset transfer forms, and other agreements between CSC and its customers such as options and margin agreements, which include customer names, addresses, social security numbers, birth dates, account numbers, and other information about the customer's financial background, net worth, and securities holdings;
 - b. Copies of brokerage account statements, both from CSC and from other firms, which include customer names, addresses, account numbers, and information about the customer's securities holdings;

- c. Copies of customer checks, which include customer names, addresses, and bank account numbers and information; and
- d. Copies of customer driver's licenses and passports.

11. In or about June 2013, CSC's CCO at the time determined that CSC's third-party service provider was not archiving eFaxes, because those eFaxes were not received by an @craigscottcapital.com email address. As a result, the CCO directed that a new email address—fax@craigscottcapital.com—be set up for the purpose of receiving eFaxes.

12. Though the fax@craigscottcapital.com email address was set up on or about June 28, 2013, eFaxes were not routed to this address until October 1, 2013.

13. Between October 1, 2013 and May 22, 2014, eFaxes were sent to both fax@craigscottcapital.com and the second non-Firm email address. Prior to the addition of the fax@craigscottcapital.com email address to the eFax System on October 1, 2013, the second non-Firm email address received approximately 1,147 eFaxes; after October 1, 2013, the second non-Firm email address received approximately 1,140 eFaxes.

14. None of the eFaxes received by the two non-Firm email addresses were contemporaneously maintained and preserved by CSC.

Use of Personal Email for Business Purposes at CSC

15. In addition to the eFax System, CSC principals and employees used their personal (i.e., non-Firm) email addresses for correspondence relating to the business of CSC. They did so despite having access to @craigscottcapital.com email addresses, which were activated and provided to all CSC employees in late January 2012. These emails were also not contemporaneously maintained and preserved by CSC.

16. Taddonio, Porges, and other CSC employees either sent or received more than 25,000 emails from personal email accounts, and which concerned CSC, its business activities, its customers, or its potential customers.

17. These emails contained communications with third-parties (such as CSC's financial and operations principal, accountants, auditors, vendors, and other broker-dealers) and internal discussions about firm management, the performance of certain customer accounts, and other issues related to the day-to-day business of the firm. Certain of these emails also contained CSC customer records and information, including the types of documents described in Paragraph 10.

18. When using these personal email accounts, Taddonio and Porges often used signature blocks that identified them as working at CSC and provided their CSC business address and contact information.

CSC's Deficient Written Supervisory Procedures

19. During the Relevant Period, CSC's WSPs prohibited the use of personal email for business purposes. According to the Electronic Communications Policy, which was included in the WSPs (the "ECP Policy"), "[e]lectronic business communications must be accessed and transmitted only through firm-sponsored systems," where "[a]pproved firm-sponsored systems include . . . [e]-mail and e-faxes through desk-top computers in Firm offices." The ECP Policy further stated that "the use of personal e-mail accounts for business communications is prohibited."

20. The Safeguards Rule, which the Commission adopted in 2000, requires that every broker-dealer registered with the Commission adopt policies and procedures reasonably designed to: (1) insure the security and confidentiality of customer records and information; (2) protect against any anticipated threats or hazards to the security or integrity of customer records and information; and (3) protect against unauthorized access to or use of customer records or information that could result in substantial harm or inconvenience to any customer. The Commission adopted amendments to the Safeguards Rule, effective January 2005, to require that the policies and procedures adopted thereunder be in writing.

21. During the Relevant Period, CSC's WSPs contained a section entitled "Protection Of Firm And Customer Systems And Data," which purported to describe the manner in which CSC complied with the Safeguards Rule (the "Safeguards Rule Policy").

22. During the Relevant Period, however, the Safeguards Rule Policy lacked the following key pieces of information:

- a. Though the Safeguards Rule Policy stated that the "Designated Supervisor" was responsible for ensuring compliance with the policy, it did not identify the Designated Supervisor;
- b. Though CSC used an eFax System, which received emails to non-Firm email addresses, the Safeguards Rule Policy did not address either the eFax System or how to handle customer records and information contained in eFaxes; and
- c. The Safeguards Rule Policy contained blanks to be filled in later, such as: "[The Firm] has adopted procedures to protect customer information, including the following: [methods]."

23. During the Relevant Period, the Safeguards Rule Policy stated that customer records and information, including customer social security numbers, may only be accessed outside of CSC's office by employees who received approval from CSC's "designated information officer," and who have installed appropriate firewalls on their devices. CSC's WSPs did not identify a "designated information officer," and employees who accessed customer records and information remotely through personal email accounts did not install appropriate firewalls.

24. During the Relevant Period, the Safeguards Rule Policy required the encryption of customer records and information transmitted to laptops or other remote devices. CSC did not encrypt such records or information.

Violations of the Federal Securities Laws

25. As a result of the conduct described above, CSC willfully violated Rule 30(a) of Regulation S-P (17 C.F.R. § 248.30(a)), which requires broker-dealers to adopt written policies and procedures that are reasonably designed to insure the security and confidentiality of customer records and information.

26. As a result of the conduct described above, CSC willfully violated Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder. Section 17(a) of the Exchange Act and Rule 17a-4 require that brokers or dealers make and keep current various records relating to its business and preserve those records for specified periods of time. Rule 17a-4(b)(4) requires broker-dealers to preserve for three years originals of all communications received and copies of all communications sent relating to their business as such.

27. As a result of the conduct described above, Taddonio and Porges willfully aided and abetted and caused CSC's violation of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder.

IV.

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

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent CSC cease and desist from committing or causing any violations and any future violations of Rule 30(a) of Regulation S-P (17 C.F.R. § 248.30(a)), Section 17(a) of the Exchange Act, and Rule 17a-4(b)(4) thereunder.

B. Respondent Taddonio cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder.

C. Respondent Porges cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder.

D. Respondents CSC, Taddonio, and Porges are censured.

E. Respondent CSC shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$100,000.00 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If

timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. Payment must be made in one of the following ways:

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

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

Payments by check or money order must be accompanied by a cover letter identifying Craig Scott Capital, LLC as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Sanjay Wadhwa, Senior Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, 200 Vesey Street, Suite 400, New York, New York 10281.

F. Respondent Taddonio shall pay a civil money penalty in the amount of \$25,000.00 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). Payment shall be made in the following installments: one installment of \$10,000 due within 10 days of the date of the entry of this Order, and then three installments of \$5,000 due within 90, 180, and 270 days of the date of the entry of this Order. If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of civil penalties, plus any additional interest accrued pursuant to 31 U.S.C. § 3717, shall be due and payable immediately, without further application. Payment must be made in one of the following ways:

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

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

Payments by check or money order must be accompanied by a cover letter identifying Craig S. Taddonio as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Sanjay Wadhwa, Senior Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, 200 Vesey Street, Suite 400, New York, New York 10281.

G. Respondent Porges shall pay a civil money penalty in the amount of \$25,000.00 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). Payment shall be made in the following installments: one installment of \$10,000 due within 10 days of the date of the entry of this Order, and then three installments of \$5,000 due within 90, 180, and 270 days of the date of the entry of this Order. If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of civil penalties, plus any additional interest accrued pursuant to 31 U.S.C. § 3717, shall be due and payable immediately, without further application. Payment must be made in one of the following ways:

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

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

Payments by check or money order must be accompanied by a cover letter identifying Brent M. Porges as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Sanjay Wadhwa, Senior Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, 200 Vesey Street, Suite 400, New York, New York 10281.

H. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against any of the Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. § 523, the findings in this Order are true and admitted by Respondents Taddonio and Porges, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondents under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondents Taddonio and Porges of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. § 523(a)(19).

By the Commission.

Brent J. Fields
Secretary