

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 68963 / February 21, 2013

INVESTMENT ADVISERS ACT OF 1940
Release No. 3555 / February 21, 2013

INVESTMENT COMPANY ACT OF 1940
Release No. 30402 / February 21, 2013

ADMINISTRATIVE PROCEEDING
File No. 3-15215

In the Matter of

**JAMES S.
TAGLIAFERRI,**

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
PROCEEDINGS PURSUANT TO SECTION
15(b)(6) OF THE SECURITIES EXCHANGE
ACT OF 1934, SECTION 203(f) OF THE
INVESTMENT ADVISERS ACT OF 1940,
AND SECTION 9(b) OF THE INVESTMENT
COMPANY ACT OF 1940 AND NOTICE OF
HEARING**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b)(6) of the Securities Exchange Act of 1934 (“Exchange Act”), Section 203(f) of the Investment Advisers Act of 1940 (“Advisers Act”), and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against Respondent James S. Tagliaferri (“Tagliaferri” or “Respondent”).

II.

After an investigation, the Division of Enforcement alleges that:

SUMMARY

1. These proceedings arise out of Tagliaferri's fraud on advisory clients. Among other misconduct, Tagliaferri failed to disclose to advisory clients material information about conflicts of interest he had with respect to investments he made for them and operated a Ponzi-like scheme in which he used client assets to repay other clients on those conflicted investments.

2. From at least 2007 until at least 2010 (the "Relevant Period"), Tagliaferri, acting through TAG Virgin Islands, Inc., an investment adviser then registered with the Commission, and later, its successor by merger, TAG Virgin Islands, LLC (collectively, "TAG"), routinely used his discretionary authority over client accounts to cause clients to purchase promissory notes issued by various private companies controlled by, or otherwise affiliated with, an individual ("Individual A"). Tagliaferri failed to disclose to TAG clients, whose money he invested in those notes, that TAG received kickbacks and other compensation from Individual A in exchange for providing the companies with financing.

3. Moreover, when the promissory notes of the Individual A-related entities neared or passed maturity and clients demanded payment, Tagliaferri raised money to pay the interest and/or principal due on the notes by misusing assets of other advisory clients. Specifically, using his discretion over their advisory accounts, Tagliaferri caused other TAG clients to purchase stock of Fund.com, Inc. ("Fund.com"), a publicly-traded microcap company, as well as other public companies that were thinly-traded, from Individual A and/or his brother and used the proceeds Individual A derived in those transactions to make payments due to clients on the notes issued by the Individual A-related entities.

4. In addition to failing to disclose to clients the compensation that TAG received from Individual A, Tagliaferri failed to disclose to clients that TAG received kickbacks from another issuer, International Equine Acquisitions Holdings, Inc. ("IEAH"), in exchange for causing TAG clients to invest in the issuer. Furthermore, Tagliaferri misappropriated approximately \$5 million in client funds and transferred the funds to a private equity fund, UMS Partners Fund II, L.P. ("UMS"), for the purported purchase of UMS promissory notes, when no such notes existed. Tagliaferri then caused UMS to transfer at least half of the funds it received from TAG clients to Conversion Services International, Inc. ("Conversion Services"), a microcap issuer in whose common stock and promissory notes TAG clients were invested, thus enabling Conversion Services to make principal and/or interest payments on notes held by TAG clients.

RESPONDENT

5. **James S. Tagliaferri**, age 73, is and was at all relevant times, the president, chief compliance officer, and one of two owners of TAG. He is a resident of Connecticut and/or the U.S. Virgin Islands. During the Relevant Period, Tagliaferri participated in an offering of at least one penny stock, Fund.com.

OTHER RELEVANT ENTITIES AND INDIVIDUALS

6. **TAG Virgin Islands, Inc.**, which previously was known as Taurus Advisory Group, Inc., was a corporation with its principal place of business in St. Thomas, U.S. Virgin Islands. TAG was registered with the Commission as an investment adviser until June 30, 2011, when it filed a Form ADV-W. According to its Forms ADV, as of March 25, 2010, TAG had \$261 million in assets under management; as of March 31, 2011, it had \$9 million in assets under management. During the Relevant Period, TAG was co-owned by Tagliaferri and Patricia Cornell, who, at one time, were married.

7. **TAG Virgin Islands, LLC** is a limited liability company that, upon information and belief, is the successor by merger to TAG as of March 2011. On or about March 21, 2012, TAG Virgin Islands, LLC filed a voluntary petition for bankruptcy under Chapter 7 of the Bankruptcy Code in the United States Bankruptcy Court for the District of the Virgin Islands, Case 3:12- bk-30004-MFW.

8. **Fund.com** is a publicly-traded microcap issuer in which Tagliaferri invested TAG clients. Fund.com's shares are quoted on the electronic interdealer quotation system operated by OTC Markets Group, Inc. (also known as the Pink Sheets) under ticker symbol FNDM. During the Relevant Period, Fund.com was a penny stock. Fund.com purports to be a provider of fund management products in the wealth management sector. The controlling shareholder of Fund.com is Equities Media Acquisition Corp. Inc., a company whose president is Individual A.

9. **UMS** is a Delaware limited partnership with its principal place of business in Philadelphia, Pennsylvania. UMS is a private investment fund and is not registered with the Commission.

10. **IEAH** is a privately-held corporation with its principal place of business in Garden City, New York. IEAH principally owns thoroughbred racehorses.

FACTS

The TAG-Managed Accounts

11. During the Relevant Period, TAG managed approximately 250 client accounts, over which it had discretionary authority. On behalf of TAG, Tagliaferri selected client investments and provided advice to clients concerning the investments. Tagliaferri directed all of the investments by, and transfers among, the TAG clients discussed below. The investments were reflected in

account statements prepared by the independent custodians for the TAG-managed accounts and sent by the custodians to TAG clients.

12. TAG received compensation in the form of advisory fees in exchange for providing advice to clients concerning investments in securities. As the president and at least 50% owner of TAG, Tagliaferri directly benefited from all compensation that TAG received.

13. During the Relevant Period, TAG was not registered with the Commission as a broker-dealer and Tagliaferri was not associated with a registered broker-dealer.

Tagliaferri's Fraud on Advisory Clients

14. Before 2007, TAG clients were primarily invested in conservative and liquid investments such as municipal bonds and blue-chip stocks. During the Relevant Period, however, Tagliaferri used his discretionary authority to invest clients in highly illiquid securities, including promissory notes issued by various closely-held companies that are nothing more than holding companies through which Individual A and his family effected personal and business transactions (the "Individual A-Related Entities"). The Individual A-Related Entities include, among others: Basileus Holdings, LLC; Emerging Markets Global Hedge Ltd.; IP Global Investors, Ltd., Geomas, Inc.; Hettinger Media Ltd.; Devermont Communications, Ltd.; Equities Media Acquisition Corp. Inc.; Stanwich Absolute Return Ltd.; Mulsanne Enterprises Ltd.; Jamsfield Investments, Inc.; Pacific Rim Assurance Co.; 1920 Bel Air LLC; Drexel Holdings; and Life Investment Company, LLC.

15. During the Relevant Period, Tagliaferri caused approximately three-quarters of TAG's clients to purchase, at a total cost of at least \$80 million, securities issued by the Individual A-Related Entities and public companies with which Individual A or his companies were affiliated, including but not limited to Fund.com, Gerova Financial Group Ltd., Rineon Group, Inc., and Recovery Energy, Inc. For example, Tagliaferri caused at least eighteen clients to invest a total of at least \$3.4 million in notes issued by "1920 Bel Air LLC" – a holding company that owned Individual A's primary residence in Bel Air, California.

16. In exchange for causing investments to be made by certain TAG clients in the Individual A-Related Entities, TAG received at least \$1.75 million in cash, as well as approximately 500,000 shares of Fund.com stock, from the Individual A-Related Entities.

17. During the Relevant Period, Tagliaferri caused at least a third of TAG's clients to invest a total of at least \$40 million in promissory notes and other securities of IEAH. In exchange for causing investments to be made by certain TAG clients in IEAH, TAG received at least \$1.6 million in cash from IEAH.

18. The compensation that TAG received from the Individual A-Related Entities and IEAH for the investments Tagliaferri made on clients' behalf in the Individual A-Related Entities notes and IEAH securities was transaction-based. Such compensation also created a conflict of interest between Tagliaferri and the clients he invested in those securities.

19. Prior to causing them to invest in the Individual A-Related Entities, Tagliaferri knowingly or recklessly failed to disclose to clients that TAG would be compensated for those investments by the Individual A-Related Entities and failed to obtain those clients' consent prior to the transactions. And prior to causing clients to invest in IEAH, Tagliaferri knowingly or recklessly failed to disclose to those clients that TAG would be compensated by IEAH for those clients' investments and failed to obtain those clients' consent prior to the transactions. Such information would have been material to an investor in deciding whether to purchase securities issued by the Individual A-Related Entities or IEAH.

20. Tagliaferri also defrauded advisory clients by causing them to invest in microcap and other thinly-traded public companies in order to raise money to pay the interest and/or principal due to other advisory clients on the notes issued by the Individual A-Related Entities. As notes issued by the Individual A-Related Entities neared or passed maturity and clients complained about not having received payments due under the notes, Tagliaferri caused other clients to purchase Fund.com stock, as well as the stock of Recovery Energy, Rineon and Muscato Group, Inc., from TAG-managed accounts controlled by Individual A and his brother. Tagliaferri then used the proceeds of those transactions to make principal and/or interest payments on notes issued by the Individual A-Related Entities, or to purchase the notes.

21. Tagliaferri knew, or was reckless in not knowing, that TAG clients were unaware that they were purchasing certain securities, including stock issued by Fund.com, Muscato, Recovery Energy, and Rineon – investments that were contrary to the stated investment objectives of many of these TAG clients – to provide financing for the Individual A-Related Entities and/or to repay other TAG clients on their investments in the Individual A-Related Entities.

22. Indeed, in emails he sent to Individual A on April 4 and 5, 2010, Tagliaferri explained that his real motivation for causing TAG clients to purchase Fund.com stock was to pay off other clients on their investments in the Individual A-Related Entities:

You and [Individual A's brother] gave me assurances TAG [], upon the Weston closing, would receive \$125MM. We even provided money in December to effect that closing. I've been waiting patiently ever since. Well, you've closed. Where is the \$125MM. As you are aware, this money was earmarked to clear all of the notes and other issues facing us both. Some was to go to IEAH (you were to receive 10% fee). So, some of the FNDM shares were diverted to IEAH until the Weston money arrived. By the way, I was given the green light to distribute these shares as I saw fit. *Moreover, many of the FNDM shares were sold for your account with the proceeds used to purchase Geomas, or Drexel, or Stanwich, etc.* [Individual A-Related Entities] notes. I ask again. Where's the \$125MM. As I mentioned previously, if I got \$5MM-\$10MM now and the balance in pieces over a 3 month timeframe, I can probably stave off disaster. Can you give me the \$5MM-\$10MM immediately? (Emphasis added). . . .

Besides [TAG clients], I've received six calls or letters from lawyers [representing TAG clients] demanding repayment of the notes. In many cases, they would have accepted interest. Bu[t] you made no attempt to find a way out. On my own, I'm trying to help you. *The FNDM shares you transferred are being sold to clients. With those proceeds, you're buying back your own notes.* (Emphasis added).

23. Finally, beginning in February 2009, Tagliaferri defrauded TAG clients by transferring funds of at least thirty clients totaling at least \$5 million to UMS, a Philadelphia-based private equity firm, for the purported purchase of notes issued by UMS.

24. UMS never issued notes to TAG or TAG clients. Tagliaferri knew, or was reckless in not knowing, that UMS had not issued notes to TAG or its clients yet he reported to the clients' custodian, and thus to the clients, that they had purchased notes issued by UMS. Moreover, Tagliaferri directed UMS to transfer at least half of the funds it received from TAG clients to a microcap issuer, Conversion Services, in whose debt and equity securities TAG clients were invested. The investment thus enabled Conversion Services to make principal and/or interest payments on the debt securities held by other TAG clients.

VIOLATIONS

25. As a result of the conduct described above, Tagliaferri willfully violated Sections 17(a)(1) and (3) of the Securities Act of 1933 and Section 10(b) of the Exchange Act and Rules 10b-5(a) and (c) thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities.

26. As a result of the conduct described above, Tagliaferri willfully violated Sections 206(1) and 206(2) of the Advisers Act by employing devices, schemes or artifices to defraud advisory clients or prospective clients, and engaging in transactions, practices or courses of business that defrauded clients or prospective clients.

27. As a result of the conduct described above, Tagliaferri willfully violated Section 15(a) of the Exchange Act, which prohibits any person from making use of the mails or any means or instrumentality of interstate commerce to effect transactions in securities without registering as a broker-dealer or, if a natural person, without being associated with a broker-dealer.

28. As a result of the conduct described above, Tagliaferri willfully violated Section 206(3) of the Advisers Act, which prohibits any investment adviser, when acting as a broker for a person other than its client, knowingly to effect any sale or purchase of any security for the account of such client, without disclosing to such client in writing before the completion of such transaction the capacity in which it is acting and obtaining the consent of the client to such transaction.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative proceedings be instituted to determine:

A. Whether the allegations set forth in Section II hereof are true and, in connection therewith, to afford Respondent an opportunity to establish any defenses to such allegations;

B. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 15(b)(6) of the Exchange Act including, but not limited to, disgorgement and civil penalties pursuant to Section 21B of the Exchange Act;

C. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 203(f) of the Advisers Act including, but not limited, to, disgorgement and civil penalties pursuant to Sections 203(i) and (j) of the Advisers Act; and

D. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 9(b) of the Investment Company Act including, but not limited to, disgorgement and civil penalties pursuant to Sections 9(d) and (e) of the Investment Company Act.

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondent shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondent personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not “rule making” within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Elizabeth M. Murphy
Secretary