

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

CRAIG SCOTT CAPITAL, LLC
(CRD No. 155924),

CRAIG SCOTT TADDONIO
(CRD No. 4773787),

and

BRENT MORGAN PORGES
(CRD No. 4002626),

Respondents.

DISCIPLINARY PROCEEDING
No. 20150448235-01

CORRECTED COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. For nearly three years, from the day the firm opened its doors in January 2012 through at least December 2014 (the "Relevant Period"), CSC and its owners -- Taddonio and Porges -- fostered a culture of aggressive, excessive trading of customer accounts. By encouraging the firm's registered representatives to use upcoming earnings announcements as a catalyst for recommending hundreds, and in some cases thousands, of short-term trades in customer accounts, CSC, its owners, and brokers earned more than \$5 million dollars in commissions while customers suffered more than \$9 million dollars in losses in accounts where the

annualized turnover rates were as high as over 200 and the annualized cost-to-equity ratios were as high as over 800%.

2. Brokers Zachary Bader (“Bader”), David Cannata (“Cannata”), and EB (the “CSC brokers”) were key players for CSC, actively trading customer accounts to the point where the firm and the CSC brokers earned millions of dollars in commissions that resulted from their fraudulent churning and quantitatively unsuitable trading while at the same time their customers suffered millions of dollars in losses. As a control person under Section 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and under the common law doctrine of *respondeat superior*, CSC is equally accountable for the brokers’ churning and excessive trading. As a result, CSC willfully violated Section 10(b) and Rule 10b-5(c) of the Exchange Act and FINRA Rules 2020 and 2010 for churning. CSC also violated NASD Rule 2310 and NASD IM-2310-2, FINRA Rules 2020, 2111(a) and 2010 in connection with excessive trading in customer accounts.
3. The Respondents failed to establish and enforce a reasonable supervisory system, including written supervisory procedures, designed to prevent the quantitative suitability (excessive trading) and fraudulent churning violations that occurred at the firm. Despite numerous “red flags” of excessive trading and churning brought to their attention by the Firm’s CCOs, the Respondents did little to nothing to ensure that the CSC brokers were making recommendations that were quantitatively suitable for their customers or to prevent churning of customer accounts.

4. Rather, the Respondents permitted their brokers to trade accounts so frequently, often relying heavily on margin, that under any established metric it was nearly impossible for customers to profit in their accounts. Respondents knew of, but took no meaningful steps to curtail, the active trading because to do so would have resulted in lower commissions and profits for them and the firm's sales force. As a result, the Respondents failed to supervise in violation of NASD Rules 3010(a) and (b) and FINRA Rule 2010.
5. In furtherance of the firm's efforts to actively trade accounts, the Respondents encouraged "cold-calling" by the sales force to obtain new clients. As a result, the sales force routinely ignored "do-not-call" telemarketing restrictions. Consequently, CSC violated FINRA Rules 3230 and 2010.
6. Separate and apart from this culture of aggressive trading, the Respondents displayed a disregard for one of their most basic regulatory obligations – the obligation to tell the truth when questioned pursuant to requests made through FINRA Rule 8210. Rather, the Respondents lied, under oath, and in written responses to FINRA requests for information made pursuant to FINRA Rule 8210, about the existence of audio recordings and the firm's provision of recording equipment to brokers to record their conversations with customers. FINRA sought to obtain those recordings in order to fully investigate the sales practice abuses taking place at the firm and the Respondents repeatedly falsely denied their existence. As a result, the Respondents violated FINRA Rules 8210 and 2010.

RESPONDENTS AND JURISDICTION

7. **CSC** is a FINRA member firm and has been such since January 2012. CSC has, at all times, been an introducing broker-dealer servicing a retail customer base. CSC has maintained its principal place of business in Uniondale (Long Island), New York. During the Relevant Period, approximately 20 to 30 registered and associated persons were associated with CSC at any one point in time. FINRA suspended CSC's registration on October 14, 2015 due to its failure to pay outstanding arbitration fees in the amount of approximately \$80,000. The suspension currently remains in effect. Under Article IV of the FINRA By-Laws, FINRA possesses jurisdiction over CSC because: (1) the Firm currently is a FINRA member; and (2) the Complaint charges the Firm with securities-related misconduct while it was a FINRA member.
8. **Craig Scott Taddonio** entered the securities industry in March 2004. He first became registered with FINRA in March 2004 as a General Securities Representative (GSR) (Series 7 license). He subsequently acquired Series 24 (General Securities Principal) and 63 (Uniform State Securities Law) licenses. Since January 2012, Taddonio has been associated with CSC and registered with FINRA through the firm as a GSR and GSP. At all relevant times, Taddonio was the co-founder, co-owner, President and CEO of CSC. As such, with Respondent Porges, he controlled the operations of CSC. Under Article IV of the FINRA By-Laws, FINRA possesses jurisdiction over Taddonio because: (1) he is currently associated with a FINRA member and registered with FINRA; and (2) the

Complaint charges him with securities-related misconduct committed while he was associated with a FINRA member and registered with FINRA.

9. **Brent Morgan Porges** entered the securities industry in August 1999. He first became registered with FINRA in January 2000 as a General Securities Representative (GSR) (Series 7 license) and Equity Trader (ET) (Series 55). He subsequently acquired Series 24 (General Securities Principal) and 63 (Uniform State Securities Law) licenses. From January 2012 until October 20, 2015, Porges was associated with CSC and registered with FINRA through the firm as a GSR and GSP. At all relevant times, Porges was the co-founder, co-owner, and COO of CSC. As noted, with Taddonio, Porges also controlled the operations of CSC. From October 21, 2015 through the present, Porges has been associated with another FINRA member firm as a GSR. Under Article IV of the FINRA By-Laws, FINRA possesses jurisdiction over Porges because: (1) he is currently associated with a FINRA member and registered with FINRA; and (2) the Complaint charges him with securities-related misconduct committed while he was associated with a FINRA member and registered with FINRA.

OTHER RELEVANT INDIVIDUALS

10. **Zachary Bader** (CRD No. 5902742) first entered the securities industry in March 2011. He was registered with CSC from February 2012 through August 16, 2013 as a GSR. He is not currently associated with a member firm. At all relevant times to the Complaint, he was a senior broker of CSC. Pursuant to a Letter of Acceptance, Waiver and Consent approved by FINRA in November

2015, Bader consented to findings that he excessively traded and churned the accounts of three CSC customers and agreed to a bar from the securities industry.

11. **David Cannata** (CRD No. 2408845) first entered the securities in February 1995. He was registered with CSC from January 2012 through September 2014 as a GSR. He is not currently associated with a member firm. At all relevant times to the Complaint, he was a senior broker of CSC. On December 22, 2015, the Department of Enforcement filed a separate Complaint against Cannata alleging, *inter alia*, that he excessively traded and churned CSC customer accounts.
12. **EB** first entered the securities industry in May 2008. He was registered with CSC from January 2012 through September 16, 2015 as a GSR. Since September 18, 2015, EB has been registered as a GSR through another member firm. At all relevant times to the Complaint, he was a senior broker of CSC.

FACTS COMMON TO THE FIRST, SECOND AND THIRD CAUSES OF ACTION

The CSC Brokers Churned and Excessively Traded CSC Customer Accounts and CSC is Equally Responsible for the Brokers' Misconduct

The Respondents Encouraged the Sales Force to Recommend Active Trading in Customer Accounts To Maximize Commissions To the Detriment of Customers

13. Almost all of CSC's customers were identified on new account forms as having a speculative investment objective. The Respondents generally encouraged the senior brokers of the Firm as well as the firm's junior brokers (collectively the "sales force") to target customers who would agree to "speculation," whether the designation was accurate or not, because the Respondents believed that it would give the sales force free rein to engage in active trading to maximize commissions

for the Firm and the sales force without regard to the financial interests and needs of the Firms' customers.

14. More specifically, Taddonio and Porges encouraged the firm's senior brokers to pitch to their customers "earnings plays" as a way to encourage customers to permit rapid trading in their accounts in order to generate commissions. Simply put, Taddonio and Porges gave the senior brokers information on companies in advance of upcoming earnings announcements to recommend that customers buy shares of the so-called "earnings companies" and then immediately sell positions shortly after the earnings announcements.
15. Taddonio, along with individuals under his direction, was principally responsible for researching companies about to make earnings announcements to provide recommendations to the sales force on upcoming "earnings plays."
16. The Respondents encouraged the senior brokers of the firm to sell the positions in the "earnings companies" shortly after the earnings announcements regardless of whether the buy transaction resulted in a profit or loss. Brokers were encouraged to tell their customers that the sell-off was to lock in profits or avoid further losses.
17. At the direction of Taddonio and Porges, the CSC brokers would then recommend that customers purchase more shares of companies that were about to make earnings announcements, repeating the buy-sell cycle of "earnings plays" over and over until eventually it was statistically improbable for the customers to make a profit in their accounts. In most cases, even in those instances where individual trades in the account were profitable, any such profits were immediately

dissipated by the commissions and fees arising from the transactions, and the excessive trading and churning in the accounts uniformly resulted in significant customer losses.

18. The Respondents ensured that every buy and sell -- after the opening transaction in the account -- carried both (1) either an agency commission or principal markup, generally between 3-5% of the trade amount; and (2) an additional standard \$99 ticket charge designated as a “firm commission” on trade confirmations (hereinafter “ticket charge”). The commission or principal markup was split between the broker(s) and the firm based on the brokers’ contractual commission payout arrangement (with typically 60-75% of the commissions payable to the broker(s)). The \$99 ticket charge, however, went exclusively to the firm. On the opening transactions in new customer accounts, the Respondents instructed the brokers to charge only the \$99 ticket charge as an enticement to customers to open accounts.
19. In addition to the “earnings plays,” the Respondents also encouraged additional short-term, active trading by providing the sales force with focus lists of other companies that they wanted the sales force to recommend to their customers.
20. Taddonio and Porges also prepared and provided to the CSC brokers sales scripts to use while recommending certain “earnings plays” and other short-term trading recommendations to their customers. At certain times, Taddonio and Porges also held monthly sales contests to additionally encourage and promote active trading in customer accounts by the sales force.

21. During the Relevant Period, CSC brokers Bader, Cannata, and EB churned and excessively traded 14 accounts of 11 CSC customers. As reflected on attached Schedule A, the churning and excessive trading in the 14 customer accounts resulted in annualized turnover rates as high as over 200, annualized cost-to-equity ratios as high as over 800%, commissions to the firm of over \$2 million, \$99 ticket charges of over \$400,000, and net losses to the customers of over \$5 million.

CSC Broker Bader Churned the Accounts of Three Customers

DBA/BBI

22. DBA is a life-long farmer and BBI is the corporation through which he owns his farm with his brothers. DBA opened an account for BBI with Bader at CSC in February 2012 (the “BBI Account”), and kept the account open until June 2013. DBA was not a college graduate and had little knowledge of or interest in the stock market. Bader opened the BBI account with “speculation” as the account’s investment objective even though DBA disagreed with that characterization.
23. Bader began trading in the BBI Account on February 28, 2012, with a sell-off of all of the positions transferred from a prior account (which had a market value of \$567,630 at the time of the transfer to CSC) and the purchase of two stocks that were reporting earnings after the market closed that day. One of these stocks dropped substantially in price after the earnings announcement and continued to decline. The BBI Account had an unrealized loss of over \$52,700 on February 29, 2012, as a result of the price drop. Bader promised to recoup this loss, which convinced DBA to keep the BBI Account active until March 2013.

24. Of the 218 purchase and sale transactions that were entered in the BBI Account, 203 were entered between March 2012 and March 2013 (an average of nearly 16 trades per month for this period). The vast majority of the trading in the account was comprised of short-term “earnings companies” trades.
25. Bader controlled the trading in the BBI Account. According to DBA, many of the trades in the BBI account were unauthorized. DBA was not experienced in investing and relied on Bader to direct the trading in the BBI Account and he was not able to effectively monitor the active trading taking place in the account.
26. The BBI account lost over \$420,000, including commissions and ticket charges, at CSC, nearly the entire value of money and securities that DBA deposited at the Firm (\$424,292). During the 17 months that his CSC account was open (February 2012 to June 2013), DBA’s BBI Account had an annualized cost-to-equity ratio of 194.56% and an annualized turnover rate of 51.95. The account was charged approximately \$210,000 in costs and fees, including nearly \$20,700 in \$99 ticket charges.

DH

27. DH also was a farmer and a high school graduate. He was a client of Bader’s from April 2012 until July 2013. Of the 195 purchases and sales that were entered in DH’s account, 188 were entered between July and November 2012, or an average of nearly 38 trades per month. All 195 trades were solicited. The vast majority of the trades were comprised of short-term “earnings companies” recommendations.
28. Bader controlled the trading in DH’s account. DH did not understand the activity

in his account and completely relied on Bader to direct trading activity. He received account statements from CSC, but he did not know how to read them and he did not understand them.

29. According to DH, he relied on Bader for status updates. Each time, Bader told him that his account was performing well. DH does not own a computer, and he did not have online access to his CSC account. During the 16-month period that his account was open, DH had an annualized cost-to-equity ratio of 810.81% and an annualized turnover rate of 212.06.
30. DH lost \$108,762.43, including commissions and ticket charges at CSC. In the meantime, DH was charged costs and fees of \$107,244.92 over the life of the account.

PG

31. At the time he opened his CSC account, PG was in his early 60s and owned a contracting business and was preparing to retire. He was cold-called approximately three times before agreeing to open an account at CSC. Bader presented himself to PG as a seasoned broker who had been trading securities for several years with many satisfied customers. On May 2, 2012, PG agreed to purchase 100 shares of a company as a “test” trade with Bader and transferred his investment advisory account to CSC on June 6, 2012, which included \$48,797.66 in securities and a cash balance of \$5,945.21.
32. Bader entered 70 transactions (including purchases and sales) in PG’s account in May and June 2012, with 60 trades entered in June alone. When Bader was not making recommendations, he was telling PG that his account was performing well

and encouraging him to increase the capital in his account. PG made additional cash deposits of \$69,175.50 and \$125,258.91 in May and June 2012, respectively, but nevertheless had a margin debit balance of \$153,182 at the end of June 2012, representing a substantial amount of PG's liquid net worth. PG's account was active only in May and June 2012, after which time PG halted all trading in the account. By the time PG transferred out his remaining positions in mid-July 2012 he had incurred a net loss of \$80,089.10.

33. Bader recommended short-term "earnings plays" to PG and the majority of the trading in the account was based on such "earnings recommendations" and other short-term equity recommendations. PG's account had an annualized cost-to-equity ratio of 359.83% and an annualized turnover rate of 113.46. PG was charged costs and fees of \$72,160.86 in just two months of trading, including \$6,930 in ticket charges.
34. Bader controlled the trading in PG's account. PG lives in a remote area in rural Maine and picks up his mail infrequently. PG did not read his CSC confirmations, but he read his May 2012 statement in late June 2012 and panicked when he saw the amount of activity. PG instructed CSC on June 29, 2012, to halt all trading in his account. In July 2012, PG transferred out his remaining positions and deposited \$153,716.25 in cash to satisfy his margin debit balance. Until this time, PG did not monitor his account and completely relied on Bader to direct the trading activity.

CSC Broker Cannata Churned the Accounts of Three Customers.

JB

35. JB was an 89-year-old retiree when he opened his CSC account in March 2012.

JB was a moderate, or “growth” investor who was willing to accept average investment risks. His goal for the account was to make a little money to supplement his retirement income needs.

36. Despite JB’s stated investment objectives, Cannata immediately began to aggressively trade the account in a manner that was contrary to JB’s stated investment objectives, relying in part on “earnings plays.” This active, short-term trading continued for the next four months until July 2012, when the account was essentially depleted of all its assets.

37. From March 2012 through July 2012, Cannata generated approximately \$95,000 in commissions and fees. The annualized cost-to equity ratio for the account was approximately 327% with an annualized turnover rate of approximately 262.

38. Cannata’s high volume of trading was made possible by his aggressive use of margin in the account. At the end of March, 2012, the account’s margin debit balance was \$188,902, exceeding the total net portfolio value of \$171,272. As of April 30, 2012, the account’s margin debit balance was \$131,545, exceeding the total net portfolio value of \$113,829. JB’s account was charged approximately \$3,200 in margin interest from March 2012 through July 2012. In order to mask the true costs of the trading that he conducted in JB’s account, Cannata also executed a significant number of trades on a riskless principal (markups/markdowns) basis.

39. Cannata exercised control over JB's account. JB relied 100% of the time for investment recommendations and advice on Cannata and 100% of the transactions were solicited or originated from Cannata. In fact, JB never rejected Cannata's recommendations. While Cannata generated over \$95,000 in commissions and fees for himself and the firm, JB's account sustained a \$188,598 loss, including commission and ticket charges.

DB

40. DB was 55 years old when he opened a CSC account with Cannata in June 2013. DB operates a company that provides care for adults and children with special needs and those who are handicapped or disabled.
41. While DB's account documentation reflected "speculation" as his investment objective, DB did not understand what that meant or that Cannata would engage in a high volume and short-term trading in his account. DB told Cannata that he wanted to grow his portfolio and have it generate income.
42. Beginning in July 2013, Cannata began rapidly trading hundreds of stocks in the account. Cannata continued his high volume of trading for the next four months.
43. In November 2013, Cannata completed an Active Account Worksheet, an account form that CSC's compliance department used to obtain information from brokers on actively traded accounts and provided it to the firm's compliance department, stating that DB's "accounts performance has been poor [but that] we've turned the corner and have a new conservative approach." In a section of the form, titled Brief Description of Client's Investment Profile and Trading Strategy, Cannata

further stated that “we are positioned now along the lines of a buy and hold approach.”

44. Despite Cannata’s now explicit acknowledgment that DB’s investment objectives were, in his own words, “conservative” and “along the lines of a buy and hold approach,” Cannata continued his speculative short-term and in-and-out trading in “earnings companies” and other short-term equity trades in the account from January 2014 through April 2014.
45. For the time period of July 2013 through April 2014, Cannata’s short-term trading of DB’s account resulted in an annualized turnover rate of 210 and \$690,803 in commissions and fees.
46. The high volume of trading was also accompanied by Cannata’s heavy use of margin in the account. Thus, as of July 31, 2013 or the first month of active trading, the account’s margin debit balance was \$960,101, exceeding the total net portfolio value of \$940,564. As of August 31, 2013, the account’s margin debit balance was \$1,249,274, exceeding the total net portfolio value of \$703,416. As of April 30, 2014 or the last month of active trading, the account’s margin debit balance was \$125,500 while the total net portfolio value was \$249,592. DB’s account was charged a total of \$59,833 in margin interest.
47. Even though he aggressively utilized margin in DB’s account, Cannata never explained the risks associated with trading on margin or what margin was to DB and, instead, merely described margin as the account’s “buying power.” Therefore, DB did not know that Cannata was aggressively leveraging his account.

48. Cannata also concealed the true cost of trading by executing the majority of the buy trades on a riskless principal basis even though he did not discuss or explain to DB what riskless principal trading was and how the cost of riskless principal trades was reflected on the trade confirmations. DB did not know what riskless principal trading was and never heard of markups or markdowns. Therefore, he did not understand the transaction costs being assessed to his account.
49. Cannata controlled DB's account. Cannata determined when and what securities to buy in the account and in some cases entered the trades in the account without first consulting DB. Thus, for example, even though Cannata was unable to communicate (save for one brief conversation) with DB during a time period of two to three weeks in July 2013 or August 2013, while DB was away on vacation in a remote area of North Carolina, Cannata executed hundreds of trades in the account during that time period without consulting DB. DB did not question Cannata's trading ideas or investment strategies. DB also did not have the requisite knowledge, ability or time to review the paperwork reflecting the hundreds of trades executed in his account.
50. In the end, while Cannata generated over \$690,803 in commissions, markups and fees, DB's account sustained a \$1,263,527 loss, including commissions, markups and ticket charges.

TD

51. TD was 56 years old when he opened his CSC account with Cannata in February 2012. Cannata had also serviced his account at another firm before he joined CSC. While at that earlier firm, Cannata had told TD that he would have to

designate his account with a speculative investment objective in order to obtain shares in the Facebook IPO. Subsequently, when TD opened his CSC account, Cannata prepopulated the new account form for his CSC account by copying the information from the new account form for the predecessor account, including the investment objective of speculation. At the time, TD was still waiting for his Facebook IPO shares. When TD opened his CSC account, however, TD had conservative investment objectives for the account and told Cannata that he did not want speculative trading in his CSC account. Initially and through December 2012, and in line with TD's conservative investment objectives, there was minimum trading or investment activity in the account.

52. In January 2013, TD received his Facebook IPO shares and promptly deposited them in his CSC account. This increased the value of the account substantially (by approximately \$200,000). At the time, Cannata approached TD and told him that he had a foolproof system that was making everyone money and that he was going to implement it in his account. What Cannata did not tell TD, however, was that this so-called "foolproof system that was making everyone money" involved speculative and rapid trading of stocks based on anticipated earnings' announcements.
53. From February 2013 through April 2013, while relying on "earnings plays" and other short-term equity trading in TD's account, Cannata generated \$131,290 in commissions and fees and his excessive and fraudulent trading activity resulted in annualized cost-to equity ratio of approximately 618% and an annualized turnover rate of approximately 172.

54. The speculative and risky nature of the trading, as well as its cost, was further exacerbated by Cannata's aggressive use of margin in the account. For example, as of February 28, 2013 or the first month of active trading, the account's margin balance was \$158,863, exceeding the total net portfolio value of \$144,123.
55. The following month, as of March 31, 2013, the account's margin balance was \$85,439, exceeding the total net portfolio value of \$61,335. TD's account was charged approximately \$3,536 in margin interest from February 2013 through April 2013.
56. In addition, Cannata executed approximately 95% of the buy transactions on a riskless principal basis. Meanwhile, TD did not know the difference between agency and riskless principal trades and DC never discussed with him how he was going to be executing trades in the account. TD did not know what markups or markdowns were and, therefore, did not understand how to figure out what transaction costs he was charged. CSC's monthly account statements also did not list markups or markdowns.
57. Cannata controlled the trading in TD's account. In fact, Cannata did not discuss most of the trades with TD before they were executed and TD did not find out about much of the trading activity in the account until his account suffered significant losses.
58. In the end, while Cannata generated approximately \$131,290 in commissions, markups and fees, TD sustained a \$114,171 loss, including commissions, markups and ticket charges.

CSC Broker EB Churned the Accounts of 5 Customers

EK

59. EK was 65 years old when he opened his account in March 2012. His new account form listed “speculation” as the investment objective but EK was not familiar with that term. He had limited prior investment experience and no previous experience trading on margin. In fact, the Craig Scott account was the first time EK had ever used a full service broker. EK told EB that the \$350,000 he invested at Craig Scott was his life savings and that the money had been earmarked to buy the building where EK maintains his sunroom building company.
60. EB immediately began to rely on “earnings plays” to aggressively trade the account in a manner that was contrary to EK’s stated investment objectives. Within about five months, the account was down to about \$218,487 from the \$350,000 he had initially invested with EB.
61. Between March 2012 and August 2013, EB executed about 115 transactions in the account, generating approximately \$188,704 in commissions and fees. The annualized cost-to-equity ratio for the account was approximately 70.78% with an annualized turnover rate of 18.61.
62. EB exercised control over EK’s account. EK relied on EB for investment recommendations and advice. By August 2013, EK’s account sustained net losses approximating \$241,886.19, including commissions and ticket charges.

EH

63. EH was 69 years old when he opened two accounts in February and March 2012, respectively. The individual account ("EH Individual Account") had an investment objective of "maximum growth," while the individual retirement account ("EH IRA Account") had an investment objective of "growth." This is consistent with EH's objectives of growing his investments but with reasonable and average investment risks. In prior accounts, EH's investment objectives were "capital appreciation," "growth," or "current income," and his accounts were by no means traded as actively as EB traded them at CSC. EB traded both of EH's accounts on the basis that they had speculative investment objectives, aggressively trading them in a manner contrary to EH's stated investment objectives.
64. EH transferred approximately \$1.4 million into the EH IRA Account. EB immediately began actively trading the account, using "earnings plays," buying and selling over one million dollars in securities within the first month alone. Between April 2012 and July 2014, EB executed about 398 transactions in the EH IRA Account, generating approximately \$426,689 in commissions and fees. The annualized cost-to-equity ratio for the account was approximately 18.10% with an annualized turnover rate of 8.25.
65. EB also immediately began actively trading the EH Individual Account, using "earnings plays," buying and selling approximately \$494,119 in securities within the first two weeks. Between March 2012 and July 2014, EB executed about 323 transactions in the EH Individual Account, generating approximately \$261,125 in

commissions and fees. The annualized cost-to-equity ratio for the account was approximately 21.28% with an annualized turnover rate of 8.41.

66. EB exercised control over EH's IRA and Individual Accounts. EH relied on EB for investment recommendations and advice. By July 2014, EH's IRA Account sustained net losses, including commissions and ticket charges, of approximating \$985,000 and the EH Individual Account sustained losses, including commissions and ticket charges, of approximating \$576,814.

TP

67. TP and his family opened seven accounts in total at CSC. TP was 71 years old when he opened the first two accounts in his name in March 2012 and May 2012, respectively. The individual account ("TP Individual Account") had an investment objective of "speculation," while the individual retirement account ("TP IRA Account") had an investment objective of "growth." EB traded both accounts on the basis that they had speculative investment objectives, aggressively trading them in a manner contrary to TP's stated investment objectives.
68. TP transferred approximately \$1.4 million into the TP IRA Account. TP instructed EB that the IRA Account should not drop below \$1 million. EB immediately began actively trading the account, using "earnings plays," buying and selling over \$3 million dollars in securities within the first month alone. By December 2013, the TP IRA Account had dropped to approximately \$645,000.
69. Between April 2012 and December 2013, EB executed 662 transactions in the TP IRA Account, generating approximately \$599,058 in commissions and fees. The

annualized cost-to-equity ratio for the account was approximately 33.86% with an annualized turnover rate of 10.72.

70. TP deposited \$100,000 into the TP Individual Account in May 2012. EB immediately began actively trading the account, using “earnings plays.”
71. Between May 2012 and December 2013, EB executed 154 transactions in the TP Individual Account, generating approximately \$80,952 in commissions and fees. The annualized cost-to-equity ratio for the account was approximately 71.5% with an annualized turnover rate of 22.43.
72. EB exercised control over TP’s IRA and Individual Accounts. TP relied on EB for investment recommendations and advice. By December 2013, TP’s IRA Account sustained net losses, including commissions and ticket charges, approximating \$786,887 and the TP Individual Account sustained losses, including commissions and ticket charges, approximating \$66,316.

JBO

73. JBO initially opened an account at CSC with EB in November 2012. Apart from one transaction, the purchase of 50 shares of Verifone Systems Inc. for cash for approximately \$1,600, there was no activity in the account until April 2014. JBO was 72 years old when he opened the account. He had no previous investment experience, apart from investing in mutual funds. JBO suffered ongoing health issues and was often in the hospital throughout 2014. JBO added his granddaughter, SB, to the account in April 2014, in light of his health issues. SB was 21 years at the time and had no prior investment experience.

74. In April 2014, JBO deposited an additional \$66,148 into the account. EB immediately began actively trading the account on margin, using “earnings plays.” Over the next two weeks EB made over \$1 million in purchases and sales on margin in the account.
75. Between April 2014 and July 2014, EB executed 106 transactions in the account, generating approximately \$65,802 in commissions and fees. The annualized cost-to-equity ratio for the account was approximately 573.37% with an annualized turnover rate of 188.55.
76. EB exercised control over the account. JBO relied on EB for investment recommendations and advice. By July 2014, the account sustained net losses, including commissions and ticket charges, approximating \$66,322.

WR

77. WR was 61 years old when he opened his initial account at CSC (“6671 Account”) in June 2013. After having had a bad trading experience at a prior firm, WR was looking for a more conservative approach for his investments and told EB he wanted more stocks that he would hold for the long term.
78. The account had a starting balance of approximately \$60,299. EB immediately began actively trading the account on margin. During the first month the account was open, EB made approximately \$475,000 in purchases and sales on margin.
79. Between June 2013 and September 2013, EB executed 94 transactions in the account, generating approximately \$46,200 in commissions and fees in the account. In October 2013, WR withdrew the remaining balance of \$48,326 from

the account. The annualized cost-to-equity ratio for the 6671 Account was approximately 182.66% with an annualized turnover rate of 52.7.

80. In April 2014, WR opened another account with EB ("4262 Account"). WR repeated to EB that he wanted stability.
81. Upon opening the 4262 Account, WR transferred in \$39,617 to the account. EB immediately began actively trading the 4262 Account on margin, using "earnings plays." Within the first month of trading, EB had purchased and sold approximately \$656,808 in securities on margin in the account. By the end of the second month, the balance had dropped to \$13,127. WR deposited an additional \$64,500 into the account on June 12, 2014. EB continued to actively trade the account. On July 11, 2014, WR withdrew the remaining balance of \$51,212 from the account.
82. Between April 2014 and July 2014, EB executed 88 transactions in the account, generating approximately \$48,836 in commissions and fees in the account. The annualized cost-to-equity ratio for the account was approximately 546.28% with an annualized turnover rate of 177.87.
83. EB exercised control over the 6671 and 4262 Accounts. WR relied on EB for investment recommendations and advice. By September 2013, the 6671 Account sustained net losses, including commissions and ticket charges, approximating \$86,870. By July 2014, the 4262 Account sustained net losses, including commissions and ticket charges, approximating \$52,721. In all, between the two accounts, WR sustained total net losses, including commissions and ticket charges, of approximately \$139,591.

The CSC Brokers Controlled the Accounts and Acted with Scienter

84. CSC brokers Bader, Cannata, and EB made recommendations to buy and sell securities for each of these customers whose accounts they controlled. These recommendations were largely in connection with short-term “earnings plays” brought to the brokers by Taddonio and other short term trading recommendations brought to them by Taddonio and Porges.
85. While exercising control over the customer accounts, CSC brokers Bader, Cannata, and EB excessively and unsuitably traded and churned these customer accounts in a manner that was inconsistent with those customers’ investment objectives, financial situations and needs.
86. Bader, Cannata, and EB controlled the activity in the accounts of each of these customers. Each of their customers routinely followed their investment advice and, given the fast-paced nature of the recommended trading, the customers did not have the ability to adequately independently research or monitor the short-term trading recommendations taking place in their accounts. Additionally, in many instances, the customers do not recall speaking with their brokers about each of the trades before they were executed in their accounts.
87. Additionally, Bader, Cannata, and EB each acted with scienter. They intentionally or at least recklessly handled each of the accounts in a manner in which they placed their own pecuniary interests above their customers’ interests. Specifically, they handled the accounts with the intention and for the purpose of generating commissions for themselves and CSC, and without the intention of serving their customers’ interests.

88. CSC is liable for the excessive trading and churning of the CSC brokers as a control person under Section 20(a) of the Exchange Act and under the common law doctrine of *respondeat superior*.

The Respondents Failed to Establish and Enforce a Reasonable Supervisory System, Including Written Supervisory Procedures, Reasonably Tailored to Guard Against Excessive Trading and Churning

The Firm's Written Supervisory Procedures Were Inadequate and Not Tailored to its Business Model

89. CSC's written supervisory procedures (WSPs) were deficient in several key areas. First, the WSPs failed to include adequate procedures relative to the monitoring of customer account activity related to excessive trading and quantitative suitability reviews. The WSPs provided no clear guidance on how to review for patterns or trends of excessive trading and churning across registered representatives, securities, or customer accounts, and failed to include any details how to use exception reports in reviewing for such activity. The WSPs did not define the parameters used by the Firm in determining whether accounts warranted additional review and failed to even identify by name or type the exception reports available for completing such reviews.
90. Second, many of the Firm's customer accounts maintained speculative investment objectives with high risk tolerances, and engaged in rapid, active short-term trading relying on "earnings plays" and other short-term trading recommendations. The Firm's WSPs, however, failed to identify any supervisory controls and/or heightened procedures utilized by the Firm to review underlying

activity and mitigate the risks associated with such actively traded accounts based on “earnings plays” and other short-term trades.

91. Third, although the Firm periodically sent customers Intent to Maintain Active Account forms, Activity Letters, and Affidavits of Support concerning the active nature of their accounts, the WSPs did not identify a triggering event for when such communications should be sent and what follow-up should be conducted following those communications.

The Firm’s Systems and Procedures Were Inadequate and Taddonio and Porges Routinely Failed to Follow Up or Ignored Red Flags of Excessive Trading and Churning That Were Brought to Their Attention.

92. The Respondents failed to establish and maintain a reasonable supervisory system designed to prevent the excessive trading and churning which routinely occurred at the firm. Despite knowing of the active trading in “earnings plays” and other short-term trading being conducted at the Firm – and in fact actively encouraging that trading behavior – Taddonio and Porges, the owners and control persons of the firm and sales supervisors of the sales force, disclaimed any responsibility for the activity at their firm.
93. Instead, Taddonio and Porges claim little involvement in supervision and point to the Firm’s two former compliance officers, RC and JG (collectively, the “CCOs”), as responsible. Neither Taddonio nor Porges, however, empowered the CCOs to establish a reasonable supervisory system designed to prevent excessive trading and churning of customer accounts. To the contrary, Taddonio and Porges actively encouraged the excessive trading and churning of customer accounts by

the firm's sales force and the CCOs routinely raised "red flags" of such excessive trading and churning to their attention and were routinely ignored.

94. The Firm's supervisory system in place during the Relevant Period was quite simple. First, the CCOs reviewed transactions for suitability and fair commissions by using exception reports and/or other monitoring reports. Second, after identifying "red flags" of excessive trading activity, the CCOs would elevate those concerns to Taddonio and Porges – the sales supervisors and the control persons at the Firm – for follow up and necessary corrective action.
95. Taddonio and Porges, however, who were encouraging the brokers to actively trade customer accounts using "earnings plays" and other short-term trades by providing brokers with information on companies announcing earnings and other focus lists of short-term trades on a consistent basis, by providing brokers with sales scripts, and by conducting sales contests to promote active trading, routinely failed to follow up on and/or ignored the red flags that were brought to their attention by the CCOs.
96. For example, the CCOs elevated the following red flags to the attention of Taddonio and Porges during the Relevant Period:
 - (a) the account activity in customer accounts routinely demonstrated consistent and heavy short-term trading generating high commissions and low returns, if any, to customers;
 - (b) annualized turnover rates were exceedingly high;
 - (c) annualized commission-to-equity ratios and cost-to-equity ratios were also exceedingly high;

- (d) customer accounts were highly margined;
 - (e) the accounts exhibited large losses;
 - (f) the accounts routinely appeared on exception reports available from the Firm's clearing firm reflecting excessive account activity, with the same accounts often times appearing month-after-month on the reports.
97. In fact, Taddonio and Porges received from the CCOs monthly (during JG's tenure as CCO) or quarterly (during RC's tenure as CCO) summaries of the actively traded accounts, often with underlying supports such as active account worksheets, activity letters, affidavits of support, exception reports and/or commission reduction recommendations attached to the CCOs' summaries, which collectively showed that annualized turnover rates and commission-to-equity and cost-to-equity ratios were exceedingly high, with the same accounts often times appearing month after month on exception reports.
98. Additionally, during the Relevant Period, multiple customer complaints and arbitrations were filed naming the CSC brokers, Taddonio and Porges, in connection with allegations of excessive trading and churning.
99. Despite each of these red flags elevated to Taddonio and Porges by the CCOs, Taddonio and Porges took no meaningful steps to enhance their supervision of the brokers or of the account activity.
100. In fact, as reflected in attached Schedule B, a sampling of 38 of the firm's most actively traded accounts during the Review Period reveals annualized turnover rates as high as over 200, annualized cost-to-equity ratios as high as over 800%, total commissions of almost \$5 million, and total customer losses of more than \$9

million. Respondents failed to take adequate steps to curtail the aggressive active trading in those accounts.

101. By failing to establish and maintain reasonable supervisory systems, including WSPs, including failing to follow up on “red flags” brought to their attention by the CCOs, Taddonio and Porges enabled the excessive trading and churning in the customer accounts of the CSC broker to take place without any meaningful intervention.

FIRST CAUSE OF ACTION
EXCESSIVE TRADING (QUANTITATIVE SUITABILITY)(VIOLATIONS OF NASD RULE 2310 AND
FINRA RULES 2111 AND 2010, AND NASD IM-2310-2)
CSC

102. The Department realleges and incorporates by reference paragraphs 1 through 101 above.
103. NASD Conduct Rule 2310 requires that, “[i]n recommending to a customer the purchase, sale or exchange of any security, a member shall have reasonable grounds for believing that the recommendation is suitable for such customer” in light of the customer’s financial needs and objectives. NASD IM-2310-2 further prohibits “excessive activity” and “overtrading” that is not “related to the objectives and the financial situation of the customer involved.”
104. FINRA Rule 2111 also states that “an associated person must have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer” in light of the customer's investment objective and financial situation. Furthermore, an associated person who has actual or de facto control over a customer account is required to have a

reasonable basis for believing that a series of recommended transactions, even if suitable when viewed in isolation, are not excessive and unsuitable for the customer when taken together in light of the customer's investment profile.

105. FINRA Rule 2010 provides that an associated person, “in the conduct of [his] business, shall observe high standards of commercial honor and just and equitable principles of trade.”
106. CSC, acting through CSC brokers Bader, Cannata, and EB, exercised control over accounts held by customers DBA/BBI, DH, PG, JB, DB, TD, , EK, EH, TP, JBO and WR.
107. That trading in the accounts of customers DBA/BBI, DH, PG, JB, DB, TD, EK, EH, TP, JBO, and WR was, as evidenced by the high annualized turnover rates and high annualized commission-to-equity and cost-to-equity ratios, excessive in light of, and inconsistent with, the customers’ investment objectives and financial situations.
108. CSC is liable for the excessive trading of, and quantitative unsuitable recommendations by, Bader, Cannata, and EB as a control person under Section 20(a) of the Exchange Act and under the common law doctrine of *respondeat superior*.
109. As a result of the foregoing conduct, CSC violated FINRA Rules 2111 (for transactions occurring on or after July 9, 2012), NASD Conduct Rule 2310, and IM-2310-2 (for transactions occurring before July 9, 2012) and FINRA Rule 2010.

SECOND CAUSE OF ACTION
CHURNING
(VIOLATIONS OF SECTION 10(b) OF THE EXCHANGE ACT, RULE 10B-5,
FINRA RULES 2020 AND 2010)
CSC

110. The Department realleges and incorporates by reference paragraphs 1 through 109 above.
111. Section 10(b) of the Exchange act prohibits the use of any “manipulative or deceptive device or contrivance” in connection with the purchase or sale of a security.
112. Rule 10b-5, promulgated thereunder, provides that: It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange,
- (a) To employ any device, scheme, or artifice to defraud,
 - (b) To make any untrue statement of material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading, or
 - (c) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of a security.
113. FINRA Rule 2020 prohibits the same misconduct as Section 10(b) of the Exchange Act and Rule 10b-5.
114. CSC, through CSC brokers Bader, Cannata, and EB, acting with scienter, engaged in a manipulative, deceptive and fraudulent scheme by churning the accounts of

DBA/BBI, DH, PG, JB, DB, TD, EK, EH, TP, JBO, and WR. CSC, through CSC brokers Bader, Cannata, and EB, acted with reckless disregard of the customers' interests by seeking to maximize its own remuneration in disregard of the financial interests and needs of the customers.

115. The acts and transactions at issue were accomplished by the use of the means of the instrumentalities of interstate commerce and through the mails, electronic mail, and telephones, and involved securities transactions on a national securities exchange.
116. CSC is liable for the foregoing fraudulent misconduct of Bader, Cannata, and EB as a control person under Section 20(a) of the Exchange Act and under the common law doctrine of *respondeat superior*.
117. By reason of the foregoing conduct, CSC willfully violated Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5, and violated FINRA Rules 2020 and 2010.

THIRD CAUSE OF ACTION
SUPERVISION—FAILURE TO SUPERVISE AND DEFICIENT WSPs
(NASD RULES 3010 AND FINRA RULE 2010)
CSC AND TADDONIO AND PORGES

118. The Department realleges and incorporates by reference paragraphs 1 through 117.
119. NASD Rule 3010(a) requires each member to establish and maintain a system to supervise the activities of its registered and associated persons that is reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules.

120. NASD Rule 3010(b) requires each member to “establish, maintain, and enforce written procedures to supervise the types of business in which it engages” and supervise the activities of its registered and associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules.
121. FINRA Rule 2010 requires members and associated persons, in the conduct of their business, to “observe high standards of commercial honor and just and equitable principles of trade.”
122. During the Relevant Period, CSC, Taddonio and Porges failed to establish, maintain and enforce a reasonable supervisory system, including WSPs, to supervise with a view to preventing excessive trading and churning in customer accounts.
123. The supervisory systems at the firm, implemented by Taddonio and Porges, including the WSPs, were clearly deficient, and, in fact, appeared to have been specifically designed to allow the excessive trading and churning in customer accounts to occur.
124. The CCOs elevated to the attention of Taddonio and Porges multiple red flags suggesting that the brokers were excessively trading and churning customer accounts, including:
- (a) The accounts exhibited large trading volumes based on earnings plays and other short-term trades, often involving multiple transactions per day;
 - (b) The accounts were highly margined;
 - (c) There was in-and-out trading taking place in multiple accounts;

- (d) Annualized turnover rates were exceedingly high;
 - (e) Annualized commission-to-equity and cost-to-equity ratios were exceedingly high;
 - (f) Customer accounts repeatedly appeared on exception reports month after month;
 - (g) Customer accounts frequently exhibited large losses.
125. These red flags were not properly addressed by Taddonio and Porges after the CCOs elevated such concerns to their attention. Taddonio and Porges failed to take any meaningful measures to address the misconduct and to ensure that the Firm's representatives acted in a manner that was compliant with applicable laws, regulations, and rules.
126. By failing to establish, maintain and enforce a reasonable supervisory system, including WSPs, to prevent excessive trading and churning and by failing to adequately supervise CSC brokers Bader, Cannata, and EB, CSC and Taddonio and Porges violated NASD Conduct Rule 3010(a) and (b) and FINRA Rule 2010.

**FOURTH CAUSE OF ACTION
TELEMARKETING VIOLATIONS
(FINRA RULES 3230 AND 2010)
CSC**

127. The Department realleges and incorporates by reference paragraphs 1 through 126 above.
128. FINRA Rule 3230(d) requires, *inter alia*, that member firms institute procedures to comply with telemarketing requirements as identified in Rule 3230(a). For example, firms engaging in telemarketing activities must have written policies for

maintaining do-not-call lists, must provide training for personnel on the existence and use of do-not-call lists, must record and honor a person's request to be placed on a do-not-call list and must maintain a record of a person's request not to receive further calls.

129. CSC's sales force relied on cold-calling to obtain new customers. To that end, CSC provided the sales force with "lead cards" to prospect for new customers.
130. CSC, however, failed to establish a reasonable system and procedures to ensure that the sales force avoided contacting persons on the firm-specific do-not-call list ("DNC") and the National do-not-call list. The Firm instead relied on an "honor system" where members of the sales force would provide names to a sales assistant to place on a DNC list that was periodically circulated. Cold-callers routinely failed to check or ignored the "honor system" list.
131. Specifically, during a review period of May 1, 2014 through July 31, 2014, the Firm, through its sales force, placed 1,330 telephone calls to 1,038 telephone numbers on the DNC list.
132. By reason of the foregoing, CSC violated FINRA Rules 3230 and 2010.

**FIFTH CAUSE OF ACTION
FALSE STATEMENTS/FALSE TESTIMONY
(VIOLATIONS OF FINRA RULES 8210 AND 2010)
CSC, TADDONIO, PORGES**

133. The Department realleges and incorporates by reference paragraphs 1 through 132 above.
134. From at least June 2012 through April 2014, with Taddonio's and Porges's knowledge and approval, CSC utilized a variety of tape recording systems to

record brokers' telephone calls with customers. During that time, the Firm purchased at least 39 taping devices on behalf of the sales force, including recording devices that plugged into the brokers' computers, recording devices that plugged into the brokers' telephone handsets, and handheld digital recording devices, and distributed them to registered representatives at the firm in order to enable them to tape record their conversations with customers.

135. In order to fully investigate the potential sales practice abuses taking place at CSC, including the excessive trading and churning in customer accounts, FINRA staff sought to obtain the tape recorded conversations between CSC brokers and their customers. In written requests for information to the Firm dated March 10, 2015 and April 3, 2015, sent pursuant to FINRA Rule 8210, FINRA staff requested that the Firm provide copies of tape recorded conversations between brokers and customers and information about the recording devices used at the Firm.
136. In written responses to FINRA dated March 24, 2015 and April 3, 2015, the Firm denied the use or existence of such recording devices at the Firm or the existence of such tape recorded conversations.
137. During on-the-record testimony dated March 18, 2015, taken under oath and pursuant to FINRA Rule 8210, FINRA staff repeatedly questioned Porges on the use or existence of such recording devices at CSC and he repeatedly denied the use or existence of such recording devices at CSC or the existence of such tape recorded conversations.

138. During on-the-record testimony dated March 20, 2015, taken under oath and pursuant to FINRA Rule 8210, Taddonio was also repeatedly questioned by FINRA staff about the use or existence of such recording devices at the Firm and he also repeatedly denied the use or existence of such recording devices at CSC or the existence of such tape recorded conversations.
139. Based on significant evidence gathered during the course of the investigation, CSC, Taddonio and Porges knew about the use and existence of such recording devices at the Firm and knew, at the time they made their false statements, that they were false and misleading. Such evidence includes: (i) testimony of several of the Firm's former brokers stating under oath that Taddonio and Porges specifically required the tape recording of telephone conversations with customers and that they purchased and supplied the sales force with such recording devices for that purpose; (ii) numerous emails copied to both Taddonio and Porges containing invoices for the purchases of the recording devices in question during the Relevant Period; (iii) emails copied to both Taddonio and Porges attaching copies of actual tape recordings of conversations between brokers and customers and one including a recording of a conversation between Porges and a complaining customer; (iv) testimony of the Firm's sales assistant indicating that she ordered each of the tape recording devices in question, including at least one on behalf of senior broker EB, and that she would not have done so without the authority and knowledge of Porges who supervised her in that area; (v) Porges' awareness of a box of recording devices that were ordered by the sales assistant and received by the Firm around May 2014 which he personally placed in the

Firm's IT room, but which he did not reveal to FINRA during his on-the-record testimony; and (vi) testimony of one of the firm's CCOs, JG, who witnessed the use of a hand-held recording device by broker EB and reprimanded him and the rest of the sales force about the activity.

140. Even after Porges and Taddonio were confronted with much of this evidence during subsequent on-the-record interviews taken under oath and pursuant to FINRA Rule 8210 on June 23, 2015 and June 26, 2015, respectively, they continued to deny knowledge of the existence or use of such recording devices at the Firm.
141. As the result of both (a) Taddonio's and Porges's false statements and testimony; and (b) the Firm's refusal and/or failure to turn over recordings of conversations between the brokers and customers, FINRA was significantly hindered in fully exploring potential sales practice abuses at the Firm including possible misrepresentations made by the brokers to their clients while discussing trading recommendations.
142. As a result, CSC, Taddonio and Porges violated FINRA Rules 8210 and 2010.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondents committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, and that CSC, Taddonio and Porges be required to disgorge fully any

and all ill-gotten gains and/or make full and complete restitution, together with interest;

- C. make specific findings that CSC willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder; and
- D. order that Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: January 5, 2016



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SCHEDULE A
CRAIG SCOTT CAPITAL
SUMMARY OF EXCESSIVELY TRADED/CHURNED ACCOUNTS

Account Number	Account Name	CSC Customer	Registered Rep	Review Period (Statement Date Range)	Active Review Period	Total Number of Trades (Review Period)	Total Number of Trades (Active Period)	Net Profit/Loss (Trades Only) (Review Period)	Net Profit/Loss (Trades Only) (Active Period)	Net Profit/Loss (Trades + Margin) (Active Period)	Average Monthly Equity (Active Period)	Total Costs (Active Period)	Total Commissions (Active Period)	Total Firm Commission/ Fees (Active Period)	Total SEC Fees (Active Period)	Total Margin Interest (Active Period)	Total Cost-To- Equity (Active Period)	Annualized Cost-To- Equity (Active Period)	Turnover (Active Period)	Annualized Turnover (Active Period)
XXXX-5011	DH		BADER	04/01/12 07/31/13	04/01/12 07/31/13	195	195	(\$107,217.70)	(\$108,762.43)	(\$107,217.70)	\$9,911.13	\$107,244.92	\$86,333.00	\$19,305.00	\$62.19	\$1,544.73	1082.07%	811.55%	283.00	212.25
XXXX-2990	PG		BADER	05/01/12 08/31/12	05/01/12 06/30/12	70	70	(\$78,540.83)	(\$80,085.10)	(\$78,540.83)	\$120,324.16	\$210,132.12	\$65,639.00	\$43.59	\$912.38	59.44%	356.66%	18.91	113.46	
XXXX-2997	DBA/BBH		BADER	02/01/12 06/30/13	02/01/12 06/30/13	218	218	(\$405,019.69)	(\$420,167.71)	(\$405,019.69)	\$76,239.87	\$55,802.52	\$54,935.61	\$10,494.00	\$46.37	\$15,148.02	275.67%	194.56%	73.80	51.95
XXXX-3222	JBO		EB	11/01/12 08/31/14	04/01/14 07/31/14	107	106	(\$55,985.44)	(\$56,181.97)	(\$55,985.90)	\$34,428.41	\$65,802.52	\$59,957.60	\$8,712.00	\$94.61	\$192.01	182.09%	346.28%	62.85	188.53
XXXX-4232	NR		EB	04/01/14 08/31/14	04/01/14 07/31/14	88	88	(\$52,589.78)	(\$52,721.79)	(\$52,589.78)	\$26,815.16	\$48,636.22	\$39,327.00	\$9,306.00	\$24.67	\$548.17	60.89%	182.68%	59.29	177.87
XXXX-6621	NR		EB	06/01/13 11/30/13	06/01/13 09/30/13	94	94	(\$86,321.91)	(\$86,870.08)	(\$86,321.91)	\$75,872.14	\$48,200.84	\$36,322.00	\$15,246.00	\$53.29	\$548.17	71.50%	182.68%	37.39	52.70
XXXX-9942	TP		EB	05/01/12 07/31/13	05/01/12 12/31/13	154	154	(\$56,225.35)	(\$56,316.48)	(\$56,316.48)	\$67,995.04	\$80,952.36	\$65,561.94	\$15,246.00	\$53.29	\$548.17	119.16%	70.78%	27.92	18.61
XXXX-0079	ER		EB	03/01/12 10/31/13	03/01/12 08/31/13	115	115	(\$231,316.66)	(\$241,886.19)	(\$231,316.66)	\$177,749.70	\$188,704.51	\$166,666.54	\$15,395.00	\$103.44	\$10,549.53	106.16%	59.25%	27.92	18.61
XXXX-9918	TP		EB	03/01/12 02/28/15	04/01/12 12/31/13	662	662	(\$786,887.34)	(\$786,887.34)	(\$786,887.34)	\$1,010,998.62	\$599,058.42	\$533,390.94	\$65,340.00	\$397.48	\$0.00	51.44%	33.86%	18.75	10.72
XXXX-4722	EH		EB	03/01/12 08/31/14	03/01/12 07/31/14	323	323	(\$571,381.50)	(\$595,000.05)	(\$571,381.50)	\$590,653.56	\$261,125.20	\$223,702.85	\$31,779.00	\$209.90	\$0.00	47.24%	21.28%	20.32	8.41
XXXX-8127	EH		EB	04/01/12 08/31/14	04/01/12 07/31/14	398	398	(\$595,000.05)	(\$595,000.05)	(\$595,000.05)	\$1,010,053.33	\$426,689.46	\$387,388.08	\$38,907.00	\$394.38	\$0.00	47.24%	21.28%	19.25	8.25
XXXX-4606	TD		CANMATA	02/01/12 06/30/14	02/01/12 07/31/14	186	127	(\$189,148.98)	(\$192,902.40)	(\$189,148.98)	\$44,922.82	\$131,290.50	\$110,145.45	\$17,523.00	\$85.48	\$3,536.47	154.59%	618.36%	49.13	172.52
XXXX-1381	JB		CANMATA	03/01/12 06/30/14	03/01/12 07/31/12	129	128	(\$185,393.23)	(\$188,653.41)	(\$185,393.23)	\$69,645.09	\$98,045.11	\$82,374.00	\$9,906.00	\$159.80	\$3,205.31	377.51%	618.36%	109.22	262.12
XXXX-1555	DB		CANMATA	06/01/13 10/31/14	07/01/13 04/30/14	1,715	1,680	(\$1,406,413.78)	(\$1,449,181.93)	(\$1,406,413.78)	\$487,775.97	\$690,809.72	\$463,158.77	\$165,320.00	\$1,091.57	\$59,833.43	141.67%	169.95%	175.38	210.46
	TOTAL					4,454	4,408	(\$5,217,357.78)	(\$5,372,447.98)	(\$5,217,357.78)	\$3,073,410.86	\$2,487,677.83	\$431,244.00	\$3,217.87	\$101,271.16					

SCHEDULE B
GIBBS SCOTT CAPITAL
SUMMARY OF TRADING ACTIVITY IN SAMPLED CUSTOMER ACCOUNTS

Account Number	Account Name	CSC Customer	Registered Rep	Review Period (Statement Date Range)	Active Review Period	Total Number of Trades (Active Period)	Total Number of Trades (All Period)	Net Profit/Loss (Trades Only - Active Period)	Net Profit/Loss (Trades + Margin - Active Period)	Average Monthly Equity (Active Period)	Total Costs (Active Period)	Total Commissions (Active Period)	Total Firm Handling Fees (Active Period)	Total SEC Fees (Active Period)	Total Margin Interest (Active Period)	Total Cost-to-Equity (Active Period)	Annualized Turnover (Active Period)	Annualized Turnover (All Period)		
XXXX-0451	JR		MV	02/01/13	04/30/13	55	55	(\$58,515.31)	(\$58,853.16)	(\$58,853.16)	\$23,344.43	\$40,124.81	\$42,319.25	\$3,445.00	\$337.85	206.15%	824.60%	45.02	180.07	
XXXX-0511	BH		BADER	04/01/12	07/31/13	195	195	(\$107,217.70)	(\$108,762.43)	(\$108,762.43)	\$9,914.13	\$107,217.70	\$66,333.00	\$1,504.72	\$62.19	\$1,544.72	1082.07%	154.59%	283.00	212.25
XXXX-0606	TD		CANATA	02/01/12	06/30/13	186	175	(\$189,148.98)	(\$192,807.40)	(\$192,807.40)	\$14,171.82	\$131,290.50	\$110,145.55	\$17,525.00	\$85.48	\$3,556.47	154.59%	618.36%	43.13	117.52
XXXX-2328	JR		MV	02/01/12	08/31/12	120	120	(\$172,620.03)	(\$172,620.03)	(\$172,620.03)	\$54,867.35	\$129,962.68	\$110,980.25	\$11,880.00	\$79.84	\$1,984.14	357.12%	612.33%	103.40	117.25
XXXX-3222	BHO		EB	11/01/12	04/01/14	107	106	(\$55,853.44)	(\$56,187.97)	(\$56,187.97)	\$65,985.90	\$54,429.41	\$54,925.51	\$10,484.00	\$46.37	\$3,945.44	191.12%	573.37%	62.85	188.55
XXXX-4262	WH		EB	10/01/14	08/31/14	88	88	(\$52,389.78)	(\$52,721.79)	(\$52,721.79)	\$52,386.74	\$48,856.22	\$39,919.16	\$9,712.00	\$34.61	\$132.01	182.09%	546.28%	59.29	117.87
XXXX-2254	SS		CANATA	10/01/12	12/31/14	245	244	(\$163,504.49)	(\$165,506.49)	(\$165,506.49)	\$11,886.81	\$101,200.52	\$74,207.69	\$2,077.00	\$76.63	\$2,053.20	844.05%	335.66%	79.31	113.46
XXXX-3980	PG		BADER	03/01/12	06/31/12	70	70	(\$178,400.93)	(\$180,088.10)	(\$178,540.83)	\$120,324.16	\$117,524.97	\$65,659.00	\$8,930.00	\$48.59	\$2,889.20	84.05%	440.36%	292.56	113.66
XXXX-3981	JR		CANATA	06/01/13	06/30/14	129	128	(\$185,993.23)	(\$188,655.43)	(\$188,598.24)	\$59,449.09	\$59,648.09	\$65,802.96	\$9,306.00	\$159.80	\$3,205.13	59.44%	335.66%	109.22	262.12
XXXX-3409	BH		MV	02/01/12	02/28/14	107	107	(\$22,018.15)	(\$24,397.60)	(\$22,018.15)	\$27,058.99	\$27,058.99	\$10,494.00	\$29.01	\$2,379.45	209.21%	271.90%	60.87	81.16	
XXXX-6534	WR		CANATA	05/01/12	02/28/13	282	282	(\$322,879.43)	(\$326,273.87)	(\$326,273.87)	\$54,202.44	\$64,900.50	\$10,918.00	\$147.60	\$3,384.44	209.21%	257.86%	149.32	119.18	
XXXX-4519	SI		MV	07/01/13	07/31/14	90	90	(\$30,718.78)	(\$32,729.94)	(\$32,729.94)	\$54,744.45	\$44,094.25	\$8,613.00	\$26.04	\$2,011.16	257.86%	205.99%	62.71	65.59	
XXXX-1201	RA		EB	08/01/13	12/31/14	184	184	(\$81,434.65)	(\$82,202.32)	(\$81,098.31)	\$39,024.10	\$37,687.91	\$17,919.00	\$45.32	\$735.75	188.83%	205.99%	62.71	67.87	
XXXX-6133	PL		CANATA	03/01/12	04/30/14	220	220	(\$127,494.50)	(\$129,427.73)	(\$129,427.73)	\$13,467.68	\$57,816.28	\$33,780.28	\$21,582.00	\$121.07	\$2,332.85	435.77%	201.12%	406.81	187.76
XXXX-2810	BH		BADER	04/01/12	09/30/13	253	253	(\$193,679.79)	(\$204,811.42)	(\$193,679.79)	\$141,108.40	\$104,903.63	\$20,047.00	\$106.14	\$11,131.63	297.73%	198.49%	108.74	72.49	
XXXX-2997	DBA/BH		BADER	02/01/12	06/30/13	218	218	(\$405,019.69)	(\$420,167.71)	(\$405,019.69)	\$710,132.12	\$174,172.00	\$20,691.00	\$121.10	\$15,148.02	275.62%	194.56%	73.60	51.95	
XXXX-1613	RA		EB	06/01/13	04/30/14	113	113	(\$55,158.98)	(\$55,550.35)	(\$58,321.97)	\$46,653.76	\$47,992.04	\$36,585.35	\$10,989.00	\$28.12	\$3,911.37	107.48%	184.24%	37.04	63.50
XXXX-3226	FS		WH	02/01/12	10/31/13	197	197	(\$186,212.91)	(\$186,870.08)	(\$186,321.91)	\$75,879.14	\$67,322.00	\$9,306.00	\$24.67	\$5,480.17	182.66%	176.09%	17.57	52.70	
XXXX-9226	FS		CANATA	02/01/12	10/31/14	1,715	1,680	(\$1,406,443.28)	(\$1,469,181.93)	(\$1,203,694.35)	\$467,775.97	\$463,158.72	\$16,320.00	\$1,491.57	\$5,483.43	451.87%	169.45%	129.31	210.46	
XXXX-1555	DB		CANATA	06/01/13	10/31/14	116	116	(\$313,282.02)	(\$322,342.07)	(\$313,282.02)	\$32,725.52	\$16,448.52	\$96,629.50	\$11,187.00	\$77.39	\$8,555.44	451.87%	169.45%	129.31	210.46
XXXX-0250	DT		MV	03/01/12	10/31/14	116	116	(\$313,282.02)	(\$322,342.07)	(\$313,282.02)	\$32,725.52	\$16,448.52	\$96,629.50	\$11,187.00	\$77.39	\$8,555.44	451.87%	169.45%	129.31	210.46
XXXX-1117	MV		CANATA	05/01/12	03/31/14	147	147	(\$139,515.50)	(\$140,551.15)	(\$139,515.50)	\$30,609.76	\$36,977.42	\$20,216.66	\$14,353.00	\$81.43	\$1,141.65	320.23%	154.79%	81.17	44.78
XXXX-9528	TTT		BADER	02/01/12	12/31/14	975	975	(\$170,076.85)	(\$170,076.85)	(\$170,076.85)	\$337,000.07	\$56,436.45	\$59,280.91	\$59.37	\$99,280.91	283.29%	154.79%	81.17	44.78	
XXXX-5846	ATL		MV	02/01/12	09/30/14	49	49	(\$35,049.51)	(\$39,013.70)	(\$39,013.70)	\$47,711.69	\$38,966.50	\$4,792.00	\$29.20	\$3,976.01	111.50%	121.64%	31.24	34.78	
XXXX-8152	SR		EB	11/01/12	12/31/14	295	290	(\$161,123.94)	(\$182,029.98)	(\$158,029.98)	\$121,366.92	\$146,615.48	\$116,021.89	\$28,611.00	\$262.83	\$26,057.62	37.61%	95.29%	37.38	29.90
XXXX-4412	BH		BADER	06/01/13	10/31/13	414	414	(\$43,049.72)	(\$49,107.34)	(\$43,049.72)	\$655,784.94	\$446,718.25	\$40,986.00	\$262.83	\$26,057.62	37.61%	95.29%	37.38	29.90	
XXXX-6887	RA		EB	08/01/13	06/30/14	124	124	(\$38,985.72)	(\$38,985.72)	(\$38,985.72)	\$59,907.32	\$48,288.25	\$16,613.00	\$36.07	\$36.07	50.00	71.24%	20.32	60.76	60.76
XXXX-9942	TP		EB	05/01/12	01/31/14	154	154	(\$56,225.35)	(\$56,225.35)	(\$56,225.35)	\$80,952.16	\$65,556.84	\$15,246.00	\$53.29	\$93.15	119.16%	71.78%	27.92	22.43	
XXXX-0029	FK		EB	02/01/12	10/31/13	115	115	(\$221,136.60)	(\$241,866.39)	(\$221,136.60)	\$180,784.32	\$166,666.24	\$11,865.00	\$103.44	\$10,943.53	106.16%	70.78%	27.92	18.61	
XXXX-1427	MC		CANATA	02/01/12	10/31/14	304	304	(\$80,129.76)	(\$80,129.76)	(\$80,129.76)	\$97,719.97	\$180,784.32	\$166,666.00	\$10,999.00	\$24.76	\$13.82	85.13%	46.44%	24.79	90.47
XXXX-9326	OC		BADER	03/01/12	12/31/14	104	104	(\$33,442.43)	(\$33,773.25)	(\$33,773.25)	\$56,684.62	\$48,297.57	\$38,003.99	\$10,999.00	\$24.76	\$13.82	46.44%	25.14%	13.71	90.47
XXXX-7607	DR		MV	07/01/13	05/31/14	32	32	(\$74,743.98)	(\$74,743.98)	(\$74,743.98)	\$44,452.12	\$13,016.62	\$3,168.00	\$7.01	\$1,886.60	49.67%	44.37%	12.45	13.58	
XXXX-9918	TP		EB	02/01/12	02/28/15	662	662	(\$78,687.34)	(\$78,687.34)	(\$78,687.34)	\$59,058.42	\$53,340.00	\$65,340.00	\$387.48	\$5,483.45	59.29%	33.86%	18.75	10.72	
XXXX-4722	EH		EB	03/01/12	03/01/12	323	323	(\$57,181.50)	(\$57,181.50)	(\$57,181.50)	\$25,718.44	\$25,718.44	\$5,643.00	\$209.90	\$5,483.45	51.44%	21.28%	20.32	8.41	
XXXX-4822	DR		MV	10/01/13	10/01/13	57	57	(\$112,668.03)	(\$112,668.03)	(\$112,668.03)	\$25,718.44	\$25,718.44	\$5,643.00	\$209.90	\$5,483.45	51.44%	21.28%	20.32	8.41	
XXXX-8127	EH		EB	04/01/12	07/31/14	398	398	(\$985,000.05)	(\$985,000.05)	(\$985,000.05)	\$1,010,933.33	\$426,689.46	\$387,381.08	\$38,907.00	\$384.38	\$2,000.00	42.26%	18.10%	19.25	8.25
XXXX-2776	RA		EB	08/01/13	12/31/14	4	4	(\$7,442.22)	(\$7,442.22)	(\$7,442.22)	\$5,949.10	\$4,788.67	\$807,655.00	\$5,925.67	\$296,887.78	8.16%	8.90%	2.63	2.87	
TOTAL						9,178	9,144	(\$9,489,924.54)	(\$9,721,713.90)	(\$9,180,217.45)	(\$9,499,105.43)	\$7,714.02	\$5,949.10	\$4,788.67	\$807,655.00	\$5,925.67	\$296,887.78	8.16%	2.87	