

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 80027 / February 13, 2017

ADMINISTRATIVE PROCEEDING
File No. 3-17843

In the Matter of

Sidoti & Company, LLC

Respondent.

**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 Sidoti & Company, LLC (“Sidoti” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Sidoti has submitted an Offer of Settlement (the “Offer”) 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 it and the subject matter of these proceedings, which are admitted, Respondent consents 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 Respondent's Offer, the Commission finds that:

Summary

1. This matter arises out of the failure of Sidoti, a registered broker-dealer, to establish, maintain, and enforce written policies and procedures to prevent the misuse of material nonpublic information ("MNPI") by Sidoti and its associated persons in connection with an affiliated hedge fund under common control with Sidoti and operated by its founder and Chief Executive Officer ("CEO"). The hedge fund, by design, invested in issuers covered by Sidoti's research department and, additionally, some of the issuers for which Sidoti provided investment banking services. Yet, for a period of more than eight months, from November 3, 2014 (when the hedge fund commenced trading) until July 10, 2015, Sidoti had no written policies or procedures in place to prevent the misuse of MNPI by its founder and CEO or any other associated persons of Sidoti that had the authority to or otherwise participated in making investment decisions for the hedge fund.

2. On or about July 10, 2015, Sidoti implemented information barriers with respect to the affiliated hedge fund, but the written policy and procedures were not reasonably designed, taking into consideration the nature of Sidoti's business, to prevent the misuse of MNPI by Sidoti or its associated persons. Accordingly, Sidoti violated Section 15(g) of the Exchange Act.¹

Respondent

3. **Sidoti** is a registered broker-dealer with its principal place of business in New York, New York. Sidoti provides equity research, sales and trading, and investment banking services. Sidoti has been registered with the Commission since April 24, 2000.

Other Relevant Entities

4. **Sidoti Holding Company, LLC** ("Sidoti Holding") was a holding company organized under the laws of Delaware and was the entity through which Sidoti's founder owned Sidoti.

5. **Sidoti & Company, Inc.** ("Sidoti Inc.") was incorporated in Delaware and on October 23, 2014 filed a Form S-1 registration statement for a planned public offering of common stock.

6. **Sidoti Micro Cap Fund, LP** (the "Fund") was a hedge fund with approximately \$2 million in assets managed by Sidoti's founder and CEO through his control of the Fund's general

¹ Section 15(g) of the Exchange Act was formerly Section 15(f) of the Exchange Act. The provision changed in July 2010 following the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

partner, Sidoti Micro Cap GP, LLC (the “GP”) and the Fund’s investment adviser, Sidoti Capital Management, LLC (the “Adviser”).

7. **The GP** was owned by Sidoti Holding and controlled the Fund.

8. **The Adviser** (CRD No. 172776) was an investment adviser owned by Sidoti Holding. The Adviser was not registered with the Commission and currently has no operations.

Background

9. Sidoti was established in 1999 as an independent research firm, primarily focused on small and microcap public companies.

10. Sidoti’s research principally targeted companies with a market capitalization of \$3 billion or less, a history of profitability, and little or no research coverage by other firms. Sidoti published notes and special reports on the companies it covered.

11. In about 2004, Sidoti expanded its business by offering brokerage services and investment banking. Sidoti’s brokerage services included a sales and trading operation that distributed Sidoti’s research product and communicated its proprietary investment recommendations to its base of institutional investors. In addition, Sidoti executed equity trades on behalf of its clients and sold the securities of companies covered by its research department.

12. Sidoti’s investment banking services included assisting issuers with corporate stock repurchase programs, block trades and Rule 144 transactions, and with facilitating Rule 10b5-1 trading plans. Sidoti also acted as an underwriter, dealer, placement agent, or initial purchaser in securities offerings undertaken by issuers for which it provided research. Sidoti was paid underwriting fees or commissions for these services.

13. In mid-2014, in an effort to further expand, Sidoti Inc. was created to raise money through a public offering and the Fund, Adviser, and GP were established. On October 23, 2014, Sidoti Inc. filed a Form S-1 registration statement seeking to raise up to \$35 million in an initial public offering of three million shares of common stock.

14. Sidoti Inc. planned to use a portion of the net proceeds from the planned public offering to support the new advisory business to be operated through the Adviser. The Adviser, which was controlled by Sidoti’s founder and CEO, intended to focus on investing in small to microcap stocks, largely the same issuers covered by Sidoti’s research department. Sidoti’s founder and CEO was given authority over investment decisions in the Fund, although trading in the Fund was generally governed by a tiered arithmetic formula, targeting securities of companies with market capitalizations below \$750 million. Further, during this period, Sidoti’s CEO and founder was the manager of the Adviser, manager of the GP, head of sales at Sidoti, and a point of contact for Sidoti’s investment banking activities.

15. On November 3, 2014, trading commenced in the Fund. On October 1, 2015, the Adviser discontinued its advisory operations and closed the Fund. On or about October 2015, Sidoti Inc. decided not to take its registration statement effective.

Sidoti Had No Written Policies and Procedures To Prevent the Misuse of MNPI

16. Between November 3, 2014 and July 10, 2015, Sidoti had no written policies and procedures in place to prevent the misuse of MNPI by Sidoti or its associated persons in connection with the operation of the Adviser and trading in the Fund. During this period, Sidoti's CEO controlled Sidoti's investment banking and research departments and maintained trading authority in the Fund. Although Sidoti had written policies preventing the misuse of MNPI by its investment banking and research departments, nothing in Sidoti's written policies prevented Sidoti's CEO and its associated persons from misusing MNPI obtained from these departments when making trading decisions for the Fund.

17. For example, Sidoti maintained a list of securities, referred to as the Daily Restricted List, in which Sidoti employees, including its CEO, were restricted from personally trading because Sidoti was engaged in investment banking activities, marketing activities with the company, or publishing research on the security. Between November 3, 2014 and May 5, 2015, however, there were 126 instances when the Fund traded in a stock that appeared on the Daily Restricted List.

Deficient Policies and Procedures

18. On or about July 10, 2015, in response to concerns raised during a Commission examination, Sidoti implemented written policies intended specifically to prevent the misuse of MNPI by its associated persons in connection with the operation of the Fund. Among other things, these policies explicitly restricted associated persons of Sidoti from causing the Fund to trade in securities listed on the Daily Restricted List, required physical separation between different divisions, instituted email monitoring, and prohibited employees from participating in both research and sales calls. Although these policies created some informational barriers to address Sidoti's CEO's conflicting roles in research, investment banking, and advising the Fund, there were not procedures reasonably designed to enforce such barriers.

Violations

19. As a result of the conduct described above, Sidoti willfully violated Section 15(g) of the Exchange Act, which requires every registered broker or dealer to "establish, maintain, and enforce written policies and procedures reasonably designed, taking into consideration the nature of such broker's or dealer's business, to prevent the misuse in violation of . . . [the Exchange Act] or the rules or regulations thereunder, of material, nonpublic information by such broker or dealer or any person associated with such broker or dealer."

Sidoti's Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff, including that Sidoti discontinued its advisory operations and retained compliance consultants in 2015 and 2016 to assess and revise Sidoti's supervisory processes and written supervisory procedures.

IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest, and for the protection of investors to impose the sanctions agreed to in Respondent Sidoti's Offer.

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

A. Respondent shall cease and desist from committing or causing any violations and any future violations of Section 15(g) of the Exchange Act.

B. Respondent is censured.

C. Respondents shall, within (14) 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 in accordance with 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, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Sidoti 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 Director, Division of Enforcement, New York Regional Office, Securities and Exchange Commission, 200 Vesey Street, Suite 400, New York, NY 10281.

D. 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, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a

Penalty Offset, Respondent agrees that it 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 Respondent 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.

By the Commission.

Brent J. Fields
Secretary