

PHILLIPS NIZER LLP

June 2010

SECURITIES LAW ALERT

SEC STAFF DECLINES TO PERMIT A FINDER IN A SECURITIES OFFERING TO RECEIVE TRANSACTION-BASED COMPENSATION WITHOUT BEING REGISTERED AS A BROKER-DEALER

In May 2010, the staff (the "Staff") of the Division of Corporation Finance of the Securities and Exchange Commission ("SEC") declined to issue a No-Action Letter (Brumberg, Mackey & Weil, P.L. C., No Action Letter, May 17, 2010) that would have permitted a law firm to receive transaction-based compensation for referring investors to a company that was seeking to raise capital without the law firm being registered as a broker-dealer under Section 15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The proposed referral agreement provided that the law firm would receive a percentage of the amounts raised from investors referred to the company by the law firm.

Section 3(a)(4)(A) of the Exchange Act generally defines the term "broker" as any person engaged in the business of effecting transactions in securities for the account of others. Section 15(a)(1) of the Exchange Act generally provides that any broker effecting transactions in securities, or inducing or attempting to induce the purchase or sale of securities, must be registered with the SEC pursuant to Section 15(b) of the Exchange Act.

The Staff was not persuaded by the law firm's argument that the firm should not be required to be registered as a broker-dealer because it:

- would not engage in any negotiations whatsoever on behalf of the company and any investor;
- would not provide any investor with any <u>information</u> about the company which may be used as the basis for any negotiations for funding to be provided to the company;
- would not have any <u>responsibility</u> for, nor make any <u>recommendations</u> concerning, the terms, conditions, or provisions of any agreement between the company and any investor providing funding for the company; and
- would not provide any <u>assistance</u> to any investor or the company with respect to any transactions involving the financing of funds for the company.

The Staff indicated that the receipt of compensation directly tied to the purchase of the company's securities by investors introduced to the company by the law firm (i.e., transaction-based compensation) would give the law firm a "salesman's stake" in the proposed transactions and would create heightened incentive for the law firm to engage in sales efforts. According to the Staff, a person's receipt of transaction-based compensation in connection with these activities is a hallmark of broker-dealer activity. As a result, the Staff indicated that the law firm's proposed activities would require broker-dealer registration.

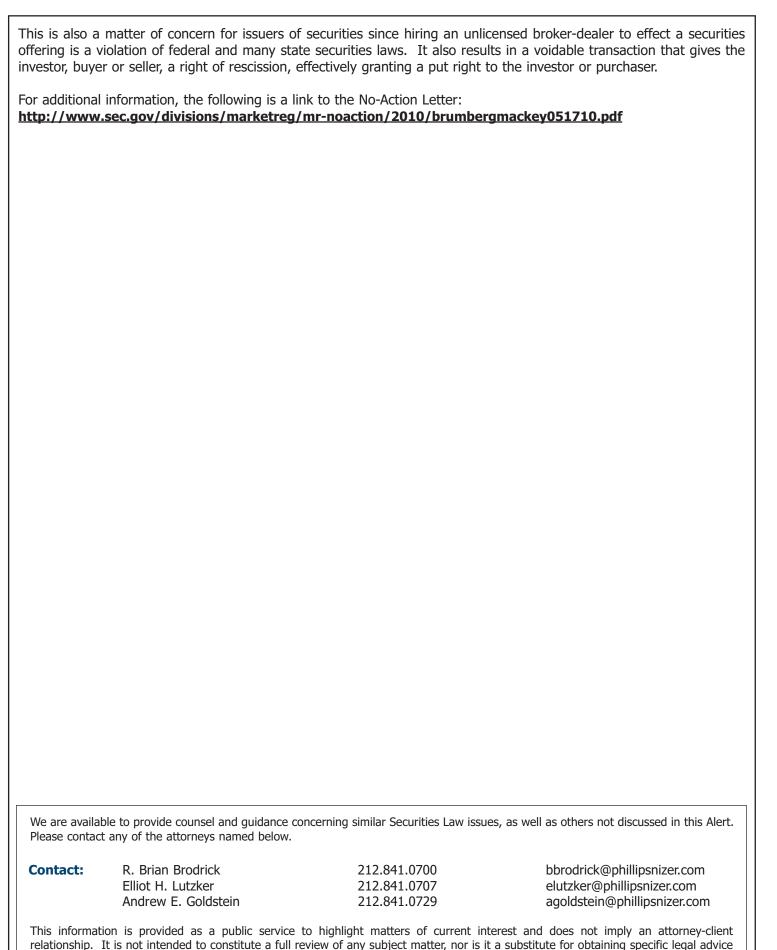
The Staff's position in this No-Action Letter illustrates the risk that an unregistered finder who receives transaction-based compensation in connection with a securities offering will be subject to liability for failing to register as a broker-dealer.

(Please see next page for more information.)

666 Fifth Avenue, 28th Floor • New York • NY 10103-0084
600 Old Country Road • Citibank Building • Garden City • NY 11530-2011
Court Plaza North • 25 Main Street, 6th Floor • Hackensack • NJ 07601-7015

212.977.9700 Tel • 212.262.5152 Fax 516.229.9400 Tel • 516.228.9612 Fax 201.487.3700 Tel • 201.646.1764 Fax

Resourceful Representation®



from appropriate counsel.

Copyright 2010. PHILLIPS NIZER LP. All rights reserved. www.phillipsnizer.com

Resourceful Representation®