

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

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

DAWSON JAMES SECURITIES, INC.
(BD No. 130645),

ALBERT JAMES POLIAK
(CRD No. 1270681),

DOUGLAS FULTON KAISER
(CRD No. 1674570),

WILLIAM ARTHUR FOX
(CRD No. 1838232), and

THOMAS WILLIAM HANDS
(CRD No. 1332915),

Respondents.

Disciplinary Proceeding
No. 20090161585

Hearing Officer: RSH

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: October 7, 2011

INTRODUCTION

Disciplinary Proceeding No. 20090161585 was filed on June 1, 2011 by the Department of Enforcement of the Financial Industry Regulatory Authority ("FINRA") ("Complainant"). Respondent Dawson James Securities, Inc. submitted an Offer of Settlement ("Offer") to Complainant dated September 30, 2011. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council ("NAC"), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA") have accepted the uncontested Offer. Accordingly, this Order

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now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Complaint, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, to the entry of findings and violations consistent with the allegations of the Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Dawson James Securities, Inc. ("Dawson" or "the Firm") has been a FINRA regulated firm since August 2004, maintains its headquarters in Boca Raton, Florida and acted as an introducing broker effecting securities transactions on a fully disclosed basis through unaffiliated clearing firms. Dawson is directly owned by AF which holds a 75% or more interest in Dawson. AF is owned by RK, the former co-founder and CEO of Dawson, and Albert Poliak, the other co-founder, President, CEO and principal at the Firm.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:¹

1. Dawson operated a securities business during the time period January 2006 through January 2011 and maintained minimum required net capital of at least \$100,000 pursuant to Exchange Act Rule 15c3-1(a)(2) (the "Net Capital Rule") under Section 15(c)(3) of

¹ The findings herein are pursuant to Respondent Dawson James Securities, Inc.'s Offer of Settlement and are not binding on any other person or entity named as a respondent in this or any other proceeding.

the Securities Exchange Act of 1934. Dawson maintained a \$100,000 net capital and operated pursuant to the exemptive provision of Exchange Act Rule 15c3-3(k)(2) (the "Customer Protection Rule") under 15(c)(3) the Securities Exchange Act of 1934. During the time period January 2006 through January 2011, the Firm maintained at various points in time a fully disclosed clearing agreement with NF, SW and SA.

2. For the fiscal years ended December 31, 2009 and December 31, 2008, Dawson reported gross revenues of approximately \$12 million and \$14 million, and net losses of approximately \$335,000 and \$1.27 million, respectively. The Firm's primary source of revenue was derived from commissions generated from NASDAQ/OTC equity transactions executed on behalf of retail and institutional customers.
3. Dawson currently operates as a FINRA regulated broker dealer and is subject to FINRA's jurisdiction.

Commission Rebate Payments to Customer LRB

4. NASD Rule 2110 and FINRA Rule 2010 require that "[a] member, in the conduct of [its] business, shall observe high standards of commercial honor and just and equitable principles of trade."
5. GM was a General Securities Representative for Dawson from February 26, 2008 through May 20, 2009, and was Dawson's top producer in 2008. GM brought institutional clients to Dawson, including client LRB who generated a large percentage of GM's commissions. GM left Dawson in May 2009 and is currently registered with another FINRA regulated Firm.

6. LRB is a private, institutional money manager based in Charleston, South Carolina. In February 2008, after GM joined Dawson, LRB opened one brokerage account at Dawson that was cleared through SW. This account was subsequently closed (with LRB's last trade occurring in this account on trade date December 23, 2008) and in November 2008, three brokerage accounts were opened for LRB that were introduced by the Firm and cleared through SA. GM was the registered representative of record on LRB's accounts opened at Dawson. In all instances the LRB's brokerage accounts were established to receive prime brokerage services, with ML acting as the prime broker, and settled on RVP/DVP basis. The accounts were transferred away from Dawson after GM left Dawson in May 2009.
7. LRB and GM developed a broker-client relationship in approximately 1997. Beginning in approximately 2005, GM and LRB's brokerage relationship included a commission recapture arrangement.
8. Commission recapture is a form of institutional discount brokerage that is typically provided as a way to reduce transaction costs. In a commission recapture arrangement, the client directs transactions to a particular broker-dealer, which in return agrees to rebate a certain portion of the commission to the client. Typically commission rebates are paid on a monthly basis. Unlike soft dollar arrangements, a commission recapture arrangement rebates hard dollars back to the customer. The incentive for an introducing broker-dealer is the increased order flow and revenue that is generated from these institutional accounts.
9. An introducing broker-dealer that offers a commission recapture service is considered to be holding a customer's funds (commission rebates due) and is required to maintain a

minimum net capital of at least \$250,000. In addition, the broker-dealer is considered a carrying firm for purposes of Exchange Act Rule 15c3-3 unless it deposits funds into a separate 15c3-3 bank account similar to those established under a Exchange Act Rule 15c3-3(k)(2) exemption and the balance in the account at all times must equal or exceed the payable to customers under Exchange Act Rule 15c3-1(a)(2) and Exchange Act Rule 15c3-3(k)(2).

10. If properly established through a carrying and clearing firm where the clearing firm is holding the customer's funds (commission rebates due), an introducing broker-dealer may offer commission recapture services to its fully disclosed customer accounts without being subject to the higher minimum net capital requirement of \$250,000.
11. During the Relevant Period, Dawson was operating pursuant to Exchange Act Rule 15c3-1(a), with a minimum net capital requirement of \$100,000, and claiming the exemption under Exchange Act Rule 15c3-3(k)(2) and, consequently, was not permitted to hold customer funds or safekeep customer securities.
12. In late 2007 through early 2008, Dawson engaged in efforts to recruit GM. The recruitment efforts included discussions of commission recapture. When the recruitment efforts were successful, GM joined Dawson in February 2008 and Dawson represented that it would seek to enter a commission recapture arrangement with LRB.
13. GM began his securities business at Dawson in late February 2008. LRB began trading at Dawson on trade date February 27, 2008.
14. Beginning in February 2008, GM calculated the commission recapture rebates due to LRB. GM did this by multiplying by 4 cents the total shares bought or sold by LRB, where a commission of 6 cents a share was originally charged by Dawson.

15. From April through May 2008, a Dawson principal made several inquiries to SW in an unsuccessful effort to arrange for SW to facilitate a commission recapture agreement with LRB and hold (as clearing firm) LRB's funds (commission rebates due). The Dawson principal also made similar unsuccessful efforts to arrange for commission recapture through clearing firm NF.
16. LRB's order flow in 2008 generated large commissions for Dawson, which represented approximately 18.5% of Dawson's overall revenue.
17. From February through mid-May 2008, despite providing a large amount of order flow, LRB did not receive any commission rebate payments from Dawson.
18. In order for Dawson to directly provide LRB with a commission recapture arrangement, Dawson would have been required to file an application with FINRA to amend its Membership Agreement. In addition, as Dawson would have been considered to have been holding customer funds (commission rebates due), Dawson would also be required to maintain a minimum net capital requirement of at least \$250,000. Moreover, Dawson would have been considered a carrying firm for purposes of Exchange Act Rule 15c3-3 unless it deposited funds into a separate 15c3-3 bank account similar to those established under a Exchange Act Rule 15c3-3(k)(2)(i) exemption; the balance in that account would have been required at all times to be equal to or exceed the payable to customers under Exchange Act Rules 15c3-1(a)(2)(iv) and 15c3-3(k)(2)(i).
19. In or about May 2008, GM was approached by two of Dawson's principals and was informed that Dawson could make payments to LRB only if LRB entered into a consulting agreement with Dawson. One of the Dawson principals represented to GM that this consulting agreement was a legitimate manner for Dawson to pay LRB.

20. A consulting agreement improperly enabled payments to be made by Dawson to LRB to satisfy the funds due under a commission recapture arrangement but avoided changes in Dawson's net capital requirement or FINRA Membership Agreement.
21. In or about May 2008, a consulting agreement between Dawson and LRB was prepared by Dawson and executed on behalf of Dawson by a Dawson principal. The consulting agreement was backdated to February 4, 2008, and then provided to GM who, in turn, provided it to LRB. LRB signed and returned the consulting agreement in or about June 2008 (hereinafter the "Consulting Agreement").
22. The Consulting Agreement provided that in exchange for, among other things, LRB "providing research and advisory services to [Dawson] with respect to its approach to the public and private markets...", Dawson would pay LRB \$30,000 each month.
23. As a result of entering into the Consulting Agreement, Dawson's principals took no action to increase Dawson's minimum net capital requirement to \$250,000 or to amend Dawson's FINRA Membership Agreement. Nor did they take any steps to ensure that funds held by Dawson that were due and payable to LRB were protected under the Customer Protection Rule.
24. Despite execution of the Consulting Agreement by Dawson and LRB, Dawson did not request, nor did LRB provide, research reports or advisory services or any of the other services set forth in the Consulting Agreement.
25. Rather, LRB continued trading its own account at Dawson, and a Dawson principal and/or GM, at various times pursuant to the Dawson principal's instructions, pulled research on Bloomberg concerning LRB's trades. The pulled research was done in an

effort to document the Consulting Agreement. A Dawson principal then placed this "research" in accordion files that were retained by Dawson.

26. While the Consulting Agreement purportedly was primarily for the purpose of benefitting GM's other client relationships, neither GM nor Dawson can document any basis by which either GM or the Firm utilized the purported LRB research or otherwise benefitted financially from the Consulting Agreement.
27. Following LRB's execution of the Consulting Agreement, Dawson paid LRB a total of \$1,215,000 during the period May 23, 2008 through March 26, 2009, through ten separate wire transfers. These wire transfers exceeded the \$330,000 due to LRB per the contractual requirements under the Consulting Agreement (calculated at \$30,000 per month for the 11 months represented by the period February 2008 through December 2008) by a total of \$885,000. For the time period February 2008 through December 2008, the average monthly payment was \$110,455, which represented monthly payments on average \$80,455 in excess of the \$30,000 per month payment required by the Consulting Agreement.
28. The payments exceeded the Consulting Agreement's term of \$30,000 per month because, as two Dawson principals were well aware, the agreement was a *de facto* commission recapture arrangement through which LRB was owed and paid larger amounts based upon the level of security transactions LRB was executing in its brokerage account at Dawson.
29. One Dawson principal was responsible for the creation of the Consulting Agreement and approved each wire transfer payment to LRB, including the payments well in excess of what was due to LRB under the Consulting Agreement.

30. A second Dawson principal was responsible for calculating the payment due to LRB by inquiring periodically with GM how much was owed to LRB. GM shared with the Dawson principal the amount that was due to LRB based upon the arrangement. The principal then relayed to another Dawson principal the amount currently owed, which frequently was well in excess of the amount owed under the Consulting Agreement. That Dawson principal then approved these wire transfer payments.
31. The Consulting Agreement was terminated in approximately December 2008 when Dawson ended its clearing arrangement with SW and established a new clearing relationship with SA. As part of this new clearing relationship, SA, pursuant to a Dawson principal's request, established a commission recapture arrangement with LRB where SA would hold the customer's funds (commission rebates due), and thus not increase Dawson's net capital requirement to \$250,000. The recapture arrangement required the establishment of three accounts for LRB at SA: one where 4 cents per share was rebated; another where 5 cents per share was rebated; and the third account which held the rebated funds until they were wired to LRB by SA.
32. Despite the termination of the Consulting Agreement in or about December 2008, Dawson made three additional wire transfer payments to LRB in 2009 totaling \$175,000 (\$75,000 on January 7, 2009, \$50,000 on March 3, 2009, and \$50,000 on March 26, 2009). Each of these wire transfers are recorded on Dawson's General Ledger as "accrued liabilities" and constituted payments the Firm owed to LRB under the *de facto* commission recapture arrangement for trading in 2008 but were not paid until 2009.

33. Dawson, acting through two of its principals, calculated and authorized the payments to LRB from May 2008 through March 2009 for the purpose of rebating LRB's commissions.
34. As such, Dawson principals acted unethically in that they facilitated the improper and obscured commission recapture arrangement between Dawson and LRB that was in effect during February 2008 through December 2008, and caused Dawson to fail to comply with the requirement of NASD Rule 1017.
35. Based on the foregoing, and during the time period February 2008 through March 2009, Dawson violated NASD Rule 2110 (before December 15, 2008) and FINRA Rule 2010 (on or after December 15, 2008).

Control of Customer Funds and Securities

36. Dawson held, or was in control of, customer funds and securities during the Relevant Period, without establishing a special reserve bank account or preparing a reserve formula computation.
37. Dawson's holding of customer funds or securities during the time period May 2007 through June 2009 increased Dawson's net capital requirement to at least \$250,000.

Commission Recapture Rebate

38. During the period February 2008 through December 2008, the Firm, acting through two Dawson principals, maintained a commission recapture arrangement (as described above) in connection with transactions that were executed by LRB.
39. During this time period the Firm generated \$2,159,049 in commissions from LRB's account that cleared through SW, and rebated \$1,215,000 directly to LRB. In doing so, the Firm violated Exchange Act Rule 15c3-3 in that it held customer funds and failed to

maintain a reserve deposit in a special reserve account established for the exclusive benefit of customers.

40. By holding customer funds and by failing to promptly forward the funds to its clearing firm, Dawson became a broker or dealer that receives or holds funds for customers, requiring the Firm to maintain a net capital of \$250,000. Dawson also became subject to the requirement that it establish a reserve bank account for customer protection.
41. During the period February 2008 through March 2009, the Firm held in aggregate \$1,215,000 of customer LRB's funds. These direct cash rebates made to LRB were payments to a customer whereby the Firm had to make reserve formula computations and establish a reserve bank account to segregate these amounts pursuant to Exchange Act Rule 15c3-3. Dawson did not do so.
42. As a result, Dawson participated in the receipt and deposit of customer funds in an account other than a special reserve account, as required by Exchange Act Rule 15c3-3(e)(1).
43. Based upon the foregoing, Dawson violated Exchange Act Rule 15c3-3, NASD Rule 2110 and FINRA Rule 2010.

SA Commission Recapture Rebate

44. In or about November 2008, the Firm executed a fully disclosed clearing agreement with SA.
45. As part of the clearing relationship, SA agreed to establish a commission recapture arrangement for LRB through SA, whereby SA would hold the commission rebates to be paid to LRB.

46. Three accounts were opened for LRB to be cleared through SA, each receiving prime brokerage services with ML acting as the prime broker, and settled on a RVP/DVP basis. The first account was to receive a commission recapture rebate for LRB's benefit at the rate of 4 cents a share (where the commission was 6 cents a share), the second account was to receive a commission recapture rebate for LRB's benefit at a rate of 5 cents a share, and the third account was established to receive for LRB the commission rebates derived from the other two accounts on settlement date.
47. SA deducted the commission rebate amounts against the commissions being generated by Dawson throughout a given month and, at month-end, Dawson's commission receivable would be net of commission rebates paid to LRB.
48. From December 2008 through June 2009, Dawson generated \$1,430,530 in commissions from the LRB's accounts at SA and rebated to LRB \$1,043,658.
49. On May 12, 2009, Dawson deposited in its own BA checking account a check from SA in the amount of \$298,567 for commissions generated in April 2009, of which at least \$136,700 were commission recapture rebates due to LRB.
50. The overpayment to Dawson of \$136,700 was attributed to an error by SA, and Dawson and SA determined to net the overpayment with amount payables in the clearing statement for the following month, resulting in a wire from Dawson to SA on June 9, 2009 for \$102,427.
51. As a result, LRB's commission recapture funds were not protected under Exchange Act Rule 15c3-3, at month end April 30, 2009. Rather than record a liability to LRB, the Firm made a journal entry to reduce the commission receivable by \$136,700 as of April 30, 2009. Nonetheless, \$136,700 was due to LRB as of April 30, 2009.

52. The Firm's receipt of customer funds made the Firm fully subject to Exchange Act Rule 15c3-3 and increased its minimum net capital requirement to \$250,000.

53. Based on the foregoing, Dawson violated Exchange Act Rule 15c3-3 and FINRA Rule 2010.

AF and VV Segregated Accounts

54. Exchange Act Rule 15c3-3(a)(1) states that a non broker-dealer parent company is considered a customer for reserve purposes. AF was Dawson's parent. VV and its principal AL had a 5 to 10% ownership interest in Dawson. Both AF and VV maintained securities accounts at, and were customers of, Dawson during the Relevant Period.

55. FINRA's 2009 examination of Dawson revealed, for the time period February 17, 2009 through June 30, 2009, Dawson held and segregated security positions in its proprietary accounts for the benefit of AF and VV.

56. This was a repeat violation, also noted in the 2008 cycle examination, where it was earlier determined that Dawson held AF and VV securities in segregated Firm proprietary accounts held by Dawson at its clearing firms from at least October 4, 2007 through February 13, 2009.

57. The securities were held and segregated for the benefit of AF and VV in order to satisfy the obligations of promissory notes and an AF confidential private placement memorandum of November 30, 2004 ("PPM"). The PPM, which involved the sale of convertible debenture bonds issued by AF, included a bonus consisting of Warrants received from Dawson investment banking deals. As such, AF was obligated to pay PPM investors the bonus Warrants.

58. Specifically, AF agreed to make "Bonus Payments" to investors in the PPM. The terms of the bonus payments state, "[t]he Bonus Pool shall consist of a segregated account to be maintained by [Dawson] ... until such time as all Warrants within the Bonus Pool have been liquidated." The PPM further stated that "[t]he Warrants will remain in the title of [AF], but in a segregated account maintained by [AF]" and "[d]uring the term of the Warrants, [AF] shall have sole discretion to sell or exercise the Warrants."
59. The bonus Warrants were held and segregated by Dawson in a proprietary account labeled "Dawson A," for the benefit of AF.
60. Dawson established a similar segregated account for VV in connection with promissory notes executed with AF, in which VV was entitled to Warrants earned from Dawson investment banking deals. The VV Warrants were held and segregated by Dawson in a proprietary account labeled "Dawson V."
61. The Firm made monthly entries in order to re-class the market value of the segregated securities as non-allowable and to adjust the payable due to AF for fluctuation in the market value. As of April 30, 2009, the market value of the segregated securities was \$76,776.
62. Based on the aforementioned, Dawson held customer securities from October 4, 2007 through February 13, 2009 and February 17, 2009 through June 21, 2009, making it fully subject to Exchange Act Rule 15c3-3 and increased its minimum net capital requirement to \$250,000 for these time periods.
63. Based upon the foregoing, Dawson from October 4, 2007 through February 13, 2009 and February 17, 2009 through June 21, 2009 violated Exchange Act Rule 15c3-3, NASD Rule 2110, and FINRA Rule 2010.

Noteholders' Agent: AS

64. During the approximate time period May 2007 through June 2009, Dawson assumed the capacity of Noteholders' agent to facilitate the repayment of \$2,715,000 to Dawson customers of principal plus interest on defaulted notes and warrants issued by AS, an unaffiliated issuer.
65. In or about 2007, Dawson sold AS notes and warrants to customers while acting in the capacity of placement agent.
66. Dawson was authorized to act in the capacity of Noteholders' agent in or about May 2007.
67. The Noteholder's agent agreement, executed by Dawson and investors of AS, granted the authority to Dawson to "act in the place of such investor and holder with respect to the notes and warrants, including the exercise of all rights thereunder."
68. In 2008, the AS notes went into default. Dawson thereafter made arrangements with AS to repay the principal and interest to the note holders via an escrow account that was funded by the issuer and established at an unaffiliated bank, SB.
69. During the repayment process, the funds were under the control of Dawson, as the escrow agreement (which was executed by a Dawson principal) gave Dawson "sole and absolute discretion [over discretionary disbursements], based on amounts available in Escrow Fund, to provide the Escrow Agent with written instructions at any time to make disbursements ... to pay down the outstanding Principal Amount in such amounts as shall be set forth in the written instruction...."
70. Dawson exercised this discretion by instructing the escrow agent how much in interest and principal was to be paid to each customer.

71. The escrow account statements and checks issued to customers were then sent from the escrow bank agent to the attention of a non-registered fingerprinted Dawson employee, MM, at Dawson's main office. These checks were not, however, reflected on Dawson's checks received and forwarded blotter. Dawson subsequently distributed the checks to the customers.
72. Dawson received \$3,000 per month for providing the Noteholder agent services.
73. Dawson's actions in this capacity directly violated the exemption it claimed under Exchange Act Rule 15c3-3(k)(2), which required an introducing firm to promptly transmit customer funds or securities by noon of the next business day following receipt. In addition, Exchange Act Rule 15c3-1(a)(2)(i) states, "A broker or dealer shall be deemed to receive funds, or to carry customer or broker or dealer accounts and to receive funds from those persons if, in connection with its activities as a broker or dealer, it receives checks, drafts, or other evidence of indebtedness made payable to itself or persons other than the requisite registered broker or dealer carrying the account of a customer, escrow agent, issuer, underwriter, sponsor, or other distributor of securities."
74. By acting as Noteholders agent, Dawson acted in a carrying, transferring and safe-keeping capacity for customers, thus requiring Dawson to maintain a minimum net capital of at least \$250,000.
75. Based upon the foregoing, Dawson violated Exchange Act Rule 15c3-3, NASD Rule 2110, and FINRA Rule 2010.

Net Capital, Focus Filings and Books and Records

76. SEC Rule 17a-3 requires that all broker-dealers maintain accurate books and records. The recordkeeping format, medium and retention period shall comply with Rule 17a-4.

Exchange Act Rule 15c3-1 sets forth the net capital requirements for broker-dealers, and Rule 17a-5 requires periodic filings of a FOCUS Report. Exchange Act Rule 17a-11 requires that the broker-dealer file prompt notice with the SEC and FINRA when notified by its designated examining authority that the broker-dealer is or was under net capital (a "Rule 17a-11 notice").

77. Dawson conducted a securities business for the period from July 2008 through December 2008 and April 2009 through June 2009. During these time periods, Dawson's net capital was below the required minimum, as prescribed by Exchange Act Rule 15c3-1.
78. As a consequence, the FOCUS reports Dawson filed, and its books and records, for the periods from on July 2008 through December 2008 and April 2009 through June 2009, were inaccurate. Dawson also failed to timely file Rule 17a-11 Notices when notified by its designated examining authority that the broker/dealer is, or has been, under its net capital requirement.

Overdraft Protection

79. Dawson was under its net capital requirement for the period July 2008 through December 2008 because it allowed the Dawson savings account to provide overdraft protection to the bank accounts of two Firm affiliates – AF and AV.
80. On October 10, 2008, the Dawson savings account provided overdraft protection of \$17,100 to AF.
81. On October 16, 2008, the Dawson savings account provided overdraft protection of \$300 to AV.
82. Although the Dawson savings account was its largest allowable asset, because the savings account was providing overdraft protection to bank accounts of affiliated

entities, the overdraft protection impaired the liquidity of the savings account and therefore, it should have been considered a non-allowable asset.

83. As a result, Dawson was below its net capital requirement from July 2008 through November 2008 by a range of (\$668,913) to (\$1,220,216) even when basing the net capital calculation on the Firm's own incorrect assumption that it had a \$100,000 minimum net capital requirement.
84. On January 27, 2009, FINRA informed Dawson of its findings relating to overdraft protection and that Dawson should amend its FOCUS filings for the July 2008 through December 2008 period. Dawson did not file a Rule 17a-11 notice, however, until February 13, 2009.
85. Based upon the foregoing, Dawson violated Exchange Act Rule 15c3-1, Rule 17a-3, 17a-4, 17a-5 and 17a-11 and NASD Rules 3110(a) and 2110.

Exchange Act Rule 15c3-3

86. Based on Dawson's failure to comply with Exchange Act Rule 15c3-3 (as described above), Dawson was subject to a higher minimum net capital requirement of \$250,000. Given the higher net capital requirement, Dawson operated a securities business while net capital deficient by \$96,777 in April 2009 and \$47,669 in May 2009.
87. Dawson's financial books and records, as of April 30, 2009, revealed multiple inaccuracies resulting in a significant adjustment to the Firm's reported net capital. The Firm computed its Net Capital and Excess Net Capital to be \$303,911 and \$187,417, respectively, with a minimum net capital requirement of \$116,494. Based on FINRA staff's calculations, Dawson's Net Capital was in fact \$153,223 with a minimum net capital requirement of \$250,000, resulting in a net capital deficiency of \$96,777.

88. The difference of \$150,688 between the Net Capital computation by Dawson of \$303,911 and the \$153,223 Net Capital computation by FINRA staff, as of April 30, 2009, was determined as follows:

(i) The Firm incorrectly netted \$76,776 market value of securities payable to AF and VV with non-securities transactions in a single intercompany general ledger account named "payable to [AF]" in violation of Exchange Act Rule 15c3-1(c)(2) as the balance in the segregated accounts established for these entities was deemed a payable to customers. As such, the staff adjusted Dawson's balance sheet to reflect this amount as a customer payable. Dawson's intercompany account payable to AF as recorded on its general ledger as of April 30, 2009 was \$50,871. This balance was primarily comprised of amounts due to AF for rent, salary to DS (operating expenses noted in the expense sharing agreement) net of reimbursement entries from AF made in connection with Dawson's expense sharing arrangement. There was no payable to VV on Dawson's books.

(ii) Dawson failed to accrue a payable of \$16,250 for an invoice dated March 31, 2009 from REK. Although this bill was in the name of the parent company, Dawson made all prior payments and was rendered services pursuant to contract dated March 9, 2009. Furthermore, Dawson subsequently paid the entire balance and failed to include this expense in the Dawson expense sharing agreement with AF.

(iii) Dawson's bank reconciliation was inaccurate and the general ledger balance for Dawson's BA checking account was overstated by \$6,527.72 which was comprised of a \$3,000 deposit that was made on May 12, 2009, and \$3,527.72 of reconciling differences.

- (iv) Dawson incorrectly treated a \$51,085 clearing deposit maintained at SW as an allowable asset subsequent to the termination of the clearing arrangement.
 - (v) Dawson failed to take a charge in its net capital computation for a \$50 unsecured customer debit reported by its clearing firm, SA.
89. Dawson failed to make and keep current books and records in connection with various business activities from February 2008 through June 2009 as follows:
- i. Dawson failed to make proper accounting entries and maintain agreements in connection with the commission recapture arrangement with LRB occurring from February 2008 through December 2008.
 - ii. Dawson failed to timely prepare intercompany reconciliations on a monthly basis. On June 25, 2009, FINRA staff requested the monthly intercompany reconciliations for all intercompany accounts with affiliated entities as of April 30, 2009. As of July 29, 2009, Dawson had not provided the intercompany reconciliation for DJF.
 - iii. Dawson netted non-securities intercompany transactions with securities-related transactions, and for more than one affiliated entity in a single general ledger account.
 - iv. Dawson failed to prepare an accurate blotter of customer checks received and forwarded. Specifically, from September 2008 through June 2009, customer checks received by Dawson from the escrow agent in connection with the AS Noteholder's Agent arrangement were not recorded on Dawson's checks received and forwarded blotter.

v. Dawson prepared inaccurate books and records and filed inaccurate FOCUS reports from July 2008 through December 2008 and April 2009 through June 2009.

vi. Dawson failed to prepare an adequate Expense Sharing Agreement in accordance with Notice to Members 03-63 as follows:

(a) The agreement failed to clearly identify the expenses to be paid by Dawson and AF in connection with rent expense. According to the "First Amendment to Sublease Agreement" executed between WR and AF dated December 19, 2008, the April 2009 monthly rent expense should have been \$45,476. Pursuant to the Expense Sharing Agreement, the broker-dealer was responsible for 85% or \$36,381. An amendment to the lease required a minimum rent payment of \$20,620, of which \$20,000 was paid by Dawson in April 2009. The "deferred rent" amount \$24,856 (monthly less amended amount) for April was subject to the terms of a separate promissory note which came due in June 2009, between WR and AF, and includes "past due rent" of \$346,021 and total deferred rent of \$149,138 totaling \$495,159. The Expense Sharing Agreement did not detail whether Dawson was also responsible for 85% of \$495,159, the total past due and deferred rent expense.

(b) Under the Expense Sharing Agreement, the Firm failed to provide FINRA with adequate documentation to demonstrate that AF had the financial wherewithal to reimburse Dawson for certain allocated expenses. Based on production of AF's balance sheet as of April 30, 2009, AF did not have the financial wherewithal to reimburse Dawson for expenses paid on AF's behalf. Further, Dawson paid 100% of the costs and was indirectly reimbursed by AF

via intercompany transactions which reduced Dawson's payable due to AF, based on stated allocations. However, no funds were actually paid by AF to Dawson.

(c) The Expense Sharing Agreement failed to clearly explain whether Dawson or AF had the obligation, direct or indirect, to reimburse or otherwise compensate the other party for paying an expense. For example, Dawson paid the entire rent expense and DS's salary and was indirectly reimbursed by reducing the intercompany payable due to AF. However, no funds were actually paid by AF to the Firm.

90. Dawson also fell below the early warning net capital thresholds in December 2008, January 2009 and June 2009. In all of these instances, the Firm failed to timely file Rule 17a-11 notification, failed to prepare and report accurate books and records and filed inaccurate Focus reports as required by Exchange Act Rules 17a-3 and 17a-5, and NASD Rule 3110.
91. FINRA instructed Dawson in its examination report dated June 15, 2010 to file amended FOCUS reports from February 2008 through June 2009 utilizing the higher minimum net capital requirement of \$250,000 and taking into effect FINRA staff's adjustments identified as of April 30, 2009. In addition, Dawson was instructed to submit a Rule 17a-11 notification for each instance of net capital deficiency and early warning, including those noted by FINRA staff in December 2008, and in January, April, May and June of 2009, and any others as determined by the Firm. Dawson did not timely file the Rule 17a-11 notification, failing to do so until August 4, 2010.

92. As a result of the conduct described above, Dawson violated Exchange Act Rule 15c3-1, 17a-3, 17a-4, 17a-5 and 17a-11 and NASD Rules 3110(a) and 2110 and FINRA Rule 2010.

Research Analyst Compensation

93. SD was a research analyst for Dawson, and Dawson's head of research, from at least January 2006 through May 2009.
94. From 2008 through 2010, FINRA staff conducted an inquiry to determine whether SD participated at a Dawson investment banking road show related to an investment banking services transaction, or otherwise participated in efforts to solicit prospective clients for Dawson's investment banking business.
95. Rule 2711(d)(1) prohibits any member from paying any bonus, salary or other form of compensation to a research analyst that is based upon a specific investment banking services transaction.
96. NASD Rule 2711(d)(2) requires that the compensation of a research analyst who is primarily responsible for the preparation of the substance of a research report be reviewed and approved at least annually by a committee that reports to the member's board of directors, and such committee must consider specific factors when reviewing such research analysts compensation, if applicable, including the research analyst's individual performance, the correlation between the research analyst's recommendations and the stock price performance, and the overall ratings received from clients, sales force, and peers independent of the member's investment banking department. In addition, the committee must document the basis upon which each such research analyst's compensation was established.

97. During the time period 2004 through 2009, Dawson utilized a compensation committee (the "Dawson Compensation Committee") to determine the compensation of its research analysts.
98. The Dawson Compensation Committee, during the period 2006 through 2009, was composed of four or five individuals, including Dawson principals.
99. During 2006 through June 2009, SD's compensation was composed of a base salary and a percentage of institutional commissions derived by the Firm's institutional sales desk.
100. The Dawson Compensation Committee allocated the percentage of the institutional sales commissions that was to compensate research analyst SD and determined his base salary. The Dawson Compensation Committee allocated SD institutional commissions and SD base salary as follows:

<u>Year</u>	<u>Institutional Commissions</u>	<u>Salary</u>
2006	\$16,838.25	\$144,230.99
2007	\$42,824.96	\$150,000.24
2008	\$12,928.09	\$141,923.22
2009	\$5,391.86 (through 06/09)	\$39,403.37 (through 06/09)

The Dawson Compensation Committee did not document, however, the basis upon which SD's compensation was established, thus failing to establish a written record of whether the specific factors required by Rule 2711 were properly considered, and whether research analyst compensation was tied to any investment banking activities.

101. Based upon the foregoing, Dawson during the years 2006 through June 2009, failed to document the basis upon which research analyst compensation was established, in violation of NASD Rules 2711(d)(2).
102. As a result of the conduct described above, Dawson violated NASD Rules 2711(d)(2) and 2110 and FINRA Rule 2010.

Attestation for Research Analyst Compensation

103. Rule 2711(i) requires each member through a senior officer to attest annually to FINRA that it has adopted and implemented written supervisory procedures reasonably designed to ensure that the member and its employees comply with the provisions of Rule 2711.
104. A senior officer at Dawson submitted the Rule 2711(i) attestations to FINRA on behalf of Dawson for years 2007 through 2009.
105. On March 6, 2007, February 29, 2008 and March 25, 2009, the Dawson senior officer submitted attestations to FINRA where the senior officer certified that, among other things, the Dawson Compensation Committee reviewed and approved each research analyst's compensation, and documented the basis upon which this compensation was established.
106. The Dawson senior officer's representation in each attestation submitted to FINRA that the Dawson Compensation Committee documented the basis upon which each research analyst's compensation was established, was inaccurate.
107. The Dawson senior officer should have known that each attestation he submitted pursuant to Rule 2711(i) contained false information as Dawson did not document the basis upon which its research analysts were compensated.

108. As a result of the conduct described above, Dawson violated NASD Rules 2711(i) and 2110 (before December 15, 2008) and FINRA Rule 2010 (after December 15, 2008).

Sales of Unregistered Securities in Contravention of Section 5 of the Securities Act of 1933

109. AL and his affiliated entities, VV and LCV, maintained five accounts at Dawson. Three of these accounts were held at NF, and the remaining two accounts were held at SW.
110. The Firm's stock deposit log for the period March 20, 2008 through April 22, 2008 indicated that VV deposited approximately 47,232,334 shares of ITUI in its accounts at Dawson.
111. On August 22, 2007, ITUI filed a 10-KSB/A for the yearly period ending December 31, 2006, and reported that it had 99,219,600 shares issued and outstanding as of March 30, 2007.
112. The 10-KSB/A filed by ITUI on August 22, 2007 indicated that VV beneficially owned 45,070,907 shares of common stock, or 32.3% of that class, in ITUI.
113. The 10-KSB/A filed by ITUI on August 22, 2007 also stated that AL was the General Partner on behalf of VV for voting these shares of common stock.
114. On November 14, 2007, ITUI filed a 10-QSB for the quarterly period ending September 30, 2007, and reported that it had 163,392,118 shares issued and outstanding as of November 12, 2007.
115. On April 8, 2008, ITUI filed a 10-KSB for the yearly period ending December 31, 2007, and reported that it had 185,393,349 shares issued and outstanding as of April 4, 2008.
116. The 10-KSB filed by ITUI on April 8, 2008, indicated that VV beneficially owned 100,811,265 shares of common stock, or 39.3% of the class, in ITUI.

117. The 10-KSB filed by ITUI on April 8, 2008 also stated that AL was the General Partner on behalf of VV for voting these shares of common stock.
118. For the period on March 24, 2008 through June 23, 2008, Dawson executed the sales of approximately 2,535,801 shares of ITUI for AL from his personal account and a VV account at Dawson.
119. The sale of these shares exceeded 1% of the outstanding common shares of ITUI.
120. For the period March 24, 2008 through June 23, 2008, AL and its affiliated accounts sold approximately 911,880 shares in excess of the 1% threshold of ITUI's shares outstanding reported on November 14, 2007, totaling 1.6% of the outstanding shares.
121. For the period March 24, 2008 through June 23, 2008, AL and AL affiliated accounts sold approximately 681,868 shares in excess of the 1% threshold of ITUI's shares outstanding reported on April 9, 2008, totaling 1.4% of the outstanding shares.
122. Rule 144, promulgated under the Securities Act of 1933, is a safe-harbor provision that, among other things, provides guidelines for the volume and timing of resales of securities by affiliates of an issuer.
123. An affiliate of an issuer is a person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such issuer. As the beneficial owner of approximately 39.3% of the voting securities of ITUI, AL was an affiliate of ITUI from March 2008 through June 2008.
124. Under Rule 144(e), if any securities are sold for the accounts of an affiliate of the issuer, regardless of whether those securities are restricted, the amount of securities sold, together with all sales of securities of the same class sold for the account of such person within the preceding three months, shall not exceed one percent of the shares or

other units of the class outstanding as shown by the most recent report or statement published by the issuer.

125. Since AL was an affiliate of ITUI, his sales of ITUI within a three month period could not exceed 1% of the outstanding shares of ITUI.
126. AL's sales of ITUI between March 2008 and June 2008, which Dawson facilitated and executed, exceeded 1% of the outstanding shares of ITUI.
127. The ITUI shares sold by Dawson for AL were not registered pursuant to Section 5 of the Securities Act of 1933 nor exempt from registration.
128. The above described sales of ITUI shares constituted an unregistered distribution by Dawson, in contravention of Section 5 of the Securities Act of 1933 and in violation of NASD Rule 2110.
129. Based upon the foregoing conduct, Dawson violated NASD Rule 2110.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that Respondent receive sanctions of:

- (1) A censure and fine of \$90,000.

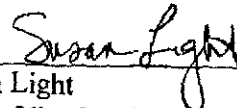
The fine shall be due and payable upon notice that this Offer has been accepted and that such payments are due and payable.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

SO ORDERED.

FINRA

Signed on behalf of the
Director of ODA, by delegated authority

A handwritten signature in cursive script, reading "Susan Light", is written over a horizontal line.

Susan Light
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