

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016051563901**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: UFP, LLC, Respondent
Funding Portal Member
CRD No. 283274

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, UFP, LLC ("UFP," "Respondent," or the "firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against UFP alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. UFP hereby accepts and consents, without admitting or denying the findings, 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, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

UFP is headquartered in Herndon, Virginia and became a FINRA-registered funding portal member in April 2016. Primarily through its online crowdfunding portal (uFundingPortal.com), UFP acted as an intermediary in debt and equity crowdfunding offerings conducted in reliance on Section 4(a)(6) of the Securities Act of 1933 (the "Securities Act"). While FINRA was investigating this matter, UFP took down its online portal. The firm subsequently filed a Form FP with the U.S. Securities and Exchange Commission to withdraw its registration. On November 2, 2016, UFP's registration as a FINRA funding portal member was terminated with an effective date of October 31, 2016.

UFP remains subject to FINRA's jurisdiction pursuant to Article IV, Section 6 of FINRA's By-Laws and FINRA Funding Portal Rule 100(a).

OVERVIEW

From May through September 2016, UFP lacked a reasonable basis for believing that certain companies offering securities through its online crowdfunding portal had complied with applicable regulatory requirements; had reason to believe those companies or their offerings presented the potential for fraud or other investor protection concerns; included on its website issuer communications that it knew or had reason to know contained untrue statements of material facts or were otherwise false or misleading; and did not reasonably supervise the activities of its online crowdfunding portal. UFP thereby violated Rules 301(a) and 301(c)(2) of SEC Regulation Crowdfunding and FINRA Funding Portal Rules 200(a), 200(c)(3), and 300(a).

FACTS AND VIOLATIVE CONDUCT

A. Lack of Basis for Believing Listed Companies Were in Compliance With Applicable Law

Rule 301(a) of SEC Regulation Crowdfunding— promulgated pursuant to Title III of the Jumpstart Our Business Startups Act of 2012 (commonly known as the “JOBS Act”)—requires funding-portal intermediaries such as UFP to, among other things, have a reasonable basis for believing that certain companies (referred to as “issuers”) seeking to offer and sell securities on their platform comply with the requirements of Section 4A(b) of the Securities Act of 1933 and related rules. UFP did not comply with this requirement.

UFP reviewed and in some cases assisted in the preparation of required paperwork filed with the SEC by 16 different issuers that offered securities through UFP’s platform. UFP knew that none of the 16 issuers had filed the following required disclosures with the SEC:

- (1) a description of the business of the issuer and the anticipated business plan of the issuer;
- (2) a description of the purpose and intended use of the offering proceeds;
- (3) a description of the ownership and capital structure of the issuer;
- (4) a discussion of the issuer’s financial condition;
- (5) all positions and offices with the issuer held by the directors and officers (and any persons occupying a similar status or performing a similar function) the period of time in which such persons served in the

position or office and their business experience during the past three years;

(6) a description of how the exercise of rights held by the principal shareholders of the issuer could affect the purchasers of the securities being offered;

(7) the risks to purchasers of the securities relating to minority ownership in the issuer and the risks associated with corporate actions including additional issuances of securities, issuer repurchases of securities, a sale of the issuer or of assets of the issuer or transactions with related parties;

(8) a description of the restrictions on transfer of the securities;

(9) a discussion of the material factors that make an investment in the issuer speculative or risky; and

(10) a description of the process to complete the transaction or cancel an investment commitment.

In addition, six of the 16 issuers failed to file the names of all directors and officers of the issuer with the SEC, as required by applicable law.

Accordingly, UFP did not have a reasonable basis to believe that the issuers complied with the requirements of Section 4A(b) of the Securities Act of 1933 and the rules thereunder, and thereby violated Rule 301(a) of Regulation Crowdfunding.

B. Suspicious Issuers and Offerings

Rule 301(c)(2) of SEC Regulation Crowdfunding requires a funding-portal intermediary such as UFP to, among other things, deny access to its platform if the intermediary has a reasonable basis for believing that the relevant issuer or offering “presents the potential for fraud or otherwise raises concerns about investor protection.” UFP did not comply with this requirement.

Specifically, UFP did not deny access to its platform to any of the above-referenced 16 issuers even though each of them had an impracticable business model, oversimplified and overly-optimistic financial forecasts, and other warning signs. For example, 13 of the issuers—despite having different business models—all coincidentally listed identical amounts for their target funding requests, maximum funding requests, price per share of stock, number of shares to be sold, total number of shares, and equity valuation. None of these 13 issuers reported any assets or history of operations before

May 2016, and each claimed an unrealistic, unwarranted, and identical \$5 million equity valuation.

Three of these 13 issuers used identical language in the "Risk Factors" sections of their websites, and two listed identical officers and directors but vastly different business plans. Eleven of the 13 issuers were incorporated in the Miami, Florida area and many of their owners had preexisting relationships with one another. UFP knew or had reason to know that officers or directors of three of the issuers owed back taxes to the IRS or state tax agencies and that one of the issuers had not filed a federal tax return for 2015.

Despite being suspicious about these issuers' coincidental \$5 million equity valuations and despite all of the other improbable coincidences, connections, and tax problems among these issuers, UFP took no steps to deny any of them access to its platform.

Accordingly, UFP did not deny access to its platform when it had a reasonable basis for believing that issuers or offerings presented the potential for fraud or otherwise raised concerns about investor protection, and thereby violated Rule 301(c)(2) of Regulation Crowdfunding.

C. Untrue or Otherwise False or Misleading Issuer Communications

FINRA Funding Portal Rule 200(c)(3) prohibits funding portals from including on their websites any issuer communication that the funding portal knows or has reason to know contains any untrue statement of a material fact or is otherwise false or misleading. UFP did not comply with this rule.

For example, as previously noted, 13 issuers on the UFP platform claimed wholly unsupported and improbably identical \$5 million equity valuations, even though these issuers had a wide range of different business plans and none had any assets or history of operations before May 2016. UFP typically reviewed drafts of and suggested revisions to the information posted by issuers, and in fact it specifically helped these 13 issuers arrive at their uniform \$5 million purported valuations. UFP therefore knew that these valuations were arbitrary and baseless. Only one of these 13 issuers expressly acknowledged on the UFP platform that it did not expect to generate a profit in its first year of operations. Similarly, the listings for each of the 16 issuers on the UFP platform included a section entitled "*Revenue, Cost, and Profit Analysis and Forecast*." UFP knew that the projections for these metrics lacked basis or support and were patently unjustified.

Accordingly, UFP included on its website issuer communications that it knew or had reason to know contained untrue statements of material facts or were otherwise false or misleading, and thereby violated FINRA Funding Portal Rule 200(c)(3).

D. Unreasonable Supervision

FINRA Funding Portal Rule 300(a) requires funding portal members to establish and maintain a system to supervise the activities of each associated person of the funding portal member that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with FINRA's Funding Portal Rules. As evidenced by the above-described violations of Regulation Crowdfunding Rules 301(a) and 301(c)(2) and FINRA Funding Portal Rule 200(c)(3), UFP did not reasonably supervise its activities or those of its associated persons.

E. Violations

By virtue of the foregoing, UFP violated Regulation Crowdfunding Rules 301(a) and 301(c)(2) and FINRA Funding Portal Rules 200(c)(3) and 300(a). By virtue of these violations, UFP also violated FINRA Funding Portal Rule 200(a), which requires all funding portal members to observe high standards of commercial honor and just and equitable principles of trade.

B. The firm also consents to the imposition of the following sanctions:

- Expulsion from membership.

Respondent understands that if it is expelled from FINRA membership, it becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934.

A bar or expulsion shall become effective upon approval or acceptance of this AWC.

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure, as applicable to the firm pursuant to FINRA Funding Portal Rule 900(a):

- A. To have a Complaint issued specifying the allegations against it;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;

- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudice of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

The firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. the firm may not take any action or make or permit to be made any public

statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the firm has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

11/25/2016
Date (mm dd/yyyy)

UFP, LLC

By: Gang Shao
Name: Gang Shao
Title: Managing Director

Reviewed by:

Counsel for Respondent

Todd A. Zuckerbrod
Todd A. Zuckerbrod
Todd A. Zuckerbrod, P.A.
40 S.E. 5th Street
Suite 400
Boca Raton, FL 33432
Tel 561-544-8144
tz@tzbrokerlaw.com

Accepted by FINRA:

Date 11/8/16

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



Edwin Aradi
Senior Counsel
Department of Enforcement
15200 Omega Drive
Rockville, MD 20850
Tel 301-258-8555
edwin.aradi@finra.org