

UNITED STATE OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION

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SECURITIES EXCHANGE ACT OF 1934  
Release No. 76979 / January 27, 2016

ADMINISTRATIVE PROCEEDING  
File No. 3-17070

In the Matter of

3C ADVISORS & ASSOCIATES, INC.,  
STEPHEN JONES, and DAVID  
PROLMAN,

Respondents,

ANSWER OF RESPONDENT  
DAVID PROLMAN

Respondent, David A. Prolman (Respondent) submits the following Answer to the Order Instituting Administrative Cease and Desist Proceedings Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, filed on January 27, 2016 (Order):

A. Summary Allegations

From 2013 through the present, Jones and Prolman through their company 3C violated Section 15(a) of the Exchange Act by engaging in unregistered broker activity. Through 3C, Jones and Prolman solicited small- and medium-sized businesses by marketing "capital advisory services." In particular, 3C held itself out as "arrang[ing] private placement of debt and equity securities" and facilitating capital raises. 3C undertook extensive responsibilities for its customers including analyzing customers' financial needs, recommending and designing financing methods, playing a role in negotiations with capital sources, and making recommendations about proposed funding terms. Moreover, 3C's engagement agreements provided that its customers pay performance fees which were calculated as a percentage of the capital raised, with greater potential payouts for equity investments. Thus, 3C falls within the definition of a "broker" because 3C is "engaged in the business of effecting transactions in securities for the account of others." Jones and Prolman willfully aided and abetted and caused the firm's violations of Section 15(a) of the Exchange Act, by engaging in such broker conduct through 3C without registering as or establishing an association with a registered broker-dealer.

Respondent's Answer:

Answering the Allegations of the Order's Summary paragraph, Respondent denies the allegations thereof, including the conclusions of law alleged that pertain to him, and further lacks

sufficient knowledge or information to form a belief concerning the truth of the allegations regarding the conduct of Respondent Jones, and on that basis denies those allegations.

Allegation B: “Respondents”

1. Respondent 3C is a California corporation headquartered in Rancho Santa Fe, California, which was launched in June 2010. 3C provides a range of consulting services to small- and mid-sized companies including the capital advisory services at issue in this action.

Respondent’s Answer:

Answering Paragraph 1 of Allegation B, Respondent lacks sufficient knowledge or information to form a belief concerning the truth of the allegations contained therein, and on that basis denies those allegations.

Allegation B: “Respondents”

2. Jones is a resident of Rancho Santa Fe, California. Jones founded 3C in June 2010 and is 3C's senior managing director. Jones has never held any securities licenses. Prior to launching 3C, Jones performed valuation analysis, litigation support, and restructuring consulting for over two decades at several consulting firms. Jones's positions at two of these firms, were within those firms' registered broker-dealer segments, but he never obtained a securities license and did not perform any of the transactional and capital advisory services provided by those firms.

Respondent’s Answer:

Answering Paragraph 2 of Allegation B, Respondent lacks sufficient knowledge or information to form a belief regarding the truth of the allegations contained therein, and on that basis denies such allegations.

Allegation B: “Respondents”

3. Prolman is a resident of Del Mar, California. In June 2013, Prolman joined 3C as a senior managing director and leader of capital advisory services. Prolman has never held any securities licenses. Prior to joining 3C, Prolman had three decades' experience in providing consulting services including financial, operational and corporate management, capital finance, growth strategies, turnarounds, loan workouts, and bankruptcy reorganizations.

Respondents Answer:

Answering Paragraph 3 of Allegation B, Respondent admits he is a resident of Solana Beach, California, that he was an employee of 3C, and that he has experience in providing certain consulting services in financial and operations management, turnarounds, loan workouts, and bankruptcy reorganizations. Except as expressly admitted herein, Respondent denies the remaining allegations of Paragraph 3.

Allegation C: "Background"

4. In June 2010, Jones organized 3C as a holding company with the goal of providing comprehensive consulting services through various sub-LLCs, each independently operated by consultants with whom Jones was affiliated. In addition to the valuation services and litigation consulting that Jones himself provided, he planned to have 3C offer "capital advisory services" under a sub-LLC known as the "Capital Advisory LLC."

Respondent's Answer:

Answering Paragraph 4 of Allegation C, Respondent lacks sufficient knowledge or information to form a belief regarding the allegations contained therein, and on that basis denies those allegations.

Allegation C: "Background"

5. The capital advisory services business did not commence until Prolman joined the firm in June 2013, operating as a segment of 3C rather than as a separate LLC. Upon joining the firm, Prolman prepared a business plan for the capital advisory services segment, which included an "industry overview and competitive analysis" identifying six competing firms, all of which were registered broker-dealers.

Respondent's Answer:

Answering Paragraph 5 of Allegation C, Respondent admits that his employment with 3C began in June 2013 and that he assisted in preparing a business plan for corporate and capital advisory services at Respondent Jones' direction, which plan speaks for itself. Other than as expressly admitted, Respondent lacks sufficient knowledge or information to form a belief regarding the allegations contained therein and on that basis denies those allegations.

Allegation C: "Background"

6. Since Prolman joined 3C, the firm has touted its capital advisory business segment. 3C has taken on at least five engagements to perform capital advisory services since Prolman's arrival, and has earned approximately \$160,000 in compensation for such services during this time frame.

Respondent's Answer:

Answering Paragraph 6 of Allegation C, Respondent admits that during his employment with 3C, he worked in its capital advisory segment. Other than expressly admitted, Respondent lacks sufficient knowledge or information sufficient to form a belief regarding the allegations contained therein and on that basis denies those allegations.

Allegation D: "3C's Capital Advisory Services Business"

7. 3C has solicited customers for its capital advisory services online, in one-on-one presentations with prospective customers, and at industry conferences. 3C also has marketed its capital advisory services to law firms that would then introduce 3C to potential customers for the services.

Respondent's Answer:

Answering Paragraph 7 of Allegation D, Respondent lacks understanding of the term "industry conferences" sufficient to answer and therefore denies that allegation. Respondent admits the remaining allegations in Paragraph 7.

Allegation D: 3C's Capital Advisory Services Business

8. According to 3C's website and other marketing materials, under 3C's capital advisory services business segment, the firm offered broker services for its customers including private placement of debt and equity securities, acquisition financing, growth capital, recapitalizations, and restructuring.

Respondent's Answer:

Answering Paragraph 8 of Allegation D, Respondent denies the allegations contained therein.

Allegation D: 3C's Capital Advisory Services Business

9. 3C's capital advisory proposals and agreements were based on standard language, initially prepared by Prolman at his prior firm and adopted by 3C. As with the firm's marketing materials, the agreements indicated that 3C was offering to perform broker services for its customers.

Respondent's Answer:

Answering Paragraph 9 of Allegation D, Respondent admits that 3C's proposals and agreements were drafted by him, subject to approval by Respondent Jones before being used by 3C. Respondent denies that he offered to perform "broker services" for customers. Except as expressly admitted or denied, Respondent lacks sufficient knowledge or information to form a belief regarding the remaining allegations of Paragraph 9, and on that basis denies those allegations.

Allegation D: 3C's Capital Advisory Services Business

10. For example, in August 2013, 3C initiated an engagement with Company A, an investment company, for purposes of "identifying and introducing you to total capital liquidity in an amount approaching \$35,000,000" in connection with an acquisition of a medical manufacturing company. 3C indicated it would "[f]ind and introduce [q]ualified [c]apital [s]ources," "assist[] you in the determination of an appropriate capital structure for the Company

on a go forward basis," and "assist[] you in connection with the preparation and dissemination, as appropriate, of confidential materials for any potential or actual [t]ransaction."

Respondent's Answer:

Answering Paragraph 10 of Allegation D, Respondent lacks sufficient knowledge or information to understand the reference to "Company A". Respondent further notes that whatever document is being quoted in the allegations of this paragraph speaks for itself, and given that such quotes are only partial, Respondent lacks sufficient knowledge or information to form a belief regarding such allegations in order to respond, and on that basis denies the allegations of this paragraph.

Allegation D: 3C's Capital Advisory Services Business

11. In the proposal for Company A and several of 3 C's other engagements, 3C agreed to "assist[] you in all phases of the negotiation process, including establishment of price, terms and structure."

Respondent's Answer:

Answering Paragraph 11 of Allegation D, Respondent lacks sufficient knowledge or information to understand the reference to "Company A". Respondent also notes that whatever document(s) is/are being quoted in the allegations of this paragraph speak(s) for itself/themselves, and given that such quotes are only partial, Respondent lacks sufficient knowledge or information sufficient to form a belief regarding such allegations in order to respond, and on that basis denies the allegations of this paragraph.

Allegation E: Transaction-Based Compensation for Capital Advisory Services

12. 3C's agreements required capital advisory services customers to pay a combination of flat fee retainers and performance-based success fees, which entitled 3C to a percentage of any successful fund raising efforts. Certain of 3C's contracts assigned a higher percentage for the performance fee upon equity versus debt financing.

Respondent's Answer

Answering Paragraph 12 of Allegation E, Respondent denies the allegations contained therein.

Allegation E: Transaction-Based Compensation for Capital Advisory Services

13. For example, one customer agreed to pay an initial retainer fee of \$15,000 along with a performance fee of 4% of the funded investment amount with respect to the issuance of any equity securities (which dropped to 2% if any debt instruments were issued).

Respondent's Answer:

Answering Paragraph 13 of Allegation E, Respondent lacks sufficient knowledge or information to form a belief regarding the allegations contained therein and on that basis denies such allegations.

Allegation E: Transaction-Based Compensation for Capital Advisory Services

14. At least one of 3C's capital advisory services engagements, an engagement for a restaurant franchising business, Company B, resulted in a successful debt financing arrangement for the customer with funds provided by a capital source identified by 3C. For the Company B engagement, 3C received \$125,000, of which \$90,000 constituted a performance fee amounting to roughly 1% of the total funding.

Respondent's Answer:

Answering Paragraph 14 of Allegation E, Respondent lacks sufficient knowledge or information to understand the reference to "Company B". Respondent further denies the allegation that "\$90,000 constituted a performance fee amounting to roughly 1% of the total funding". Respondent admits the remaining allegations of Paragraph 14.

Allegation E: Transaction-Based Compensation for Capital Advisory Services

15. Between 2013 when Prolman joined 3C through 2014, 3C collected roughly \$160,000 in fees from five customers for its capital advisory services, including \$90,000 of which was transaction-based compensation. During that time frame, the firm received total revenue from its services of \$517,420.32. Thus, over a quarter of 3C's revenue during this period was generated through fees from its capital advisory engagements.

Respondent's Answer:

Answering Paragraph 15 of Allegation E, Respondent denies the allegation regarding "transaction-based compensation". Respondent further lacks sufficient knowledge or information to form a belief regarding the remaining allegations of Paragraph 15, and on that basis denies those allegations.

Allegation F: Respondents' Broker Conduct During Capital Advisory Services Engagements

16. For each of its capital advisory services customers, 3C analyzed the customer's funding needs and advised the customer regarding funding options. For example, 3C, through Jones, prepared a document analyzing one of its customer's funding structure. 3C, through Prolman, also performed a review of that customer's overall financial condition in which Prolman commented on the customer's forecast model and supporting data for inconsistencies, missing data, and assumptions. Prolman also gave informal advice to 3C's customers regarding desired funding structure, potential return on investment for equity investments, and advice about the appropriate amounts of funding to seek.

Respondent's Answer:

Answering Paragraph 16 of Allegation F, Respondent denies the allegations contained in the first sentence of that paragraph. Respondent further lacks sufficient knowledge or information to form a belief regarding the remaining allegations of Paragraph 16 and on that basis denies those allegations.

Allegation F: Respondents' Broker Conduct During Capital Advisory Services Engagements

17. For each of its capital advisory services customers, 3C also prepared materials to attract capital sources on behalf of its customers. This included creating marketing books with details about the customer and the customer's desired funding. 3C, through Prolman, also generated so-called "teasers," which contained summaries of the marketing books. For some of the engagements, 3C edited materials generated by the customer, and for other engagements, 3C drafted the materials.

Respondent's Answer:

Answering Paragraph 17 of Allegation F, Respondent denies the allegations contained in the first three sentences of that paragraph. Respondent further lacks sufficient knowledge or information to form a belief regarding the remaining allegations of that paragraph, and on that basis denies such allegations.

Allegation F: Respondents' Broker Conduct During Capital Advisory Services Engagements

18. For at least two of its customers, 3C, through Prolman, also engaged in outreach to potential capital sources, including disseminating the marketing books and teasers described above. When Prolman sent the materials to potential capital sources, he targeted sources drawn from his industry contacts and from referrals from the intermediaries with which 3C collaborated. Prolman also conferred with the customers to identify and pre-screen potential capital sources that fit the funding goals. If the potential capital source expressed interest in the project, 3C's outreach also included facilitating introductions between the customer and the capital source. Prolman was present during meetings between customers and capital sources, and on at least one instance Prolman acknowledged responding to substantive questions from a potential capital source during such a meeting.

Respondent's Answer:

Answering Paragraph 18 of Allegation F, Respondent admits he assisted customers in identifying capital sources and provided customer information to those sources and assisted in making introductions between such sources and 3C's customers. Except as expressly admitted herein, Respondent lacks sufficient knowledge and information to form a belief regarding the allegations of this paragraph based on their overly general, vague, and non-specific nature, and on that basis denies such allegations.

#### Allegation F: Respondents' Broker Conduct During Capital Advisory Services Engagements

19. Finally, for at least two of its customers, 3C also played a role in negotiating terms of the funding. Capital sources corresponded with both the customer and Prolman while crafting potential deal terms during the two engagements. Even where 3C's personnel were not present during meetings with capital sources regarding deal terms, Prolman and Jones advised the customers as to the terms' advisability. 3C also corresponded with the capital sources separately from the customer during the course of negotiations to ascertain the status of the pending deal and shared these updates with the customer.

#### Respondent's Answer:

Answering Paragraph 19 of Allegation F, Respondent lacks sufficient knowledge or information to respond to the overly general, vague and non-specific allegations contained in Paragraph 19 and on that basis denies such allegations.

#### Allegation G: Inadequate Attempts to Remediate Non-Registration

20. In October 2014, after receiving a subpoena from the Commission, 3C removed references to its capital advisory services from its website. However, after October 2014, the firm took on another capital advisory engagement raising capital for a distressed company.

#### Respondent's Answer:

Answering Paragraph 20 of Allegation G, Respondent denies the allegations contained therein.

#### Allegation G: Inadequate Attempts to Remediate Non-Registration

21. Additionally, after October 2014, Jones and Prolman sought advice from counsel regarding the need for registration. 3C, Jones, and Prolman took steps to sit for the Series 79 (investment banking representative) exam and obtain registered status by establishing an association with a registered firm. To date, however, 3C, Jones, and Prolman, remain unregistered and still have no association with any registered entity.

#### Respondent's Answer:

Answering Paragraph 21 of Allegation G, Respondent objects to the first sentence of that paragraph as invading the attorney-client privilege. Respondent lacks sufficient knowledge or information to form a belief regarding allegations of conduct by Respondent Jones and on that basis denies such allegations. Respondent admits the remaining allegations of Paragraph 21.

#### Allegation H: Violations

22. As a result of the conduct described above, 3C willfully violated Section 15(a) of the Exchange Act, which prohibits a broker from making use of the mails or any means or instrumentality of interstate commerce to effect any transactions in, or to induce or attempt to



induce the purchase or sale of securities without first being registered as or associated with a registered broker-dealer.

Respondent's Answer:

Answering Paragraph 22 of Allegation H, Respondent notes that this paragraph contains a disputed legal conclusion to which Respondent need not reply and on that basis denies such conclusory allegation.

Allegation H: Violations

23. As a result of the conduct described above, Jones willfully aided and abetted and caused 3C's violation of Section 15(a) of the Exchange Act, which prohibits a broker from making use of the mails or any means or instrumentality of interstate commerce to effect any transactions in, or to induce or attempt to induce the purchase or sale of securities without first being registered as or associated with a registered broker-dealer.

Respondent's Answer:

Answering Paragraph 23 of Allegation H, Respondent notes that this paragraph contains a disputed legal conclusion to which Respondent need not reply and on that basis denies such conclusory allegation.

Allegation H: Violations

24. As a result of the conduct described above, Prolman willfully aided and abetted and caused 3C's violation of Section 15(a) of the Exchange Act, which prohibits a broker from making use of the mails or any means or instrumentality of interstate commerce to effect any transactions in, or to induce or attempt to induce the purchase or sale of securities without first being registered as or associated with a registered broker-dealer.

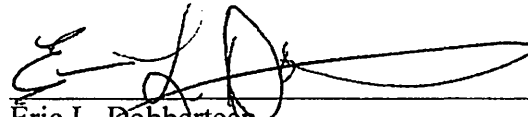
Respondent's Answer:

Answering Paragraph 24 of Allegation H, Respondent notes that this paragraph contains a disputed legal conclusion to which Respondent need not reply and on that basis denies such conclusory allegation.

DATED: March 18, 2016

CLARK & TREVITHICK

By:

A handwritten signature in black ink, appearing to read 'E. L. Dobberteen', is written over a horizontal line.

Eric L. Dobberteen  
edobberteen@clarktrev.com  
Counsel for Respondent David Prolman

**In the Matter of 3C Advisors & Associates, Inc., Stephen Jones, and David Prolman**  
Administrative Proceeding File No. [3-17070]

Service List

Pursuant to Commission Rule of Practice 151 (17 C.F.R. § 201.151), I certify that the attached:

**ANSWER OF RESPONDENT DAVID PROLMAN**

was served on March 18, 2016, upon the following parties as follows:

**By Facsimile and Overnight Mail**

Brent J. Fields, Secretary  
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Dated March 18, 2016

  
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Kelly Beltran