

N.A.S.D. REGULATION AWARD

NATIONAL ASSOCIATION OF SECURITIES DEALERS REGULATION, INC.

In the Matter of the Arbitration Between

Name of Claimant

DGW Services, Inc.

96-01307

Name of Respondent

Equity Services Inc.
Stephen A. Englese

REPRESENTATION

For claimant DGW Services, Inc. ("claimant") appeared Floyd Brown, Esq., of the law firm of Brown and Pearson, P.C., located in Carlsbad, California.

For respondents Equity Services, Inc. ("ES") and Stephen A. Englese ("Englese") appeared Robert Burke, Esq. of the firm of National Life of Vermont located in Montpelier, Vermont.

CASE INFORMATION

Statement of Claim filed: March 25, 1996.

Claimant's Submission Agreement signed on: February 2, 1996.

Joint Statement of Answer filed by respondents on: May 23, 1996.

Respondent Englese's Submission Agreement signed on: May 3, 1996.

Respondent ES's Submission Agreement signed on: May 22, 1996.

HEARING INFORMATION

Hearing Dates/Sessions: January 23, 1996 Three Sessions

The hearing was conducted in Burlington, Vermont at the Sheraton Hotel located at 870 Williston Road.

CASE SUMMARY

Claimant alleged that during October 1990, Englese, a Vice President of ES, presented claimant with a private placement memorandum for Signal Natural Gas Partners ("Signal") which claimed that the investment would be secured by a Principal Investment Guarantee from a major accredited California Corporate Surety; that the promoter, John C. Roberts, had an excellent background in the petroleum industry and that there were no problems in his past which would materially affect a decision to invest; that the same individual had previously promoted other successful drilling programs; that the tax aspects of the investment were the subject of a written opinion letter from a prominent member of the Texas bar; and finally that there was no significant risk in the use of a joint venture business form for the conduct of the business contemplated by the investment. Claimant further alleged that as a result of the facts contained in the private placement memorandum, claimant purchased one unit in Signal for the sum of \$25,000.00. Claimant also alleged that respondents, acting in conspiracy with one another, committed various violations of securities laws, securities rules and ethics rules, committed negligence and/or common law fraud and misrepresentation. Claimant further contended that respondents breached their fiduciary duty by failing to perform due diligence with regard to Signal. Claimant also contended that even a cursory due diligence effort would have revealed the incorrect statements contained within the memorandum. Claimant asserted that it justifiably relied upon the representations of respondents and as a result of the above, has suffered a loss for which the respondents should be held liable.

Respondents maintained that in October of 1990, Englese received a call from Eugene Manfredi ("Manfredi"), an ES registered representative, requesting information about Signal. Respondents further maintained that Manfredi indicated that he had an investor familiar with energy related investments that was interested in tax deduction and credits related to such investments. Respondents also maintained that that investor was claimant DGW which was acting through its representative Donald Wooden ("Wooden"). Respondents contended that Wooden was a sophisticated investor and that claimant's net worth qualified it as an accredited investor. Respondents further contended that based upon Manfredi's representations, a memorandum and a subscription agreement were forwarded to Wooden. Respondents also contended that Englese's sole role was to forward documents at Manfredi's request and to answer procedural questions.

Respondents contended that a reasonable effort was made to verify the material aspects of Signal as represented in the private placement memorandum dated September 15, 1990. Respondents asserted that the financials checked out and that there were no problems with the promoter's background, John C. Roberts. Respondents further asserted that the tax opinion contained in the memorandum contained factually correct information concerning the treatment of a natural gas drilling program. Respondents also asserted that an Offeree Questionnaire corroborated that claimant was an accredited investor and that Wooden had oil and gas lease experience. Respondents maintained that as a result of the above, they should not be held liable.

RELIEF REQUESTED

Claimant DGW Services requested \$25,000.00 in actual damages plus interest at the rate of 10% per annum, punitive damages of \$75,000.00 and attorney's fees.

Respondents Equity Services, Inc. and Stephen Englese requested that the claims be dismissed in their entirety.

OTHER ISSUES CONSIDERED & DECIDED

The parties have agreed that the Award in this matter may be executed in counterpart copies or that a handwritten, signed Award may be entered. In either case, the parties have agreed to receive conformed copies of the Award while the originals remain on file with the NASD.

AWARD

After considering the pleadings, the testimony and the evidence presented at the hearing, the undersigned arbitrators have decided in full and final resolution of the issues submitted for determination as follows:

1. Respondents Equity Services, Inc. and Stephen A. Englese be and hereby are jointly and severally liable and shall pay to the claimant DGW Services, Inc. \$14,000.00 in actual damages.
2. Claimant DGW Services, Inc.'s request for punitive damages and interest are denied.
3. The parties shall bear their respective costs and attorney's fees.
4. All other relief requests are denied.

FORUM FEES

Pursuant to Section 10332(c) of the Code of Arbitration Procedure, the arbitrators have determined that NASD Regulation, Inc. shall retain the \$150.00 non-refundable filing fee previously deposited by claimant and have assessed the following forum fees:

Three sessions x \$500.00	= \$1,500.00
Minus claimant's \$500.00 deposit	= \$ 500.00
total outstanding	= \$1,000.00

Claimant DGW Services, Inc. be and hereby is liable for the sum of \$750.00 representing one-half of the total amount of forum fees assessed. Claimant previously deposited \$500.00 with NASD Regulation, Inc. Therefore, claimant shall pay to NASD Regulation, Inc. \$250.00 in satisfaction of the forum fees.

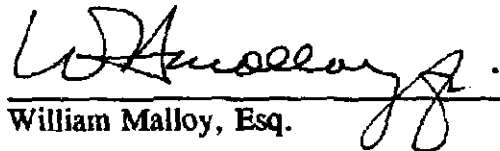
Respondents Equity Services and Stephen A. Englese be and hereby are jointly and severally liable for the sum of \$750.00 representing one-half of the total amount of forum fees assessed. Therefore, respondents shall pay to NASD Regulation, Inc. \$750.00 in satisfaction of forum fees.

ARBITRATORS' SIGNATURES

I, Benjamin Richards, do hereby swear or affirm that I am the individual described herein, and who executed this instrument which is my oath and award.

Benjamin Richards

I, William Malloy, Esq. do hereby swear or affirm that I am the individual described herein, and who executed this instrument which is my oath and award.


William Malloy, Esq.

I, R. Douglas Paton, do hereby swear or affirm that I am the individual described herein, and who executed this instrument which is my oath and award.

R. Douglas Paton

Date of Decision: March 13, 1997

Respondents Equity Services and Stephen A. Englese be and hereby are jointly and severally liable for the sum of \$750.00 representing one-half of the total amount of forum fees assessed. Therefore, respondents shall pay to NASD Regulation, Inc. \$750.00 in satisfaction of forum fees.

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William Malloy, Esq.

I, R. Douglas Paton, do hereby swear or affirm that I am the individual described herein, and who executed this instrument which is my oath and award.

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I, R. Douglas Paton, do hereby swear or affirm that I am the individual described herein, and who executed this instrument which is my oath and award.



R. Douglas Paton

Date of Decision: March 13, 1997