

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2009017240702**

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

RE: Equity Services, Inc., Respondent
Member Firm
CRD No. 265

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent 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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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

Equity Services, Inc. ("ESI") has been a member of FINRA since 1969. Its principal place of business is in Montpelier, Vermont. ESI is a retail brokerage firm engaged primarily in the sale of mutual funds, insurance and variable annuities. The Firm is approved to do business in all 50 states and the District of Columbia. It currently has approximately 582 registered representatives operating out of approximately 203 branch offices in the United States.

RELEVANT DISCIPLINARY HISTORY

In May 2007, ESI entered into an AWC with NASD in which it agreed, without admitting or denying the findings, to a censure, \$350,000 fine and an order to certify to the adequacy of its written supervisory procedures for failing to have in

000067307 2011

place a reasonable supervisory system and written supervisory procedures relating to the payment of non-cash compensation to its associated persons.

OVERVIEW

From February through August 2008 (the "relevant time period"), ESI made six unsuitable sales of an unregistered private placement to five retail investors. Further, the firm failed to enforce its written supervisory procedures relating to suitability and the sale of private placements. This conduct violated NASD Conduct Rules 2310, 3010 and 2110 and IM-2310-2.

FACTS AND VIOLATIVE CONDUCT

Sale of Unregistered and Unsuitable DBSI Notes to Five Retail Investors

During the relevant time period, ESI participated in the private offering of DBSI 2008 Notes Corporation 9.5% Corporate Notes ("Notes"). The Notes offering was not registered with the Securities and Exchange Commission or any state securities commission, but was to be sold pursuant to the exemption from registration provided by Rule 506 of the Securities Act of 1933 ("Securities Act"). Certain conditions, however, must be met in order to qualify for this exemption. For example, each purchaser must be either an "accredited investor," as that term is defined by Regulation D, or be capable of evaluating the risks and merits of the prospective investment (commonly referred to as a "sophisticated investor"). Moreover, the Notes Private Placement Memorandum ("PPM") specifically stated that the offering was limited to accredited investors.

ESI's procedures required that a New Business Form ("NBF") be completed for each sale of the Notes. The NBF captured various pieces of important information about the customer and proposed transaction, including the customer's annual income, net worth, employment status, investment objectives, risk tolerance and the source of funds for the purchase. After it was completed and signed by the registered representative and customer, the NBF was submitted to the Firm's headquarters, along with a completed Notes subscription agreement, for review and approval by a Firm principal.

During the relevant time period, AC, an ESI registered representative who has since been terminated by the Firm, sold Notes investments in six transactions totaling \$251,000 to five unsophisticated investors, MT, JE, HW, SJ and CP (collectively, the "Investors") who, based upon the net worth and annual income figures listed on their NBFs, were not accredited. Section 5 of the Securities Act makes it unlawful to use the mails or interstate commerce to offer and sell any security unless the security is the subject of an effective registration statement or the security or transaction is exempt from registration under other provisions of

the Securities Act. The Notes were not exempted securities under Section 3(a) of the Securities Act. By selling the Notes to the Investors, in transactions that did not qualify for any exemptions under the Securities Act, ESI acted in contravention of Section 5 of the Securities Act and therefore violated NASD Conduct Rule 2110. Further, by recommending and selling the Notes without a reasonable basis for believing that the Notes were suitable for the Investors, ESI violated NASD Conduct Rules 2310 and 2110 and IM-2310-2.

ESI's Failure to Enforce its Supervisory Procedures

During the relevant time period, ESI's WSPs required that private placement sales made by its representatives must be suitable and in accordance with the terms of the particular offering. ESI's WSPs regarding the sale of alternative investments such as private placements also required its registered principals to closely scrutinize proposed transactions in these securities to ensure they were suitable for the potential investors.

During the relevant time period, proposed private placement transactions at ESI were typically reviewed by various "Designated Business Review Principals," assisted by other firm principals on an as-needed basis. ESI, however, failed to ensure that the six Notes transactions were adequately reviewed. Despite the fact that the financial information disclosed on the subject NBFs did not support the conclusion that the Investors were accredited, ESI's then Senior Vice President for Securities Operations approved the six Notes transactions. By failing to enforce the firm's procedures in approving the sale of the unregistered and unsuitable Notes to the Investors, ESI violated NASD Conduct Rules 3010 and 2110.

B. Respondent also consents to the imposition of the following sanctions:

- a censure;
- \$50,000 fine; and
- an order to pay \$163,815 in restitution, plus interest, to four customers as further detailed below.

Respondent agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

Restitution is ordered to be paid to the four customers listed on Attachment A hereto in the total amount of \$163,815,¹ plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from the dates of sale set forth on Attachment A until the date this AWC is accepted by the NAC.

A registered principal on behalf of Respondent shall submit satisfactory proof of payment of restitution or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted to Paul D. Taberner, Senior Regional Counsel, FINRA Boston District Office, 99 High Street, Suite 900, Boston, MA 02110, either by letter that identifies Respondent and case number 20090172407 or by e-mail from a work-related account of the registered principal of Respondent to EnforcementNotice@FINRA.org. This proof shall be provided to the FINRA staff member listed above no later than 120 days after acceptance of the AWC.

If for any reason Respondent cannot locate any customer identified in Attachment A after reasonable and documented efforts within 120 days from the date the AWC is accepted, or such additional period agreed to by a FINRA staff member in writing, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed property or abandoned property fund for the state in which the customer is last known to have resided. Respondent shall provide satisfactory proof of such action to the FINRA staff member identified above and in the manner described above, within 14 days of forwarding the undistributed restitution and interest to the appropriate state authority.

The imposition of a restitution order or any other monetary sanction herein, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies.

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

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against it;

¹ Prior to the commencement of the investigation by FINRA, ESI had already paid restitution to HW. The remaining four Investors paid a total of \$201,000 to purchase the Notes. The Second Amended Joint Chapter 11 Plan of Liquidation for DBSI, Inc. states that the anticipated recovery for holders of unsecured DBSI 2008 Notes is 18.5% of each dollar invested. The restitution amount ordered here takes into account that payment.

- 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, 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.

Respondent 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

Respondent 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 Respondent;
- C. If accepted:
 - 1. this AWC will become part of Respondent'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 response to public inquiries about Respondent's disciplinary record;
 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313;
 4. Respondent 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. Respondent 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party; and
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that Respondent 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.

Equity Services, Inc.

10-19-2011
Date (mm/dd/yyyy)

By: Lance Reihl
Lance Reihl
President and Chief Executive Officer

Reviewed by:

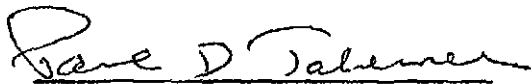


Robert A. Buhlman
Counsel for Respondent
Bingham McCutchen LLP
One Federal Street
Boston, MA 02110-1726
(617) 951-8717 (telephone)

Accepted by FINRA:

11/2/2011
Date

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



Paul D. Taberner
Senior Regional Counsel
FINRA Department of Enforcement
99 High Street
Suite 900
Boston, MA 02110
617-532-3425 (telephone)
202-721-8322 (facsimile)

ATTACHMENT A

EQUITY SERVICES, INC. LETTER OF ACCEPTANCE, WAIVER AND CONSENT

CASE NO. 20090172407

CUSTOMERS RECEIVING RESTITUTION FROM ESI

Customer Initials	Date of Investment	Amount of Investment	Amt. of Restitution Principal
MT	2/24/2008	\$25,000	\$20,375
JE	3/2/2008	\$50,000	\$40,750
MT	7/27/2008	\$26,000	\$21,190
SJ	7/27/2008	\$50,000	\$40,750
CP	8/24/2008	\$50,000	\$40,750
Totals		\$201,000	\$163,815