

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

Department of Market Regulation,

Complainant,

v.

William Scott Paladini,
CRD No. 4561071,

Respondent.

Disciplinary Proceeding
No. 20100225470

Hearing Officer Andrew H. Perkins

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: May 25, 2012

INTRODUCTION

Disciplinary Proceeding No. 20100225470 was filed on March 27, 2012, by the Department of Market Regulation of the Financial Industry Regulatory Authority (FINRA or Complainant). Respondent William Scott Paladini (Paladini or Respondent) submitted an Offer of Settlement (Offer) to Complainant on May 8, 2012. 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 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

This investigation originated from FINRA's Front End Cause Department's review of a Form U5 filed after Respondent's termination from his member firm. The matter was referred to the Legal Section of the Department of Market Regulation by the Insider Trading Group of the Office of Fraud Detection and Market Intelligence.

On or about March 17, 2010, respondent William Scott Paladini, an analyst at a FINRA member firm, in contravention of his firm's policies, purchased shares of Delta Petroleum Corp. (NasdaqCM: DPTR) ("Delta Petroleum") while in possession of material, non-public information, *i.e.*, the proposed sale of 37.5 percent of Delta's primary asset to Opon International LLC ("Opon"). As a result, Paladini willfully violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, and violated FINRA Rules 2010 and 2020.

Paladini first became registered with a FINRA member firm in July 2002, and remained registered at FINRA member firms until April 21, 2010. He holds Series 7, Series 55, and Series 63 licenses. In April 2007, Paladini became registered with his most recent employing firm, which terminated his registration on April 21, 2010, for failing to follow the personal account dealing provisions in the firm's Code of Ethics in connection with his purchase of Delta Petroleum shares.

Although Respondent is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because: (1) the Complaint was filed within two years after the

effective date of termination of Respondent's registration, namely April 21, 2010; and (2) the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member.

FINDINGS AND CONCLUSIONS

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

1. From April 16, 2007 through April 21, 2010, Paladini was an investment analyst for an infrastructure fund at a FINRA member firm.
2. As part of his training and continued employment, Paladini certified that he had read and understood his firm's Insider Trading Policy, which prohibited employees from trading on material, non-public information. The policy provided examples of what constituted "material information," which included "a pending or proposed merger, acquisition or tender offer." The policy also stated that information is "non-public" until it has been "effectively communicated to the market place and is available to the general public...such as by means of a press release carried over a major news service," and that employees were not to use non-public information "in a manner inconsistent with the specific purpose for which it was created or obtained."
3. On or about March 16, 2010, Paladini received a telephone call from MD, a Vice President at an investment bank, with whom Paladini had a prior business relationship. MD specifically told Paladini that he was soliciting Paladini's fund's participation in the financing of Opon's \$400 million acquisition of 37.5 percent of Delta Petroleum's non-operating working interest in its Vega Area asset.
4. Delta Petroleum was in financial distress, and its Vega Area interest was the company's primary asset.

5. Following that call, MD sent an email to Paladini, which included as an attachment a “teaser” to Paladini describing the transaction. A teaser is a document, usually prepared by an investment bank representing a company involved in a potential merger or acquisition, that is circulated to potential participants in order to generate interest. Each page of the teaser was marked “strictly private and confidential.” The back page of the teaser stated “This communication and the information contained herein is confidential and may not be reproduced or distributed in whole or in part without our prior written consent.” The teaser did not mention Delta Petroleum or Opon, instead referring to them as “the Company” and “the Purchaser.”

6. The email also included, as an attachment, a draft non-disclosure agreement that Paladini was asked to execute so that MD could provide more detailed information and arrange a meeting among management.

7. The next morning, on or about March 17, 2010, Paladini presented the financing deal to his supervisor, who immediately turned it down.

8. Later that afternoon, Paladini sought approval from the firm’s Compliance Department via an online request form to purchase 1,000 shares of Delta Petroleum common stock, as was required by firm policy for any employee securities transaction. Paladini, however, did not disclose to his firm’s Compliance Department that he had received the call or email from MD, or that he knew anything about a potential Opon-Delta Petroleum transaction. Likewise, Paladini did not inform his supervisor that he was purchasing Delta Petroleum securities.

9. The Compliance Department approved Paladini’s request, and Paladini purchased 1,000 shares of Delta Petroleum common stock in his personal account at \$1.38/share.

10. Paladini had not purchased Delta Petroleum securities before, did not perform any research before making his purchase, and did not contemporaneously purchase the securities of other natural gas production companies.

11. Prior to markets opening on or about March 18, 2010, Delta Petroleum issued a press release stating that it had entered into a non-binding letter of intent with Opon, whereby Opon would purchase a 37.5 percent non-operated working interest in Delta Petroleum's Vega Area assets for total consideration of \$400 million. There had been no prior public disclosure of the potential Delta Petroleum-Open transaction.

12. Following that announcement, Delta Petroleum common stock closed at \$1.77 per share, up \$0.41, or 30.15 percent, from the prior day's closing price, on significantly higher trading volume.

13. Paladini could not sell his shares because of a 30-day holding period imposed at his firm for employee securities transactions.

14. Later that day, the firm's surveillance system, which compares significant movement in securities' prices with trades in employees' accounts, flagged Paladini's trade. Paladini was terminated following the firm's investigation of his conduct.

Insider Trading
(Section 10(b) of the Securities Exchange Act of 1934,
SEC Rule 10b-5, and FINRA Rules 2020 and 2010)

15. Paragraph 1-14 are incorporated by reference.

16. The information conveyed to Paladini by MD and the investment bank was material and non-public, and Paladini knowingly possessed or used the information in connection with his purchase of Delta Petroleum securities, which also violated firm policies. Paladini had a duty arising out of a relationship of trust and confidence both to his employing

firm and to MD and MD's investment bank to keep the information confidential and not trade on it, which he breached by purchasing Delta Petroleum securities. Paladini acted with scienter by trading on the material, non-public information when he either knew, or was reckless in not knowing, that he was doing so in breach of a duty to keep the information confidential and not to trade on it.

17. By engaging in the foregoing conduct, Respondent, in connection with the purchase or sale of a security, directly or indirectly, by use of means or instrumentalities of interstate commerce, or the mails, or the facilities of a national securities exchange, knowingly or recklessly, employed a device, scheme or artifice to defraud; made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances in which they were made, not misleading; and engaged in an act, practice, or course of business which operated or would operate as a fraud or deceit upon other persons, in willful violation of Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 thereunder, and in violation of FINRA Rules 2020 and 2010.

**Standards of Commercial Honor and Principles of Trade
(FINRA Rule 2010)**

18. Paragraphs 1-17 are incorporated by reference.

19. Paladini's firm's Insider Trading Policies and Procedures stated that no employee, officer or director of the firm may trade in a security while in possession of material non-public information about the issuer of such security. They further stated that if employees, officers or directors had any doubts as to whether information they possessed was material or non-public, they should conduct themselves as though it were and contact the Legal and Compliance Department for further guidance. Moreover, the Insider Trading Policies and Procedures stated that, except as expressly advised by the Legal and Compliance Department, employees, officers

or directors may not buy or sell for any account a security (or derivative) to which such information relates.

20. Paladini violated his firm's Insider Trading Policies and Procedures by purchasing shares of Delta Petroleum.

21. By engaging in the foregoing conduct, Paladini, in the conduct of his business, engaged in conduct that was inconsistent with high standards of commercial honor and just and equitable principles of trade, in violation of FINRA Rule 2010.

Based on the foregoing, Respondent willfully violated Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 thereunder, and violated FINRA Rules 2020 and 2010.

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 be

barred in all capacities from associating with any FINRA member.

The sanctions imposed herein shall be effective on a date set by FINRA staff. Pursuant to FINRA Rule 8313(e), a bar shall become effective upon approval or acceptance of this Order.

SO ORDERED.

FINRA

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

A handwritten signature in black ink, appearing to read 'C. Funkhouser', written over a horizontal line.

Cameron K. Funkhouser
Executive Vice President
Office of Fraud Detection and Market Intelligence