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ESCL: Shouldn't former NASD Chairman James Davin have known better?

On May 09, 2006 the Madrid offices of Afinsa Bienes Tangibles, S.A. ("Afinsa") were raided along with the offices of Escala Group Inc. (NASDAQ: ESCL, \$6.80). Afinsa owns a 67% stake of ESCL and is ESCL's biggest customer, accounting for 62% of all of the collectibles revenue. These sales to the criminally charged Afinsa, generated extraordinary and wholly irregular gross margins compared to industry norms. The Spanish authorities sought documents at ESCL's Madrid offices in connection to their investigation of Afinsa relating to "possible tax evasion, money laundering, criminal insolvency, and falsification of documents."

Shortly after the raid, Spanish authorities declared Afinsa insolvent and arrested four of Afinsa's executives including Afinsa's Founder, Chief Executive Officer, and Chairman. One of the individuals arrested Carlos De Figueredo, Afinsa's Chief Executive Officer, also sits on ESCL's board. ESCL board members Antonio Martins Da Cruz and Esteban Perez also have direct ties to Afinsa.

With both companies being so deeply interwoven and in the case of ESCL a dependant appendix, how could it be possible that one would be unaware or even non-compliant to the massive defrauding of investors that Afinsa is accused of?

One person who should have certainly known better than to engage in business with such a broadly questionable company was James M. Davin who has sat on the ESCL board since February 2000. Mr. Davin is no stranger to regulatory issues as he is the former Chairman of Governors of the National Association of Securities Dealers ("NASD") and also served as an NASD board member from 1985 until 1988. No one else in this situation should have been more acutely aware of the possible ethics, legal violations, and appearances of impropriety that ESCL's parent company is now accused of engaging in, than Mr. Davin.

Now that short sellers have once again performed so admirably, the question is: will the NASD respond with vigor and show investors that Mr. Davin's connections do not count in a matter of investor protection?