

**AWARD**  
**NASD Dispute Resolution**

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In the Matter of the Arbitration Between

Name of Claimant

Morgan Stanley DW, Inc.

and

Case Number: 00-04692  
Hearing Site: Houston, Texas

Name of Respondent

Rhea Laws

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**NATURE OF DISPUTE**

Member Firm v. Customer

**REPRESENTATION OF PARTIES**

Morgan Stanley DW, Inc. ("**Claimant**") was represented by Michael Abbott, Esq. and Catherine L. Dellecker, Esq., of Jones, Bell, Abbott, Fleming & Fitzgerald, LLP, of Los Angeles, California.

Rhea Laws ("**Respondent**") of Sugarland, Texas, represented himself.

**CASE INFORMATION**

The Statement of Claim was filed on or about October 23, 2000.

The Submission Agreement of Claimant Morgan Stanley DW, Inc. was signed on or about September 13, 2000.

The Statement of Answer and Motion to Dismiss was filed by Respondent Rhea Laws on or about March 28, 2001.

The Submission Agreement of Respondent Rhea Laws was signed on or about April 3, 2001.

The Claimant's Opposition to Respondent's Motion to Dismiss was filed in June 11, 2001.

On August 12, 2003, Respondent filed a Request to File a Counter Claim and Claimant filed its opposition to that Request on September 8, 2003.

### **CASE SUMMARY**

Claimant asserted the following causes of action: breach of contract, breach of covenant of good faith and fair dealing, negligence, money lent, and account stated. The causes of action relate to Laws alleged undertaking high-risk transactions including trading options, Long-term Equity Anticipation Securities ("LEAPS") and investing on margin. Claimant asserted that when Laws signed the Account Application, he agreed to be bound by the terms set forth therein. In accordance with the terms of the Agreement, Laws agreed to maintain such margins for his account with Morgan Stanley as required by law or custom or as Morgan Stanley deemed advisable. Also, Claimant asserted that Laws agreed that Morgan Stanley was authorized to liquidate securities or other property to satisfy margin maintenance requirements without notice to Laws and without any prior request for additional margin from Laws. Claimant alleged that due to Laws' account dropping significantly in value, Morgan Stanley required Laws to maintain a balance of at least \$1,000,000 and an equity cushion of at least 40% in his account, and that he must deposit additional liquid funds immediately or Morgan Stanley would begin liquidating his account. In response, Claimant alleged that Laws promised Morgan Stanley that he would deposit unrestricted, free-trading shares of XCEL Management (now trading as "ISNQ") and Pangea Petroleum (trading as "PAPO"). Morgan Stanley asserted that it later learned that the 45,000 ISNQ shares and the 1.5 million PAPO shares that Laws deposited were in fact restricted and not freely traded. In May 2000, Morgan Stanley began liquidating the unrestricted stock holdings in Laws' account in order to meet margin calls. As a result, there exists a debt balance, plus interest, that remains in Laws' account.

Unless specifically admitted in his Answer, Respondent Rhea Laws denied the allegations made in the Statement of Claim and asserted affirmative defenses including the following: the Statement of Claim fails to state a claim upon which relief can be granted; Claimant's claims are barred by the principles of waiver, estoppel, laches, ratification and affirmance or acquiescence; Respondent did not breach any contract or agreement with Claimant; the damages Claimant alleged have no causal relationship with any act committed by or legally attributable to Respondent; Claimant failed to mitigate its damages; and by failing to exercise ordinary and prudent care over its affairs and operations, the losses allegedly sustained by Claimant were proximately caused by its own negligence.

### **RELIEF REQUESTED**

Claimant requested an award in the amount of:

Actual/Compensatory	\$689,115.19
Interest	Unspecified
Other Costs	Unspecified

Other Monetary Relief

Unspecified

Respondents requested that the claims asserted against him be denied in their entirety and that he be awarded his costs and attorneys' fees.

**OTHER ISSUES CONSIDERED & DECIDED**

The Panel denied Respondent's Request to file a Counter Claim.

On February 4, 2004, Respondent sought to enjoin two of the arbitrators and the NASD with a Temporary Restraining Order. On February 5, 2004, the District Court for the Southern District of Texas, Houston Division, denied this request.

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 original(s) remain on file with NASD Dispute Resolution ("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.) Respondent, Rhea Laws, is liable for and shall pay to Claimant, Morgan Stanley DW, Inc., the sum of \$689,115 in compensatory damages;
- 2.) Respondent, Rhea Laws, is liable for and shall pay to Claimant, Morgan Stanley DW, Inc., interest on the above stated sum at the rate of 10% per annum from and including August 15, 2000, through and including the date this Award is paid in full;
- 3.) Respondent, Rhea Laws, is liable for and shall pay to Claimant, Morgan Stanley DW, Inc., the sum of \$1,250 in costs;
- 4.) Any relief not specifically enumerated, including punitive damages and attorney fees, is hereby denied with prejudice.

### **FEES**

Pursuant to the Code, the following fees are assessed:

#### **Filing Fees**

NASD Dispute Resolution will retain or collect the non-refundable filing fees for each claim:

Initial claim filing fee = \$1250.00

#### **Member Fees**

Member fees are assessed to each member firm that is a party in these proceedings or to the member firm that employed the associated person at the time of the events giving rise to the dispute. In this matter, the member firm is Morgan Stanley DW, Inc..

Member surcharge = \$2000.00

Pre-hearing process fee = \$ 600.00

Hearing process fee = \$3500.00

#### **Adjournment Fees**

Adjournments requested during these proceedings:

Hearing Dates, February 4-6, 2004, adjournment by Respondent Laws = \$ 1200.00

#### **Forum Fees and Assessments**

The Arbitration Panel assesses forum fees for each hearing session conducted. A hearing session is any meeting between the parties and the arbitrators, including a pre-hearing conference with the arbitrators, that lasts four (4) hours or less. Fees associated with these proceedings are:

Three (3) Pre-hearing sessions with a single arbitrator x \$450.00 = \$1350.00

Pre-hearing conferences: July 8, 2003 1 session

August 5, 2003 1 session

January 28, 2004 1 session

One (1) Pre-hearing session with Panel x \$1200.00 = \$1200.00

Pre-hearing conference: May 8, 2003 1 session

Four (4) Hearing sessions x \$1200.00 = \$4800.00

Hearing Dates: February 4, 2004 2 sessions

February 5, 2004 2 sessions

Total Forum Fees = \$7350.00

The Arbitration Panel has assessed \$7350 of the forum fees to Rhea Laws.

**FEE SUMMARY**

Claimant, Morgan Stanley DW, Inc., is liable for:

Initial Filing Fee	= \$ 1250.00
Member Fees	= \$ 6100.00
Total Fees	= \$ 7350.00
Less payments	= \$ 5050.00
Balance Due NASD Dispute Resolution	= \$ 2300.00

Respondent, Rhea Laws, is liable for:

Adjournment Fee	= \$ 1200.00
Forum Fees	= \$ 7350.00
Total Fees	= \$ 8550.00
Less payments	= \$ 0.00
Balance Due NASD Dispute Resolution	= \$ 8550.00

All balances are payable to NASD Dispute Resolution and are due upon receipt pursuant to Rule 10330(g) of the Code.

**ARBITRATION PANEL**

John K. Boyce, III, Esq. - Public, Presiding Chair  
Anthony Bill Kashouty - Public Arbitrator  
John E. Easterling - Non-Public Arbitrator

**Concurring Arbitrators:**

/s/ John K. Boyce, III, Esq.  
John K. Boyce, III, Esq.  
Public Arbitrator, Presiding Chair

February 12, 2004  
Signature Date

/s/ Bill Kashouty  
Anthony Bill Kashouty  
Public Arbitrator

February 12, 2004  
Signature Date

/s/ John Easterling  
John E. Easterling  
Non-Public Arbitrator

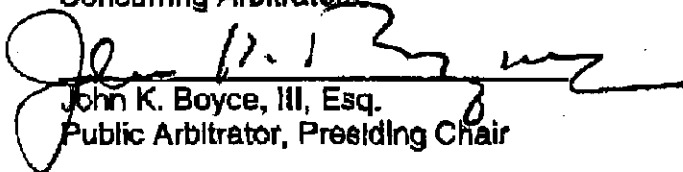
February 12, 2004  
Signature Date

February 12, 2004  
Date of Service (For NASD office use only)

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