

**Award**  
**NASD Dispute Resolution**

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In the Matter of the Arbitration Between:

Name of the Claimants

Gary J. and Carol Anderson

Case Number: 02-07511

Name of the Respondents

Merrill Lynch, Pierce, Fenner & Smith, Inc.;  
David H. Komansky; and,  
Deepak D. Raj

Hearing Site: Dallas, Texas

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**NATURE OF DISPUTE**

Public Customer vs. Member Firm and Associated Persons

**REPRESENTATION OF PARTIES**

Claimants Gary J. and Carol Anderson, hereinafter referred to as "Claimants": Jakes Jordaan, Esq., of the firm of Jordaan & Riley, PLLC, located in Dallas, Texas.

Respondents Merrill Lynch, Pierce, Fenner & Smith, Inc. ("Merrill Lynch") and David H. Komansky ("Komansky"): Joel R. Sharp, Esq., of the firm of Jenkins & Gilchrist, located in Dallas, Texas.

Respondent Deepak D. Raj ("Raj"): Betty Santangelo, Esq., of the firm of Schulte Roth & Zabel LLP, located in New York, New York.

**CASE INFORMATION**

Statement of Claim filed: December 12, 2002.

Claimants signed the Uniform Submission Agreement: December 10, 2002.

Statement of Answer filed by Respondent Merrill Lynch: February 7, 2003.

Respondent Merrill Lynch signed the Uniform Submission Agreement: February 13, 2003.

Statement of Answer and Motion to Dismiss filed by Respondent Raj: February 7, 2003.

Respondent Raj signed the Uniform Submission Agreement: February 5, 2003.

Respondent Komansky's Objection to NASD Jurisdiction filed: February 7, 2003.

Claimants' Response to Respondent Raj's Motion to Dismiss and Brief in Support of Response filed: February 26, 2003.

Claimants' Response to Respondent Komansky's Objection to Jurisdiction filed: February 24, 2003.

Claimants' First Amendment and Supplement to the Statement of Claim filed: March 14, 2003.  
Respondent Raj's Answer and Motion to Dismiss the Amended Claim filed: March 28, 2003.  
Respondent Komansky's Amended Motion to Dismiss filed: March 28, 2003.

Claimants' Motion for Partial Summary Judgment Against Respondent Merrill, Lynch, Pierce, Fenner & Smith Pursuant to Texas Securities Act §33A(2) filed: May 5, 2003.  
Respondent Merrill Lynch's Response to Claimants' Motion for Partial Summary Judgment filed on: June 17, 2003.  
Claimants' Reply and Supplement to Motion for Partial Summary Judgment Against Respondent Merrill, Lynch, Pierce, Fenner & Smith Pursuant to Texas Securities Act §33A(2) filed: June 30, 2003.

Claimants' Response to Respondent Komansky's Motion to Dismiss filed: May 22, 2003.

Respondent Raj's Memorandum in Further Support of His Motion to Dismiss and for Summary Judgment, as well as Motion to Strike Certain Exhibits filed: August 8, 2003.  
Respondent Merrill Lynch's Motion for Summary Judgment filed: August 15, 2003.

Claimants' Supplemental Response and Brief in Opposition to Respondent Merrill Lynch's Motions to Dismiss; Claimants' Response and Brief in Opposition to Respondent Merrill Lynch's Motion for Summary Judgment; Claimants' Response and Brief in Opposition to Respondent Deepak Raj's Motions to Dismiss, For Summary Judgment and to Strike Certain Exhibits; and, Claimants' Brief in Support of Claimants' Motion for Partial Summary Judgment Pursuant to Texas Securities Act §33A(2) filed: September 10, 2003.

Respondent Merrill Lynch's Reply to Claimants' Supplemental Response Brief filed: September 24, 2003.  
Respondent Merrill Lynch's Motion to Strike Claimants' Affidavits filed: September 24, 2003.

Respondent Raj's Letter and Exhibit in Support of Motion to Dismiss filed on: October 7, 2003.

Claimants' Brief Concerning Jurisdiction of an NASD Panel to Enter Dispositive Motions filed: October 15, 2003.

Claimants' Motion to Temporarily Inactivate Case filed: July 15, 2004.

Respondent Raj's Request for Clarification of Order filed: August 9, 2004.  
Respondent Raj's Supplemental Request for Expungement filed on: August 26, 2004.

Respondent Raj's Renewed Request for Order of expungement filed: November 10, 2005.

### **CASE SUMMARY**

Claimants asserted the following causes of action: violation of the Texas Deceptive Trade Practices-Consumer Protection Act; negligent misrepresentation; breach of the implied representation of fair dealing and full disclosure; breach of fiduciary duty; violation of Texas

Securities Act §33A(2); violations of Texas Business and Commerce Code, §27.01, Fraud in Real Estate and Stock Transactions; violation of the NASD Business Conduct Rule 2210-Standards of Commercial Honor and Principles of Trade; violations of the NASD Business Conduct Rule 2120-Use of Manipulative, Deceptive or Other Fraudulent Devices; violation of NASD Business Conduct Rule 2310-Recommendations to Customers (Suitability); violations of NASD Business Conduct Rule 2310-2 – Fair dealings with Customers; civil conspiracy; aiding and abetting; violations of Section 10(b) of the Securities Exchange Act and Rule 10B-5; and, control person liability for the individual Respondents pursuant to Section 20(A) of the exchange Act. These causes of action related to various stock recommendations made by the Merrill Lynch research analysts that were allegedly tainted by a desire to aid Merrill Lynch's investment banking business.

Unless specifically admitted in their Answer, Respondents Merrill Lynch and Komansky denied the allegations made in the Statement of Claim and asserted the following defenses:

1. Claimants fail to state a claim for which relief may be granted and their claims should be dismissed;
2. Claimants are sophisticated investors with significant resources and their allegations are an effort to avoid responsibility for their own investment decisions;
3. Claimants' assertion that Merrill Lynch's research was false or misleading is insufficient as a matter of law because Claimants have failed to specify any material misrepresentations or omissions of fact by Merrill Lynch;
4. Claimants' allegations fail to state a claim for relief under the Texas Deceptive Trade practices Act; and,
5. Claimants' claims are barred by waiver, estoppel, ratification, assumption of risk and comparative negligence, as well as Claimants' own failure to mitigate alleged damages.

Unless specifically admitted in his Answer, Respondent Raj denied the allegations made in the Statement of Claim and asserted the following defenses:

1. Claimants fail to state a claim against Respondent Raj for which any relief can be granted;
2. Claimants suffered no damages by reason of the acts complained of in the Statement of Claim;
3. Respondent Raj is not liable to Claimants in any amount because, at all times relevant herein, Raj acted properly and in good faith and had no involvement with respect to Claimants' accounts;
4. Respondent Raj acted in good faith and did not directly or indirectly induce any act or acts constituting a violation of the federal securities laws;
5. Claimants' claims are barred because the risks inherent in the investments at issue were fully disclosed and/or known to Claimants and they assumed those risks. Moreover, any alleged losses incurred by Claimants were the direct result of adverse market conditions and/or the acts of the issuer of the securities at issue and cannot be attributed to Raj;
6. Claimants' claims are barred by applicable statutes of limitation and/or the

- doctrines of laches, estoppel, waiver and ratification because, among other things, Claimants did not timely raise objections or complaints when they received trade confirmations, account statements, and other account information;
7. Claimants' claims are barred under the doctrine of contributory negligence because they negligently contributed to their own injury;
  8. Claimants' claims are barred or mitigated under the doctrine of comparative negligence because they negligently contributed to their own injury to a greater degree than Raj allegedly did;
  9. Claimants' claims are barred because their alleged injuries were not caused, legally, proximately, or otherwise, by Raj or by the alleged misconduct pleaded in the Statement of Claim;
  10. Claimants' claims are barred because Respondent Raj did not act with intent, scienter, or in breach of any duty of care or loyalty owed to Claimants;
  11. Claimants' claims are barred because they failed to mitigate damages;
  12. Claimants' claims are barred because Raj at all times conducted himself in compliance with the requirements of all applicable provisions of federal and state law;
  13. Claimants' claims are barred because Claimants failed to exercise care and due diligence over the investments in their securities accounts;
  14. Claimants are not entitled to, and fail to state a claim for, actual damages, exemplary damages, punitive damages, prejudgment interest, attorneys' fees and costs; and,
  15. As applicable, the defenses asserted by Respondent Merrill Lynch are incorporated by reference.

#### **RELIEF REQUESTED**

Claimants Gary J. and Carol Anderson requested:

Compensatory Damages	\$ 298,287.82
Punitive/Treble Damages	\$ 596,575.64
Interest	As determined by Panel
Attorneys' Fees	\$ 99,429.27
Other Costs	As determined by the Panel
Other Monetary/Non-Monetary Relief if any:	As determined by the Panel

Respondent Merrill Lynch requested that Claimants take nothing by their claims and Respondent recover its fees and expenses.

Respondent Komansky requested that the claim be dismissed and his CRD record expunged.

Respondent Raj requested that his Motion to Dismiss be granted and the Statement of Claim dismissed with prejudice as to Raj. In addition, Raj requested an award of his attorneys' fees and costs, and that all references to the Statement of Claim and the allegations asserted therein should be expunged from Respondents' CRD records.

### **OTHER ISSUES CONSIDERED AND DECIDED**

Respondent Komansky did not file with NASD Dispute Resolution, a properly executed submission to arbitration but is required to submit to arbitration pursuant to the Code and is bound by the determination of the Panel on all issues submitted.

On September 26, 2003, the Panel heard argument on the parties' Dispositive Motions. After considering the briefs and arguments presented by the parties, the Panel entered an Order on October 14, 2003 that determined as follows:

1. Claimants' Motion for Partial Summary Judgment Against Merrill Lynch pursuant to Texas Securities Act 33A(2) was denied;
2. Respondent Merrill Lynch's Motion for Summary Judgment was denied;
3. Respondent Komansky's Motion to Dismiss was granted; and,
4. Respondent Raj's Motion for Dismissal was granted.

On August 2, 2004, the Panel denied Claimants' Motion to Temporarily Inactivate the case and ordering that if hearing dates were not set by September 1, 2004, the case would be dismissed against the remaining Respondent, Merrill Lynch.

### **AWARD**

After considering the pleadings, the testimony and evidence presented at the Motion hearing, and the post-hearing submissions, the Panel has decided in full and final resolution of the issues submitted for determination as follows:

1. The Respondents' Motion having been granted, the claims against Respondents David H. Komansky and Deepak D. Raj are hereby dismissed with prejudice;
2. The claims against Respondent Merrill Lynch, Pierce, Fenner & Smith, Inc. are hereby dismissed with prejudice;
3. The Panel recommends the expungement of all reference to the above captioned arbitration from Respondent David H. Komansky's registration records maintained by the NASD Central Registration Depository ("CRD"), with the understanding that pursuant to NASD Notices to Members 99-09 and 99-54, Respondent David H. Komansky must obtain confirmation from a court of competent jurisdiction before the CRD will execute the expungement directive;
4. In addition, the Panel recommends the expungement of all reference to the above captioned arbitration from Respondent Deepak D. Raj's registration records maintained by the NASD Central Registration Depository ("CRD"), with the understanding that pursuant to NASD Notices to Members 99-09 and 99-54, Respondent Deepak D. Raj must obtain confirmation from a court of competent jurisdiction before the CRD will execute the expungement directive;
5. The parties shall bear their own costs of arbitration, including any attorneys' fees, except for those sums specifically enumerated herein; and,

6. Any and all relief not specifically addressed herein, including punitive or treble damages, is denied.

### **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	= \$ 375.00
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#### **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 persons at the time of the events giving rise to the dispute. Accordingly, Respondent Merrill Lynch, Pierce, Fenner & Smith, Inc. is a party and the following member fees are assessed:

Member surcharge	= \$ 2,250.00
Pre-hearing process fee	= \$ 750.00
Hearing process fee	= \$ 4,000.00

#### **Adjournment Fees**

Adjournments granted during these proceedings for which fees were assessed: None.

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

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

Two (2) Pre-hearing sessions with Panel @ \$1,200.00	= \$ 2,400.00
Pre-hearing conferences: July 17, 2003 1 session	
September 26, 2003 1 session	
<hr/> Total Forum Fees	<hr/> = \$ 2,400.00

The Panel has assessed \$1,200.00 of the forum fees jointly and severally to Claimants Gary J. and Carol Anderson, and has assessed the remaining \$1,200.00, jointly and severally, to Respondents Merrill Lynch, Pierce, Fenner & Smith, Inc., David H. Komansky, and Deepak D. Raj

### **FEE SUMMARY**

Claimants Gary J. and Carol Anderson are jointly and severally liable for:

Initial Filing Fee	= \$ 375.00
<u>Forum Fees</u>	<u>= \$ 1,200.00</u>
Total Fees	= \$ 1,575.00

<u>Less payments</u>	= \$ 1,575.00
Balance Due NASD Dispute Resolution	= \$ 0.00

Respondent Merrill Lynch, Pierce, Fenner & Smith, Inc. is solely liable for:

Member Fees	= \$ 7,000.00
<u>Less payments</u>	= \$ 7,000.00
Balance Due NASD Dispute Resolution	= \$ 0.00

Respondents Merrill Lynch, Pierce, Fenner & Smith, Inc., David H. Komansky, and Deepak D. Raj are jointly and severally liable for:

Forum Fees	= \$ 1,200.00
<u>Less payments</u>	= \$ 0.00
Balance Due NASD Dispute Resolution	= \$ 1,200.00

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

**ARBITRATION PANEL**

Irwin S. Sugerman- Public Arbitrator, Presiding Chairperson  
Frederick P. Ahrens, Esq. - Public Arbitrator  
Phillip Lee Scheldt, Ph.D - Non-Public Arbitrator

**Concurring Arbitrators' Signatures**

\_\_\_\_\_  
Irwin S. Sugerman  
Public Arbitrator, Presiding Chairperson

\_\_\_\_\_  
Signature Date

\_\_\_\_\_  
Frederick P. Ahrens, Esq.  
Public Arbitrator

\_\_\_\_\_  
Signature Date

\_\_\_\_\_  
Phillip Lee Scheldt, Ph.D  
Non-Public Arbitrator

\_\_\_\_\_  
Signature Date

\_\_\_\_\_  
Date of Service (For NASD Dispute Resolution office use only)

NASD Dispute Resolution

Arbitration No. 02-07511

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<u>Less payments</u>	= \$ 1,575.00
Balance Due NASD Dispute Resolution	= \$ 0.00

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Forum Fees	= \$ 1,200.00
<u>Less payments</u>	= \$ 0.00
Balance Due NASD Dispute Resolution	= \$ 1,200.00

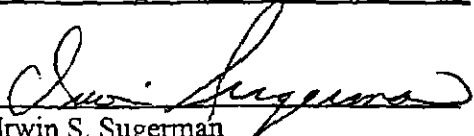
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Frederick P. Ahrens, Esq. - Public Arbitrator

Phillip Lee Scheldt, Ph.D - Non-Public Arbitrator

**Concurring Arbitrators' Signatures**

Irwin S. Sugerman

Public Arbitrator, Presiding Chairperson

6-1-06  
Signature DateFrederick P. Ahrens, Esq.  
Public ArbitratorSignature DatePhillip Lee Scheldt, Ph.D  
Non-Public ArbitratorSignature Date6/6/06  
Date of Service (For NASD Dispute Resolution office use only)



<u>Less payments</u>	= \$ 1,575.00
Balance Due NASD Dispute Resolution	= \$ 0.00

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Irwin S. Sugerman  
Public Arbitrator, Presiding Chairperson

Frederick P. Ahrens  
Frederick P. Ahrens, Esq.  
Public Arbitrator

\_\_\_\_\_  
Signature Date

5/30/06  
Signature Date

\_\_\_\_\_  
Phillip Lee Scheldt, Ph.D  
Non-Public Arbitrator

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Signature Date

6/6/06 MLM  
Date of Service (For NASD Dispute Resolution office use only)

NASD Dispute Resolution  
 Arbitration No. 02-07511  
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<u>Less payments</u>	= \$ 1,575.00
Balance Due NASD Dispute Resolution	= \$ 0.00

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Member Fees	= \$ 7,000.00
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Irwin S. Sugerman— Public Arbitrator, Presiding Chairperson  
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 Phillip Lee Scheldt, Ph.D - Non-Public Arbitrator

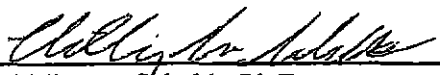
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\_\_\_\_\_  
 Irwin S. Sugerman  
 Public Arbitrator, Presiding Chairperson

\_\_\_\_\_  
 Signature Date

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 Public Arbitrator

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