

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

In the Matter of the Arbitration Among

E. Timothy McCullough,
Roy E. McCullough,
Robert S. McCourt,
Ross J. and Carol Ann Nese,
Carl J. Kranick,
David and Kathleen Graciano,
Bruce Shepman,
Richard H. and Darleen L. Graciano,
Michael M. Michna and
Richard H. and Holly M. McCullough,

Claimants

vs.

Shearson Lehman Hutton, Inc. and
William R. Martin,

Respondents

Case #88-01400

Award

CASE SUMMARY

Claimants collectively allege that Respondent brokerage firm, Shearson Lehman Hutton, Inc., through its registered representative, William R. Martin, fraudulently induced them into making investments based upon the fact that he had contacts with corporate officers, market makers and confidential and valuable information that the value of Dense Pac Micro Systems stocks would appreciate within a short period of time. Claimant, Carl Kranick further alleges that the registered representative made fraudulent misrepresentations which caused him to purchase shares in Shoe Town, Inc. and Millicom. Claimant, E. Timothy McCullough, also alleges that the fraudulent misrepresentations caused him to purchase shares of Shoe Town, Inc. stock. Claimants further allege that Respondent, William R. Martin, falsified documents in order to permit some of them to make unsuitable investments. Claimants also allege that Respondent, Shearson Lehman Hutton, Inc., failed

to properly supervise Respondent, William R. Martin. Additionally, Claimants allege that Respondents, in so doing, violated Pennsylvania Unfair Trade Practices and Consumer Protection Law 73 P.S. Section 201-1 et seq., Section 12-2 of the Securities Act of 1933 [15 U.S.C. Section 771(21), Section 17a of the Securities Act of 1933], [15 U.S.C. Section 77Q(a)], Section 10b and 10b-5 of the Securities Act of 1934 [15 U.S.C. Section 78J(b), Racketeer Influenced and Corrupt Organizations Acts ("RICO") [18 U.S.C. Section 1961, et seq.] Section 70 P.S. Section 1-401, 1-403 and 1-404 of the Pennsylvania Securities Act that they committed common law fraud, common-law negligence, breached their fiduciary duty and breached their contracts.

Respondents deny the allegations of fraud and negligence and allege that Respondent, William R. Martin, learned through a client of his, that a local company, Dense Pac, might be acquired in the near future by GTE. Respondents further allege that William R. Martin recommended the purchase of Dense Pac to a few of the Claimants who were interested in speculative investments and that the remaining Claimants purchased the stock after their conversations with the initial investors.

RELIEF REQUESTED

Claimants request that the Panel award them compensatory damages, which includes 6% interest, as follows:

- E. Timothy McCullough -- \$16,209.58
- Roy E. McCullough -- \$14,924.60
- Robert S. McCourt -- \$882.05
- Ross J. and Carol Ann Nese -- \$4,454.54
- Carl J. Kranick -- \$43,322.21
- David and Kathleen Graciano -- \$26,070.88
- Bruce Shepman -- \$4,575.63
- Richard H. and Darleen Graciano -- \$35,157.85
- Michael M. Michna -- \$2,681.37
- Richard H. McCullough -- \$68,693.70
- Holly M. McCullough -- \$2,793.82

In addition, Claimants request treble or punitive damages, costs and attorneys' fees.

Respondents request that the Panel dismiss the Statement of Claim and award them costs and attorney's fees.

AWARD

On May 31, 1989, June 1, 1989, June 2, 1989, July 11, 1989 and July 12, 1989, the undersigned arbitrators heard the controversy between the parties as set forth in submissions to arbitration signed by Claimants, E. Timothy McCullough and Roy E. McCullough on March 23, 1988, Robert S. McCourt on March 11, 1988, Ross J. and Carol Ann Neese and Carl J. Kranick on March 7, 1988, David and Kathleen Graciano and Bruce Shepman on June 7, 1988, Richard H. and Darleen L. Graciano and Michael M. Michna on March 15, 1988, and Richard H. and Holly M. McCullough on March 23, 1988, and by Respondents, Shearson Lehman Hutton, Inc. and William R. Martin, on February 23, 1989. The arbitration panel, having considered the pleadings, the testimony, and the evidence presented at the hearing, has determined in full and final resolution of the issues submitted for determination as follows:

1. Respondents, Shearson Lehman Hutton, Inc. and William R. Martin, are hereby jointly and severally liable to Claimants under the theory of negligence commencing on or about April 8, 1986 in the amounts specified below:
 - E. Timothy McCullough -- Six Thousand Six Hundred Forty-Eight Dollars and Zero Cents (\$6,648.00);
 - Roy E. McCullough -- Six Thousand Six Hundred Forty-Eight Dollars and Zero Cents (\$6,648.00);
 - Robert S. McCourt -- Three Hundred Forty-Eight Dollars and Zero Cents (\$348.00);
 - Ross J. and Carol Ann Neese -- Four Thousand Four Hundred Sixty-One Dollars and Zero Cents (\$4,461.00);
 - Carl J. Kranick -- Seventeen Thousand One Hundred Eighty-Four Dollars and Zero Cents (\$17,184.00);
 - David and Kathleen Graciano -- Eight Thousand Eight Hundred Ninety-One Dollars and Zero Cents (\$8,891.00);
 - Bruce Shepman -- One Thousand Eight Hundred Seventy-Eight Dollars and Zero Cents (\$1,878.00);
 - Richard H. and Darleen Graciano -- Fourteen Thousand Two Hundred Twenty-Four Dollars and Zero Cents (\$14,224.00);
 - Michael M. Michna -- One Thousand Three Hundred Fifty-Three Dollars and Zero Cents (\$1,353.00);
 - Richard H. McCullough -- Twenty Five Thousand Four Hundred Thirty-Three Dollars and Zero Cents (\$25,433.00);
 - Holly M. McCullough -- One Thousand Three Hundred Sixty-Six Dollars and Zero Cents (\$1,366.00);
2. Claimants are hereby awarded 6% interest on the amounts awarded above from July 31, 1986 to the date of this award.

3. All other claims are dismissed.
4. Respondents are jointly and severally liable for attorney's fees and shall pay Claimants, Holly M. and Richard H. McCullough, the sum of Six Thousand Dollars and Zero Cents (\$6,000.00). Respondents are also jointly and severally liable for attorney's fees and shall pay all other Claimants the sum of Six Thousand Dollars and Zero Cents (\$6,000.00).
5. Pursuant to Section 43 of the Code of Arbitration Procedure, the National Association of Securities Dealers, Inc. shall refund the \$750.00 filing fee previously deposited by the Claimant and shall assess Respondent, Shearson Lehman Hutton, Inc., \$11,000.00, which shall be made payable to the NASD.




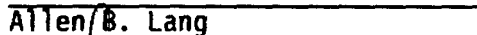
A. Ralph Ellis, Esq.

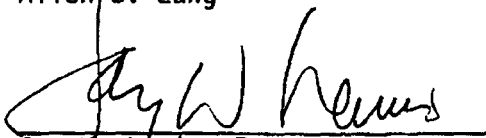

Thomas D. Cramer


Frederick E. Liechti, Esq.

DISSENT:


Allen B. Lang


Allen B. Lang


Jay W. Lewis, Esq.

Dated: August 28, 1989