

N.A.S.D. AWARD

NATIONAL ASSOCIATION OF SECURITIES DEALERS

In the Matter of the Arbitration Between

Name of Claimant

Columbia Management Company

92-04206

Names of Respondents

La Salle St. Securities, Inc.,
William Scott Loye,
John C. Peterson, Jr., and
William Paul Rainwater

REPRESENTATION

Claimant, Columbia Management Company was represented by Foster Robberson, Esq. and Stephen R. Winkelman, Esq. of Lewis and Roca, Phoenix, Arizona.

Respondent, La Salle Street Securities was represented by David A. Genelly, Esq. of Fishman & Merrick, P.C. of Chicago, Illinois.

Respondent, William Scott Loye was not represented by counsel and filed an answer pro se.

Respondent, John C. Peterson, Jr. was not represented by counsel and filed an answer pro se.

Respondent, William Paul Rainwater was not represented by counsel and filed an answer pro se.

CASE INFORMATION

The Statement of Claim was filed with the National Association of

Securities Dealers, Inc. ("NASD") on March 9, 1993.

Claimant, Columbia Management Company's Submission Agreement was signed on February 25, 1993 by Louis DiCocco, Chairman.

A Statement of Answer was filed with the NASD by Respondent, W. Paul Rainwater on June 14, 1993.

Respondent, W. Paul Rainwater did not file an executed Submission Agreement with the NASD.

A Statement of Answer was filed with the NASD by Respondent, W. Scott Loye on May 12, 1993. An Amended Answer was filed on December 13, 1993.

Respondent, W. Scott Loye's Submission Agreement was signed on May 6, 1993.

A Statement of Answer was filed with the NASD by Respondent, John C. Peterson, Jr. on June 1, 1993.

Respondent, John C. Peterson, Jr. did not file an executed Submission Agreement with the NASD.

HEARING INFORMATION

The hearing took place on December 14, 1993 for two (2) hearing sessions and December 15, 1993 for one (1) hearing session.

The hearing location was Scottsdale, Arizona.

CASE SUMMARY

Claimants, Columbia Management Company ("Columbia Management") alleged that Respondents, La Salle Street Securities, Inc. ("La Salle Street"), Scott Loye ("Loye"), John Peterson ("Peterson") and Paul Rainwater ("Rainwater") engaged in fraudulent and unauthorized securities transactions and a cover-up. The allegations arose out of an intended transaction where Columbia Life Insurance Company, the wholly-owned subsidiary of Columbia Management

Company, sought to increase its capital. Columbia Management was to give CRS Trust a \$4 million promissory note (secured by Columbia Life stock) in exchange for a \$4 million debenture fully collateralized by unencumbered Federal Home Loan Mortgage Corporation ("FHLMC") securities. Columbia Management would transfer the debenture to Columbia Life giving it surplus capital. For providing the fully collateralized debenture, CRS Trust was to receive a \$640,000 initial payment and monthly net payments of \$32,000.

The securities were to be held in a joint account for Columbia Management and CRS Trust. As a precondition to closing the transaction, Columbia Management required La Salle Street to represent that the required securities had been placed in the joint account as security for the debenture, that the value of the securities were in excess of \$4 million and that the securities were unencumbered by any liens. These conditions were allegedly met in a letter from La Salle Street to Columbia Management which was signed by Loye.

Columbia Management learned in mid-December 1990, almost a full year after the closing, that the representations of La Salle Street, Loye and others had been false. Columbia Management discovered that the securities were placed in the account nine days after the deal closed and that the securities were bought on margin which meant the debenture was not fully unencumbered. Throughout 1990, Columbia Management alleged that the respondents engaged in a scheme to cover up their actions and fraud. The value of the FHLMC securities in the account was misrepresented as more than \$4 million.

The facts alleged by Columbia Management gave rise to the following claims against respondents:

1. Breach of contract.
2. Fraud.
3. Negligence.
4. Breach of fiduciary duty.
5. Consumer fraud under A.R.S. § 44-1521, et seq.
6. Fraud in the purchase or sale of a security under A.R.S. § 44-1991.

7. Racketeering under A.R.S. § 13-2301.
8. Conversion.
9. Violations of NYSE Rule 342 and Rule 405.
10. Violations of NASD Article III §§ 1, 27.
11. Breach of duty in contravention of Restatement (Second) of Torts §§ 876-877.

Rainwater denied any wrongdoing in the matter and alleged that his involvement in the transaction was "introductory" at best. Rainwater alleged that nowhere in the statement of claim was he mentioned as buying or selling any of the securities involved. Additionally, Rainwater was not mentioned in the statement of claim as participating in the drafting of any of the documents, contracts or agreements.

Loye denied any wrongdoing or that he engaged in fraudulent or unauthorized securities transactions and a cover-up as alleged in the complaint.

Peterson alleged that he was only responsible for the introduction of Mr. Richard Stacy, manager of CRS Trust to Paul Rainwater, a registered representative of the Hot Springs Arkansas office of La Salle Street Securities, Inc. Peterson further alleged that he was not a party to any of the contracts and he did not purchase or sell any of the securities in the CRS Trust/Columbia account.

RELIEF REQUESTED

Columbia Management requested \$992,000.00 for out of pocket losses, losses in an amount to be determined at the hearing arising from the liquidation of Columbia Life, punitive damages in an amount to be determined at the hearing, prejudgment and postjudgment interest at the highest rate allowed by law, treble damages as allowed under applicable racketeering law, costs and reasonable attorney's fees incurred in prosecuting this arbitration and other relief as the arbitrators deemed just and proper.

Respondent, Peterson requested dismissal of the claim and that this matter be expunged from his U-4.

Respondent. Rainwater requested dismissal of the claim.

Respondent. Loye requested dismissal of the claim.

OTHER ISSUES CONSIDERED & DECIDED

Respondents, Loye, Peterson and Rainwater failed to appear at the hearing on December 14, 1993. The panel determined to proceed in their absence pursuant to §29 of the NASD Code of Arbitration Procedure. Each of the respondents had answered the claim and were served with the hearing notice in this matter in accordance with §26 of the NASD Code of Arbitration Procedure. The panel therefore, determined to proceed with the hearing on various preliminary motions and the hearing on the merits of this matter and respondents Loye, Peterson and Rainwater will be bound by the panel's final determination on all issues submitted.

Respondent, La Salle Street Securities, Inc. settled with Columbia Management prior to the hearing in this matter. Accordingly, La Salle Street was dismissed as a party to the proceeding and the claim continued as against respondents Loye, Peterson, and Rainwater.

Respondent, Peterson filed a Motion to Dismiss for lack of jurisdiction on the basis that he was neither a member nor associated person at the time the transaction which gave rise to the dispute occurred. Columbia Management responded that the motion should be denied. The panel determined to decide this motion on the first day of hearing and upon hearing argument of Columbia Management's counsel and reviewing the written motion and response denied Peterson's motion.

Respondent, Loye filed a motion to change venue, two motions to dismiss and a motion to restate and define the claim with the NASD. Columbia Management filed replies to all the motions. The arbitration panel denied the venue change motion on December 10, 1993 and determined that the proper venue for the hearing was Phoenix, Arizona. The panel determined to take the other motions at the hearing on December 14, 1993. The panel denied Loye's motions to dismiss and motion to restate and define the claim at hearing on December 14, 1993 after hearing argument of counsel for Columbia Management and reviewing the written motions to dismiss and the responses to the motions.

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. Based upon a finding of fraud, the panel finds Peterson and Loye are jointly and severally liable for and shall pay to Columbia Management, without interest, compensatory damages in the sum of Four Hundred Thousand Dollars and No Cents (\$400,000.00);
2. Based upon a finding of fraud, the panel finds Rainwater is liable for and shall pay to Columbia Management, without interest, compensatory damages in the sum of One Hundred Thousand Dollars and No Cents (\$100,000.00);
3. The claims for punitive and treble damages are denied and dismissed in their entirety;
4. Any other claims not specifically enumerated herein are denied and dismissed in their entirety; and.
5. The parties shall each bear their respective costs, expenses and attorney's fees.

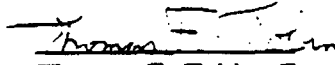
FORUM FEES

Pursuant to Section 43c of the Code of Arbitration Procedure, the following Forum Fees are assessed. The NASD shall retain the \$250.00 non-refundable claim filing fee and the \$1000.00 hearing session deposit previously deposited with the NASD. Columbia Management is assessed additional Forum Fees in the sum of \$2000.00. Forum Fees were calculated on the basis of \$1000.00 per hearing session for three (3) hearing sessions.


Additional Forum Fees assessed to the parties are payable to the National Association of Securities Dealers, Inc.

Concurring Arbitrators' Signatures

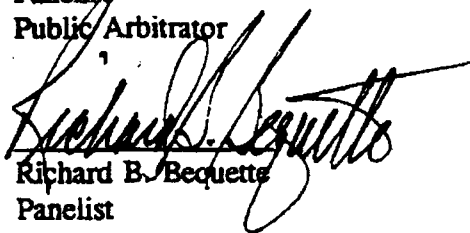
Name


Thomas F. Tobin, Esq.
Presiding Chairperson
Public Arbitrator

February 16, 1994
Dated


Robert D. Boone
Panelist
Public Arbitrator

FEB 17 1994
Dated


Richard B. Bequette
Panelist
Industry Arbitrator

FEB 22 1994
Dated

Date Award Served on the parties by the NASD: 2-28-94