

N.A.S.D. REGULATION AWARD

NATIONAL ASSOCIATION OF SECURITIES DEALERS REGULATION, INC.

In the Matter of the Arbitration Between

Name of Claimant

Richard Stone

93-02255

Name of Respondents

Gruntal & Co., Inc.

Jeff States

Barry C. Baum

REPRESENTATION

For claimant Richard Stone ("claimant") appeared his representative Eugene Feit of the law firm of Herzfeld & Rubin, P.C. located in New York, New York.

For respondents Gruntal & Co., Inc. ("Gruntal") and Barry C. Baum ("Baum") appeared their representative Lionel Hest of the law firm Fulbright & Jaworski located in New York, New York.

Respondent Jeff States ("States") did not enter an appearance at the hearing conducted in this matter.

CASE INFORMATION

Statement of Claim filed: June 7, 1993.

Claimant's Submission Agreement signed on: June 3, 1993.

Joint Statement of Answer filed by respondents Gruntal and Baum on: September 14, 1993.

Counterclaim filed by respondent Gruntal on: September 14, 1993.

Respondent Gruntal's Submission Agreement signed on: September 14, 1993.

Respondent Baum's Submission Agreement signed on: September 15, 1993.

Respondent States Statement of Answer filed on: September 14, 1993.

Respondent States' Submission Agreement signed on: September 14, 1993.

HEARING INFORMATION

Hearing Dates/Sessions:	January 10, 1995	-	one session
	February 2, 1995	-	two sessions
	February 9, 1995	-	two sessions
	April 23, 1997	-	two sessions
	Total		seven sessions

The hearings were conducted at locations in New York City selected by, and conducted under the auspices of, the National Association of Securities Dealers Regulation, Inc.

CASE SUMMARY

Claimant alleged that in 1989 he approached respondent States and had an account opened at respondent Gruntal so that he could register some unregistered shares he had in a company called York Research ("York"). Claimant further alleged that he did not sign a new account document when the account was opened. Claimant also alleged that in April/May of 1989, he started receiving account statements which showed he had 4,000 York shares and over \$6,000.00 in cash. Claimant contended that the York shares were sold and most of the proceeds were used to purchase 5,000 shares of Solv Ex Corp., a stock in which Gruntal was the market maker. Claimant further contended that in January of 1990, 64,000 of his York shares had the restrictions removed and 7,000 were sent to another Gruntal customer and the account then lied dormant until the end of that year.

Claimant asserted that he approached States in December in order to raise \$45,000.00 by selling some York shares but that States convinced him to purchase 10,000 more York shares on margin after which he could borrow the money against his new margin account. Claimant further asserted that he was a busy person and did not have the energy to resist States and therefore signed the margin account form on December 27, 1990 without receiving the required warnings from respondents concerning the dangers of this type of investing. Claimant also asserted that as a result of the above, he has suffered a loss for which the respondents should be held liable.

Respondents Gruntal and Baum maintained that claimant was not an unwitting victim of respondents rather he viewed the margin account as an attractive vehicle that enabled him to leverage his York holdings. Respondents further maintained that claimants losses were the result of the decline in the price of York. Respondents also maintained that they did not breach any duty owed to claimant. Respondents contended that claimant chose to use a margin account because he did not want to sell his York shares. Respondents further contended that claimant continued purchasing York shares and on June 28, 1991 his portfolio was worth \$1,475,521.00 with a total equity of \$783,357.00. Respondents further contended that claimant did not once complain about the activity in his account and that on July 24, 1991 the price of York plummeted. Respondents also contended that all of claimant's York shares on margin and consequently he was forced to sell off the shares resulting in a \$93,599 debt owed to Gruntal.

Respondent Gruntal filed a counterclaim alleging that claimant signed a Customer Agreement which authorized him to trade on margin. Respondent further alleged that claimant thereafter directed used his margin account to withdraw cash and to purchase additional securities. Respondent also alleged that as a result of claimant's activities, he wound up in debt to it for \$93,599.78.

In response to the counterclaim, claimant maintained that the counterclaim is based on the assumption that all the trading in the account was legitimate when in fact they were unauthorized. Claimant further maintained that the counterclaim should be dismissed in its entirety.

Respondent States filed a Statement of Answer adopting the factual and legal arguments set forth therein.

RELIEF REQUESTED

Claimant requested in claim one an award of the balance of his cash account prior to the opening of the margin account plus the margin account interest paid to Gruntal; in claim two an award of the 1990 equity value of his account plus punitive damages of five times that amount; in claim three punitive damages of five times the \$95,000.00 Gruntal claims is owed as "margin" debt, plus costs, attorneys fees and other such relief as the panel deems appropriate.

Respondent requested that the claims be dismissed in their entirety plus costs.

Respondents further requested an award of \$93,599.78 plus interest from July 24, 1991, costs, attorney's fees and other such relief as the panel deems just and proper.

Claimant requested that the counterclaim be dismissed in its entirety.

Respondent States requested that the claims be dismissed in their entirety.

OTHER ISSUES CONSIDERED & DECIDED

The arbitration panel made the following rulings concerning respondent States who failed to appear at the evidentiary hearing conducted in this matter:

1. Pursuant to Rule 10101 of the NASD Code of Arbitration Procedure (the "Code"), the panel found subject matter jurisdiction over this entire controversy.
2. The panel found that respondent States was an associated person of an NASD member at the time this controversy arose. Consequently, the panel found personal jurisdiction over respondent States pursuant to Rule 10301 of the Code.

3. In view of (2) above and in accordance with Rules 10310 10315 and 10318 of the Code, the panel found that NASD Regulation provided respondent States with "due notice" of the hearing conducted in this matter by regular and certified mail. The panel therefore, determined to proceed with the hearing without respondent States, whose absence was unexcused.

The parties who appeared at the hearing 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 appearing parties agreed to receive conformed copies of the Award while the originals remain on file with NASD Regulation.

Prior to the decision on the merits, claimant dismissed with prejudice his claims against respondents Gruntal & Co., Inc. and Barry Baum. In addition, respondent Gruntal & Co., Inc. dismissed, with prejudice, its counterclaim against claimant Richard Stone.

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 Jeff States be and hereby is liable and shall pay to claimant Richard Stone \$105,000.00 in actual damages. Claimant's award shall be set-off by the amount for which respondents Gruntal and Baum settled with claimant.
2. The parties shall bear their respective attorney's fees and costs.
3. All other relief requests are denied.

FORUM FEES

Pursuant to Rule 10332(c) of the Code of Arbitration Procedure, the arbitrators have determined that NASD Regulation shall retain the \$250.00 non-refundable filing fee previously deposited by claimant and the \$500.00 non-refundable counterclaim filing fee previously deposited by Gruntal and have assessed the following forum fees:

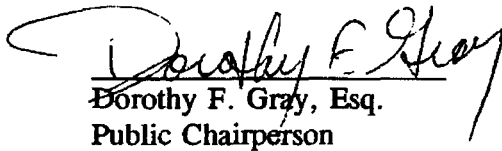
$$7 \text{ sessions} \times \$1,000.00 = \$7,000.00$$

Claimant Richard Stone be and hereby is liable for the sum of \$3,500.00 representing one-half of the total amount of forum fees assessed. Claimant previously deposited 1,000.00 with NASD Regulation. Therefore, claimant shall pay to NASD Regulation \$2,500.00 in satisfaction of outstanding fees.

Respondents Gruntal & Co., Inc. and Jeff States be and hereby are jointly and severally liable for the sum of \$3,500.00 representing one-half of the total amount of forum fees assessed. Respondent Gruntal & Co. Inc. previously deposited \$600.00 with NASD Regulation. Therefore, respondents Gruntal & Co., Inc. and Jeff States shall pay \$2,900.00 to NASD Regulation in satisfaction of outstanding forum fees.

ARBITRATORS' SIGNATURES

I, Dorothy F. Gray, Esq., do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.


Dorothy F. Gray, Esq.
Public Chairperson

I, Anne Cugliani, do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.

Anne Cugliani
Public Arbitrator

I, David Levy, Esq., do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.

David Levy, Esq.
Industry Arbitrator

Date of Decision: July 24, 1997

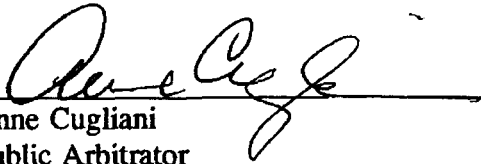
Respondents Gruntal & Co., Inc. and Jeff States be and hereby are jointly and severally liable for the sum of \$3,500.00 representing one-half of the total amount of forum fees assessed. Respondent Gruntal & Co. Inc. previously deposited \$600.00 with NASD Regulation. Therefore, respondents Gruntal & Co., Inc. and Jeff States shall pay \$2,900.00 to NASD Regulation in satisfaction of outstanding forum fees.

ARBITRATORS' SIGNATURES

I, Dorothy F. Gray, Esq., do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.

Dorothy F. Gray, Esq.
Public Chairperson

I, Anne Cugliani, do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.



Anne Cugliani
Public Arbitrator

I, David Levy, Esq., do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.

David Levy, Esq.
Industry Arbitrator

Date of Decision: July 24, 1997

Respondents Gruntal & Co., Inc. and Jeff States be and hereby are jointly and severally liable for the sum of \$3,500.00 representing one-half of the total amount of forum fees assessed. Respondent Gruntal & Co. Inc. previously deposited \$600.00 with NASD Regulation. Therefore, respondents Gruntal & Co., Inc. and Jeff States shall pay \$2,900.00 to NASD Regulation in satisfaction of outstanding forum fees.

ARBITRATORS' SIGNATURES

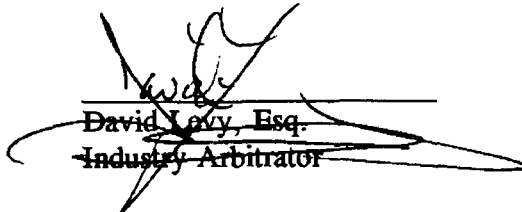
I, Dorothy F. Gray, Esq., do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.

Dorothy F. Gray, Esq.
Public Chairperson

I, Anne Cugliani, do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.

Anne Cugliani
Public Arbitrator

I, David Levy, Esq., do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.



David Levy, Esq.
Industry Arbitrator

Date of Decision: July 24, 1997