6/96 96C6144

NASD AWARD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

In the Matter of the Arbitration Between

Name of Claimant

PaineWebber, Incorporated

and Case Number 95-04 195

Name of Respondent

Michael L. McDonald

REPRESENTATION OF PARTIES

PaineWebber, Inc. ("Claimant") was represented by Janiece M. Longoria, Esq. of Andrews & Kurth located in Houston, TX.

Michael L. McDonald ("Respondent") appeared pro se'.

CASE INFORMATION

The Statement of Claim was filed on or about August 24, 1995.

The Submission Agreement of Claimant, PaineWebber, Inc. was signed on August 24, 1995 by Evan J. Charkes, Corporate Vice President.

The Statement of Answer was filed on or about May 29, 1996.

HEARING INFORMATION

The hearing was held on June 5, 1996 in Houston, TX before three arbitrators for a total of one (1) hearing session.

960614

CASE SUMMARY

In the Statement of Claim, PaineWebber, Inc. ("PaineWebber") alleged that Michael L. McDonald ("McDonald") was hired as an Investment Executive by the Claimant in a Houston, TX branch office on or about May 13, 1994. McDonald allegedly signed an Investment Executive Agreement in which he agreed that if his employment with PaineWebber were terminated for any reason, he would to reimburse the Claimant for any excess advances paid over commissions or any amounts owed under any agreements. As alleged, McDonald received **$274,156.00** on or about June 15, 1994 in the form of an Employee Forgivable Loan (**"EFL"**) or Promissory Note (the "Note"). McDonald also allegedly signed an EFL Acknowledgement Form, evidencing his understanding of and agreement to the conditions set forth in the Note. PaineWebber contended that the Note was to be forgiven by Claimant in three annual installments of $68539.00 beginning on June 14, 1995 provided certain conditions were met. According to PaineWebber, McDonald was discharged on May 19, 1995 based upon his failure to report to work from May 15, 1995 to May 19, 1995 and his refusal to supply PaineWebber with a written statement regarding his relationship with Diamond Cutters International or related entities. Despite written demand dated May 26, 1995, McDonald has allegedly failed and refused to repay his debt to PaineWebber.

In his Statement of Answer, Michael L. McDonald denied having any direct involvement with Diamond Cutters International maintaining that his wife was a contract sales representative for the company and that he had no obligation to disclose information concerning his interest or association with Diamond Cutters International to PaineWebber. McDonald alleged that PaineWebber terminated him due to market conditions and in order to force him to pay back the Note.

RELIEF REQUESTED

Claimant requested an award in the amount of **$274,156.00** plus interest as well as attorneys' fees and costs.

Respondent did not specifically request relief

OTHER ISSUES CONSIDERED & DECIDED

Respondent, Michael L. McDonald did not file with the NASD a properly executed submission to arbitration but is required to submit to arbitration pursuant to Section 8 of the NASD Code of Arbitration Procedure (the "Code") and having answered the claim, appeared and testified at the hearing is bound by the determination of the arbitration panel on all issues submitted.

Prior to the hearing, PaineWebber submitted a Motion for Award by Default and Motion to Bar Any Defenses. After careful consideration, the arbitrators determined that the Motion for Award by

Default was denied and decided to defer ruling on the Motion to Bar Defenses. At the conclusion of the hearing, the arbitrators ruled that the Motion to Bar Any Defenses was denied.

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 the 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, Michael L. McDonald is hereby liable for and shall pay to Claimant, PaineWebber, Inc. the sum of $274,156.00 in actual damages plus interest at Citibank's prime rate plus 2% compounded monthly from May 19, 1995 until paid;

2. Respondent, Michael L. McDonald is hereby liable for and shall pay to Claimant, PaineWebber, Inc. the amount of $10,000.00 in attorneys' fees. In determining to award attorneys' fees, the arbitrators considered the pleadings, the testimony and the evidence as well as the provisions of the Note;

3. Any relief not specifically granted herein is hereby denied; and

4. The parties shall bear their own costs except for those specifically enumerated herein.

FORUM FEES

Forum fees are calculated at the rate of $750.00 per hearing session. There was one (1) session x $750.00 = $750.00 in forum fees. Pursuant to Section 44(b) of the NASD Code of Arbitration Procedure, a hearing session is any meeting between the parties and the arbitrator(s), including a pre-hearing conference with an arbitrator, which lasts four (4) hours or less.

Pursuant to Section 44(c) of the Code, the National Association of Securities Dealers, Inc. ("NASD") shall retain the non-refundable filing fee in the amount of $500.00, the $350.00 surcharge imposed pursuant to Section 45 and the hearing session deposit in the amount of $750.00 previously deposited with the NASD by Claimant, PaineWebber, Inc.

100144

Arbitrators' Signatures:

Dated:

June 20, 1996

June 20, 1996

June 23, 1996

Date served by the NASD: June 28, 1996