
In the Matter of the Arbitration Between

Name of Claimant

Lawrence Lynn

95-05015

Name of Respondents

Smith Barney Shearson, Inc.
J.J. Morgan & Company Inc.
Gilford Securities, Inc.
Joseph Marc Blumenthal
Vincent R. Drohan

REPRESENTATION

For Claimant Lawrence Lynn ("claimant") appeared Jacques G. Simon, Esq. a sole practitioner located New York City, New York.

For Respondent Smith Barney Shearson, Inc. ("Smith Barney") appeared Alejandro Schwed, Esq., of the firm Smith Barney Shearson, Inc. located in New York City, New York.

For Respondents J.J. Morgan & Company, Inc. n/k/a First Cambridge Securities, Corporation ("J.J. Morgan") and Vincent Drohan ("Drohan") appeared Mark Rottenberg, Esq. and Jill M. Fradin, Esq., of the law firm Anderson & Rottenberg, P.C. located in New York City, New York.

For Respondent Gilford Securities, Inc. ("Gilford") appeared Joel Levinson, Esq. of the firm Gilford Securities, Inc. located in New York City, New York.

Respondent Joseph Marc Blumenthal ("Blumenthal") did not appear at the hearing.

CASE INFORMATION

Statement of Claim filed on: October 23, 1995.

Claimant's Submission Agreement signed on: October 13, 1995.

Respondent Smith Barney's Statement of Answer filed on: January 10, 1996.

Respondent Smith Barney's Submission Agreement signed on: January 10, 1996.

Respondents J.J. Morgan and Drohan's Joint Statement of Answer and Motion to Dismiss filed on: February 2, 1996.

Respondent J.J. Morgan's Submission Agreement signed on: February 1, 1996.

Respondent Drohan's Submission Agreement signed on: February 1, 1996.

Respondent Gilford's Statement of Answer and Motion to Dismiss filed on: January 25, 1996.

Respondent Gilford's Submission Agreement signed on: January 25, 1996.

Respondent Joseph Blumenthal did not file a Answer to the Statement of Claim nor did he execute a Submission Agreement.

HEARING INFORMATION

Pre-Hearing Conference:	September 10, 1996	-	1 Session
Hearing Dates/Sessions:	December 10, 1996	-	2 Sessions
	December 11, 1996	-	2 Sessions
	December 12, 1996	-	2 Sessions
	December 23, 1996	-	2 Sessions
	December 24, 1996	-	2 Sessions
	January 2, 1997	-	2 Sessions

The hearings were held at the offices of the National Association of Securities Dealers Regulation, Inc. located in New York City, New York.

CASE SUMMARY

Claimant alleged that, during the period of time between February 1994 and March 1994, Blumenthal, a representative of Gilford, fraudulently induced him to hand over \$55,000.00 in money orders for the purported purpose of purchasing 13,000 common shares of "U Can Win Systems, Ltd". Claimant further alleged that Blumenthal told him that he would purchase the stock in the name of Vivian Blumenthal (his wife) for an unexplained reason. Claimant also alleged that he told Blumenthal that he should either purchase the stock in his name, or return the money to him. Claimant asserted that Blumenthal assured him that the stock would be purchased in his name and that confirmation slips would be sent to him. Claimant further asserted that while waiting for the confirmation slips, Blumenthal left Gilford and moved to J.J. Morgan. Claimant contended that he consented to Blumenthal's transfer of the "U Can Win" account from Gilford to J.J. Morgan.

Claimant further contended that while employed by J.J. Morgan, Blumenthal declared bankruptcy and confessed that the "U Can Win" stock was not purchased in his name, but that it was bought for the name and account of his wife, Vivian Blumenthal. Claimant contended that Blumenthal informed him that Prudential Bache ("Prudential"), Gilford's clearing firm, froze the account in order to ensure payment of Blumenthal's personal debt to Gilford.

Claimant alleged that he had other stock and bond accounts with Shearson-Lehman, a predecessor of Smith Barney. Claimant contended that while Blumenthal was working at J.J. Morgan, he authorized Blumenthal and J.J. Morgan to transfer 6900 shares of "U Can Win" stock, from Shearson-Lehman. Claimant alleged that these 6900 shares of "U Can Win" had no correlation to the stock purchased in Vivian Blumenthal's name at Gilford. Claimant further alleged that he authorized Shearson-Lehman to allow the transfer of the 6900 shares to J.J. Morgan.

Claimant also alleged that during the period between May 1994 and July 1994, Blumenthal, while employed by J.J. Morgan, without his authorization, traded stocks in his name in various companies.

Claimant asserted that when he confronted Blumenthal about the source of funding for these unauthorized trades, Blumenthal explained that the trades were "day trades" and therefore no collateral or funds were necessary. Claimant asserted that Blumenthal, J.J. Morgan and his supervisor Drohan, without his authorization, transferred his stocks and bonds other than the "U Can Win" stock from his Shearson-Lehman accounts and used the same as collateral and funding for the unauthorized trades in his account. Claimant also asserted that his bond accounts were margined in an unauthorized fashion by Blumenthal, while under the employment and direct supervision of J.J. Morgan and Drohan. Claimant contended that Shearson-Lehman was negligent in releasing to J.J. Morgan all of his stocks and bonds without his authorization. Claimant contended that Blumenthal falsified confirmation tickets indicating that certain stocks were sold at a profit, when in fact they were not. Claimant further contended that Blumenthal made material misrepresentations regarding the position of the "U Can Win" stock as well as with respect to other stock which were procured by Blumenthal on his behalf without his authorization.

Respondent Gilford maintained that claimant expressly authorized his funds to be deposited into Vivian Blumenthal's account and subsequently verified it in writing. Gilford further maintained that claimant signed a release releasing Gilford from any liability for the very claims he now asserts. Respondent Gilford further maintained that during early 1994, Blumenthal deposited bank checks totaling approximately \$53,500.00 into Vivian Blumenthal's account. Respondent Gilford also maintained that it discovered that these checks were actually drawn against claimant's checking account. Respondent Gilford contended that it undertook a through investigation regarding the funds and concluded, based partly upon claimant's oral representation to Gilford and his representation set forth in the release agreement that he signed, that there was no wrongdoing by Blumenthal.

Respondent Smith Barney maintained that claimant admits that he authorized the transfer of the "U Can Win" stock to J.J. Morgan. Respondent Smith Barney further maintained that none of the alleged unauthorized trades occurred at Smith Barney. Respondent Smith Barney also maintained that it followed the standards set by the regulatory agencies and its own internal rules in processing claimant's request to transfer the securities to J.J. Morgan. Respondent Smith Barney contended that it received no financial benefit from this transfer. Respondent Smith Barney further contended that there was no negligence committed on its part.

Respondents J.J. Morgan and Drohan maintained that on or about April 18, 1994, claimant signed transfer forms authorizing the transfer of all of his securities held at Smith Barney and Gilford to J.J. Morgan's clearing broker, Bear Stearns Securities Corp. Respondents J.J. Morgan and Drohan further maintained that the transfer forms indicated that claimant transferred securities from existing cash/margin accounts where some of the securities were already margined. Respondents J.J. Morgan and Drohan also maintained that claimant was mailed all confirmation tickets and account statements at the residence address which claimant provided to the clearing agent. Respondents J.J. Morgan and Drohan contended that the confirmation tickets and account statements disclose the transfer of securities into and out of J.J. Morgan and the trading activity within the accounts. Respondents J.J. Morgan and Drohan further contended that claimant never objected in writing to any activity reported in his account, as disclosed by the confirmation tickets and account statements.

Respondents J.J. Morgan and Drohan, in their counterclaim against Blumenthal, alleged that if Blumenthal committed acts of wrongdoing against claimant, then he breached his fiduciary duty to them. Claimants J.J. Morgan and Drohan further alleged that they are not liable for any of the acts committed by Blumenthal and are entitled to recover damages from Blumenthal to the extent claimant recovers from them based upon Blumenthal's activities.

RELIEF REQUESTED

Claimant Lawrence Lynn requested: (1) \$55,000.00 from respondents Gilford and Blumenthal (2) \$15,000.00 from Gilford and Blumenthal for attorneys' fees; (3) \$165,000.00 from J.J. Morgan, Drohan and Blumenthal and (4) \$165,000.00 from Smith Barney for negligence.

Respondent Smith Barney Shearson requested that the claims of claimant be dismissed in their entirety and that all costs be assessed against claimant.

Respondents J.J. Morgan and Drohan requested that the claims of claimant be dismissed in their entirety, plus costs and reasonable attorneys' fees.

Respondent Gilford requested that the claims of claimant be dismissed in their entirety, and that it be reimbursed for reasonable expenses, including all lodging and travel costs, expert witness fees, attorneys' fees and miscellaneous or other costs which are incurred in connection with this defense

Respondents J.J. Morgan and Drohan, in their counterclaim, requested that they be entitled to recover damages from Blumenthal to the extent claimant recovers from them, plus costs and attorneys' fees.

OTHER ISSUES CONSIDERED & DECIDED

By letter dated December 9, 1996, NASD Regulation was advised that claimant Lawrence Lynn and Smith Barney Shearson, Inc. entered into a settlement agreement and, therefore, all claims against Respondent Smith Barney were withdrawn.

At the hearing on December 11, 1996, claimant withdrew his claims against respondents J.J. Morgan & Company and Vincent Drohan and, therefore, all claims against J.J. Morgan and Drohan were withdrawn.

At the hearing on December 10, 1996, Claimant withdrew all claims against Respondent Joseph Marc Blumenthal who obtained a discharge in bankruptcy pursuant to the Bankruptcy Code.

The arbitration panel denied the Motions to Dismiss made by Respondents Gilford Securities, J.J. Morgan and Vincent Drohan.

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. The claims of the claimant Lawrence Lynn against respondent Gilford Securities be and hereby are denied in their entirety.
2. All other relief requests be and hereby are denied.
3. Each party shall bear it's respective costs, including attorney's fees.

FORUM FEES

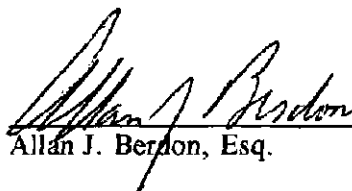
Pursuant to Rule 10332 of the Code of Arbitration Procedure, the arbitrators have determined that the NASD Regulation, Inc. shall retain the \$250.00 non-refundable filing fee and have assessed the following Forum Fees.

1 Pre-Hearing Conference X \$300.00	=	\$300.00
12 Hearing Sessions X \$750.00	=	\$9,000.00
Total assessed:	=	\$9,300.00

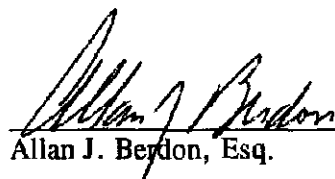
Claimant Lawrence Lynn be and hereby is liable and shall pay to NASD Regulation, Inc. the sum of \$6,975.00 representing 3/4 of the total forum fees assessed. Claimant previously deposited \$1,000.00 with the NASD Regulation, Inc. Therefore, claimant owes NASD Regulation, Inc. the sum of \$5,975.00. Respondent Gilford be and hereby is liable and shall pay to NASD Regulation, Inc. the sum of \$2,325.00 representing 1/4 of the total forum fees assessed.

Fees are payable to the National Association of Securities Dealers Regulation, Inc.

ARBITRATOR'S SIGNATURES


Allan J. Berdon, Esq.

I, Allan J. Berdon, 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.


Allan J. Berdon, Esq.

DATE OF DECISION: FEB 20, 1997

James R. Madan

James R. Madan

I, James R. Madan, 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.

James R. Madan

James R. Madan

DATE OF DECISION 20, 1997

Kenneth M. Felder
Kenneth M. Felder

I, Kenneth M. Felder, 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.

Kenneth M. Felder
Kenneth M. Felder

DATE OF DECISION : FEB 20, 1997