

NASD REGULATION, INC. AWARD

In the Matter of the Arbitration Between

Name of Claimant

American Allied Securities, Inc.

and

Case Number 98-00221

Names of Respondents

American General Securities, Inc.,
American General Life Insurance Co., and
National Financial Services Corporation

REPRESENTATION OF PARTIES

American Allied Securities, Inc. (hereafter referred to as "Claimant") was represented by Wesley S. Coddou, Esq. and Coddou & Coddou and by O.W. Bussey, Jr., Esq., both located in Houston, Texas.

American General Securities, Inc. and American General Life Insurance Co. (hereafter collectively referred to as "Respondents") were represented by Frank G. Jones, Esq., Kent Altsuler, Esq. and Thomas Godbold, Esq. of Fulbright & Jaworski, L.L.P., located in Houston, Texas.

CASE INFORMATION

The Statement of Claim of Claimant was filed on or about January 16, 1998.

The Submission Agreement of Claimant was signed on December 4, 1997 by Donald B. Egan, Owner/Sole Shareholder of American Allied Securities, Inc.

The joint Statement of Answer of Respondents American General Securities, Inc. and American General Life Insurance Co. was filed on or about April 13, 1998.

The Submission Agreement of Respondent American General Securities, Inc. was signed on April 8, 1998 by Fred G. Fram, Vice President.

The Submission Agreement of Respondent American General Life Insurance Co. was signed on April 9, 1999 by Norman L. Chersky, authorized representative.

HEARING INFORMATION

A pre-hearing conference with two arbitrators was held on September 16, 1998 for one (1) hearing session.

A pre-hearing conference with a single arbitrator was held on February 12, 1999 for one (1) pre-hearing session.

The hearing was held on: March 1, 1999 for two (2) hearing sessions;
 March 2, 1999 for two (2) hearing sessions;
 March 3, 1999 for two (2) hearing sessions; and
 March 4, 1999 for one (1) hearing session.

The hearing was held in Houston, Texas.

CASE SUMMARY

On or about June 16, 1993, Claimant entered into a formal agreement ("the agreement") with American General Securities, Inc. ("AGSI") whereby AGSI agreed to provide, among other things, all necessary institutional clearing services, and Claimant agreed to provide institutional market and trading expertise. National Financial Services Corp. ("National") was retained by AGSI as the Clearing Agent for Claimant's trades. According to the Claimant, American General Life Insurance Company ("AGL") began a course of willful and intentional interference with the agreement by preventing AGSI from clearing the Claimant's trades and by intimidating AGSI's registered principals into terminating the agreement. Claimant contended that National also began a course of willful and intentional interference with the agreement. Claimant stated that National would not perform until it either reviewed Claimant's account or until it received Claimant's corporate documentation although the agreement granted National no such privileges. Claimant also stated that National withheld logistical and technical support necessary to execute trades and advocated the permanent discontinuance of trading activity with Claimant. Claimant contended that the conduct of all Respondents was a proximate cause of its damages. AGSI allegedly breached its obligation to clear Claimant's trades due to AGL's and National's

interference. Claimant ceased to function as a Institutional Brokerage Firm because AGSI breached the terms of the agreement and the covenant of good faith and fair dealing.

Respondents American General Securities, Inc. and American General Life Insurance Co. denied the allegations of wrongdoing set forth in the Statement of Claim. Respondents specifically stated on August 1, 1994, Claimant originated three trades for bonds with a total market value of \$28 million. The bonds were rejected ("DK'd") by Merrill Lynch because the purchaser's account did not have sufficient funds to cover the trade. On August 5, 1994, John Hopper of AGSI sent a letter to Claimant regarding Claimant's breach of the agreement and reiterating the proper procedures that Claimant must follow in order to continue doing business with AGSI: (1) In similar situations, Claimant must place all of the securities into its inventory account overnight; and (2) All trades and new accounts must be pre-approved by Mr. Hopper, Fred Fram or the AGSI President. In a letter dated August 16, 1994, Mr. Fram stated that AGSI could no longer accept trades on behalf of Claimant until it received certain information from Claimant. Respondents eventually refunded the \$50,000.00 deposit Claimant made upon execution of the agreement to cover any losses that AGSI might incur as a result of clearing Claimant's trades. Respondents raised many special exceptions including that: the Statement of Claim failed to state a maximum amount to damages; the Statement of Claim did not allege a valid cause of action; the Statement of Claim failed to list AGSI's specific acts that rise to the claim of breaching the covenant of good faith and fair dealing; the Statement of Claim failed to list AGL's and AGSI's specific acts that were committed with reckless disregard. Respondents contended that they did not breach the agreement, but only stated that it would not accept trades on behalf of Claimant until certain information was submitted to AGSI. Respondent further contended that Claimant breached the agreement by placing trades for customers which had not been pre-approved.

RELIEF REQUESTED

Claimant requested an award in the amount of \$10,000,000.00 in actual damages; an undisclosed amount of punitive damages; interest; and costs.

Respondents requested that the claims asserted against them be denied in their entirety and that they be awarded their costs and attorneys' fees.

OTHER ISSUES CONSIDERED & DECIDED

On or about March 3, 1999, Claimant filed a notice dismissing its claims against Respondent National Financial Services Cooperation with prejudice.

The parties agreed to receive conformed copies of the award while the original remains on file with the NASD Regulation, Inc. Office of Dispute Resolution.

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 Statement of Claim submitted by Claimant American Allied Securities, Inc. against Respondents American General Securities, Inc. and American General Life Insurance Co. is denied in its entirety and dismissed with prejudice; and
2. Other than forum fees addressed below, all claims and relief requests not specifically awarded are denied in their entirety and dismissed with prejudice.

FORUM FEES

Forum fees are calculated at the rate of \$1,500.00 per hearing session and \$300.00 for each pre-hearing conference with a single arbitrator, if any. There was one (1) pre-hearing session with a single arbitrator x \$300.00 plus there were eight (8) hearing sessions x \$1,500.00 = \$12,300.00 in forum fees. Pursuant to Rule 10205(b) of the Code of Arbitration Procedure (the "Code"), 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 Rule 10205(c) of the Code, the NASD Regulation, Inc. Office of Dispute Resolution shall retain the non-refundable filing fee in the amount of \$500.00 and shall retain as forum fees the hearing session deposit in the amount of \$1,500.00 previously deposited with the NASD Regulation, Inc. by the Claimant. Respondents American General Securities, Inc. and American General Life Insurance Co. is jointly and severally liable for and shall pay to the NASD Regulation, Inc. the sum of \$10,800.00.

OTHER COSTS

Pursuant to Rule 10333 of the Code, Respondents American General Securities, Inc. and National Financial Services Corp. have each paid to the NASD Regulation, Inc. the \$3,600.00 member surcharges previously invoiced. Respondent American General Securities, Inc. shall pay to the NASD Regulation, Inc. the \$600.00 pre-hearing processing fees and the \$5,000.00 hearing processing fee. Furthermore, Respondent National Financial Services Corp. shall pay to

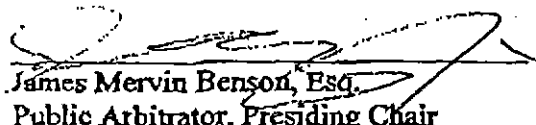
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the NASD Regulation, Inc. the \$600.00 pre-hearing processing fees and the \$5,000.00 hearing processing fee.

Fees are payable to the NASD Regulation, Inc. Office of Dispute Resolution.

Arbitrators' Signatures:

Dated:


James Mervin Benson, Esq.
Public Arbitrator, Presiding Chair

3.26.99

Thomas A. Thornhill, Jr.
Public Arbitrator, Panelist

Richard P. Cancelmo
Industry Arbitrator, Panelist

For NASD use only:
Date served:

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Arbitrators' Signatures:

Dated:

James Mervin Benson, Esq.
Public Arbitrator, Presiding Chair

Thomas A. Thornhill, Jr.
Thomas A. Thornhill, Jr.
Public Arbitrator, Panelist

3-25-99

Richard P. Cancelmo
Industry Arbitrator, Panelist

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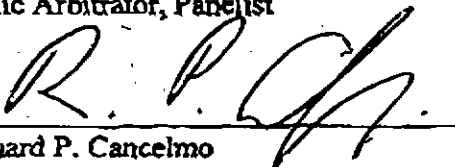
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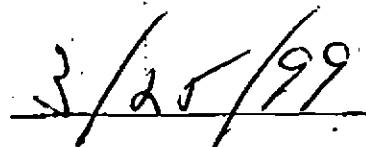
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3/25/99

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