

Award
NASD Dispute Resolution

In the Matter of the Arbitration Between:

Name of the Claimant

Case Number: 99-04213

L. R. Castelein

Name of the Respondents

Hearing Site: Charlotte, North Carolina

Bear Stearns & Co., Inc.,
Bear Stearns Securities Corp.,
Douglas W. Reid, and
Corporate Securities Group, Inc.
n/k/a Wachovia Securities Financial Network, Inc.

REPRESENTATION OF PARTIES

Claimant L.R. Castelein, hereinafter referred to as "Claimant", was represented by David S. Rudolf, Esq., Rudolf Maher Widenhouse & Fialko, Charlotte, North Carolina.

Respondents Bear Stearns & Co., Inc. and Bear Stearns Securities Corp., hereinafter collectively referred to as "Respondents Bear Stearns", were initially represented by Theodore J. Sawicki, Alston & Bird, LLP, Atlanta, Georgia. After a number of hearing sessions, Mr. Sawicki withdrew, and J. Anthony Penry, Esq., Penry Riemann PLLC, Raleigh, North Carolina appeared on behalf of Respondents Bear Stearns.

Respondent Corporate Securities Group, Inc. n/k/a Wachovia Securities Financial Network, Inc., hereinafter referred to as "Respondent CSG" was initially represented by Theodore J. Sawicki, Alston & Bird, LLP, Atlanta, Georgia. After a number of hearing sessions, Mr. Sawicki withdrew and David G. Russell, Esq., Parker, Hudson, Rainer & Dobbs LLP, Atlanta, Georgia appeared on behalf of Respondent CSG.

Respondent Douglas Reid, hereinafter referred to as "Respondent Reid" was not represented by counsel at the hearing and did not attend a number of hearing sessions.

CASE INFORMATION

Statement of Claim filed on September 13, 1999.

Claimant signed the Uniform Submission Agreement on September 1, 1999.

Claimant filed a Reply to Respondent CSG's Counterclaim on March 8, 2000.

Claimant filed a Reply to Respondents Bear Stearns' Counterclaim on March 8, 2000.

Statement of Answer and Counterclaim filed by Respondent CSG on February 22, 2000.

A representative of Respondent CSG executed the Uniform Submission Agreement on January 5,

2000.

Statement of Answer and Counterclaim filed by Respondents Bear Stearns on February 22, 2000.
A representative of Respondent Bear Stearns & Co. Inc. executed the Uniform Submission Agreement on June 15, 2001.

Respondent Bear Stearns Securities Corp. did not file an executed Uniform Submission agreement with NASD Dispute Resolution.

Statement of Answer filed by Respondent Reid on January 4, 2000.

Amended Statement of Answer filed by Respondent Reid on March 31, 2000.

Respondent Reid filed an undated Uniform Submission Agreement with NASD Dispute Resolution.

CASE SUMMARY

Claimant alleged in his Statement of Claim that this claim arises from events that occurred in 1997. On April 9, 1997, Claimant opened an account with Respondents Bear Stearns through Respondent CSG, at its Charlotte, North Carolina office, which was managed at the time by Respondent Reid. Respondent Reid led Claimant to believe that his account was with Respondents Bear Stearns only, but actually the account was with Respondent CSG. Respondent Bear Stearns was the clearing agent for Respondent CSG. On April 11, 1997, Claimant deposited \$12,499,975 United States Dollars ("USD") into the Bear Stearns account. By July, 1997, the account was dormant. During a less than three-month period, Respondent Reid engaged in heavy trading activity in the account, generating higher than normal commissions for himself, and he transferred funds out of the account to third parties without authorization to do so, some of which funds he paid to himself and another person as management fees. During the period of the account and since, Claimant has recovered all but approximately \$4,118,779 USD for which he seeks recovery in this action.

The Statement of Claim asserted claims against all Respondents for (1) breach of fiduciary duty, (2) misrepresentation, and (3) violation of NASD and NYSE rules and regulations.

Respondents Bear Stearns replied that Claimant alleged no wrongdoing on their part, that Respondents Bear Stearns sole function was to act as the clearing firm for Respondent CSG, that Respondent Reid was never employed by Respondents Bear Stearns, and that Respondents Bear Stearns were never responsible for the supervision of Respondent Reid. Respondents Bear Stearns' Answer included seventeen enumerated defenses to the claim plus a counterclaim against Claimant for attorneys' fees and expenses. In August of 2002, Respondents Bear Stearns voluntarily dismissed the counterclaim without prejudice prior to commencement of the evidentiary hearing.

Respondent CSG replied that it committed no wrongdoing in connection with the handling of Claimant's CSG account, that the account was handled properly, that Claimant's losses resulted from the actions of others beyond the control of CSG, that Claimant actually made \$493,884.56 in his CSG account, and that Claimant has no claim against Respondent CSG. Respondent

CSG's Answer included sixteen enumerated defenses to the claim plus a counterclaim against Claimant for attorneys' fees and expenses. In August of 2002, Respondent CSG voluntarily dismissed the counterclaim without prejudice prior to commencement of the evidentiary hearing.

Respondent Reid replied with a two-page answer filed pro se that was later amended. In the Amended Answer he alleged that he committed no wrongdoing in connection with the handling of Claimant's CSG account, that Claimant's losses resulted from Claimant's own investment decisions and/or the wrongdoings of others over which he had no control. Respondent Reid alleged that he was introduced to Claimant by a Mr. Walter Burke (hereinafter referred to as "Burke"), who, together with Claimant, requested that Respondent Reid open a trading account with Respondent CGS using Claimant's money; that Claimant requested trading authorization forms so that he could give authority to Burke to make trades in the account and giving Respondent Reid trading authority as well; that Claimant authorized the opening of an account at Wachovia Bank into which proceeds of the trading account could be deposited; that Burke authorized the transfer of \$9.45 million USD out of Claimant's account to an account at Piper Jaffray to fund a trading program involving the leasing of U.S. Treasury securities; that Claimant never complained about the handling of his account; and, that Respondent Reid did not write the letters dated June 2, 1997, and July 7, 1997, attached as exhibits to the Statement of Claim, stating that they were forgeries. Respondent Reid's Amended Answer included fifteen enumerated defenses to the Statement of Claim.

RELIEF REQUESTED

Claimant in his Statement of Claim asserted claims against all Respondents for compensatory damages of not less than \$4.5 million, interest, expenses, attorneys' fees, punitive damages, and sought an accounting of the Claimant's funds.

Respondent CSG in its Counterclaim requested litigation expenses and attorneys' fees.

Respondents Bear Stearns in its Counterclaim requested litigation expenses and attorneys' fees.

OTHER ISSUES CONSIDERED AND DECIDED

Respondent Reid filed a Statement of Answer, an Amended Statement of Answer and a Uniform Submission Agreement, and was present for the first three days of hearing. He did not, however, attend the last six days of the hearing. Based on the foregoing, the undersigned Panel determined that Respondent Reid has been properly served with the Statement of Claim and received due notice of the hearing, and that arbitration of the matter would proceed without said Respondent present, in accordance with the NASD Code of Arbitration Procedure (the "Code").

Respondent Bear Stearns Securities Corp. did not file with NASD Dispute Resolution, a properly executed submission to arbitration but is required to submit to arbitration pursuant to the Code and, having answered the claim, appeared and offered evidence at the hearing, is bound by the determination of the Panel on all issues submitted. This was stipulated to on the record at the opening session.

On October 16, 2000, the Claimant filed a Stipulation of Dismissal voluntarily dismissing initial Respondent JW Genesis Financial Corp., Inc.

The Panel denied Respondents Bear Stearns' Motion to Dismiss Statement of Claim on October 3, 2000.

In August of 2002, Respondent CSG and Respondents Bear Stearns voluntarily dismissed their Counterclaims without prejudice prior to commencement of the evidentiary hearing.

The Panel considered Claimant's Motion for Sanctions as part of its deliberations after the conclusion of evidence. The Panel denied said motion for immediate sanctions.

The Panel considered Respondent CSG's Motion to Dismiss Claim for Punitive Damages as part of its deliberations after the conclusion of evidence. The Panel denied said motion.

Prior to closing arguments, the Panel granted Respondents Bear Stearns' Motion to Dismiss Claim for Punitive Damages.

This case began with the filing of the Statement of Claim in 1999. It became apparent during the course of the hearings in 2002 that relevant evidence had not been produced by the corporate Respondents as requested by Claimant in discovery. Despite the fact that the Panel had issued discovery orders and subpoenas well in advance of the evidentiary hearing, the failure to have produced documents resulted in the Panel's issuing subpoenas on August 27, 2002 for the production of evidence, which subpoenas the Panel further enforced by an Order on September 26, 2002, for the Respondents other than Douglas Reid to produce the documents by October 21, 2002, in time for the resumption of hearings in the matter. Despite the Panel's Order, the documents ordered to be produced, the affidavits ordered to be presented and the privilege logs ordered to be produced with respect to any privilege claimed for the documents covered by the subpoenas and the Order were not all produced on time, even after an extension granted by Claimant, and some of the documents and privilege logs were not produced until the final day of the hearings on November 22, 2002. Some clearly relevant documents were never produced for the Panel, nor were any affidavits filed regarding their destruction.

It became apparent during the fifth day of the hearings that counsel for Respondent CSG had not been provided complete information by his client, resulting in such counsel's making untrue statements both in Respondent CSG's answer to the Statement of Claim and in Respondent CSG's opening argument and eliciting false testimony from a witness. After six days of hearings counsel withdrew from the case, requiring the corporate Respondents Bear Stearns and Respondent CSG to retain new counsel for the balance of the hearings.

Prior to commencement of the evidentiary hearing, on two occasions Respondent CSG caused Claimant to hire new counsel based on alleged conflicts of interest for the then existing counsel arising from the acquisition of Respondent CSG first by First Union and later from the acquisition of First Union by Wachovia Corporation.

Delays occasioned by the changes in Claimant's counsel and other factors finally brought the matter to evidentiary hearings that commenced on August 19, 2002. The hearings continued on August 20, 21, 27, 28 and 29 and on November 20, 21 and 22 for a total of nine hearing days and a total of 25 hearing sessions.

At the conclusion of the evidentiary hearing, the Panel kept the record open until December 13, 2002, for post-hearing submissions by the parties.

PANEL'S FINDINGS

In February of 1997, Claimant, a 60-year old citizen of Belgium and resident of Switzerland, was entertaining a proposal for a securities trading program with Burke who had contacted Claimant in Europe about an investment opportunity. Burke, a native of Australia, had an office in Charlotte, North Carolina, USA. The plan for the program was for Claimant to deposit \$12.5 million USD with a brokerage firm to be used to establish a credit facility that would be leveraged for trading in treasury bonds pursuant to which Claimant would receive \$6.25 million USD each 14 days for a total of 20 such payments, totaling \$125.0 million USD, after which he would receive back his original \$12.5 million USD, plus interest.

Burke persuaded Respondent Reid, then the branch manager of the Respondent CSG's Office of Supervisory Jurisdiction ("OSJ") office in Charlotte, North Carolina, to travel with him to New York City to meet Claimant on April 9, 1997, and to establish an account in which the trading could take place. Respondent Reid attended the New York meeting, representing himself as an officer of Respondents Bear Stearns, and obtained Claimant's signature on papers that opened an account with Respondents Bear Stearns. The papers Claimant signed did not authorize margin trading. The trading authorization forms alleged by Respondent Reid in his Amended Answer to have been signed by Claimant at this meeting were not signed by the Claimant but were forgeries signed by Respondent Reid, bearing the date of April 4, 1997, which is five days before the meeting. Respondent Reid was not in fact either an officer or even an employee of Respondents Bear Stearns, which was the clearing firm for Respondent CSG.

After the April 9, 1997 meeting, Claimant requested his European bankers to wire the \$12.5 million USD to Respondents Bear Stearns for the account he had opened. Claimant traveled to Charlotte to meet with Respondent Reid the next day, April 10, 1997. The funds were wired to Respondents Bear Stearns on April 11, 1997. Claimant came away from the April 10 meeting with what he thought were written assurances that his funds were safe and would not be moved from the Respondents Bear Stearns account without his written consent, still believing he was dealing with Respondents Bear Stearns whose name he saw in Respondent Reid's office and on his business card.

Claimant is a successful, self-made European businessman. Though savvy in business, he does not appear to be a sophisticated investor by United States standards. Seemingly inclined to make business deals on a handshake basis, he consulted with advisers regarding banking and other matters, including the Burke proposal. His banking advisers, who initially cautioned him about

the deal, also told him that Respondents Bear Stearns was a well known and successful brokerage firm, worth more financially than they, and that he could have confidence in dealing with Respondents Bear Stearns. Wary of a proposal that seemed too good to be true, he sought to assure himself that his funds would be safe. He obtained a letter from Respondent Reid assuring him that his funds would be used to purchase U. S. Treasury Bonds at the rate of 7.10%, that "all interest, profits and the initial funds" would not leave the Respondents Bear Stearns account without Claimant's written consent and that profits would be of non-criminal origin. When the profits did not come in as anticipated, Claimant made numerous telephone calls to Respondent Reid to inquire about the progress of the investment, and he traveled to New York and to Charlotte, North Carolina, on several occasions to follow that up. He took a risk in disregarding the advice of his bankers, whose advice he may have seen in part as an effort to retain the money in his account with them. The events happened so fast, in a period of about three months, that the money was gone before he learned of the fraudulent scheme.

Respondent Reid committed common law fraud in connection with the solicitation of the Claimant's account. Respondent Reid held himself out as an officer of Respondents Bear Stearns when in fact he had no affiliation with that firm. Respondent Reid continued the fraud in the management of Claimant's account. He induced Claimant to open a banking account in a fictitious name at Wachovia Bank through which the trading profits would flow. In fact, most of the money that came through that account was not trading profits, but part of the initial investment, a return of Claimant's own funds. Respondent Reid wired funds from Claimant's account to the Wachovia account as if it was a first party transfer when it was a third party transfer as defined by Respondent CSG's policies and procedures. Respondent Reid stole money from the Claimant by writing checks on the Wachovia account to both Burke and himself for management fees totaling \$ 587,000 in connection with the transaction.

Respondent Reid lied to the Claimant about the status of his account. On one occasion when Claimant came to visit him in Charlotte, North Carolina, he presented Claimant with a false account statement indicating that more than \$13 million USD was in the account. Respondent Reid and Burke both gave false answers to Claimant about the status of the trading program and what Claimant called "stupid reasons" for the delays. Respondent Reid admitted in these hearings that he has confessed in federal criminal proceedings to violations of law in connection with the Claimant's account and to similar violations with respect to accounts of others. The Court has required him to reimburse Claimant for his losses.

Respondent Reid easily and deliberately managed to circumvent the loosely enforced policies and procedures of Respondent CSG regarding a number of compliance matters. He prepared at least three versions of a New Account Card for Claimant's account, and the versions had differing degrees of inaccurate and conflicting information. He had Claimant's account statements mailed to a Charlotte, North Carolina, address, represented as Claimant's business address, so that Claimant never received mail from either Respondent CSG or Respondents Bear Stearns. He forged Claimant's signatures on documents, including trading authorizations and representations of net worth. He participated in arranging for Burke, posing as Claimant, to call Respondent CSG's Compliance Director to assuage concerns raised by margin trading that Respondent Reid was doing in the account without Claimant's knowledge or authorization. He engaged in short-

term trading of mutual funds in the account. He arranged for wire transfers of millions of dollars of Claimant's funds from Claimant's account to a third party in California by disguising the transfers as first party transfers when in fact they were not. When it became apparent that the investment scheme was not working, Respondent Reid engaged counsel on Claimant's behalf to try to reclaim the funds, but, in doing so, he concealed from such counsel the true facts about what had transpired. When the FBI became interested in matters involving Claimant's funds, Respondent Reid submitted information to the FBI as if he were Claimant. Later on March 19, 1999, Respondent Reid submitted a change of address for Claimant's account, making the address the same as his CSG office.

Respondent CSG, which, as a result of a series of corporate reorganizations is now known as Wachovia Securities Financial Network, Inc., operated in such willful and wanton disregard of its duties and obligations to the Claimant that the Panel finds it to have failed to supervise Respondent Reid as the law and the NASD regulations require. Although there was expert testimony to the effect that the written policies and procedures published and maintained by Respondent CSG were adequate, appropriate and reasonably designed to provide adequate supervision, it was abundantly clear from the evidence that the manner in which Respondent CSG administered those policies and procedures, and carried out its responsibilities under those policies and procedures, was woefully inadequate. For example, the Panel finds that the very procedures described by Joyce Wagner (hereafter called "Wagner"), who was the Director of Compliance of Respondent CSG during the time of the Claimant's account, in testimony given to the Panel in this matter as well as before the NASD District Business Conduct Committee for District 3 [Complaint No. C3A960009] on January 13, 1997 (three months before the opening of Claimant's account), were not followed either with respect to Respondent CSG's hiring of Respondent Reid or the manner in which Respondent CSG supervised him. In those 1997 proceedings, as well as in this case, Respondent CSG and Wagner did not produce in discovery a document referred to there as "Guidelines for Branch Manager Trade Review", which Wagner described in her 1997 testimony as "something extra" that Respondent CSG did with respect to "oversight" of branch managers. That document, which the National Adjudicatory Council found on appeal of the decision by the District Business Committee to be written supervisory procedures of Respondent CSG in the 1997 matter [decision dated June 10, 1998], was not produced in the course of the proceedings in this matter until the last day of the hearings, as reported to the Panel by Claimant's post-hearing submission. That was too late for the document to be introduced into evidence or to be the subject of witness testimony. Through Wagner's testimony, Respondent CSG maintained in these proceedings that its OSJ branch managers supervised themselves. That is a concept and practice that both the District Business Committee and the National Adjudicatory Council had clearly rejected and challenged. At the time of the Claimant's account, therefore, Respondent CSG knew that self-supervision was not acceptable.

Had Respondent CSG followed its own procedures (as described in the January, 1997, testimony as well as the testimony in this case) with respect to the hiring of new branch managers, the Panel finds it likely that Respondent CSG would not have hired Respondent Reid. Respondent Reid had lied about the circumstances of his departure from his prior job, stating that he had resigned when, in fact, he had been fired. His CRD at the time of Respondent CSG's hiring him included prior violations and complaints that should have given Respondent CSG pause in his hiring.

Respondent CSG's desire to hire big producers overrode reasonable precautions it could have taken.

Respondent CSG's repeated insistence that its branch managers supervise themselves is inconsistent with regulations that require each registered representative, which includes branch managers who are producers, to have a supervisor. Even after two regulatory proceedings in which its policies and procedures on supervision had been called into question prior to the filing of the Statement of Claim in this matter, Respondent CSG did not change its practices or its position. Respondent CSG made the same assertions in this case, again. In March of 1997, less than a month prior to the opening of Claimant's account, Respondent CSG sent an examiner to do a surprise audit of Respondent Reid's branch office without telling the auditor, who had done only one Respondent CSG branch audit previously, that Respondent Reid had recently admitted violating NASD rules by writing a letter to a client guaranteeing the client against loss, resulting in a personal fine of \$3,000 and requiring him to disgorge commissions.

While it would not be reasonable in the Panel's view to expect such detailed hands-on supervision practices and techniques as Claimant urged during the course of the hearings, Respondent CSG's conduct in supervising Respondent Reid and administering the Claimant's account was so far from reasonable in so many instances as to shock the conscience of the Panel. Respondent CSG did some good things in supervising Respondent Reid, but they were insufficient to meet Respondent CSG's obligations under the law and the NASD regulations. Reasonable diligence in the supervision of Respondent Reid and his trading activity in Claimant's account could have prevented the Claimant's loss. Many documents and records created at the time of the account, such as trade blotters, monthly exception reports and notes made by Respondent CSG's Director of Compliance, were not produced or available for witness examination.

In its June 10, 1998, decision regarding Complaint No. C3A960009, which involved activity of another Respondent CSG branch manager in 1992 and 1993, the National Adjudicatory Council stated:

A firm can fail in its duty to supervise when it overlooks "red flags" that indicate possible misconduct. . . . On the other hand, if a firm is not following procedures designed to detect misconduct, and is therefore committing a supervision violation, the firm may never observe the "red flags" that indicate possible misconduct. (Opinion at page 8, citing Exchange Act releases dated April 17, 1995, and January 15, 1997)

The National Adjudicatory Council found in that case that because Respondent CSG was not reviewing the branch manager's accounts, it was not able to recognize the "red flags" in the account in question.

Specific examples of the breakdown in Respondent CSG's supervision of Respondent Reid with respect to Claimant's account include numerous "red flags" that Respondent CSG did not see because of the manner in which it administered its policies and procedures, including:

- There were as many as three versions of a New Account Card for the Claimant's account that were incomplete and inconsistent. The differences were never questioned, yet the Panel was informed through testimony of Respondent CSG's former Director of Compliance that the New Account Card serves as the source document for critical client information in making decisions about servicing and supervising the account.
- Although the New Account Card shows that Claimant was a foreign national and that a Form W-8 needed to be filed, the firm's records showed the Claimant's mailing address was in Charlotte, North Carolina.
- Form W-8 was filed on behalf of Claimant, which is inconsistent with having an address in Charlotte, North Carolina, USA, as shown on the form W-8 itself. A second Form W-8 for Claimant, dated October 4, 1999, shows the Claimant's address as the same as the Respondent CSG office in Charlotte, North Carolina.
- It appears that the building directory in Charlotte, North Carolina, included the name of Respondents Bear Stearns with the Respondent CSG office location, but Respondent CSG failed to detect that or, if detected, failed to assure that Respondent Reid changed it. Claimant testified that he saw the Bears Stearns name when he visited Respondent Reid in his office, although it was not clear whether he saw it on the building directory or somewhere else in the office.
- Respondent Reid changed Claimant's account address (March 19, 1999, after the account was dormant but prior to the filing of the claim in this matter) to be the same as Respondent CSG's Charlotte, North Carolina office, which was managed by Respondent Reid. Respondent CSG apparently never noticed that the address was the same, or, if it did notice, did not inquire about it.
- Respondent Reid engaged in short-term trading in Respondents Bear Stearns mutual funds in Claimant's account resulting in extremely high commissions for Respondent Reid, but Respondent CSG never question him about those trades.
- Extremely high commissions generated by Respondent Reid through margin trading in Claimant's account did not bring scrutiny to the account. Respondent Reid was a big producer and Respondent CSG applauded him as such.
- Respondent CSG ignored the sale of \$45.0 million USD face value of treasury strips in Claimant's account as "selling away".
- Respondent CSG permitted wire transfer procedures that failed to detect third party transfers disguised as first party transfers.
- Respondent CSG failed to attempt to contact Claimant at his home address to verify critical information.

- Respondent CSG failed to raise questions when a large, new account suddenly had both very heavy trading generating very high commissions and large transfers out of the account.
- Respondent CSG failed to investigate early warning signs of a "fishy transaction" involving \$8.0 million dollars, when an unidentified person in California tried to deposit that amount into Claimant's account with a counter check.

Respondent CSG's failure to supervise Respondent Reid in an appropriate manner as required by the law and the NASD regulations directly led to Respondent Reid's being in a position to defraud the Claimant. The failure to supervise further permitted the fraud to continue when reasonable procedures reasonably administered could have stopped it.

Respondents Bear Stearns served as clearing agent for Respondent CSG. As such, it had no direct contact with Claimant, but it did have a contractual obligation with Claimant to manage his account in a proper manner. Respondents Bear Stearns was not in a position to supervise Respondent Reid, nor did it have any obligation to do so. The Panel finds that, although Respondents Bear Stearns maintained a policy with respect to the handling of wire transfers, it carried out its responsibilities in a manner that was not reasonable. One Respondents Bear Stearns witness testified that the Respondents Bear Stearns' system for effecting wire transfers allowed anyone with access to the MRGN system to bypass the need for written instructions to authorize wire transfers from Respondents Bear Stearns accounts. He testified that Respondents Bear Stearns' procedures keyed off of the names of the sending and receiving parties to determine whether a wire was a first person transfer or a third person transfer and the level of approval needed for the transfer. He stated that it was the responsibility of the receiving firm to match the name with the account and raise questions if it did not. That policy permitted Respondent Reid to disguise transfers from Claimant's account to third parties by using Claimant's name as both sender and receiver, but with an account number to which the funds were going. The lax administration of Respondents Bear Stearns' policies and procedures with respect to wire transfers should not go unpunished.

With respect to the claim for punitive damages, the Panel finds:

As to Respondent Reid:

- (1) his conduct was fraudulent under Sections 1D-5(4) and 1D-15(1) of the North Carolina General Statutes (NCGS)
- (2) evidence clearly and convincingly proved that his conduct was
 - a. highly reprehensible
 - b. designed and intended to cause serious harm to Claimant
 - c. known by him to cause Claimant a financial loss
 - d. lasted for the duration of the Claimant's account and beyond
 - e. caused actual loss to Claimant
 - f. included active concealment of facts, and
 - g. resulted in large profits to Respondent Reid.

As to Respondent CSG:

- (1) Respondent CSG's conduct with respect to Claimant's account meets the definition of "willful or wanton conduct" in Sections 1D-5(7) and 1D-15(3) of the NCGS
- (2) Respondent Reid was a "manager" of Respondent CSG during the time period of Claimant's account for purposes of Section 1D-15(c) of the NCGS
- (3) Joyce Wagner, as Director of Compliance, was a "manager" of Respondent CSG during the time period of Claimant's account for purposes of Section 1D-15(c) of the NCGS
- (4) Joyce Wagner and other officers, directors or managers responsible for the supervisory aspects of Respondent CSG's business operations during the time of Claimant's account participated in or condoned willful or wanton conduct as evidenced by their failure to supervise Respondent Reid as the law and the regulations required
- (5) the manner in which Respondent CSG approached its obligations to supervise Douglas Respondent Reid was
 - a. reprehensible in that it ignored clear indications from regulatory authorities that active supervision of branch managers is required and that self-supervision, as Respondent CSG maintained was its policy, was not possible
 - b. likely to lead to harm to Respondent CSG's customers, including Claimant
 - c. known to Respondent CSG's managers to leave gaps that would likely lead to client losses
 - d. continued prior to and during the time of the Claimant's account
 - e. resulted in losses to clients, including the Claimant
 - f. prevented the Claimant from getting information about his account
 - g. consistent with conduct challenged by regulators prior to the time of Claimant's account and at the very time of the account, and
 - h. resulted in a profit to Respondent CSG.

The Panel considered the purposes of punitive damages set forth in Section 1D-1 of the NCGS and, in light of the above findings, concludes that punitive damages should be awarded against both Respondent Reid and Respondent CSG.

AWARD

After considering the pleadings, the testimony and evidence presented at the hearing, and the post-hearing submissions, the Panel has decided in full and final resolution of the issues submitted for determination as follows:

1. Respondents CSG and Reid are jointly and severally liable to and shall pay to Claimant compensatory damages in the amount of \$4,118,779.00, plus simple interest at a rate of 8% per annum from September 13, 1999 until the date of payment pursuant to North Carolina General Statutes Chapter 1D (sections 1D-1 through 1D-50). Any monies paid by Respondent Reid pursuant to his plea agreement reached in the US District Court criminal matter will offset Respondents CSG and Reid's joint and several liability for the above compensatory damage award;

2. Respondents CSG and Reid are jointly and severally liable to and shall pay to Claimant punitive damages in the amount of \$12,356,337.00;
3. Respondents Bear Stearns are jointly and severally liable to and shall pay to Claimant compensatory damages in the amount of \$200,000.00 with no interest awarded on this amount;
4. The parties shall bear their respective costs, including attorneys' fees, except as Fees are specifically addressed below; and,
5. Any and all relief not specifically addressed herein is denied in its entirety.

FEES

Pursuant to the Code, the following fees are assessed:

Filing Fees

NASD Dispute Resolution will retain or collect the non-refundable filing fees for each claim:

Initial claim filing fee	= \$ 600.00
Counterclaim filing fee	= \$ 500.00

Member Fees

Member fees are assessed to each member firm that is a party in these proceedings or to the member firms that employed the associated person(s) at the time of the events giving rise to the dispute. Accordingly, Respondents Bear Stearns and Respondent CSG are parties.

Member surcharge	= \$ 2,500.00
Pre-hearing process fee	= \$ 600.00
Hearing process fee	= \$ 4,500.00
Total Member Fees	= \$ 7,600.00

Adjournment Fees

Adjournments granted during these proceedings for which fees were assessed:

June 19-27, 2001 adjournment by Claimant	= \$ 1,200.00
September 25- October 5, 2001 adjournment by Parties	= \$ 1,000.00
Total Adjournment Fees	= \$ 2,200.00

1. The Panel assessed \$1,100.00 of the Adjournment Fees to Claimant.
2. The Panel assessed \$1,100.00 of the Adjournment Fees jointly and severally to Respondents Bear Stearns, Respondent CSG and Respondent Reid.

Forum Fees and Assessments

The Panel has assessed forum fees for each session conducted. A session is any meeting between the parties and the arbitrator(s), including a pre-hearing conference with the arbitrator(s), that lasts four (4) hours or less. Fees associated with these proceedings are:

One (1) Pre-hearing session with a single arbitrator @ \$ 450.00 = \$ 450.00
Pre-hearing conference: April 6, 2001 1 session

Five (5) Pre-hearing sessions with Panel @ \$1,200.00 = \$ 6,000.00
Pre-hearing conferences: October 3, 2000 1 session
January 9, 2001 1 session
February 19, 2001 1 session
March 30, 2001 1 session
May 6, 2002 1 session

Twenty-five (25) Hearing sessions @ \$1,200.00 = \$30,000.00
Hearing Dates: August 19, 2002 3 sessions
August 20, 2002 3 sessions
August 21, 2002 2 sessions
August 27, 2002 3 sessions
August 28, 2002 3 sessions
August 29, 2002 2 sessions
November 20, 2002 3 sessions
November 21, 2002 3 sessions
November 22, 2002 3 sessions

Total Forum Fees = \$36,450.00

The Panel has assessed \$36,450.00 of the forum fees jointly and severally to Respondents Bear Stearns and Respondent CSG.

EEE SUMMARY

1. Claimant is assessed the following fees:

Initial Filing Fee	= \$ 600.00
<u>Adjournment Fee</u>	<u>= \$ 1,100.00</u>
Total Fees	= \$ 1,700.00
<u>Less payments</u>	<u>= \$ 2,400.00</u>
Refund Owed Claimant from NASD Dispute Resolution	= \$ 700.00

2. Respondent Bear Stearns & Co., Inc. is assessed the following fees:

<u>Member Fees</u>	<u>= \$ 7,600.00</u>
Total Fees	= \$ 7,600.00
<u>Less payments</u>	<u>= \$ 7,600.00</u>

Balance Due NASD Dispute Resolution = \$ 0.00

3. Respondent Bear Stearns Securities, Inc. is assessed the following fees:

<u>Member Fees</u>	= \$ 7,600.00
<u>Total Fees</u>	= \$ 7,600.00
<u>Less payments</u>	= \$ 7,600.00
Balance Due NASD Dispute Resolution	= \$ 0.00

4. Respondent CSG is assessed the following fees:

<u>Member Fees</u>	= \$ 7,600.00
<u>Total Fees</u>	= \$ 7,600.00
<u>Less payments</u>	= \$ 5,800.00
Balance Due NASD Dispute Resolution	= \$ 1,800.00

5. Respondents Bear Stearns, Respondent CSG and Respondent Reid are jointly and severally assessed the following fees:

<u>Adjournment Fees</u>	= \$ 1,100.00
<u>Total Fees</u>	= \$ 1,100.00
<u>Less payments</u>	= \$ 1,100.00
Balance Due NASD Dispute Resolution	= \$ 0.00

6. Respondents Bear Stearns and Respondent CSG are jointly and severally assessed the following fees:

<u>Filing Fee</u>	= \$ 500.00
<u>Forum Fees</u>	= \$36,450.00
<u>Total Fees</u>	= \$36,950.00
<u>Less payments</u>	= \$ 2,500.00
Balance Due NASD Dispute Resolution	= \$34,450.00

All balances are payable to NASD Dispute Resolution and are due upon receipt pursuant to Rule 10330(g) of the Code.

ARBITRATION PANEL

Zeb E. Barnhardt, Jr., Esq.	-	Public Arbitrator, Presiding Chairperson
Leonard Landsman	-	Public Arbitrator, Panelist
Charles G. Smith	-	Non-Public Arbitrator, Panelist

Concurring Arbitrators' Signatures

Zeh E. Barnhardt Jr

Zeh E. Barnhardt, Jr., Esq.
Public Arbitrator, Presiding Chairperson

January 24, 2003

Signature Date

Leonard Landsman

Public Arbitrator, Panelist

Signature Date

Charles G. Smith

Non-Public Arbitrator, Panelist

Signature Date

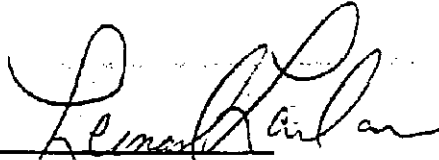
January 24, 2003

Date of Service (For NASD Dispute Resolution office use only)

Concurring Arbitrators' Signatures

Zeb E. Barnhardt, Jr., Esq.
Public Arbitrator, Presiding Chairperson

Signature Date



Leonard Landsman
Public Arbitrator, Panelist

1/20/03

Signature Date

Charles G. Smith
Non-Public Arbitrator, Panelist

Signature Date

January 24, 2003

Date of Service (For NASD Dispute Resolution office use only)

Concurring Arbitrators' Signatures

Zeb E. Barnhardt, Jr., Esq.
Public Arbitrator, Presiding Chairperson

Signature Date

Leonard Landsman
Public Arbitrator, Panelist

Signature Date

Charles G. Smith
Charles G. Smith
Non-Public Arbitrator, Panelist

1/29/03
Signature Date

January 29, 2003
Date of Service (For NASD Dispute Resolution office use only)