

Award
FINRA Dispute Resolution

In the Matter of the Arbitration Between:

Names of the Claimants

Case Number: 06-04110

Wilbert Battle
Anna M. Anderson
Delie Anthony
Ellis Beasley
Ruth Boone
Eddie Cooper
Mamie Cooper
Linda Eley
Excell Finch
Alma Finch
Deborah W. Gaines
William Henry Gray, Jr.
Lille H. Greene
William Harrell, Jr.
Samuel Harrell
Rita Harris
Mary B. Henderson
Mary Hines
Odell Knight
Thomas Knight
Erma C. Maxwell
Delois Perry
Carlton B. Phillips
Larry Pittman
Joe Ricks
Ruby Bryant Taylor
Alexander Williams
Dora H. Williams
Theophilus and Yvonne Williams
Wayne R. Williams
Ruth Beamon
George Boddie
Vertellar Clark
Joyce Houston
Antonio McNeil

Name of the Respondent
Northeast Securities, Inc.

Hearing Site: Raleigh, NC

Nature of the Dispute: Customer vs. Member.

REPRESENTATION OF PARTIES

For Wilbert Battle ("Battle"), Anna M. Anderson ("Anderson"), Delie Anthony ("Anthony"), Ellis Beasley ("Beasley"), Ruth Boone ("Boone"), Eddie Cooper ("E. Cooper"), Mamie Cooper ("M. Cooper"), Linda Eley ("Eley"), Excell Finch ("E. Finch"), Alma Finch ("A. Finch"), Deborah W. Gaines ("Gaines"), William Henry Gray, Jr. ("Gray"), Lillie H. Greene ("Greene"), William Harrell, Jr. ("W. Harrell"), Samuel Harrell ("S. Harrell"), Rita Harris ("Harris"), Mary B. Henderson ("Henderson"), Mary Hines ("Hines"), Odell Knight ("O. Knight"), Thomas Knight ("T. Knight"), Erma C. Maxwell ("Maxwell"), Delois Perry ("Perry"), Carlton B. Phillips ("Phillips"), Larry Pittman ("Pittman"), Joe Ricks ("Ricks"), Ruby Bryant Taylor ("Taylor"), Alexander Williams ("A. Williams"), Dora H. Williams ("D. Williams"), Theophilus Williams ("T. Williams"), Yvonne Williams ("Y. Williams"), Wayne R. Williams ("W. Williams"), Ruth Beamon ("Beamon"), George Boddie ("Boddie"), Vertellar Clark ("Clark"), Joyce Houston ("Houston"), and Antonio McNeil ("McNeil"), hereinafter collectively referred to as "Claimants": Howard B. Prossnitz, Esq. and Meghan McAllister, Esq., Law Offices of Howard Prossnitz, Chicago, Illinois.

For Northeast Securities, Inc. ("Northeast"), hereinafter referred to as "Respondent": Charles M. O'Rourke, Esq., Woodbury, New York.

CASE INFORMATION

Statement of Claim filed on or about: September 1, 2006.
Amended Statement of Claim filed on or about: August 24, 2007.
Claimant Battle signed the Uniform Submission Agreement: March 20, 2006.
Claimant Anderson signed the Uniform Submission Agreement: August 24, 2006.
Claimant Anthony signed the Uniform Submission Agreement: August 8, 2006.
Claimant Beasley signed the Uniform Submission Agreement: June 3, 2006.
Claimant Boone signed the Uniform Submission Agreement: August 3, 2006.
Claimant E. Cooper signed the Uniform Submission Agreement: June 5, 2006.
Claimant M. Cooper signed the Uniform Submission Agreement: June 5, 2006.
Claimant Eley signed the Uniform Submission Agreement: August 9, 2006.
Claimant E. Finch signed the Uniform Submission Agreement: August 21, 2006.
Claimant A. Finch signed the Uniform Submission Agreement: August 21, 2006.
Claimant Gaines signed the Uniform Submission Agreement: August 8, 2006.
Claimant Gray signed the Uniform Submission Agreement: February 24, 2006.
Claimant Greene signed the Uniform Submission Agreement: August 8, 2006.
Claimant W. Harrell signed the Uniform Submission Agreement: June 3, 2006.
Claimant S. Harrell signed the Uniform Submission Agreement: June 3, 2006.
Claimant Harris signed the Uniform Submission Agreement: August 24, 2006.
Claimant Henderson signed the Uniform Submission Agreement: August 9, 2006.
Claimant Hines signed the Uniform Submission Agreement: August 21, 2006.
Claimant O. Knight signed the Uniform Submission Agreement: June 3, 2006.
Claimant T. Knight signed the Uniform Submission Agreement: June 3, 2006.
Claimant Maxwell signed the Uniform Submission Agreement: August 16, 2006.
Claimant Perry signed the Uniform Submission Agreement: August 22, 2006.
Claimant Phillips signed the Uniform Submission Agreement: August 21, 2006.
Claimant Pittman signed the Uniform Submission Agreement: August 24, 2006.
Claimant Ricks signed the Uniform Submission Agreement: April 10, 2006.

Claimant Taylor signed the Uniform Submission Agreement: August 22, 2006.
Claimant A. Williams signed the Uniform Submission Agreement: June 3, 2006.
Claimant D. Williams signed the Uniform Submission Agreement: June 3, 2006.
Claimant T. Williams signed the Uniform Submission Agreement: June 4, 2006.
Claimant Y. Williams signed the Uniform Submission Agreement: June 4, 2006.
Claimant W. Williams signed the Uniform Submission Agreement: June 3, 2006.
Claimant Beamon signed the Uniform Submission Agreement: August 31, 2006.
Claimant Boddie signed the Uniform Submission Agreement: August 31, 2007.
Claimant Clark signed the Uniform Submission Agreement: August 30, 2007.
Claimant Houston signed the Uniform Submission Agreement: August 30, 2007.
Claimant McNeil signed the Uniform Submission Agreement: May 15, 2007.
Statement of Answer filed by Respondent on or about: November 8, 2006.
Answer to Amended Statement of Claim filed by Respondent on or about: November 16, 2007.
Respondent signed the Uniform Submission Agreement: November 14, 2006.
Claimants' Motion to Amend Statement of Claim filed on or about: August 27, 2007.
Respondent's Motion for Conditional Order of Dismissal filed on or about: September 17, 2007.
Claimants' Response to Respondent's Motion for Conditional Order of Dismissal filed on or about: September 25, 2007.
Claimants Battle, Anderson, Boone, Eley, Phillips, Ricks, Beamon, Boddie, Clark, Houston, and McNeil (the "Remaining Claimants") filed the Motion to Withdraw Counts Two, Three, and Four of the Amended Statement of Claim on or about: February 6, 2008.

CASE SUMMARY

Claimants asserted the following causes of action: 1) failure to supervise – "selling away"; 2) breach of fiduciary duty and respondeat superior; 3) negligence and suitability; 4) negligent misrepresentation; 5) violation of the North Carolina Securities Act; 6) breach of contract; and, 7) fraud. The causes of action relate to Claimants' transfer of monies in a selling away scheme perpetrated by a registered representative of Respondent.

Unless specifically admitted in its Answer, Respondent denied the allegations made in the Statement of Claim, as amended, and asserted various affirmative defenses.

RELIEF REQUESTED

Claimants requested compensatory damages in the amount of \$1,422,285.00 plus lost profits had their money been prudently invested, pre- and post-judgment interest, compensation for tax penalties and interest incurred, attorney's fees, punitive damages, the return of all fees, charges and commissions with interest, and costs.

Respondent requested dismissal of all claims and all such other and further relief the undersigned arbitrators (the "Panel") deemed appropriate.

OTHER ISSUES CONSIDERED AND DECIDED

On or about August 13, 2007, the Panel issued an order granting Claimants leave to file by August 24, 2007, an Amended Statement of Claim adding five new Claimants and dismissing twenty-five of the original Claimants.

On August 24, 2007 Claimants filed an Amended Statement of Claim which added the following five new Claimants: Beamon, Boddie, Clark, Houston, and McNeil. The following twenty-five original Claimants dismissed their claims: Anthony, Beasley, E. Cooper, M. Cooper, E. Finch, A. Finch, Gaines, Gray, Greene, W. Harrell, S. Harrel, Harris, Henderson, Hines, O. Knight, T. Knight, Maxwell, Perry, Pittman, Taylor, A. Williams, D. Williams, T. Williams, Y. Williams, and W. Williams.

In its Motion for Conditional Order of Dismissal, Respondent asserted that by failing to provide targeted affirmations that certain documents requested by Respondent do not exist, Claimants did not comply with the Panel's order dated August 13, 2007. In their response, Claimants asserted that they complied with the Panel's order.

On or about October 15, 2007, the Panel issued an order which granted Claimants' Motion to Amend Statement of Claim and granted Claimants leave to dismiss twenty-five of the original Claimants, without prejudice. The Panel also denied Respondent's Motion for Conditional Order of Dismissal and ordered Claimants to comply with the pre-hearing order dated August 13, 2007.

On February 14, 2008, the Panel issued an order which granted the Remaining Claimants' Motion to Withdraw Counts Two, Three, and Four of the Amended Statement of Claim.

During the evidentiary hearing, the Remaining Claimants made an ore tenus motion to dismiss all of the remaining counts of the Amended Statement of Claim except Counts One and Five. The motion was unopposed and granted by the Panel.

Claimant Battle did not appear at the evidentiary hearing. Accordingly, the Panel heard no evidence on his behalf.

The parties present at the evidentiary hearing have agreed that the Award in this matter may be executed in counterpart copies or that a handwritten, signed Award may be entered.

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:

Claimants in this case sought relief against Respondent Northeast for its alleged failure to supervise Joseph Lionel Jones ("Jones") who was associated with Northeast from January of 2002 through July of 2002. Jones, who is not a party to the arbitration, sold fraudulent unregistered securities to Claimants, none of whom, with the exception of

Linda Eley, had an account with Respondent Northeast at the time of sale. According to the evidenced adduced at the evidentiary hearing, Jones commenced his alleged Ponzi scheme approximately four (4) years prior to his affiliation with Respondent Northeast and continued his activities for a time thereafter. In 2005, Jones was sentenced to prison for his actions. The scheme by which Jones defrauded his investors was one whereby he induced Claimants, among others, to invest in purported contracts with BAB Productions, a promoter of concerts and other events. The contracts typically promised a return of ten percent (10%) quarterly, often "tax-free". Some Claimants received money back on a regular basis; others did not. Periodically, some of the Claimants would renew their contracts by "rolling-over" the old contract amount, plus accrued interest, into a new contract. In other instances, Claimants would take their interest or otherwise withdraw money from the scheme. Some Claimants added new money to existing contracts and/or entered into new contracts with new money.

The scheme dissolved in 2004 when Jones was the subject of a Cease and Desist Order issued by North Carolina securities enforcement officials and subsequently charged with violating the North Carolina Securities Act.

The evidence presented indicated that Jones engaged in fraudulent or deceitful acts that concealed his statutory violations such that Claimants were unaware of Jones' fraudulent acts until sometime in September, 2004. Thus, even if the three (3) year statute of limitations set forth in N.C. Gen. Stat §78A-56(f) applies, Claimants are not time-barred.

The Panel, having found from the evidence that Jones violated N.C. Gen. Stat §78A-56(a), et seq., further finds that Respondent Northeast is liable as a controlling person under N.C. Gen. Stat §78A-56(c)(1) as it failed to meet its burden of proving that, in the exercise of reasonable care, it could not have known of the existence of the facts underlying Jones' violations. Although Respondent Northeast did have reasonable supervisory policies in place, there was no evidence that it implemented those policies in a reasonable manner with respect to the new registered representatives it undertook to supervise in the beginning of 2002. Respondent Northeast is thus liable to the Remaining Claimants for compensatory damages and interest.

In order to avoid either over- or under-evaluating Claimants' recovery and to properly credit the recovery some of the Claimants in the instant case received as a result of the decision in FINRA Dispute Resolution Arbitration Number 06-04080, Anthony, et al v. Investors Capital Corporation, damages have been calculated by crediting the amount of money received back by each Claimant that appeared reasonably traceable to the new money invested by each Claimant from January 2002 through July 2002 against the new monies invested during said period. The Panel assesses the North Carolina legal rate of interest of eight percent (8%) from the date of the investment, calculated quarterly on declining balances through the last full fiscal quarter of 2007. The amounts awarded to the Remaining Claimants are as follows:

<u>Name of Claimant:</u>	<u>Investment:</u>	<u>Returns:</u>	<u>Award:</u>	<u>Total:</u>
Anna M. Anderson	\$ 23,888.00	\$ 0.00	\$23,888.00 principal \$12,447.00 interest	\$36,335.00
Ruth Boone	\$130,000.00	\$104,000.00	\$26,000.00 principal \$48,780.00 interest	\$74,780.00
Linda Eley	\$211,500.00	\$208,500.00	\$ 3,000.00 principal \$46,610.00 interest	\$49,610.00
Carlton B. Phillips	\$ 563.00	\$ 0.00	\$ 563.00 principal \$ 270.00 interest	\$ 833.00
Joe Ricks	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Ruth Beamon	\$ 10,000.00	\$ 0.00	\$10,000.00 principal \$14,600.00 interest	\$24,600.00
George Boddie	\$ 74,559.00	\$ 70,500.00	\$ 4,059.00 principal \$ 3,478.00 interest	\$ 7,537.00
Vertellar Clark	\$ 80,000.00	\$ 20,506.00	\$59,494.00 principal \$28,546.00 interest	\$88,040.00
Joyce Houston	\$ 5,000.00	\$ 1,705.00	\$ 3,295.00 principal \$ 1,612.00 interest	\$ 4,907.00
Antonio McNeil	\$ 30,000.00	\$ 0.00	\$30,000.00 principal \$12,600.00 interest	\$42,600.00

Claimant Battle's claims are dismissed, with prejudice.

Any and all claims for relief not specifically addressed herein, including Claimants' request for punitive damages, are denied.

FEES

Pursuant to the Code of Arbitration Procedure, the following fees are assessed:

Filing Fees

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

Initial claim 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 firm(s) that employed the associated person(s) at the time of the event(s) giving rise to the dispute. Accordingly, Respondent is a party and a member firm.

Member surcharge	= \$2,800.00
Pre-hearing process fee	= \$ 750.00
<u>Hearing process fee</u>	<u>= \$5,000.00</u>
Total member fees	= \$8,550.00

Adjournment Fees

Adjournments granted during these proceedings for which fees were assessed:

September 17-20, 2007, adjournment by Claimants = \$1,200.00

The Panel waived assessment of the adjournment fee.

Three-Day Cancellation Fees

Fees apply when a hearing on the merits is postponed or settled within three business days before the start of a scheduled hearing session:

No three-day cancellation fees were assessed during this proceeding.

Injunctive Relief Fees

Injunctive relief fees are assessed to each member or associated person who files for a temporary injunction in court. Parties in these cases are also assessed arbitrator travel expenses and costs when an arbitrator is required to travel outside his or her hearing location and additional arbitrator honoraria for the hearing for permanent injunction. These fees, except the injunctive relief surcharge, are assessed equally against each party unless otherwise directed by the panel.

No injunctive relief fees were assessed during this proceeding.

Forum Fees and Assessments

The Panel has assessed forum fees for each session conducted or each decision rendered on either a discovery-related motion on the papers or a contested motion for the issuance of a subpoena. 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/session = \$ 450.00
Pre-hearing conference: August 13, 2007 1 session

Two (2) Pre-hearing sessions with the Panel @ \$1,200.00/session = \$2,400.00
Pre-hearing conferences: January 29, 2007 1 session
October 15, 2007 1 session

Eight (8) Hearing sessions @ \$1,200.00/session = \$9,600.00
Hearing Dates: February 18, 2008 2 sessions
February 19, 2008 2 sessions
February 20, 2008 2 sessions
February 21, 2008 2 sessions

Total Forum Fees = \$12,450.00

The Panel has assessed \$2,025.00 of the forum fees jointly and severally to Claimants Battle, Anderson, Anthony, Beasley, Boone, E. Cooper, M. Cooper, Eley, E. Finch, A. Finch, Gaines, Gray, Greene, W. Harrell, S. Harrell, Harris, Henderson, Hines, O. Knight, T. Knight, Maxwell, Perry, Phillips, Pittman, Ricks, Taylor, A. Williams, D. Williams, T. Williams, Y. Williams, and W. Williams.

The Panel has assessed \$4,800.00 of the forum fees jointly and severally to Claimants Anderson, Boone, Eley, Phillips, Ricks, Beamon, Boddie, Clark, Houston, and McNeil.

The Panel has assessed \$5,625.00 of the forum fees to Respondent.

Administrative Costs

Administrative costs are expenses incurred due to a request by a party for special services beyond the normal administrative services. These include, but are not limited to, additional copies of arbitrator awards, copies of audio transcripts, retrieval of documents from archives, interpreters, and security.

No administrative costs were assessed during this proceeding.

Fee Summary

Claimants are jointly and severally liable for:

<u>Initial Filing Fee</u>	= \$ 500.00
<u>Total Fees</u>	= \$ 500.00
<u>Less payments</u>	= \$ 500.00
<u>Balance Due FINRA Dispute Resolution</u>	= \$ 0.00

Claimants Battle, Anderson, Anthony, Beasley, Boone, E. Cooper, M. Cooper, Eley, E. Finch, A. Finch, Gaines, Gray, Greene, W. Harrell, S. Harrell, Harris, Henderson, Hines, O. Knight, T. Knight, Maxwell, Perry, Phillips, Pittman, Ricks, Taylor, A. Williams, D. Williams, T. Williams, Y. Williams, and W. Williams are jointly and severally liable for:

<u>Forum Fees</u>	= \$ 2,025.00
<u>Total Fees</u>	= \$ 2,025.00
<u>Less payments</u>	= \$ 1,200.00
<u>Balance Due FINRA Dispute Resolution</u>	= \$ 825.00

Claimants Anderson, Boone, Eley, Phillips, Ricks, Beamon, Boddie, Clark, Houston, and McNeil are jointly and severally liable for:

<u>Forum Fees</u>	= \$ 4,800.00
<u>Total Fees</u>	= \$ 4,800.00
<u>Less payments</u>	= \$ 0.00
<u>Balance Due FINRA Dispute Resolution</u>	= \$ 4,800.00

Respondent is solely liable for:

<u>Member Fees</u>	= \$ 8,550.00
<u>Forum Fees</u>	= \$ 5,625.00
<u>Total Fees</u>	= \$14,175.00
<u>Less payments</u>	= \$ 8,550.00
<u>Balance Due FINRA Dispute Resolution</u>	= \$ 5,625.00

All balances are payable to FINRA Dispute Resolution and are due upon receipt.

ARBITRATION PANEL

Karen E. Sapp	-	Public Arbitrator, Presiding Chairperson
Karen J. Montgomery	-	Public Arbitrator
David P. McDuffee	-	Non-Public Arbitrator

Concurring Arbitrators' Signatures


Karen E. Sapp
Public Arbitrator, Presiding Chairperson

3/18/08
Signature Date

Karen J. Montgomery
Public Arbitrator

Signature Date

David P. McDuffee
Non-Public Arbitrator

Signature Date

Date of Service (For FINRA Dispute Resolution use only)

All balances are payable to FINRA Dispute Resolution and are due upon receipt.

ARBITRATION PANEL

Karen E. Sapp	-	Public Arbitrator, Presiding Chairperson
Karen J. Montgomery	-	Public Arbitrator
David P. McDuffee	-	Non-Public Arbitrator

Concurring Arbitrators' Signatures

Karen E. Sapp
Public Arbitrator, Presiding Chairperson

Signature Date

Karen J. Montgomery
Public Arbitrator

Signature Date



David P. McDuffee
Non-Public Arbitrator



Signature Date

Date of Service (For FINRA Dispute Resolution use only)