Disclosure Issue Hits White-Shoe Manager

HEARD ON THE STREET

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When **Showscan Entertainment** sought capital in 1995, the maker of movie-based thrill rides turned to Jack M. Ferraro, a money manager at **Neuberger Berman.** Mr. Ferraro lined up $7 million through a Swiss bank. His pay: warrants for 100,000 shares of Showscan stock.

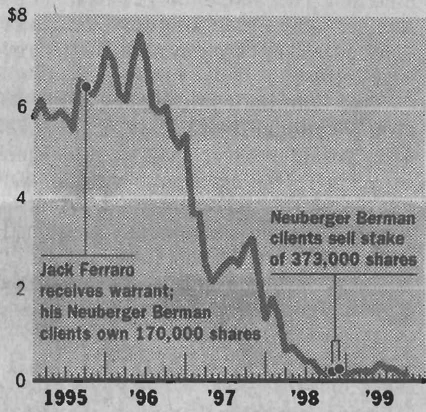
But Mr. Ferraro didn't disclose his payment to two important parties: his clients – mostly wealthy investors, who owned more than 170,000 shares of Showscan, and who continued buying the struggling company's stock-and Neuberger, a white-shoe money-management firm.

On Wednesday, Neuberger suspended Mr. Ferraro, 54 years old, amid an internal investigation of the payments Mr. Ferraro received from Showscan and three other small companies. Mr. Ferraro's clients held shares in at least one other company besides Showscan that paid him warrants. The payments he received entitled him to a total of about 1,350,000 shares of small companies' stock in the past several years. Neuberger declined to elaborate on the probe, which was prompted by questions from The Wall Street Journal.

The episode underscores the fiduciary responsibility money managers have with investors. Receiving payments from companies in which clients are invested raises a potential conflict between the money

Bad Show

Showscan's monthly closing stock price



Sources: Tradeline Int'l; CDA/Spectrum; SEC filings

manager's business relationship with the company and the manager's role as a fiduciary for clients. Money managers have a duty to disclose such potential conflicts to clients, regulators say.

Mr. Ferraro said in an interview before his suspension that he didn't believe he needed to tell clients of the warrant payments, because they converted into stock at the market price when they were issued, rather than at a discount. And he said he didn't see any conflict in receiving the warrants or actual stock.

Speaking about the four companies, Mr. Ferraro said: "I did not sell any warrants, I did not sell any stock, I did not make any money on the stock."

What is clear is that the Showscan investment ended badly for his clients. Much of the buying took place in 1995, when the stock's price ranged from $5 to $8.125, regulatory documents show. By 1998's fourth quarter, when his clients sold their 373,000-share stake, Showscan's stock price ranged from 32.8125 cents to 3.125 cents. Showscan, Culver City, Calif., makes movie and motion-simulation rides that give the feeling of racing through outer space and other thrills. Its shares have been delisted from the Nasdaq Stock Market.

The issue comes at a particularly sensitive time for Neuberger Berman, which went public earlier this week. The firm has a squeaky-clean reputation that is necessary in managing the more than $50 billion in assets for wealthy investors, institutions and mutual-fund investors that are its clients. Indeed, Lawrence Zicklin, the chairman, teaches a course at the Wharton School on ethics.

"The trust of our clients is our most important asset," Jeffrey B. Lane, Neuberger's president and chief executive, said generally about the firm's probe. "We require that all of our employees adhere to the very highest of ethical standards."

Yesterday, a spokesman for Mr. Ferraro said, "We believe he was suspended in an excess of caution while they clarify the facts." The spokesman said each of the transactions was publicly disclosed.

But it wouldn't have been easy for investors to determine that Mr. Ferraro

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had been paid the warrants. Payments were mentioned in regulatory filings, but in some instances, Mr. Ferraro isn't named initially as the warrant recipient. In a filing by **Intellicall**, one of two companies that paid him warrants while his clients held shares, he was referred to only as "a nonaffiliated party." It wasn't until two years later that an Intellicall filing reveals Mr. Ferraro as the warrant recipient.

In all four instances where Mr. Ferraro received payments, he was being rewarded for having lined up financing for the small, struggling companies through the same bank, **Banca del Gottardo**, of Lugano, Switzerland. Mr. Ferraro is a former analyst at the bank.

Francesco Bolgiani, the bank's deputy chairman, confirmed in an interview yesterday that clients of his bank had made investments in the four companies that had paid warrants to Mr. Ferraro, and that Mr. Ferraro had worked at the bank in the 1970s. But Mr. Bolgiani declined to comment on the bank's relations with Mr. Ferraro, or its clients' investments in the companies, before talking to Neuberger officials and checking company records.

Mr. Ferraro, born in Rochester, N.Y., is a fitness enthusiast who says he is a fan of famed Omaha, Neb., investor Warren Buffett. He is well-regarded at Neuberger, where he has worked for 20 years. As one of 70 partners at the firm before it went public, Mr. Ferraro received a pay package of about $1.5 million last year.

Mr. Ferraro owns 222,083 shares of Neuberger, according to the prospectus filed for its public offering, which at yesterday's closing price of $28.0625 in New York Stock Exchange composite trading would have a value of more than $6.2 million.

The tiny companies that paid warrants to Mr. Ferraro aren't the usual fare at Neuberger Berman; large holdings for clients as of June 30 included **Citigroup, General Motors** and **Xerox**. In addition to Showscan, two of the other companies, **ParkerVision** and Intellicall, have posted losses so far this year. The fourth concern, **Vasomedical**, earned one cent a share in the three months ended Aug. 31.

"In each one, Ferraro gets compensated in the form of warrants for the private purchase by Banca del Gottardo of these stocks," said Manuel Asensio, a well-known and outspoken short seller in New York.

Mr. Asensio—whose firm, **Asensio & Co.**, currently is selling short the stock of ParkerVision (in hopes of profiting from a price decline)—says all four companies shouldn't be bought by institutions for their individual-investor clients. "These are not companies that any individual who has discretion over investment accounts should be purchasing."

Jeffrey Parker, chairman and chief executive of ParkerVision, counters that his company possesses valuable technology and that it just this week signed a licensing agreement.

In the case of Intellicall, a Carrollton, Texas, pay-telephone company, Mr. Ferraro said he received warrants convertible into 350,000 shares in 1995 and 1996 for raising $12.5 million through Banca del Gottardo. He added that his clients were invested in the stock; it is unclear whether they still hold an Intellicall stake.

Mr. Ferraro said Vasomedical, a Westbury, N.Y., concern that sells a device treating coronary-artery disease via inflatable cuffs worn on the legs and buttocks, paid him 600,000 shares in September 1995 for arranging an investment through Banca del Gottardo.

ParkerVision, a video and radio-frequency product maker in Jacksonville, Fla., paid Mr. Ferraro warrants convertible into 205,000 shares during 1996 and 1997, for raising money from Banca del Gottardo. Filings showed that Neuberger Berman clients or partners have been owners of Vasomedical and ParkerVision, but Mr. Ferraro said his own clients weren't invested in them.

Mr. Ferraro's partner in all these instances was Banca del Gottardo, a Swiss bank that was his employer for five years before he joined Neuberger Berman in 1979. Mr. Ferraro said the bank acted as an agent; that is, it distributed the stock of these small companies to its own clients rather than keeping it for its own account.

For the most part, the stock prices of the companies in which Mr. Ferraro got warrants are tiny. Showscan, which now trades on the OTC Bulletin Board run by the National Association of Securities Dealers for stocks too small for Nasdaq, was quoted at a bid price of eight cents a share. On the Big Board, Intellicall closed yesterday at $1 a share, and Vasomedical was at $1.0625 on the Nasdaq Stock Market. ParkerVision stock closed at $28.25 on Nasdaq yesterday, down from its peak of more than $39 in July, but having soared from $10 when Mr. Ferraro got his first warrant.

Meanwhile, executives at the companies have nothing but praise for Mr. Ferraro. Bill Hunt, chairman of Intellicall, calls him "a good friend who is, to me, one of the really bright guys on Wall Street." Says ParkerVision's Mr. Parker: "The guy has got a mind like a steel trap."

Mr. Ferraro, for his part, said he believed all these companies had great prospects. Moreover, by raising money for the companies, he was improving their prospects. Asked about their subsequent dismal performance, in spite of the money he helped raise, Mr. Ferraro said: "Now you're just addressing my stupidity."

—Carrick Mollenkamp contributed to this article.