

Defendants.

Plaintiff Securities and Exchange Commission alleges:

#### **SUMMARY**

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1. The Commission seeks emergency relief to halt a massive, ongoing fraud orchestrated by R. Allen Stanford and James M. Davis and executed through companies they control, including Stanford International Bank, Ltd. ("SIB") and its affiliated Houston-based investment advisers, Stanford Group Company ("SGC") and Stanford Capital Management ("SCM"). Laura Pendergest-Holt, the chief investment officer of a Stanford affiliate, was indispensable to this scheme by helping to preserve the appearance of safety fabricated by Stanford and by training others to mislead investors. For example, she trained training SIB's senior investment officer to provide false information to investors.

2. Through this fraudulent scheme, SIB, acting through a network of SGC financial advisors, has sold approximately \$8 billion of self-styled "certificates of deposits" by promising high return rates that exceed those available through true certificates of deposits offered by traditional banks.

3. SIB claims that its unique investment strategy has allowed it to achieve doubledigit returns on its investments over the past 15 years, allowing it offer high yields to CD purchasers. Indeed, SIB claims that its "diversified portfolio of investments" lost only 1.3% in 2008, a time during which the S&P 500 lost 39% and the Dow Jones STOXX Europe 500 Fund lost 41%.

4. Perhaps even more strange, SIB reports identical returns in 1995 and 1996 of exactly 15.71%. As Pendergest-Holt – SIB investment committee member and the chief investment officer of Stanford Group Financial (a Stanford affiliate) – admits, it is simply "improbable" that SIB could have managed a "global diversified" portfolio of investments in a way that returned identical results in consecutive years. A performance reporting consultant hired by SGC, when asked about these "improbable" returns, responded simply that it is "impossible" to achieve identical results on a diversified investment portfolio in consecutive years. Yet, SIB continues to promote its CDs using these improbable returns.

5. These improbable results are made even more suspicious by the fact that, contrary to assurances provided to investors, at most only two people – Stanford and Davis – know the details concerning the bulk of SIB's investment portfolio. And SIB goes to great lengths to prevent any true independent examination of those portfolios. For example, its long-standing auditor is reportedly retained based on a "relationship of trust" between the head of the auditing firm and Stanford.

6. Importantly, contrary to recent public statements by SIB, Stanford and Davis (and through them SGC) have wholly-failed to cooperate with the Commission's efforts to account for the \$8 billion of investor funds purportedly held by SIB. In short, approximately 90% of

SIB's claimed investment portfolio resides in a "black box" shielded from any independent oversight.

7. In fact, far from "cooperating" with the Commission's enforcement investigation (which Stanford has reportedly tried to characterize as only involving routine examinations), SGC appears to have used press reports speculating about the Commission's investigation as way to further mislead investors, falsely telling at least one customer during the week of February 9, 2009, that his multi-million dollar SIB CD could not be redeemed because "the SEC had frozen the account for two months." At least one other customer who recently inquired about redeeming a multi-million dollar CD claims that he was informed that, contrary to representations made at the time of purchase that the CD could be redeemed early upon payment of a penalty, R. Allen Stanford had ordered a two-month moratorium on CD redemptions.

8. This secrecy and recent misrepresentations are made even more suspicious by extensive and fundamental misrepresentations SIB and its advisors have made to CD purchasers in order to lull them into thinking their investment is safe. SIB and its advisers have misrepresented to CD purchasers that their deposits are safe because the bank: (i) re-invests client funds primarily in "liquid" financial instruments (the "portfolio"); (ii) monitors the portfolio through a team of 20-plus analysts; and (iii) is subject to yearly audits by Antiguan regulators. Recently, as the market absorbed the news of Bernard Madoff's massive Ponzi scheme, SIB has attempted to calm its own investors by claiming the bank has no "direct or indirect" exposure to Madoff's scheme.

9. These assurances are false. Contrary to these representations, SIB's investment portfolio was not invested in liquid financial instruments or allocated in the manner described in its promotional material and public reports. Instead, a substantial portion of the bank's portfolio was

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placed in illiquid investments, such as real estate and private equity. Further, the vast majority SIB's multi-billion dollar investment portfolio was not monitored by a team of analysts, but rather by two people – Allen Stanford and James Davis. And contrary to SIB's representations, the Antiguan regulator responsible for oversight of the bank's portfolio, the Financial Services Regulatory Commission, does not audit SIB's portfolio or verify the assets SIB claims in its financial statements. Perhaps most alarming is that SIB has exposure to losses from the Madoff fraud scheme despite the bank's public assurances to the contrary.

10. SGC has failed to disclose material facts to its advisory clients. Alarmingly, recent weeks have seen an increasing amount of liquidation activity by SIB and attempts to wire money out of its investment portfolio. The Commission has received information indicating that in just the last two weeks, SIB has sought to remove over \$178 million from its accounts. And, a major clearing firm – after unsuccessfully attempting to find information about SIB's financial condition and because it could not obtain adequate transparency into SIB's financials– has recently informed SGC that it would no longer process wires from SGC accounts at the clearing firm to SIB for the purchase of SIB issued CDs, even if they were accompanied by customer letters of authorization.

11. Stanford's fraudulent conduct is not limited to the sale of CDs. Since 2005, SGC advisers have sold more than \$1 billion of a proprietary mutual fund wrap program, called Stanford Allocation Strategy ("SAS"), by using materially false and misleading historical performance data. The false data has helped SGC grow the SAS program from less than \$10 million in around 2004 to over \$1.2 billion, generating fees for SGC (and ultimately Stanford) in excess of \$25 million. And the fraudulent SAS performance was used to recruit registered financial advisers with significant

books of business, who were then heavily incentivized to re-allocate their clients' assets to SIB's CD program.

12. Moreover, SIB and Stanford Group Company have violated Section 7(d) of the Investment Company Act of 1940 by failing to register with the Commission in order to sell SIB's CDs. Had they complied with this registration requirement, the Commission would have been able to examine each of those entities concerning SIB's CD investment portfolio.

13. By engaging in the conduct described in this Complaint, defendants Stanford, Davis, Pendergest-Holt, SIB, SGC, and Stanford Capital, directly or indirectly, singly or in concert, have engaged, and unless enjoined and restrained, will again engage in transactions acts, practices, and courses of business that constitute violations of Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77e(a), 77e(c) and 77q(a)], and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)], and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5] or, in the alternative, have aided and abetted such violations. In addition, through their conduct described herein, Stanford, SGC, and Stanford Capital have violated Section 206(1) and (2) of the Investment Advisers Act of 1940 ("Adviser's Act") [15 U.S.C. §§ 80b-6(1) and 80b-6(2)] and Davis and Pendergest-Holt have aided and abetted such violations. Finally, through their actions, SIB and SGC have violated Section 7(d) of the Investment Company Act of 1940 ("ICA") [15 U.S.C. § 80a-7(d)].

14. The Commission, in the interest of protecting the public from any further unscrupulous and illegal activity, brings this action against the defendants, seeking temporary, preliminary and permanent injunctive relief, disgorgement of all illicit profits and benefits defendants have received plus accrued prejudgment interest and a civil monetary penalty. The Commission also seeks an asset freeze, an accounting and other incidental relief, as well as the

appointment of a receiver to take possession and control of defendants' assets for the protection of defendants' victims.

#### JURISDICTION AND VENUE

15. The investments offered and sold by the defendants are "securities" under Section
2(1) of the Securities Act [15 U.S.C. § 77b], Section 3(a)(10) of the Exchange Act [15 U.S.C. §
78c], Section 2(36) of the Investment Company Act [15 U.S.C. § 80a-2(36)], and Section
202(18) of the Advisers Act [15 U.S.C. § 80b-2(18)].

16. Plaintiff Commission brings this action under the authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)], Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], Section 41(d) of the Investment Company Act [15 U.S.C. § 80a-41(d)], and Section 209(d) of the Advisers Act [15 U.S.C. § 80b-9(d)] to temporarily, preliminarily, and permanently enjoin Defendants from future violations of the federal securities laws.

17. This Court has jurisdiction over this action, and venue is proper, under Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], Section 27 of the Exchange Act [15 U.S.C. § 78aa], Section 43 of the Investment Company Act [15 U.S.C. § 80a-43], and Section 214 of the Advisers Act [15 U.S.C. § 80b-14].

18. Defendants have, directly or indirectly, made use of the means or instruments of transportation and communication, and the means or instrumentalities of interstate commerce, or of the mails, in connection with the transactions, acts, practices, and courses of business alleged herein. Certain of the transactions, acts, practices, and courses of business occurred in the Northern District of Texas.

#### **DEFENDANTS**

19. Stanford International Bank, Ltd. purports to be private international bank domiciled in St. John's, Antigua, West Indies. SIB claims to serve 30,000 clients in 131 countries and holds \$7.2 billion in assets under management. SIB's Annual Report for 2007 states that SIB has 50,000 clients. SIB's multi-billion portfolio of investments is purportedly monitored by the SFG's chief financial officer in Memphis, Tennessee. Unlike a commercial bank, SIB does not loan money. SIB sells the CD to U.S. investors through SGC, its affiliated investment adviser.

20. Stanford Group Company, a Houston-based corporation, is registered with the Commission as a broker-dealer and investment adviser. It has 29 offices located throughout the U.S. SGC's principal business consists of sales of SIB-issued securities, marketed as certificates of deposit. SGC is a wholly owned subsidiary of Stanford Group Holdings, Inc., which in turn is owned by R. Allen Stanford ("Stanford").

21. Stanford Capital Management, a registered investment adviser, took over the management of the SAS program (formerly Mutual Fund Partners) from SGC in early 2007. Stanford Group Company markets the SAS program through SCM.

22. R. Allen Stanford, a U.S. citizen, is the Chairman of the Board and sole shareholder of SIB and the sole director of SGC's parent company. Stanford refused to appear and give testimony in the investigation.

23. James M. Davis, a U.S. citizen and resident of Baldwin, Mississippi and who offices in Memphis, Tennessee and Tupelo, Mississippi, is a director and chief financial officer of SFG and SIB. Davis refused to appear and give testimony in this investigation.

24. Laura Pendergest-Holt, is the Chief Investment Officer of SIB and its affiliate Stanford Financial Group. She supervises a group of analysts in Memphis, Tupelo, and St. Croix who "oversee" performance of SIB's Tier II assets.

# STATEMENT OF FACTS AND ALLEGATIONS RELEVANT TO ALL CAUSES OF ACTION

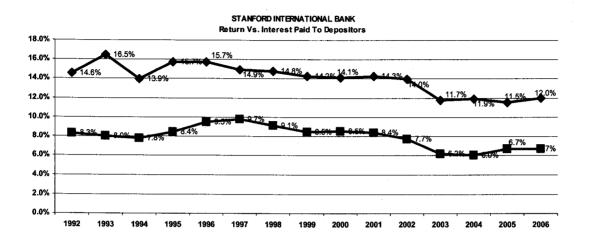
# A. <u>The Stanford International Bank</u>

25. Allen Stanford has created a complex web of affiliated companies that exist and operate under the brand Stanford Financial Group ("SFG"). SFG is described as a privately-held group of companies that has in excess of \$50 billion "under advisement."

26. SIB, one of SFG's affiliates, is a private, offshore bank that purports to have an independent Board of Directors, an Investment Committee, a Chief Investment Officer and a team of research analysts. While SIB may be domiciled in Antigua, a small group of SFG employees who maintain offices in Memphis, Tennessee, and Tupelo, Mississippi, purportedly monitor the assets.

27. As of November 28, 2008, SIB reported \$8.5 billion in total assets. SIB's primary product is the CD. SIB aggregates customer deposits, and then re-invests those funds in a "globally diversified portfolio" of assets. SIB claims its investment portfolio is approximately \$8.4 billion. SIB sold more than \$1 billion in CDs per year between 2005 and 2007, including sales to U.S. investors. The bank's deposits increased from \$3.8 billion in 2005, to \$5 billion in 2006, and \$6.7 billion in 2007. SIB had approximately \$3.8 billion in CD sales to 35,000 customers in 2005. By the end of 2007, SIB sold \$6.7 billion of CDs to 50,000 customers.

28. For almost fifteen years, SIB represented that it has experienced consistently high returns on its investment of deposits (ranging from 11.5% in 2005 to 16.5% in 1993):



29. In fact, since 1994, SIB has never failed to hit targeted investment returns in excess of 10%. And, SIB claims that its "diversified portfolio of investments" lost only \$110 million or 1.3% in 2008. During the same time period, the S&P 500 lost 39% and the Dow Jones STOXX Europe 500 Fund lost 41%.

30. As performance reporting consultant hired by SGC testified in the Commission's investigation, SIB's historical returns are improbable, if not impossible. In 1995 and 1996, SIB reported identical returns of 15.71%, a remarkable achievement considering the bank's "diversified investment portfolio." According to defendant Pendergest-Holt -- the chief investment officer of SIB-affiliate SFG – it is "improbable" that SIB could have managed a "global diversified" portfolio of investments so that it returned identical results in consecutive years. SGC's performance reporting consultant was more emphatic, saying that it is "impossible" to achieve identical results on a diversified investment portfolio in consecutive years. SIB continues to promote its CDs using these improbable, if not impossible, returns.

31. SIB's consistently high returns of investment have enabled the bank to pay a consistently and significantly higher rate on its CD than conventional banks. For example, SIB offered 7.45% as of June 1, 2005, and 7.878% as of March 20, 2006, for a fixed rate CD based on an investment of \$100,000. On November 28, 2008, SIB quoted 5.375% on a 3 year CD, while comparable U.S. Banks' CDs paid under 3.2%. And recently, SIB quoted rates of over 10% on five year CDs.

32. SIB's extraordinary returns have enabled the bank to pay disproportionately large commissions to SGC for the sale of SIB CDs. In 2007, SIB paid to SGC and affiliates \$291.7 million in management fees and commissions from CD sales, up from \$211 million in 2006 and \$161 million in 2005.

33. SIB markets CDs to investors in the United States exclusively through SGC advisers pursuant to a claimed Regulation D offering, filing a Form D with the SEC. Regulation D permits under certain circumstances the sale of unregistered securities (the CDs) to accredited investors in the United States. SGC receives 3% based on the aggregate sales of CDs by SGC advisers. Financial advisers also receive a 1% commission upon the sale of the CDs, and are eligible to receive as much as a 1% trailing commission throughout the term of the CD.

34. SGC promoted this generous commission structure in its effort to recruit established financial advisers to the firm. The commission structure also provided a powerful incentive for SGC financial advisers to aggressively sell CDs to United States investors, and aggressively expanded its number of financial advisers in the United States.

35. SIB purportedly manages the investment portfolio from Memphis and Tupelo. SIB's investment portfolio, at least internally, is segregated into 3 tiers: (a) cash and cash equivalents ("Tier 1"), (b) investments with "outside portfolio managers (25+)" that are monitored by the Analysts ("Tier 2"), and (c) unknown assets under the apparent control of Stanford and Davis ("Tier 3"). As of December 2008, Tier 1 represented approximately 9% (\$800 million) of the Bank's portfolio. Tier 2, prior to the Bank's decision to liquidate \$250 million of investments in late 2008, represented 10% of the portfolio. And Tier 3 represented 81% of the Bank's investment portfolio. This division into tiers is not generally disclosed to actual or potential investors.

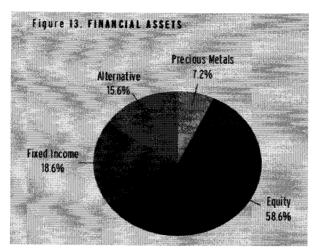
# B. <u>SIB's Fraudulent Sale of CDs</u>

# 1. SIB Misrepresented that Its Investment Portfolio is Invested Primarily in "Liquid" Financial Instruments.

36. In selling the CD, SIB touted the liquidity of its investment portfolio. For example, in its CD brochure, SIB emphasizes the importance of the liquidity, stating, under the heading "Depositor Security," that the bank focuses on "maintaining the highest degree of liquidity as a protective factor for our depositors" and that the bank's assets are "invested in a well-diversified portfolio of highly marketable securities issued by stable governments, strong multinational companies and major international banks." Likewise, the bank trained SGC advisers that "liquidity/marketability of SIB's invested assets" was the "most important factor to provide security to SIB clients." Davis and Pendergest-Holt were aware, or were reckless in not knowing, of these representations.

37. In its 2007 annual report, which was signed and approved by Stanford and Davis, SIB represented that its portfolio was allocated in the following manner: 58.6% "equity," 18.6% fixed income, 7.2% precious metals and 15.6% alternative investments. These allocations were depicted in a pie chart, which was approved by Davis. The bank's annual reports for 2005 and 2006 make similar representations about the allocation of the bank's portfolio. Davis and Stanford knew or were reckless in not knowing of these representations.

Document 1



38. SIB's investment portfolio is not, however, invested in a "well-diversified portfolio of highly marketable securities issued by stable governments, strong multinational companies and major international banks." Instead, Tier 3 (i.e., approximately 90%) consisted primarily of illiquid investments – namely private equity and real estate. Indeed, it SIB's portfolio included at least 23% private equity. The bank never disclosed in its financial statements its exposure to private equity and real estate investments. Stanford, Davis and Pendergest-Holt were aware, or were reckless in not knowing, that SIB's investments were not allocated as advertised by SIB's investment objectives or as detailed in SIB's financial statements.

39. Further, on December 15, 2008, Pendergest-Holt met with her team of analysts following SIB's decision to liquidate more than 30% of its Tier 2 investments (approximately \$250 million). During the meeting, at least one analyst expressed concern about the amount of liquidations in Tier 2, asking why it was necessary to liquidate Tier 2, rather than Tier 3 assets, to increase SIB's liquidity. Pendergest-Holt told the analyst that Tier 3 was primarily invested in private equity and real estate and Tier 2 was more liquid than Tier 3. Pendergest-Holt also stated that Tier 3 "always had real estate investments in it." Pendergest's statements contradicts

Document 1

what she had previously stated to SIB's senior investment adviser, knowing, or reckless in not knowing, that the senior investment advisor would provide this misrepresentation to investors.

# 2. SIB Misrepresented that Its Multi-Billion Dollar Investment Portfolio is Monitored By a Team of Analysts

40. Prior to making their investment decision, prospective investors routinely asked how SIB safeguarded and monitored its assets. In fact, investors frequently inquired whether Allen Stanford could "run off with the [investor's] money." In response to this question, at least during 2006 and much of 2007, the bank's senior investment officer – as instructed by Pendergest-Holt – told investors that SIB had sufficient controls and safeguards in place to protect assets.

41. In particular, the SIO was trained by Ms. Pendergest-Holt to tell investors that the bank's multi-billion portfolio was "monitored" by the analyst team in Memphis. In communicating with investors, the SIO followed Pendergest's instructions, misrepresenting that a team of 20-plus analysts monitored the bank's investment portfolio. In so doing, the SIO never disclosed to investors that the analyst only monitor approximately 10% of SIB's money. In fact, Pendergest-Holt trained the SIO "not to divulge too much" about oversight of the Bank's portfolio because that information "wouldn't leave an investor with a lot of confidence." Likewise, Davis instructed him to "steer" potential CD investors away from information about SIB's portfolio. As a result, both Davis and Pendergest-Holt knew, or were reckless in not knowing, of these fraudulent misstatements.

42. Contrary to the representation that responsibility for SIB's multi-billion portfolio was "spread out" among 20-plus people, only Stanford and Davis know the whereabouts of the vast majority of the bank's multi-billion investment portfolio. Pendergest-Holt and her team of analysts claim that they have never been privy to Tier 1 or Tier 3 investments. In fact, the SIO

was repeatedly denied access to the Bank's records relating to Tier 3, even though he was responsible, as the Bank's Senior Investment Officer, for "closing" deals with large investors, "overseeing the Bank's investment portfolio" and "ensuring that the investment side is compliant with the various banking regulatory authorities." In fact, in preparing the Bank's period reports (quarterly newsletters, month reports, mid-year reports and annual reports, Pendergest and the Analyst send to Davis the performance results for Tier 2 investments. And Davis calculates the investment returns for the aggregated portfolio of assets.

> 3. SIB Misrepresented that its Investment Portfolio is Overseen by a Regulatory Authority in Antigua that Conducts a Yearly Audit of the Fund's Financial Statements.

43. SIB told investors that their deposits were safe because the Antiguan regulator responsible for oversight of the Bank's investment portfolio, the Financial Services Regulatory Commission (the "FSRC"), audited its financial statements. But, contrary to the Bank's representations to investors, the FSRC does not verify the assets SIB claims in its financial statements. Instead, SIB's accountant, C.A.S. Hewlett & Co., a small local accounting firm in Antigua is responsible for auditing the multi-billion dollar SIB's investment portfolio. The Commission attempted several times to contact Hewlett by telephone.

# 4. SIB Misrepresented that Its Investment Portfolio is Without "Direct or Indirect" Exposure to Fraud Perpetrated by Bernard Madoff.

44. In a December 2008 Monthly Report, the bank told investors that their money was safe because SIB "had no direct or indirect exposure to any of [Bernard] Madoff's investments." But, contrary to this statement, at least \$400,000 in Tier 2 was invested in Meridian, a New York-based hedge fund that used Tremont Partners as its asset manager. Tremont invested approximately 6-8% of the SIB assets they indirectly managed with Madoff's investment firm.

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45. Pendergest, Davis and Stanford knew about this exposure to loss relating to the Meridian investment. On December 15, 2008, an Analyst informed Pendergast, Davis and Stanford in a weekly report that his "rough estimate is a loss of \$400k . . . based on the indirect exposure" to Madoff.

## 5. Market Concerns About SIB's Lack of Transparency

46. On or about December 12, 2008, Pershing, citing suspicions about the bank's investment returns and its inability to get from the Bank "a reasonable level of transparency" into its investment portfolio informed SGC that it would no longer process wire transfers from SGC to SIB for the purchase of the CD. Since the spring of 2008, Pershing tried unsuccessfully to get an independent report regarding SIB's financials condition. On November 28, 2008, SGC's President, Danny Bogar, informed Pershing that "obtaining the independent report was not a priority." Between 2006 and December 12, 2008, Pershing sent to SIB 1,635 wire transfers, totaling approximately \$517 million, from approximately 1,199 customer accounts.

# D. From at least 2004, SCM misrepresented SAS performance results.

47. From 2004 through 2009, SCM induced clients, including non-accredited, retail investors, to invest in excess of \$1 billion in its SAS program by touting its track record of "historical performance." SCM highlighted the purported SAS track record in thousands of client presentation books ("pitch books").

48. For example, the following chart from a 2006 pitch book presented clients with the false impression that SAS accounts, from 2000 through 2005, outperformed the S&P 500 by an average of approximately 13 percentage points:



			ear Return		•	
	2005	2004	2003	2002	2001	2000
SAS Growth	12.09%	16.15%	32.84%	-3.33%	4.32%	18.04%
S&P 500	4.91%	10.88%	28.68%	-22.10%	-11.88%	-9.11%

SCM used these impressive, but fictitious, performance results to grow the SAS program from less than \$10 million in assets in 2004 to over \$1 billion in 2008.

49. SGC also used the SAS track record to recruit financial advisers away from legitimate advisory firms who had significant books of business. After arriving at Stanford, the newly-hired financial advisors were encouraged and highly incentivized to put their clients' assets in the SIB CD.

50. The SAS performance results used in the pitch books from 2005 through 2009 were fictional and/or inflated. Specifically, SCM misrepresented that SAS performance results, for 1999 through 2004, reflected "historical performance" when, in fact, those results were fictional, or "back-tested", numbers that do not reflect results of actual trading. Instead, SCM, with the benefit of hindsight, picked mutual funds that performed extremely well during years 1999 through 2004, and presented the back-tested performance of those top-performing funds to potential clients as if they were actual returns earned by the SAS program.

51. Similarly, SCM used "actual" model SAS performance results for years 2005 through 2006 that were inflated by as much as 4%.

52. SCM told investors that SAS has positive returns for periods in which actual SAS clients lost substantial amounts. For example, in 2000, actual SAS client returns ranged from negative 7.5% to positive 1.1%. In 2001, actual SAS client returns ranged from negative 10.7%

to negative 2.1%. And, in 2002, actual SAS client returns ranged from negative 26.6% to negative 8.7%. These return figures are all gross of SCM advisory fees ranging from 1.5% to 2.75%. Thus, Stanford's claims of substantial market out performance were blatantly false. (e.g., a claimed return of 18.04% in 2000, when actual SAS investors lost as much as 7.5%).

53. SGC/SCM's management knew that the advertised SAS performance results were misleading and inflated. From the beginning, SCM management knew that the pre-2005 track record was purely hypothetical, bearing no relationship to actual trading. And, as early as November 2006, SCM investment advisers began to question why their actual clients were not receiving the returns advertised in pitch books.

54. In response to these questions, SGC/SCM hired an outside performance reporting expert, to review certain of its SAS performance results. In late 2006 and early 2007, the expert informed SCM that its performance results for the twelve months ended September 30, 2006 were inflated by as much as 3.4 percentage points. Moreover, the expert informed SCM managers that the inflated performance results included unexplained "bad math" that consistently inflated the SAS performance results over actual client performance. Finally, in March 2008, the expert informed SCM managers that the SAS performance results for 2005 were also inflated by as much as 3.25 percentage points.

55. Despite their knowledge of the inflated SAS returns, SGC/SCM management continued using the pre-2005 track record and never asked Riordan to audit the pre-2005 performance. In fact, in 2008 pitch books, SCM presented the back-tested pre-2005 performance data under the heading "Historical Performance" and "Manager Performance" along side the audited 2005 through 2008 figures. According to SCM's outside consultant, it was "[grossly misleading]" to present audited performance figures along side back-tested figures.

56. Finally, SGC/SCM compounded the deceptive nature of the SAS track record by blending the back-tested performance with audited composite performance to create annualized 5 and 7 year performance figures that bore no relation to actual SAS client performance. A sample of this misleading disclosure used in 2008 and 2009 follows:

Calendar Year Return As of March 2008											
	ΥTD	200	7 2006	2005	2004	2003	2002	2001	2000	1999	
SAS Growth	-7.44%	1240	% 14.68%	8.82%	15.13%	32.54%	-3.33%	432%	18.04%	22.59%	
S&P 500	-9.44%	5.49	\$ 15.79%	491%	10.58%	28.53%	-22.10%	-11.88%	-9.11%	21.04%	
Annualized Returns (not annualized if less than 1 year)											
	YTE	2	iyear	3	years	5 yea	¥5	7 years	1 "	lince eption	
SAS Growth	-7.44	1%	0.90%	9.36%		15.31%		11.03%	12	12.30%	
S&P 500	-9.44	-8.44%		5.85%		11.32%		3.70%	2.	2.45%	

57. Other than the fees paid by SIB to SGC for the sale of the CD, SAS was the second most significant source of revenue for the firm. In 2007 and 2008, approximately \$25 million in fees from the marketing of the SAS program.

# **CAUSES OF ACTION**

# FIRST CLAIM AS TO ALL DEFENDANTS

# Violations of Section 10(b) of the Exchange Act and Rule 10-5

58. Plaintiff Commission repeats and realleges paragraphs 1 through 57 of this Complaint and incorporated herein by reference as if set forth verbatim.

59. Defendants, directly or indirectly, singly or in concert with others, in connection with the purchase and sale of securities, by use of the means and instrumentalities of interstate

commerce and by use of the mails have: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices and courses of business which operate as a fraud and deceit upon purchasers, prospective purchasers and other persons.

60. As a part of and in furtherance of their scheme, defendants, directly and indirectly, prepared, disseminated or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations, which contained untrue statements of material facts and misrepresentations of material facts, and which omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

61. Defendants made the referenced misrepresentations and omissions knowingly or grossly recklessly disregarding the truth.

62. For these reasons, Defendants have violated and, unless enjoined, will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5].

# SECOND CLAIM AS TO STANFORD, DAVIS, AND PENDERGEST-HOLT

# Aiding and Abetting Violations of Exchange Act Section 10(b) and Rule 10b-5

63. Plaintiff Commission repeats and realleges paragraphs 1 through 57 of this Complaint and incorporated herein by reference as if set forth verbatim.

64. If Stanford, Davis, and Pendergest-Holt did not violate Exchange Act Section 10(b) and Rule 10b-5, in the alternative, Stanford, Davis, and Pendergest-Holt, in the manner set forth above, knowingly or with severe recklessness provided substantial assistance in connection

with the violations of Exchange Act Section 10(b) [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] alleged herein.

65. For these reasons, Stanford, Davis, and Pendergest-Holt aided and abetted and, unless enjoined, will continue to aid and abet violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5].

## <u>THIRD CLAIM</u> AS TO ALL DEFENDANTS

# Violations of Section 17(a) of the Securities Act

66. Plaintiff Commission repeats and realleges paragraphs 1 through 57 of this Complaint and incorporated herein by reference as if set forth verbatim.

67. Defendants, directly or indirectly, singly or in concert with others, in the offer and sale of securities, by use of the means and instruments of transportation and communication in interstate commerce and by use of the mails, have: (a) employed devices, schemes or artifices to defraud; (b) obtained money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in transactions, practices or courses of business which operate or would operate as a fraud or deceit.

68. As part of and in furtherance of this scheme, defendants, directly and indirectly, prepared, disseminated or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations, which contained untrue statements of material fact and which omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

69. Defendants made the referenced misrepresentations and omissions knowingly or grossly recklessly disregarding the truth.

70. For these reasons, Defendants have violated, and unless enjoined, will continue to violate Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

# FOURTH CLAIM AS TO STANFORD, SGC, AND STANFORD CAPITAL

# Violations of Sections 206(1) and 206(2) of the Advisers Act

71. Plaintiff Commission repeats and realleges paragraphs 1 through 57 of this Complaint and incorporated herein by reference as if set forth verbatim.

72. Stanford, SGC, and Stanford Capital, directly or indirectly, singly or in concert, knowingly or recklessly, through the use of the mails or any means or instrumentality of interstate commerce, while acting as investment advisers within the meaning of Section 202(11) of the Advisers Act [15 U.S.C. § 80b-2(11)]: (a) have employed, are employing, or are about to employ devices, schemes, and artifices to defraud any client or prospective client; or (b) have engaged, are engaging, or are about to engage in acts, practices, or courses of business which operates as a fraud or deceit upon any client or prospective client.

73. For these reasons, Stanford, SGC, and Stanford Capital have violated, and unless enjoined, will continue to violate Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)].

# **<u>FIFTH CLAIM</u>** <u>AS TO STANFORD, DAVIS, AND PENDERGEST-HOLT</u>

# Aiding and Abetting Violations of Sections 206(1) and 206(2) of the Advisers Act

74. Plaintiff Commission repeats and realleges paragraphs 1 through 57 of this Complaint and incorporated herein by reference as if set forth verbatim.

75. Based on the conduct alleged herein, Stanford, Davis, and Pendergest-Holt, in the manner set forth above, knowingly or with severe recklessness provided substantial assistance in

connection with the violations of Advisers Act Sections 206(1) and 206(2) [15 U.S.C. §§ 80b-6(1) and 80b-6(2)] alleged herein.

76. For these reasons, Stanford, Davis, and Pendergest-Holt aided and abetted and, unless enjoined, will continue to aid and abet violations of Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)].

## SIXTH CLAIM AS TO SIB AND SGC

# Violations of Section 7(d) of the Investment Company Act

77. Plaintiff Commission repeats and realleges paragraphs 1 through 57 of this Complaint and incorporated herein by reference as if set forth verbatim.

78. SIB, an investment company not organized or otherwise created under the laws of the United States or of a State, directly or indirectly, singly or in concert with others, made use of the mails or any means or instrumentality of interstate commerce, directly or indirectly, to offer for sale, sell, or deliver after sale, in connection with a public offering, securities of which SIB was the issuer, without obtaining an order from the Commission permitting it to register as an investment company organized or otherwise created under the laws of a foreign country and to make a public offering of its securities by use of the mails and means or instrumentalities of interstate commerce.

79. SGC, directly or indirectly, singly or in concert with others, acted as an underwriter for SIB, an investment company not organized or otherwise created under the laws of the United States or of a State that made use of the mails or any means or instrumentality of interstate commerce, directly or indirectly, to offer for sale, sell, or deliver after sale, in connection with a public offering, securities of which SIB was the issuer, without obtaining an order from the Commission permitting it to register as an investment company organized or

otherwise created under the laws of a foreign country and to make a public offering of its securities by use of the mails and means or instrumentalities of interstate commerce.

80. For these reasons, SIB and SGC have violated, and unless enjoined, will continue to violate Section 7(d) of the Investment Company Act [15 U.S.C. § 80a-7(d)].

#### **RELIEF REQUESTED**

Plaintiff Commission respectfully requests that this Court:

#### I.

Temporarily, preliminarily, and permanently enjoin: (a) Defendants from violating, or aiding and abetting violations of, Section 10(b) and Rule 10b-5 of the Exchange Act; (b) Defendants from violating Section 17(a) of the Securities Act; (c) Stanford, Davis, Pendergest-Holt, SGC, and Stanford Capital from violating, or aiding and abetting violations of, Sections 206(1) and 206(2) of the Advisers Act; and (d) SIB and SCG from violating Section 7(d) of the Investment Company Act.

### II.

Enter an Order immediately freezing the assets of Defendants and directing that all financial or depository institutions comply with the Court's Order. Furthermore, order that Defendants immediately repatriate any funds held at any bank or other financial institution not subject to the jurisdiction of the Court, and that they direct the deposit of such funds in identified accounts in the United States, pending conclusion of this matter.

#### III.

Order that Defendants shall file with the Court and serve upon Plaintiff Commission and the Court, within 10 days of the issuance of this order or three days prior to a hearing on the Commission's motion for a preliminary injunction, whichever comes first, an accounting, under oath, detailing all of their assets and all funds or other assets received from investors and from one another.

#### IV.

Order that Defendants be restrained and enjoined from destroying, removing, mutilating, altering, concealing, or disposing of, in any manner, any of their books and records or documents relating to the matters set forth in the Complaint, or the books and records and such documents of any entities under their control, until further order of the Court.

V.

Order the appointment of a temporary receiver for Defendants, for the benefit of investors, to marshal, conserve, protect, and hold funds and assets obtained by the defendants and their agents, co-conspirators, and others involved in this scheme, wherever such assets may be found, or, with the approval of the Court, dispose of any wasting asset in accordance with the application and proposed order provided herewith.

### VI.

Order that the parties may commence discovery immediately, and that notice periods be shortened to permit the parties to require production of documents, and the taking of depositions on 72 hours' notice.

### VII.

Order Defendants to disgorge an amount equal to the funds and benefits they obtained illegally as a result of the violations alleged herein, plus prejudgment interest on that amount.

### VIII.

Order civil penalties against Defendants pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], Section 41(e) of

the Investment Company Act [15 U.S.C. § 80a-41(e)], and Section 209(e) of the Advisers Act

[15 U.S.C. § 80b-9(e)] for their securities law violations.

### IX.

Order that Stanford, Davis, and Pendergest-Holt immediately surrender their passports to the Clerk of this Court, to hold until further order of this Court.

### X.

Order such further relief as this Court may deem just and proper.

For the Commission, by its attorneys:

February 16, 2009

Respectfully submitted,

STEPHEN J. KOROTASH Oklahoma Bar No. 5102 J. KEVIN EDMUNDSON Texas Bar No. 24044020 DAVID B. REECE Texas Bar No. 24002810 MICHAEL D. KING Texas Bar No. 24032634 D. THOMAS KELTNER Texas Bar No. 24007474

U.S. Securities and Exchange Commission Burnett Plaza, Suite 1900 801 Cherry Street, Unit #18 Fort Worth, TX 76102-6882 (817) 978-6476 (dbr) (817) 978-4927 (fax)

JS 44 Ca (Rev. 3/99)	ase 3:09-cv-002		ent 3		HEET	2009	Page 26 of 26	5		
The JS-44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON THE REVERSE OF THE FORM.) I.(a) PLAINTIFF <b>DEFENSION 9 C V 0 2 9 8 - L</b>										
SECURITI	STANFORD INTERNATIONAL BANK, LTD., STANFORD GROUP COMPANY, STANFORD CAPITAL MANAGEMENT, LLC, R. ALLEN STANFORD, JAMES M. DAVIS, and LAURA PENDERGEST-HOLT									
(b) COUNTY OF RESIDENCE C (EXCEPT )		County of Residence of First Listed Defendant: St. John's Antigua, West Indies (IN U.S. PLAINTIFF CASES ONEDB 17 2009 NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.								
(c) ATTORNEY (FIRM NAME, David B. Reece U.S. Securities & Exchar 801 Cherry Street, Unit # (817) 978-6476	nge Commission, Bu	mett Plaza, Ste. 190	0,		ATTORNEYS	6 (lf kr	NORTHERN DIST	TRICT COURT RICT OF TEXAS		
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& Enforcement of Judgment  151 Medicare Act  152 Recovery of Defaulted Student Loans (Excl. Veterans)  153 Recovery OF	330 Federal Employers'       368 Asbestos Persor         Liability       Injury Product Liabil         340 Marine       PERSONAL PROPER         345 Marine Product       370 Other Fraud         Liability       371 Truth in Lending			660 Occupational Safety/Health 690 Other			PROPERTY RIGHTS 820 Copy rights 830 Patient 840 Trademark	<ul> <li>☐ 470 Racketeer Influenced and Corrupt Organizations</li> <li>☐ 810 Selective Service</li> <li>☑ 850 Securities Commodities/ Exchange</li> </ul>		
Overpayment of Veteran's Benefits 160 Stockholders' Suits 190 Other Contract 195 Contract Product Liability	□ 350 Motor Vehicle □ 355 Motor Vehicle Product Liability □ 360 Other Personal Injury	<ul> <li>380 Other Personal Property Damage</li> <li>385 Property Damage</li> <li>Product Liability</li> </ul>		710 Fair Labor Standards Act         720 Labor/Mgmt. Relations			SOCIAL SECURITY 861 HIA (1395FF) 862 Black Lung (923) 863 DIWC/DIWW (405(g))	<ul> <li>875 Customer Challenge 12 USC 3410</li> <li>891 Agricultural Acts</li> <li>892 Economic Stabilization Act</li> </ul>		
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<b>210</b> Land Condemnation	441 Voting	510 Motions to Vacate Sentence		<b>740</b> Railway Labor Act			FEDERAL TAX SUITS	895 Freedom of     Information Act		
<ul> <li>220 Foreclosure</li> <li>230 Rent Lease &amp; Ejectment</li> <li>240 Torts to Land</li> <li>245 Tort Product Liability</li> <li>290 All Other Real Property</li> </ul>	<ul> <li>☐ 442 Employment</li> <li>☐ 443 Housing/ Accommodations</li> <li>☐ 444 Welfare</li> <li>☐ 440 Other Civil Rights</li> </ul>	Habeas Corpus: 1 530 General 535 Death Penalty 540 Mandamus & Other 550 Civil Rights		🗖 791 Emp	<b>790</b> Other Labor Litigation <b>791</b> Empl. Ret. Inc. Security Act		870 Taxes (U.S. Plaintiff or Defendant) 871 IRS - Third Party 26 USC 7609	■ 900 Appeal of Fee Determination Under Equal Access to Justice 950 Constitutionality of State Statutes 990 Other Statutory Actions		
V. ORIGIN (PLACE AN "X" IN ONE BOX ONLY)										
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VI. CAUSE OF ACTION (CITE THE U.S. CIVIL STATUTE UNDER WHICH YOU ARE FILING AND WRITE BRIEF STATEMENT OF CAUSE. DO NOT CITE JURISDICTIONSL STATUTUES UNLESS DIVERSITY.) Section 17(a) of the Securities Act of 1933, [15 U.S.C. §77q(a)], Section 10(b) of the Securities Exchange Act of 1934, [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5], Sections 206(1) and 206(2) of the Investment Advisors Act of 1940, [15 U.S.C. §80b-6(1) and §80b-6(2)] and Section 7(d) of the Investment Company Act of 1940 [15 U.S.C. §80a-7(d)].										
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Plaintiff Securities and Exchange Commission alleges:

## **SUMMARY**

1. The Commission seeks emergency relief to halt a massive, ongoing fraud orchestrated by R. Allen Stanford and James M. Davis and executed through companies they control, including Stanford International Bank, Ltd. ("SIB") and its affiliated Houston-based investment advisers, Stanford Group Company ("SGC") and Stanford Capital Management ("SCM"). Laura Pendergest-Holt, the chief investment officer of a Stanford affiliate, was indispensable to this scheme by helping to preserve the appearance of safety fabricated by Stanford and by training others to mislead investors. For example, she trained training SIB's senior investment officer to provide false information to investors.

2. Through this fraudulent scheme, SIB, acting through a network of SGC financial advisors, has sold approximately \$8 billion of self-styled "certificates of deposits" by promising high return rates that exceed those available through true certificates of deposits offered by traditional banks.

3. SIB claims that its unique investment strategy has allowed it to achieve doubledigit returns on its investments over the past 15 years, allowing it offer high yields to CD purchasers. Indeed, SIB claims that its "diversified portfolio of investments" lost only 1.3% in 2008, a time during which the S&P 500 lost 39% and the Dow Jones STOXX Europe 500 Fund lost 41%.

4. Perhaps even more strange, SIB reports identical returns in 1995 and 1996 of exactly 15.71%. As Pendergest-Holt – SIB investment committee member and the chief investment officer of Stanford Group Financial (a Stanford affiliate) – admits, it is simply "improbable" that SIB could have managed a "global diversified" portfolio of investments in a way that returned identical results in consecutive years. A performance reporting consultant hired by SGC, when asked about these "improbable" returns, responded simply that it is "impossible" to achieve identical results on a diversified investment portfolio in consecutive years. Yet, SIB continues to promote its CDs using these improbable returns.

5. These improbable results are made even more suspicious by the fact that, contrary to assurances provided to investors, at most only two people – Stanford and Davis – know the details concerning the bulk of SIB's investment portfolio. And SIB goes to great lengths to prevent any true independent examination of those portfolios. For example, its long-standing auditor is reportedly retained based on a "relationship of trust" between the head of the auditing firm and Stanford.

6. Importantly, contrary to recent public statements by SIB, Stanford and Davis (and through them SGC) have wholly-failed to cooperate with the Commission's efforts to account for the \$8 billion of investor funds purportedly held by SIB. In short, approximately 90% of

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SIB's claimed investment portfolio resides in a "black box" shielded from any independent oversight.

7. In fact, far from "cooperating" with the Commission's enforcement investigation (which Stanford has reportedly tried to characterize as only involving routine examinations), SGC appears to have used press reports speculating about the Commission's investigation as way to further mislead investors, falsely telling at least one customer during the week of February 9, 2009, that his multi-million dollar SIB CD could not be redeemed because "the SEC had frozen the account for two months." At least one other customer who recently inquired about redeeming a multi-million dollar CD claims that he was informed that, contrary to representations made at the time of purchase that the CD could be redeemed early upon payment of a penalty, R. Allen Stanford had ordered a two-month moratorium on CD redemptions.

8. This secrecy and recent misrepresentations are made even more suspicious by extensive and fundamental misrepresentations SIB and its advisors have made to CD purchasers in order to lull them into thinking their investment is safe. SIB and its advisers have misrepresented to CD purchasers that their deposits are safe because the bank: (i) re-invests client funds primarily in "liquid" financial instruments (the "portfolio"); (ii) monitors the portfolio through a team of 20-plus analysts; and (iii) is subject to yearly audits by Antiguan regulators. Recently, as the market absorbed the news of Bernard Madoff's massive Ponzi scheme, SIB has attempted to calm its own investors by claiming the bank has no "direct or indirect" exposure to Madoff's scheme.

9. These assurances are false. Contrary to these representations, SIB's investment portfolio was not invested in liquid financial instruments or allocated in the manner described in its promotional material and public reports. Instead, a substantial portion of the bank's portfolio was

placed in illiquid investments, such as real estate and private equity. Further, the vast majority SIB's multi-billion dollar investment portfolio was not monitored by a team of analysts, but rather by two people – Allen Stanford and James Davis. And contrary to SIB's representations, the Antiguan regulator responsible for oversight of the bank's portfolio, the Financial Services Regulatory Commission, does not audit SIB's portfolio or verify the assets SIB claims in its financial statements. Perhaps most alarming is that SIB has exposure to losses from the Madoff fraud scheme despite the bank's public assurances to the contrary.

10. SGC has failed to disclose material facts to its advisory clients. Alarmingly, recent weeks have seen an increasing amount of liquidation activity by SIB and attempts to wire money out of its investment portfolio. The Commission has received information indicating that in just the last two weeks, SIB has sought to remove over \$178 million from its accounts. And, a major clearing firm – after unsuccessfully attempting to find information about SIB's financial condition and because it could not obtain adequate transparency into SIB's financials- has recently informed SGC that it would no longer process wires from SGC accounts at the clearing firm to SIB for the purchase of SIB issued CDs, even if they were accompanied by customer letters of authorization.

11. Stanford's fraudulent conduct is not limited to the sale of CDs. Since 2005, SGC advisers have sold more than \$1 billion of a proprietary mutual fund wrap program, called Stanford Allocation Strategy ("SAS"), by using materially false and misleading historical performance data. The false data has helped SGC grow the SAS program from less than \$10 million in around 2004 to over \$1.2 billion, generating fees for SGC (and ultimately Stanford) in excess of \$25 million. And the fraudulent SAS performance was used to recruit registered financial advisers with significant

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books of business, who were then heavily incentivized to re-allocate their clients' assets to SIB's CD program.

12. Moreover, SIB and Stanford Group Company have violated Section 7(d) of the Investment Company Act of 1940 by failing to register with the Commission in order to sell SIB's CDs. Had they complied with this registration requirement, the Commission would have been able to examine each of those entities concerning SIB's CD investment portfolio.

13. By engaging in the conduct described in this Complaint, defendants Stanford, Davis, Pendergest-Holt, SIB, SGC, and Stanford Capital, directly or indirectly, singly or in concert, have engaged, and unless enjoined and restrained, will again engage in transactions acts, practices, and courses of business that constitute violations of Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77e(a), 77e(c) and 77q(a)], and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)], and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5] or, in the alternative, have aided and abetted such violations. In addition, through their conduct described herein, Stanford, SGC, and Stanford Capital have violated Section 206(1) and (2) of the Investment Advisers Act of 1940 ("Adviser's Act") [15 U.S.C. §§ 80b-6(1) and 80b-6(2)] and Davis and Pendergest-Holt have aided and abetted such violations. Finally, through their actions, SIB and SGC have violated Section 7(d) of the Investment Company Act of 1940 ("ICA") [15 U.S.C. § 80a-7(d)].

14. The Commission, in the interest of protecting the public from any further unscrupulous and illegal activity, brings this action against the defendants, seeking temporary, preliminary and permanent injunctive relief, disgorgement of all illicit profits and benefits defendants have received plus accrued prejudgment interest and a civil monetary penalty. The Commission also seeks an asset freeze, an accounting and other incidental relief, as well as the

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appointment of a receiver to take possession and control of defendants' assets for the protection of defendants' victims.

### JURISDICTION AND VENUE

15. The investments offered and sold by the defendants are "securities" under Section 2(1) of the Securities Act [15 U.S.C. § 77b], Section 3(a)(10) of the Exchange Act [15 U.S.C. § 78c], Section 2(36) of the Investment Company Act [15 U.S.C. § 80a-2(36)], and Section 202(18) of the Advisers Act [15 U.S.C. § 80b-2(18)].

16. Plaintiff Commission brings this action under the authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)], Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], Section 41(d) of the Investment Company Act [15 U.S.C. § 80a-41(d)], and Section 209(d) of the Advisers Act [15 U.S.C. § 80b-9(d)] to temporarily, preliminarily, and permanently enjoin Defendants from future violations of the federal securities laws.

17. This Court has jurisdiction over this action, and venue is proper, under Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], Section 27 of the Exchange Act [15 U.S.C. § 78aa], Section 43 of the Investment Company Act [15 U.S.C. § 80a-43], and Section 214 of the Advisers Act [15 U.S.C. § 80b-14].

18. Defendants have, directly or indirectly, made use of the means or instruments of transportation and communication, and the means or instrumentalities of interstate commerce, or of the mails, in connection with the transactions, acts, practices, and courses of business alleged herein. Certain of the transactions, acts, practices, and courses of business occurred in the Northern District of Texas.

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#### **<u>DEFENDANTS</u>**

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19. Stanford International Bank, Ltd. purports to be private international bank domiciled in St. John's, Antigua, West Indies. SIB claims to serve 30,000 clients in 131 countries and holds \$7.2 billion in assets under management. SIB's Annual Report for 2007 states that SIB has 50,000 clients. SIB's multi-billion portfolio of investments is purportedly monitored by the SFG's chief financial officer in Memphis, Tennessee. Unlike a commercial bank, SIB does not loan money. SIB sells the CD to U.S. investors through SGC, its affiliated investment adviser.

20. Stanford Group Company, a Houston-based corporation, is registered with the Commission as a broker-dealer and investment adviser. It has 29 offices located throughout the U.S. SGC's principal business consists of sales of SIB-issued securities, marketed as certificates of deposit. SGC is a wholly owned subsidiary of Stanford Group Holdings, Inc., which in turn is owned by R. Allen Stanford ("Stanford").

21. Stanford Capital Management, a registered investment adviser, took over the management of the SAS program (formerly Mutual Fund Partners) from SGC in early 2007. Stanford Group Company markets the SAS program through SCM.

22. R. Allen Stanford, a U.S. citizen, is the Chairman of the Board and sole shareholder of SIB and the sole director of SGC's parent company. Stanford refused to appear and give testimony in the investigation.

23. James M. Davis, a U.S. citizen and resident of Baldwin, Mississippi and who offices in Memphis, Tennessee and Tupelo, Mississippi, is a director and chief financial officer of SFG and SIB. Davis refused to appear and give testimony in this investigation.

24. Laura Pendergest-Holt, is the Chief Investment Officer of SIB and its affiliate Stanford Financial Group. She supervises a group of analysts in Memphis, Tupelo, and St. Croix who "oversee" performance of SIB's Tier II assets.

# STATEMENT OF FACTS AND ALLEGATIONS <u>RELEVANT TO ALL CAUSES OF ACTION</u>

## A. <u>The Stanford International Bank</u>

25. Allen Stanford has created a complex web of affiliated companies that exist and operate under the brand Stanford Financial Group ("SFG"). SFG is described as a privately-held group of companies that has in excess of \$50 billion "under advisement."

26. SIB, one of SFG's affiliates, is a private, offshore bank that purports to have an independent Board of Directors, an Investment Committee, a Chief Investment Officer and a team of research analysts. While SIB may be domiciled in Antigua, a small group of SFG employees who maintain offices in Memphis, Tennessee, and Tupelo, Mississippi, purportedly monitor the assets.

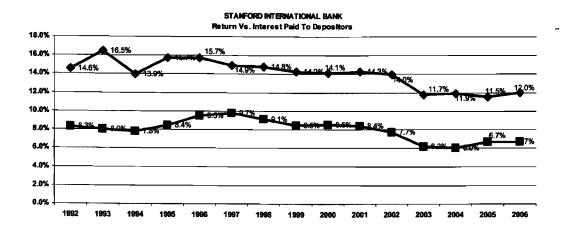
27. As of November 28, 2008, SIB reported \$8.5 billion in total assets. SIB's primary product is the CD. SIB aggregates customer deposits, and then re-invests those funds in a "globally diversified portfolio" of assets. SIB claims its investment portfolio is approximately \$8.4 billion. SIB sold more than \$1 billion in CDs per year between 2005 and 2007, including sales to U.S. investors. The bank's deposits increased from \$3.8 billion in 2005, to \$5 billion in 2006, and \$6.7 billion in 2007. SIB had approximately \$3.8 billion in CD sales to 35,000 customers in 2005. By the end of 2007, SIB sold \$6.7 billion of CDs to 50,000 customers.

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28. For almost fifteen years, SIB represented that it has experienced consistently high

returns on its investment of deposits (ranging from 11.5% in 2005 to 16.5% in 1993):



29. In fact, since 1994, SIB has never failed to hit targeted investment returns in excess of 10%. And, SIB claims that its "diversified portfolio of investments" lost only \$110 million or 1.3% in 2008. During the same time period, the S&P 500 lost 39% and the Dow Jones STOXX Europe 500 Fund lost 41%.

30. As performance reporting consultant hired by SGC testified in the Commission's investigation, SIB's historical returns are improbable, if not impossible. In 1995 and 1996, SIB reported identical returns of 15.71%, a remarkable achievement considering the bank's "diversified investment portfolio." According to defendant Pendergest-Holt -- the chief investment officer of SIB-affiliate SFG -- it is "improbable" that SIB could have managed a "global diversified" portfolio of investments so that it returned identical results in consecutive years. SGC's performance reporting consultant was more emphatic, saying that it is "impossible" to achieve identical results on a diversified investment portfolio in consecutive years. SIB continues to promote its CDs using these improbable, if not impossible, returns.

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31. SIB's consistently high returns of investment have enabled the bank to pay a consistently and significantly higher rate on its CD than conventional banks. For example, SIB offered 7.45% as of June 1, 2005, and 7.878% as of March 20, 2006, for a fixed rate CD based on an investment of \$100,000. On November 28, 2008, SIB quoted 5.375% on a 3 year CD, while comparable U.S. Banks' CDs paid under 3.2%. And recently, SIB quoted rates of over 10% on five year CDs.

32. SIB's extraordinary returns have enabled the bank to pay disproportionately large commissions to SGC for the sale of SIB CDs. In 2007, SIB paid to SGC and affiliates \$291.7 million in management fees and commissions from CD sales, up from \$211 million in 2006 and \$161 million in 2005.

33. SIB markets CDs to investors in the United States exclusively through SGC advisers pursuant to a claimed Regulation D offering, filing a Form D with the SEC. Regulation D permits under certain circumstances the sale of unregistered securities (the CDs) to accredited investors in the United States. SGC receives 3% based on the aggregate sales of CDs by SGC advisers. Financial advisers also receive a 1% commission upon the sale of the CDs, and are eligible to receive as much as a 1% trailing commission throughout the term of the CD.

34. SGC promoted this generous commission structure in its effort to recruit established financial advisers to the firm. The commission structure also provided a powerful incentive for SGC financial advisers to aggressively sell CDs to United States investors, and aggressively expanded its number of financial advisers in the United States.

35. SIB purportedly manages the investment portfolio from Memphis and Tupelo. SIB's investment portfolio, at least internally, is segregated into 3 tiers: (a) cash and cash equivalents ("Tier 1"), (b) investments with "outside portfolio managers (25+)" that are

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monitored by the Analysts ("Tier 2"), and (c) unknown assets under the apparent control of Stanford and Davis ("Tier 3"). As of December 2008, Tier 1 represented approximately 9% (\$800 million) of the Bank's portfolio. Tier 2, prior to the Bank's decision to liquidate \$250 million of investments in late 2008, represented 10% of the portfolio. And Tier 3 represented 81% of the Bank's investment portfolio. This division into tiers is not generally disclosed to actual or potential investors.

### B. <u>SIB's Fraudulent Sale of CDs</u>

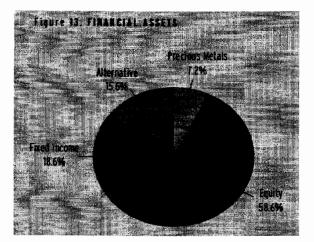
# 1. SIB Misrepresented that Its Investment Portfolio is Invested Primarily in "Liquid" Financial Instruments.

36. In selling the CD, SIB touted the liquidity of its investment portfolio. For example, in its CD brochure, SIB emphasizes the importance of the liquidity, stating, under the heading "Depositor Security," that the bank focuses on "maintaining the highest degree of liquidity as a protective factor for our depositors" and that the bank's assets are "invested in a well-diversified portfolio of highly marketable securities issued by stable governments, strong multinational companies and major international banks." Likewise, the bank trained SGC advisers that "liquidity/marketability of SIB's invested assets" was the "most important factor to provide security to SIB clients." Davis and Pendergest-Holt were aware, or were reckless in not knowing, of these representations.

37. In its 2007 annual report, which was signed and approved by Stanford and Davis, SIB represented that its portfolio was allocated in the following manner: 58.6% "equity," 18.6% fixed income, 7.2% precious metals and 15.6% alternative investments. These allocations were depicted in a pie chart, which was approved by Davis. The bank's annual reports for 2005 and 2006 make similar representations about the allocation of the bank's portfolio. Davis and Stanford knew or were reckless in not knowing of these representations.

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38. SIB's investment portfolio is not, however, invested in a "well-diversified portfolio of highly marketable securities issued by stable governments, strong multinational companies and major international banks." Instead, Tier 3 (i.e., approximately 90%) consisted primarily of illiquid investments – namely private equity and real estate. Indeed, it SIB's portfolio included at least 23% private equity. The bank never disclosed in its financial statements its exposure to private equity and real estate investments. Stanford, Davis and Pendergest-Holt were aware, or were reckless in not knowing, that SIB's investments were not allocated as advertised by SIB's investment objectives or as detailed in SIB's financial statements.

39. Further, on December 15, 2008, Pendergest-Holt met with her team of analysts following SIB's decision to liquidate more than 30% of its Tier 2 investments (approximately \$250 million). During the meeting, at least one analyst expressed concern about the amount of liquidations in Tier 2, asking why it was necessary to liquidate Tier 2, rather than Tier 3 assets, to increase SIB's liquidity. Pendergest-Holt told the analyst that Tier 3 was primarily invested in private equity and real estate and Tier 2 was more liquid than Tier 3. Pendergest-Holt also stated that Tier 3 "always had real estate investments in it." Pendergest's statements contradicts

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what she had previously stated to SIB's senior investment adviser, knowing, or reckless in not knowing, that the senior investment advisor would provide this misrepresentation to investors.

2. SIB Misrepresented that Its Multi-Billion Dollar Investment Portfolio is Monitored By a Team of Analysts

40. Prior to making their investment decision, prospective investors routinely asked how SIB safeguarded and monitored its assets. In fact, investors frequently inquired whether Allen Stanford could "run off with the [investor's] money." In response to this question, at least during 2006 and much of 2007, the bank's senior investment officer – as instructed by Pendergest-Holt – told investors that SIB had sufficient controls and safeguards in place to protect assets.

41. In particular, the SIO was trained by Ms. Pendergest-Holt to tell investors that the bank's multi-billion portfolio was "monitored" by the analyst team in Memphis. In communicating with investors, the SIO followed Pendergest's instructions, misrepresenting that a team of 20-plus analysts monitored the bank's investment portfolio. In so doing, the SIO never disclosed to investors that the analyst only monitor approximately 10% of SIB's money. In fact, Pendergest-Holt trained the SIO "not to divulge too much" about oversight of the Bank's portfolio because that information "wouldn't leave an investor with a lot of confidence." Likewise, Davis instructed him to "steer" potential CD investors away from information about SIB's portfolio. As a result, both Davis and Pendergest-Holt knew, or were reckless in not knowing, of these fraudulent misstatements.

42. Contrary to the representation that responsibility for SIB's multi-billion portfolio was "spread out" among 20-plus people, only Stanford and Davis know the whereabouts of the vast majority of the bank's multi-billion investment portfolio. Pendergest-Holt and her team of analysts claim that they have never been privy to Tier 1 or Tier 3 investments. In fact, the SIO

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was repeatedly denied access to the Bank's records relating to Tier 3, even though he was responsible, as the Bank's Senior Investment Officer, for "closing" deals with large investors, "overseeing the Bank's investment portfolio" and "ensuring that the investment side is compliant with the various banking regulatory authorities." In fact, in preparing the Bank's period reports (quarterly newsletters, month reports, mid-year reports and annual reports, Pendergest and the Analyst send to Davis the performance results for Tier 2 investments. And Davis calculates the investment returns for the aggregated portfolio of assets.

> 3. SIB Misrepresented that its Investment Portfolio is Overseen by a Regulatory Authority in Antigua that Conducts a Yearly Audit of the Fund's Financial Statements.

43. SIB told investors that their deposits were safe because the Antiguan regulator responsible for oversight of the Bank's investment portfolio, the Financial Services Regulatory Commission (the "FSRC"), audited its financial statements. But, contrary to the Bank's representations to investors, the FSRC does not verify the assets SIB claims in its financial statements. Instead, SIB's accountant, C.A.S. Hewlett & Co., a small local accounting firm in Antigua is responsible for auditing the multi-billion dollar SIB's investment portfolio. The Commission attempted several times to contact Hewlett by telephone. No one ever answered the phone.

4. SIB Misrepresented that Its Investment Portfolio is Without "Direct or Indirect" Exposure to Fraud Perpetrated by Bernard Madoff.

44. In a December 2008 Monthly Report, the bank told investors that their money was safe because SIB "had no direct or indirect exposure to any of [Bernard] Madoff's investments." But, contrary to this statement, at least \$400,000 in Tier 2 was invested in Meridian, a New York-based hedge fund that used Tremont Partners as its asset manager. Tremont invested approximately 6-8% of the SIB assets they indirectly managed with Madoff's investment firm. Case 1:09-mc-00002-JAD Document 1-2 Filed 02/20/2009 Page 15 of 26 Case 3:09-cv-00298-L Document 1 Filed 02/17/2009 Page 15 of 26

45. Pendergest, Davis and Stanford knew about this exposure to loss relating to the Meridian investment. On December 15, 2008, an Analyst informed Pendergast, Davis and Stanford in a weekly report that his "rough estimate is a loss of \$400k . . . based on the indirect exposure" to Madoff.

# 5. Market Concerns About SIB's Lack of Transparency

46. On or about December 12, 2008, Pershing, citing suspicions about the bank's investment returns and its inability to get from the Bank "a reasonable level of transparency" into its investment portfolio informed SGC that it would no longer process wire transfers from SGC to SIB for the purchase of the CD. Since the spring of 2008, Pershing tried unsuccessfully to get an independent report regarding SIB's financials condition. On November 28, 2008, SGC's President, Danny Bogar, informed Pershing that "obtaining the independent report was not a priority." Between 2006 and December 12, 2008, Pershing sent to SIB 1,635 wire transfers, totaling approximately \$517 million, from approximately 1,199 customer accounts.

# D. From at least 2004, SCM misrepresented SAS performance results.

47. From 2004 through 2009, SCM induced clients, including non-accredited, retail investors, to invest in excess of \$1 billion in its SAS program by touting its track record of "historical performance." SCM highlighted the purported SAS track record in thousands of client presentation books ("pitch books").

48. For example, the following chart from a 2006 pitch book presented clients with the false impression that SAS accounts, from 2000 through 2005, outperformed the S&P 500 by an average of approximately 13 percentage points:

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	2005	2004	2003	2002	2001	2000
SAS Growth	12.09%	16.15%	32.84%	-3.33%	4.32%	18.04%
S&P 500	4.91%	10.88%	28.68%	-22.10%	-11.88%	-9.11%

SCM used these impressive, but fictitious, performance results to grow the SAS program from less than \$10 million in assets in 2004 to over \$1 billion in 2008.

49. SGC also used the SAS track record to recruit financial advisers away from legitimate advisory firms who had significant books of business. After arriving at Stanford, the newly-hired financial advisors were encouraged and highly incentivized to put their clients' assets in the SIB CD.

50. The SAS performance results used in the pitch books from 2005 through 2009 were fictional and/or inflated. Specifically, SCM misrepresented that SAS performance results, for 1999 through 2004, reflected "historical performance" when, in fact, those results were fictional, or "back-tested", numbers that do not reflect results of actual trading. Instead, SCM, with the benefit of hindsight, picked mutual funds that performed extremely well during years 1999 through 2004, and presented the back-tested performance of those top-performing funds to potential clients as if they were actual returns earned by the SAS program.

51. Similarly, SCM used "actual" model SAS performance results for years 2005 through 2006 that were inflated by as much as 4%.

52. SCM told investors that SAS has positive returns for periods in which actual SAS clients lost substantial amounts. For example, in 2000, actual SAS client returns ranged from negative 7.5% to positive 1.1%. In 2001, actual SAS client returns ranged from negative 10.7%

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to negative 2.1%. And, in 2002, actual SAS client returns ranged from negative 26.6% to negative 8.7%. These return figures are all gross of SCM advisory fees ranging from 1.5% to 2.75%. Thus, Stanford's claims of substantial market out performance were blatantly false. (e.g., a claimed return of 18.04% in 2000, when actual SAS investors lost as much as 7.5%).

53. SGC/SCM's management knew that the advertised SAS performance results were misleading and inflated. From the beginning, SCM management knew that the pre-2005 track record was purely hypothetical, bearing no relationship to actual trading. And, as early as November 2006, SCM investment advisers began to question why their actual clients were not receiving the returns advertised in pitch books.

54. In response to these questions, SGC/SCM hired an outside performance reporting expert, to review certain of its SAS performance results. In late 2006 and early 2007, the expert informed SCM that its performance results for the twelve months ended September 30, 2006 were inflated by as much as 3.4 percentage points. Moreover, the expert informed SCM managers that the inflated performance results included unexplained "bad math" that consistently inflated the SAS performance results over actual client performance. Finally, in March 2008, the expert informed SCM managers that the SAS performance results for 2005 were also inflated by as much as 3.25 percentage points.

55. Despite their knowledge of the inflated SAS returns, SGC/SCM management continued using the pre-2005 track record and never asked Riordan to audit the pre-2005 performance. In fact, in 2008 pitch books, SCM presented the back-tested pre-2005 performance data under the heading "Historical Performance" and "Manager Performance" along side the audited 2005 through 2008 figures. According to SCM's outside consultant, it was "[grossly misleading]" to present audited performance figures along side back-tested figures.

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56. Finally, SGC/SCM compounded the deceptive nature of the SAS track record by blending the back-tested performance with audited composite performance to create annualized 5 and 7 year performance figures that bore no relation to actual SAS client performance. A sample of this misleading disclosure used in 2008 and 2009 follows:

Calendar Year Return As of March 2008										
	٩۲	200	7 2006	2005	2004	2003	2002	2001	2000	1999
SAS Growth	-7.46%	1240	5 14685.	8.82%	16.1 <b>3%</b>	32.54%	-3.33%	4325	18. <b>04%</b>	22.59%
S&P 500	-9.44%	5.49	15.79%	49%	11.55%	28.68%	-22.10%	-11.88%	-9.17%	21.04%
	Annualized Returns (not annualized if less than 1 year)									
	YT	5	t year	3	<b>JESE</b>	5 yea	6	? years		ince epiion
SAS Growth	-7.44	1%	0.80%	8.	30%	15.31	<b>%</b>	11.03%	12	.30%
S&P 500	-9.44	1%	-5.08%	5	85%	11.33		3.70%	2	45%

57. Other than the fees paid by SIB to SGC for the sale of the CD, SAS was the second most significant source of revenue for the firm. In 2007 and 2008, approximately \$25 million in fees from the marketing of the SAS program.

# **CAUSES OF ACTION**

## <u>FIRST CLAIM</u> AS TO ALL DEFENDANTS

# Violations of Section 10(b) of the Exchange Act and Rule 10-5

58. Plaintiff Commission repeats and realleges paragraphs 1 through 57 of this

Complaint and incorporated herein by reference as if set forth verbatim.

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59. Defendants, directly or indirectly, singly or in concert with others, in connection with the purchase and sale of securities, by use of the means and instrumentalities of interstate

commerce and by use of the mails have: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices and courses of business which operate as a fraud and deceit upon purchasers, prospective purchasers and other persons.

60. As a part of and in furtherance of their scheme, defendants, directly and indirectly, prepared, disseminated or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations, which contained untrue statements of material facts and misrepresentations of material facts, and which omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

61. Defendants made the referenced misrepresentations and omissions knowingly or grossly recklessly disregarding the truth.

62. For these reasons, Defendants have violated and, unless enjoined, will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5].

# SECOND CLAIM AS TO STANFORD, DAVIS, AND PENDERGEST-HOLT

# Aiding and Abetting Violations of Exchange Act Section 10(b) and Rule 10b-5

63. Plaintiff Commission repeats and realleges paragraphs 1 through 57 of this Complaint and incorporated herein by reference as if set forth verbatim.

64. If Stanford, Davis, and Pendergest-Holt did not violate Exchange Act Section 10(b) and Rule 10b-5, in the alternative, Stanford, Davis, and Pendergest-Holt, in the manner set forth above, knowingly or with severe recklessness provided substantial assistance in connection with the violations of Exchange Act Section 10(b) [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] alleged herein.

65. For these reasons, Stanford, Davis, and Pendergest-Holt aided and abetted and, unless enjoined, will continue to aid and abet violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5].

## THIRD CLAIM AS TO ALL DEFENDANTS

## Violations of Section 17(a) of the Securities Act

66. Plaintiff Commission repeats and realleges paragraphs 1 through 57 of this Complaint and incorporated herein by reference as if set forth verbatim.

67. Defendants, directly or indirectly, singly or in concert with others, in the offer and sale of securities, by use of the means and instruments of transportation and communication in interstate commerce and by use of the mails, have: (a) employed devices, schemes or artifices to defraud; (b) obtained money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in transactions, practices or courses of business which operate or would operate as a fraud or deceit.

68. As part of and in furtherance of this scheme, defendants, directly and indirectly, prepared, disseminated or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations, which contained untrue statements of material fact and which omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

69. Defendants made the referenced misrepresentations and omissions knowingly or grossly recklessly disregarding the truth.

70. For these reasons, Defendants have violated, and unless enjoined, will continue to violate Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

# FOURTH CLAIM AS TO STANFORD, SGC, AND STANFORD CAPITAL

## Violations of Sections 206(1) and 206(2) of the Advisers Act

71. Plaintiff Commission repeats and realleges paragraphs 1 through 57 of this Complaint and incorporated herein by reference as if set forth verbatim.

72. Stanford, SGC, and Stanford Capital, directly or indirectly, singly or in concert, knowingly or recklessly, through the use of the mails or any means or instrumentality of interstate commerce, while acting as investment advisers within the meaning of Section 202(11) of the Advisers Act [15 U.S.C. § 80b-2(11)]: (a) have employed, are employing, or are about to employ devices, schemes, and artifices to defraud any client or prospective client; or (b) have engaged, are engaging, or are about to engage in acts, practices, or courses of business which operates as a fraud or deceit upon any client or prospective client.

73. For these reasons, Stanford, SGC, and Stanford Capital have violated, and unless enjoined, will continue to violate Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)].

# FIFTH CLAIM AS TO STANFORD, DAVIS, AND PENDERGEST-HOLT

# Aiding and Abetting Violations of Sections 206(1) and 206(2) of the Advisers Act

74. Plaintiff Commission repeats and realleges paragraphs 1 through 57 of this Complaint and incorporated herein by reference as if set forth verbatim.

75. Based on the conduct alleged herein, Stanford, Davis, and Pendergest-Holt, in the manner set forth above, knowingly or with severe recklessness provided substantial assistance in

connection with the violations of Advisers Act Sections 206(1) and 206(2) [15 U.S.C. §§ 80b-6(1) and 80b-6(2)] alleged herein.

76. For these reasons, Stanford, Davis, and Pendergest-Holt aided and abetted and, unless enjoined, will continue to aid and abet violations of Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)].

## <u>SIXTH CLAIM</u> AS TO SIB AND SGC

## Violations of Section 7(d) of the Investment Company Act

77. Plaintiff Commission repeats and realleges paragraphs 1 through 57 of this Complaint and incorporated herein by reference as if set forth verbatim.

78. SIB, an investment company not organized or otherwise created under the laws of the United States or of a State, directly or indirectly, singly or in concert with others, made use of the mails or any means or instrumentality of interstate commerce, directly or indirectly, to offer for sale, sell, or deliver after sale, in connection with a public offering, securities of which SIB was the issuer, without obtaining an order from the Commission permitting it to register as an investment company organized or otherwise created under the laws of a foreign country and to make a public offering of its securities by use of the mails and means or instrumentalities of interstate commerce.

79. SGC, directly or indirectly, singly or in concert with others, acted as an underwriter for SIB, an investment company not organized or otherwise created under the laws of the United States or of a State that made use of the mails or any means or instrumentality of interstate commerce, directly or indirectly, to offer for sale, sell, or deliver after sale, in connection with a public offering, securities of which SIB was the issuer, without obtaining an order from the Commission permitting it to register as an investment company organized or

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otherwise created under the laws of a foreign country and to make a public offering of its securities by use of the mails and means or instrumentalities of interstate commerce.

80. For these reasons, SIB and SGC have violated, and unless enjoined, will continue to violate Section 7(d) of the Investment Company Act [15 U.S.C. § 80a-7(d)].

#### RELIEF REQUESTED

Plaintiff Commission respectfully requests that this Court:

#### I.

Temporarily, preliminarily, and permanently enjoin: (a) Defendants from violating, or aiding and abetting violations of, Section 10(b) and Rule 10b-5 of the Exchange Act; (b) Defendants from violating Section 17(a) of the Securities Act; (c) Stanford, Davis, Pendergest-Holt, SGC, and Stanford Capital from violating, or aiding and abetting violations of, Sections 206(1) and 206(2) of the Advisers Act; and (d) SIB and SCG from violating Section 7(d) of the Investment Company Act.

## II.

Enter an Order immediately freezing the assets of Defendants and directing that all financial or depository institutions comply with the Court's Order. Furthermore, order that Defendants immediately repatriate any funds held at any bank or other financial institution not subject to the jurisdiction of the Court, and that they direct the deposit of such funds in identified accounts in the United States, pending conclusion of this matter.

#### Ш.

Order that Defendants shall file with the Court and serve upon Plaintiff Commission and the Court, within 10 days of the issuance of this order or three days prior to a hearing on the Commission's motion for a preliminary injunction, whichever comes first, an accounting, under

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oath, detailing all of their assets and all funds or other assets received from investors and from one another.

#### IV.

Order that Defendants be restrained and enjoined from destroying, removing, mutilating, altering, concealing, or disposing of, in any manner, any of their books and records or documents relating to the matters set forth in the Complaint, or the books and records and such documents of any entities under their control, until further order of the Court.

## v.

Order the appointment of a temporary receiver for Defendants, for the benefit of investors, to marshal, conserve, protect, and hold funds and assets obtained by the defendants and their agents, co-conspirators, and others involved in this scheme, wherever such assets may be found, or, with the approval of the Court, dispose of any wasting asset in accordance with the application and proposed order provided herewith.

#### VI.

Order that the parties may commence discovery immediately, and that notice periods be shortened to permit the parties to require production of documents, and the taking of depositions on 72 hours' notice.

#### VII.

Order Defendants to disgorge an amount equal to the funds and benefits they obtained illegally as a result of the violations alleged herein, plus prejudgment interest on that amount.

#### νп.

Order civil penalties against Defendants pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], Section 41(e) of

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the Investment Company Act [15 U.S.C. § 80a-41(e)], and Section 209(e) of the Advisers Act

[15 U.S.C. § 80b-9(e)] for their securities law violations.

## IX.

Order that Stanford, Davis, and Pendergest-Holt immediately surrender their passports to the Clerk of this Court, to hold until further order of this Court.

## X.

Order such further relief as this Court may deem just and proper.

For the Commission, by its attorneys:

February 16, 2009

Respectfully submitted,

STEPHEN J. KOROTASH Oklahoma Bar No. 5102 J. KEVIN EDMUNDSON Texas Bar No. 24044020 DAVID B. REECE Texas Bar No. 24002810 MICHAEL D. KING Texas Bar No. 24032634 D. THOMAS KELTNER Texas Bar No. 24007474

U.S. Securities and Exchange Commission Burnett Plaza, Suite 1900 801 Cherry Street, Unit #18 Fort Worth, TX 76102-6882 (817) 978-6476 (dbr) (817) 978-4927 (fax)

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CONTRACT		ORTS			TURE/PENALTY	BANKRUPT	CY	OTHER STATUTES	
110 insurance     120 Marine     130 Miller Act     140 Negotiable Instrument     150 Recovery of     Overpayment	PERSONAL INJURY 310 Airplane 315 Airplane Product Liability 320 Assault, Libel & Slander	315 Airplane Product Liability     Med. Malpractice       365 Personal Injury - Product Liability     Product Liability		<ul> <li>610 Agriculture</li> <li>620 Other Food &amp; Drug</li> <li>625 Drug Related Seizt</li> <li>Property 21 USC 88</li> <li>630 Liquor Laws</li> </ul>		f 422 Appeal 28 USC 156 423 Withdrawal 28 USC 157		<ul> <li>400 State Reapprotionment</li> <li>410 Antitrust</li> <li>430 Banks and Banking</li> <li>450 Commerce/ICC Rates/etc.</li> <li>460 Deportation</li> </ul>	
& Enforcement of Judgment  151 Medicare Act  152 Recovery of Defaulted	<ul> <li>330 Federal Employers Liability</li> <li>340 Marine</li> </ul>	Injury Product Liabil PERSONAL PROPER	ility RTY 🔲 650 Air		ne Regs.	PROPERTY RI	GHTS	<ul> <li>470 Racketeer Influenced and Corrupt Organizations</li> <li>810 Selective Service</li> </ul>	
Student Loans (Excl. Veterans)  153 Recovery OF Overpayment	<ul> <li>345 Marine Product Liability</li> <li>350 Motor Vehicle</li> </ul>	<ul> <li>370 Other Fraud</li> <li>371 Truth in Lending</li> <li>380 Other Personal Property Damage</li> </ul>	• -	690 Occ 690 Oth	upational Safety/Health er LABOR	830 Patient     840 Trademark     SOCIAL SECU	JRITY	<ul> <li>☑ 850 Securities Commodities/ Exchange</li> <li>☑ 875 Customer Challenge 12 USC 3410</li> </ul>	
of Veteran's Benefits  160 Stockholders' Suits  190 Other Contract  195 Contract Product Liability	☐ 355 Motor Vehicle Product Liability ☐ 360 Other Personal Injury	☐ 385 Property Damage Product Liability	e	710 Fair Labor Standards Act		☐ 861 HIA (1395FF) ☐ 862 Black Lung (923) ☐ 863 DIWC/DIWW (405(g))		<ul> <li>891 Agricultural Acts</li> <li>892 Economic Stabilization Act</li> </ul>	
REAL PROPERTY	CIVIL RIGHTS PRISONER PETITIO			Disclosure Act		664 SSID Title XVI     865 RSI (405(g))     FEDERAL TAX SUITS		<ul> <li>893 Environmental Matters</li> <li>894 Energy Allocation Act</li> <li>895 Freedom of</li> </ul>	
220 Foreclosure 230 Rent Lease & Ejectment 240 Torts to Land	442 Employment 443 Housing/ Accommodations	☐ 510 Motions to Vacate Sentence Habeas Corpus: ☐ 530 General ☐ 535 Death Penalty		790 Other Labor Litigation		870 Taxes (U.S. Plaintiff or Defendant)		Information Act 900 Appeal of Fee Determination Under Equal Access to Justice	
245 Tort Product Liability     290 All Other Real Property	444 Welfare 440 Other Civil Rights	elfare D 540 Mandamus & Other		Security Act		26 USC 7609		950 Constitutionality of State Statutes     890 Other Statutory Actions	
V. ORIGIN		_(PLACE AN "X" IN OI	NE BOX	X ONLY)					
I Original Proceeding				3 Remanded from     4 Reinstated or       Appellate Court     Reopened					
VI. CAUSE OF ACTION Section 17(a) of the Securit thereunder [17 C.F.R. §240 the Investment Company A	ties Act of 1933, [15 U.S 0.10b-5], Sections 206(1	r.) 5.C. §77q(a)], Section 1 ) and 206(2) of the Inve	I0(b) of	f the Secu	irities Exchange A	ct of 1934, [15 U.S.	C. §78j(b)]	and Rule 10b-5	
VII. REQUESTED IN COMPLAINT: 26 USC 7609	COMPLAINT: UNDER F.R.C.P. 23 JURY DEMAND UYES NO						•		
VIII. RELATED CASE(S) (See Instructions):									
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Case 1:09-mc-00002-JAD Document 1-3 Case 3:09-cv-00298-L Document 8 File	ed 02/1 <mark>7/2009 Page 1 of 10</mark>
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SECURITIES AND EXCHANGE COMMISSION,	§ By Deputy
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Plaintiff,	
V.	S Case No: L'AAMA 2- HD
v.	S Case No.: 1:09MC2-JAD
STANFORD INTERNATIONAL BANK, LTD.,	\$ <b>3-09CV0298-</b> L
STANFORD GROUP COMPANY,	\$ <b>3-03010530-</b>
STANFORD CAPITAL MANAGEMENT, LLC,	\$
R. ALLEN STANFORD, JAMES M. DAVIS, and	§
LAURA PENDERGEST-HOLT	§
	§
Defendants.	§
	-
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# TEMPORARY RESTRAINING ORDER, ORDER FREEZING ASSETS, ORDER REQUIRING AN ACCOUNTING, ORDER REQUIRING PRESERVATION OF DOCUMENTS, AND ORDER AUTHORIZING EXPEDITED DISCOVERY

This matter came before me, the undersigned United States District Judge, this 16th day of February 2009, on the application of Plaintiff Securities and Exchange Commission ("Commission") for the issuance of a temporary restraining order against Defendants Stanford International Bank, Ltd. ("SIB"), Stanford Group Company ("SGC"), Stanford Capital Management, LLC ("SCM"), R. Allen Stanford ("Stanford"), James M. Davis ("Davis"), and Laura Pendergest-Holt ("Pendergest-Holt") (collectively, "Defendants"), and orders freezing assets, requiring an accounting, prohibiting the destruction of documents, pulling the passports of Stanford, Davis, and Pendergest-Holt, authorizing expedited discovery, and alternative service of process and notice. On the basis of the papers filed by the Commission, and argument of Commission counsel, the Court finds as follows:

1. This Court has jurisdiction over the subject matter of this action and over the Defendants.

 The Commission is a proper party to bring this action seeking the relief sought in its Complaint.

3. Venue is appropriate in the Northern District of Texas.

4. There is good cause to believe that Defendants have engaged in, and are engaging in, acts and practices which did, do, and will constitute violations of Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)], Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §78j(b)], Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5], Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. § 80b-6(1), (2)], and Section 7(d) of the Investment Company Act of 1940 ("Investment Company Act") [15 U.S.C. § 80a-7(d)].

5. There is good cause to believe that Defendants will continue to engage in the acts and practices constituting the violations set forth in paragraph 4 unless restrained and enjoined by an order of this Court.

6. There is good cause to believe that Defendants used improper means to obtain investor funds and assets. There is also good cause to believe that Defendants will dissipate assets and that some assets are located abroad.

7. An accounting is appropriate to determine the disposition of investor funds and to ascertain the total assets that should continue to be frozen.

8. It is necessary to preserve and maintain the business records of Defendants from destruction.

9. This proceeding is one in which the Commission seeks a preliminary injunction.

10. The timing restrictions of Fed. R. Civ. P. 26(d) and (f), 30(a)(2)(C) and 34 do not apply to this proceeding in light of the Commission's requested relief and its demonstration of good cause.

11. Expedited discovery is appropriate to permit a prompt and fair hearing on the Commission's Motion for Preliminary Injunction.

12. There is good cause to believe that Stanford, Davis, and Pendergest-Holt may seek to leave the United States in order to avoid responsibility for the fraudulent acts alleged herein.

## IT IS THEREFORE ORDERED THAT:

A. Defendants, their officers, directors, agents, servants, employees, attorneys, and all other persons in active concert or participation with them, are restrained and enjoined from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], directly or indirectly, in the offer or sale of any security by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails, by:

- (1) employing any device, scheme, or artifice to defraud; or
- (2) obtaining money or property by means of any untrue statement of material fact or any omission to state a material fact necessary in order to make the statement(s) made, in the light of the circumstances under which they were made, not misleading; or
- engaging in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser;
- B. Defendants, their officers, directors, agents, servants, employees, attorneys, and all other persons in active concert or participation with them, are restrained and enjoined

from violating Section 10(b) of the Exchange Act or Rule 10b-5 [15 U.S.C. § 78j(b) and 17 C.F.R. §240.10b-5], directly or indirectly, in connection with the purchase or sale of any security, by making use of any means or instrumentality of interstate commerce, or of the mails, or of any facility of any national securities exchange:

- to use or employ any manipulative or deceptive device or contrivance in contravention of the rules and regulations promulgated by the Commission;
- (2) to employ any device, scheme, or artifice to defraud;
- (3) to make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or
- (4) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person;

C. Stanford, Davis, Pendergest-Holt, SGC, SCM, their officers, directors, agents, servants, employees, attorneys, and all other persons in active concert or participation with them, are restrained and enjoined from violating Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§80b-6(1), (2)], directly or indirectly, by use of the mails or any means or instrumentality of interstate commerce, by:

- employing any device, scheme, or artifice to defraud any client or prospective client; or
- (2) engaging in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client;

D. SIB, SGC, their officers, directors, agents, servants, employees, attorneys, and all other persons in active concert or participation with them, are restrained and enjoined from violating Section 7(d) of the Investment Company Act [15 U.S.C. §80a-7(d)], directly or indirectly, by use of the mails or any means or instrumentality of interstate commerce, by:

- (1) acting as an investment company, not organized or otherwise created under the laws of the United States or of a State, and offering for sale, selling, or delivering after sale, in connection with a public offering, any security of which such company is the issuer; or
- (2) acting as a depositor of, trustee of, or underwriter for such a company; unless
- (3) the Commission, upon application by the investment company not organized or otherwise created under the laws of the United States or of a State, issues a conditional or unconditional order permitting such company to register and to make a public offering of its securities by use of the mails and means or instrumentalities of interstate commerce.

5. Defendants, their officers, directors, agents, servants, employees, attorneys, and all other persons in active concert or participation with them, who receive actual notice of this Order by personal service or otherwise, and each of them, are hereby restrained and enjoined from, directly or indirectly, making any payment or expenditure of funds belonging to or in the possession, custody, or control of Defendants, or effecting any sale, gift, hypothecation, or other disposition of any asset belonging to or in the possession, custody, or control of Defendants, pending a showing to this Court that Defendants have sufficient funds or assets to satisfy all claims

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arising out of the violations alleged in the Commission's Complaint or the posting of a bond or surety sufficient to assure payment of any such claim. This provision shall continue in full force and effect until further ordered by this Court and shall not expire.

6. All banks, savings and loan associations, savings banks, trust companies, securities broker-dealers, commodities dealers, investment companies, other financial or depository institutions, and investment companies that hold one or more accounts in the name, on behalf or for the benefit of Defendants are hereby restrained and enjoined, in regard to any such account, from engaging in any transaction in securities (except liquidating transactions necessary to comply with a court order) or any disbursement of funds or securities pending further order of this Court. This provision shall continue in full force and effect until further order by this Court and shall not expire.

7. All other individuals, corporations, partnerships, limited liability companies, and other artificial entities are hereby restrained and enjoined from disbursing any funds, securities, or other property obtained from Defendants without adequate consideration. This provision shall continue in full force and effect until further order by this Court and shall not expire.

8. Defendants are hereby required to make an interim accounting, under oath, within ten days of the issuance of this order or three days prior to any hearing on the Commission's Motion for Preliminary Injunction, whichever is sooner: (1) detailing all monies and other benefits which each received, directly or indirectly, as a result of the activities alleged in the Complaint (including the date on which the monies or other benefit was received and the name, address, and telephone number of the person paying the money or providing the benefit); (2) listing all current assets wherever they may be located and by whomever they are being held (including the name and address of the holder and the amount or value of the holdings); and (3)

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listing all accounts with any financial or brokerage institution maintained in the name of, on behalf of, or for the benefit of, Defendants (including the name and address of the account holder and the account number) and the amount held in each account at any point during the period from January 1, 2000 through the date of the accounting. This provision shall continue in full force and effect until further order by this Court and shall not expire.

9. Defendants, their officers, directors, agents, servants, employees, attorneys, and all other persons in active concert or participation with them, including any bank, securities broker-dealer, or any financial or depositary institution, who receives actual notice of this Order by personal service or otherwise, and each of them, are hereby restrained and enjoined from destroying, removing, mutilating, altering, concealing, or disposing of, in any manner, any books and records owned by, or pertaining to, the financial transactions and assets of Defendants or any entities under their control. This provision shall continue in full force and effect until further order by this Court and shall not expire.

10. The United States Marshal in any judicial district in which Defendants do business or may be found, or in which any Receivership Asset may be located, is authorized and directed to make service of process at the request of the Commission.

11. The Commission is authorized to serve process on, and give notice of these proceedings and the relief granted herein to, Defendants by U.S. Mail, e-mail, facsimile, or any other means authorized by the Federal Rules of Civil Procedure.

12. Expedited discovery may take place consistent with the following:

A. Any party may notice and conduct depositions upon oral examination and may request and obtain production of documents or other things for inspection and copying from parties prior to the expiration of thirty days after service of a summons and the Plaintiff Commission's Complaint upon Defendants.

- B. All parties shall comply with the provisions of Fed. R. Civ. P. 45 regarding issuance and service of subpoenas, unless the person designated to provide testimony or to produce documents and things agrees to provide the testimony or to produce the documents or things without the issuance of a subpoena or to do so at a place other than one at which testimony or production can be compelled.
- C. Any party may notice and conduct depositions upon oral examination subject to minimum notice of seventy-two (72) hours.
- D. All parties shall produce for inspection and copying all documents and things that are requested within seventy-two (72) hours of service of a written request for those documents and things.
- E. All parties shall serve written responses to written interrogatories within seventy-two (72) hours after service of the interrogatories.

13. All parties shall serve written responses to any other party's request for discovery and the interim accountings to be provided by Defendants by delivery to the Plaintiff Commission address as follows:

> UNITED STATES SECURITIES AND EXCHANGE COMMISSION Fort Worth Regional Office Attention: David Reece Burnett Plaza, Suite 1900 801 Cherry Street, Unit #18 Fort Worth, TX 76102-6882 Facsimile: (817) 978-4927

SEC v. Stanford International Bank, Ltd., et al. Temporary Restraining Order, Order Freezing Assets, and Other Relief and by delivery to other parties at such address(es) as may be designated by them in writing. Such delivery shall be made by the most expeditious means available, including e-mail and facsimile.

14. Stanford, Davis, and Pendergest-Holt shall surrender their passports, pending the determination of the Commission's request for a preliminary injunction, and are barred from traveling outside the United States.

15. Defendants, their directors, officers, agents, servants, employees, attorneys, depositories, banks, and those persons in active concert or participation with anyone or more of them, and each of them, shall:

- (a) take such steps as are necessary to repatriate to the territory of the United States all funds and assets of investors described in the Commission's Complaint in this action which are held by them, or are under their direct or indirect control, jointly or singly, and deposit such funds into the Registry of the United States District Court, Northern District of Texas; and
- (b) provide the Commission and the Court a written description of the funds and assets so repatriated.

16. Defendants shall serve, by the most expeditious means possible, including e-mail and facsimile, any papers in opposition to the Commission's Motion for Preliminary Injunction and for other relief no later than 72 hours before any scheduled hearing on the Motion for Preliminary Injunction. The Commission shall serve any reply at least 24 hours before any hearing on the Motion for Preliminary Injunction by the most expeditious means available, including facsimile. 17. Unless extended by agreement of the parties, the portion of this order that constitutes a temporary restraining order shall expire at <u>5</u> o'clock  $\rho$ .m. on the <u>1</u> day of <u>March</u> 2009 or at such later date as may be ordered by this Court. All other provisions of this order shall remain in full force and effect until specifically modified by further order of this Court. Unless the Court rules upon the Commission's Motion for Preliminary Injunction pursuant to Fed. R. Civ. P. 43(e), adjudication of the Commission's Motion for Preliminary Injunction shall take place at the United States Courthouse, <u>Marchern District Jun</u> Dallas, Texas, on the <u>1</u> day of <u>March</u>, 2009, at <u>10</u> o'clock <u>a.m.</u> 1100 Commerce Street Dallas Texas 75242 (Ear 1 Cabell Bldg).

EXECUTED AND ENTERED at  $\underline{11:40}$  o'clock  $\alpha$  m. CST this 16<sup>th</sup> day of February 2009.

UNITED STATES DISTRICT JUDGE

## **UNITED STATES DISTRICT COURT**

### MIDDLE DISTRICT OF LOUISIANA

SANDRA ALLEN, ON	*	
BEHALF OF HERSELF AND ALL	*	
OTHERS SIMILARLY SITUATED,	*	
	*	
PLAINTIFFS,	*	C.A. NO
	*	
VERSUS	*	
	*	
STANFORD GROUP COMPANY,	*	
STANFORD FINANCIAL GROUP,	*	
STANFORD INTERNATIONAL	*	
BANK LTD., STANFORD HOLDINGS, INC.,	*	
STANFORD CAPITAL	*	
MANAGEMENT, LLC, R. ALLEN	*	
STANFORD, JAMES DAVIS, and	*	
LAURA PENDERGREST-HOLT,	*	
	*	
DEFENDANTS.	*	

### CLASS ACTION COMPLAINT

1. NOW INTO COURT, through undersigned counsel, comes Plaintiff, Sandra Allen, individually and as representative of all persons and entities similarly situated, who alleges as follows:

2. This is a class action suit brought pursuant to the provisions of the Rule 23 of the Federal Rules of Civil Procedure, by Plaintiff Sandra Allen, individually, and on behalf of all other persons and entities similarly situated (hereinafter referred to as "Plaintiffs"), who are residents of the United States, to obtain relief from Defendants Stanford Group Company, Stanford Financial Group, Stanford International Bank, LTD., Stanford Holdings, Inc., Stanford Capital Management, LLC (collectively referred to as "Stanford"), R. Allen Stanford, James Davis and Laura Pendergest-Holt, collectively referred to as "individual Defendants"), based on the facts and causes of action stated below.

#### THE PARTIES

3. Plaintiff, Sandra Allen, is a person of full age of majority who is domiciled in the Parish of East Baton Rouge, State of Louisiana. Plaintiff is a member of the Plaintiff Class defined herein, and Plaintiff will adequately represent the interests of the Plaintiff Class as the class representative in this case.

4. Named as Defendants are: Stanford Group Company, Stanford Financial Group, Stanford International Bank, LTD., Stanford Holdings, Inc., Stanford Capital Management, LLC (collectively referred to as "Stanford"), R. Allen Stanford, James Davis and Laura Pendergest-Holt, (collectively referred to as "individual Defendants").

#### JURISDICTION AND VENUE

5. The investments offered and sold by Stanford are "securities" under Section 2(1) of the Securities Act of 1933 [15 U.S.C. § 77b], and Section 3(a)(10) of the Securities Exchange Act of 1934 [15 U.S.C. § 78c].

6. This Court has jurisdiction over this action, and venue is proper, under Section 22(a) of the Securities Act of 1933[15 U.S.C. § 77v(a)], and Section 27 of the Securities Exchange Act of 1934[15 U.S.C. § 78a].

7. Venue is proper in this district pursuant to 28 U.S.C. § 1391(b) because (1) a substantial part of the events or omissions giving rise to Plaintiff's claims occurred in this district and (2) the defendants are subject to personal jurisdiction in this district.

#### **INTRODUCTION**

8. This is an action brought by Plaintiff pursuant to various provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934.

9. Stanford and the individual Defendants engaged or participated in the implementation of manipulative devices to falsely report investment returns to customers, made or participated in the making of false and misleading statements, and participated in a scheme to

defraud, or a course of business that operated as a massive fraud or a deceit on its customers. As a result of Defendants' wrongful conduct and scheme, thousands of investors placed millions of dollars into Stanford's managed portfolios, including the purchase of "depositor-secured" Certificates of Deposit, and have sustained significant financial losses.

10. This fraud was accomplished through the direction and active participation of the individual Defendants who knowingly violated Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority regulatory provisions, and federal securities law. When certain employees of Stanford complained about discrepancies in certain investment results, Stanford, through its officers and directors (including the individual Defendants), knowingly attempted to "cover up" this information, opting instead to hide and obstruct the truth, and Stanford's duty of compliance with regulatory and statutory law, and its fiduciary duty of full and fair disclosure to its customers. Accordingly, Plaintiff and the Class members are entitled to rescind the sales and recover damages.

#### FACTS RELEVANT TO PLAINTIFF

11. In 2008, Plaintiff, Sandra Allen, individually entrusted a significant amount of money to Stanford for investment on her behalf, including the purchase of a Certificate of Deposit issued by Stanford International Bank, Ltd. ("SIB"), based upon materially false and misleading information disseminated by Defendants, to the effect that Stanford was a legitimate enterprise engaged in the lawful brokerage and sale of investment securities, with the purported rates of return on investment.

12. In determining to invest monies through Stanford, Plaintiff naturally, reasonably, and justifiably relied upon Defendants' misrepresentations in deciding to make such investment.

13. As a consequence of Defendants' fraud as alleged herein, Plaintiff has been damaged in an amount to be proven at trial.

#### FACTS RELEVANT TO DEFENDANTS

14. Stanford is composed of the above named U.S. companies and its flagship entity, an offshore bank known as Stanford International Bank, Ltd. All of these companies are controlled by R. Allen Stanford, who is either the founder, chairman, and/or chief executive officer of all related Stanford companies.

15. Defendant R. Allen Stanford, 58, is a Texas billionaire with a reported net worth, according to Forbes, of an estimated \$2.2 billion, making him the 205<sup>th</sup> on Forbes 2008 list of the richest people in the U.S. worldwide. He often refers to the meager beginnings of his father's insurance business in Mexia, Texas during the Depression, but he equally touts his prominent business and political influence in the twin island Caribbean nation of Antigua and Barbuda, where he was knighted by Sir Allen in 2006, and where his Antiguan-based offshore bank is located.

16. With reported assets of \$1 billion in 2001, SIB now has more than \$8.5 Billion in total assets, according to the bank's report in December 2008. To do so, R. Allen Stanford and his key management engaged in a campaign to substantially increase SIB assets in Antigua by selling high-yield certificates of deposits to affluent U.S. investors through Stanford's network of U.S. companies. U.S. investors are actively solicited to purchase SIB-issued CDs through his array of affiliated companies. Stanford Group Company is owned by Stanford Group Holdings, Inc., which is in turn owned by R. Allen Stanford. For all practical and legal reasons, all related companies are owned and controlled by R. Allen Stanford.

17. Defendant R. Allen Stanford has created a complex web of affiliated companies that exist and operate under the brand Stanford Financial Group ("SFG"). SFG is described as a privately-held group of companies that has in excess of \$50 billion "under advisement."

18. SIB, an Antiguan bank charted under the laws of the sovereign nation of Antigua and Barbuda, boasts in its promotional literature that "deposit safety" is its "number one priority." Acting in concert with Stanford's U.S. based companies, the offshore bank taps into the lucrative U.S. investor market through the conduit of Stanford Group Companies ("SGC"), and its 29 affiliated offices throughout the U.S. In all cases, SGC aggressively pushed its advisors to sell the SIB CD's program and rewarded them handsomely for their success.

19. Among the platform of financial products offered by SGC, the sale of SIB CDs offered the greatest incentive to financial advisors. The campaign involved direct pressure on the financial advisors to sell the foreign CDs, coupled with bonus incentives for employees who could generate the greatest number of deposits. The program was aptly named as "The Contest." An "SIB Scoreboard" was kept, listing each group's performance in meeting their quota, which determined the size of bonus they would receive.

20. From a 3% referral fee payable to SGC on every SIB CD sold, SGC advisers received a 1% commission if they sold \$2 million of SIB CDs in a quarter. They would also receive as much as a 1% trailing commission throughout the term of the CD if they maintained the \$2 million per quarter production hurdle. This commission structure provided a powerful incentive for SGC financial advisers to aggressively sell CDs to the U.S. investors, and was used extensively to recruit new advisors to SGC.

21. SGC aggressively expanded its number of financial advisors in the United States. Through this expansion, SIB's network of representatives who sold CD products grew substantially. According to the Annual Report and information provided to advisors, the total assets at SIB grew exponentially from 2001 to 2008, from approximately \$1.0 billion in July 2001, to approximately \$5.0 billion in October 2006. By the end of 2007, SIB sold \$6.7 billion of CDs, and in its latest report of December 2008, SIB reports over 30,000 clients, representing \$8.5 billion in total assets.

22. SIB aggregated all funds from the sale of CDs, and purportedly reinvested those funds pursuant to an investment strategy monitored by a group of analysts in Memphis, Tennessee, who reported to senior investment officers. According to SIB's Annual Reports for 2005 and 2006, which were signed by R. Allen Stanford and James Davis, the bank invested customer deposits "in a well-balanced global portfolio of marketable financial instruments, namely U.S. and international securities and fiduciary placements."

23. SIB CDs are offered in three forms at varying terms: Fixed, Flex and Index Linked. Each CD offers a substantially higher rate of return compared to domestic certificates of deposit. For example, SIB offered 7.45% as of June 1, 2005, 7.878% as of March 20, 2006 for a fixed rate CD based on an investment of \$100,000. Plaintiff's 60 month CD, issued in 2008, promised to pay interest at a base rate of 8.275%, with an annual yield of 10.25%.

24. SGC advisors who questioned how SIB could pay such high rates of return for CDs compared to U.S. banks were told that the bank's investment strategy had garnered consistently high investment returns on its portfolio. However, any attempts to discover the specifics of the investment portfolio were rebuffed, and advisors were summarily told that SIB could not disclose the details of its assets or portfolio managers, except to say that the assets were safe in a globally diversified portfolio that was capable of 90% liquidation within 48 hours.

25. To allay advisors' concerns, and facilitate sale of the foreign CDs, senior management at SGC and SIB, including the individual Defendants, had to create the appearance of a stable, liquid, and secure CD, comparable to the low risk associated with a familiar domestic CD. Advisors were deceived by senior management, including the individual Defendants, to

make the following misrepresentations which operate as a fraud or a deceit on purchasers of the SIB CDs:

- The CDs are liquid, minimally leveraged, and can be redeemed at any time.
- SIB is strongly capitalized with R. Allen Stanford's own personal funds, and depositor security is the number one priority.
- The SIB investment portfolio was monitored by a team of analysts and consistently generates more investment return than is paid out in CD interest and expenses so that the principal is not really ever in jeopardy.
- The SIB CDs are secure because of insurance coverage from Lloyd's and other underwriters, and Excess FDIC.
- The SIB investment portfolio is overseen by a regulatory authority in Antigua, and an independent auditor who verified and audited financial statements of SIB.

26. These misrepresentations were false and misleading when made to customers who purchased the SIB CDs.

27. SGC/SCM induced clients, including non-accredited, retail investors, to invest in excess of \$1 billion in its managed investment program called "Stanford Allocation Strategies" ("SAS") by touting its track record of "historical performance." SGC/SCM highlighted the purported SAS track record in thousands of client presentation books.

28. SGC/SCM used these impressive, but fictitious, performance results to grow the SAS program from less than \$10 million in assets in 2004 to over \$1 billion in 2008.

29. SGC/SCM also used the SAS track record to recruit financial advisors away from legitimate advisory firms who had significant books of business.

30. SGC/SCM told investors that SAS has positive returns for periods in which actual SAS clients lost substantial amounts. Upon information and belief, in 2000, actual SAS client returns ranged from negative 7.5% to positive 1.1%. In 2001, actual SAS client returns ranged from negative 10.7% to negative 2.1%. And, in 2002, actual SAS client returns ranged from negative 26.6% to negative 8.7%. These return figures are all gross of SCM advisory fees ranging from 1.5% to 2.75%. Thus, Stanford's claims of substantial market out performance were blatantly false (e.g., a claimed return of 18.04% in 2000, when actual SAS investors lost as much as 7.5%).

31. SGC/SCM's management knew that the advertised SAS performance results were misleading and inflated. From the beginning, SCM management knew that the pre-2005 track record was purely hypothetical, bearing no relationship to actual trading. And, as early as November 2006, SGC/SCM investment advisors began to question why their actual clients were not receiving the returns advertised in pitch books.

32. In response to these questions, SGC/SCM hired an outside performance reporting expert to review certain of its SAS performance results. In late 2006 and early 2007, the expert informed SGC/SCM that the performance results for the twelve months ended September 30, 2006 were inflated by as much as 3.4 percentage points. Moreover, the expert informed SGC/SCM managers that the inflated performance results included unexplained "bad math" that consistently inflated the SAS performance results over actual client performance. Finally, in March 2008, the expert informed SGC/SCM managers that the SAS performance results for the SAS performance results for 2005 were also inflated by as much as 3.25 percentage points.

33. Despite their knowledge of the inflated SAS returns, SGC/SCM management continued using the pre-2005 track record. In fact, in 2008 pitch books, they presented the back-

tested pre-2005 performance data under the heading "Historical Performance" and "Manager Performance" along side the audited 2005 through 2008 figures.

34. Finally, SGC/SCM compounded the deceptive nature of the SAS track record by blending the back-tested performance with audited composite performance to create annualized 5 and 7 year performance figures that bore no relation to actual SAS client performance.

35. Other than the fees paid by SIB to SGC for the sale of the CDs, SAS was the second most significant source of revenue for the firm. In 2007 and 2008, SCG earned approximately \$25 million in fees from the marketing of the SAS program.

#### **CLASS ACTION ALLEGATIONS**

36. This action is brought as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure. Plaintiffs are pursuing this action to secure redress on behalf of all persons and entities in the United States who have suffered damages as a consequence of Defendants' violations of federal securities laws and regulations. Plaintiff brings the claims herein on behalf of herself and all other persons and entities similarly situated, and seeks certification of the following Plaintiff Class:

All persons or entities in the United States who purchased securities and certificates of deposit sold by or through the Defendant Stanford entities, or other selling agents affiliated with the Stanford entities, from January 1, 2000 until February 17, 2009 inclusive (the "Class Period"), excluding Defendants and all officers and directors of Defendants during the Class Period ("the Class").

37. Specifically excluded from the proposed Plaintiff Class are the Judge to whom the case is assigned; the Defendants, officers, directors, agents, trustees, representatives or employees of Defendants; or entities controlled by Defendants, and their heirs, successors, assigns, or other persons or entities related to or affiliated with Defendants and/or their officers and/or directors.

38. Membership in the Class is so numerous as to make it impractical to bring all class members before the Court as individual Plaintiffs. The exact number of Class members is unknown, though believed to be in the tens of thousands, but can be reasonably determined from the records maintained by Defendants.

39. A class action is superior to other available methods for the fair and efficient adjudication of this litigation. Individual litigation would be unduly burdensome to the courts in which individual litigation would proceed. The disposition of these claims in a class action will provide substantial benefits to the Class members, the public, and the courts.

40. Defendants' process and procedure for marketing, promoting, and selling investment products, including CDs and securities, were uniform. Total uniformity in this respect is consistent with class action principles. This action alleges violations of specific federal securities laws and regulations during a specific time period by Defendants, and thus a singular legal focus on the nature and content of Defendants' conduct is present.

41. Individual litigation would present the potential for varying, inconsistent, or contradictory judgments and would magnify the delay and expense to all parties and to the court system resulting from multiple trials of the same factual issues. Plaintiff knows of no difficulty to be encountered in the management of this action that would preclude its maintenance as a class action. Accordingly, relief concerning Plaintiff's rights under the laws herein alleged and with respect to the Plaintiff Class would be proper. This class action provides the benefits of unitary adjudication, economies of scale and comprehensive supervision by a single court.

42. Plaintiff is a member of the Plaintiff Class described herein and will adequately and fairly represent the interests of the classes. Plaintiff has retained counsel who are

experienced in class action litigation and are well-qualified and competent to represent the Plaintiff Class.

43. Neither Plaintiff nor her attorneys have any interests which are contrary to, or conflicting with, those of the Class members. Accordingly, the interests of the Class members will be adequately protected and advanced. In addition, the interests of Plaintiff and members of the Class are aligned because they have a strong interest in securing their right to recover damages.

44. This action has been brought and may properly be maintained as a class action under the Federal Rules of Civil Procedure. The Class satisfies the numerosity, commonality, typicality, adequacy, and superiority requirements of Rule 23 of the Federal Rules of Civil Procedure because there is a well-defined community of interests and common questions of law and fact which predominate over any questions affecting only individual members of the classes. These common legal and factual questions do not vary from one class member to another, and may be determined on a class-wide basis without reference to the individual circumstances of any class member. These questions include, but are not limited to, the following:

- (a) whether Defendants violated Section 10b and rule 10b-5 of the Securities Exchange Act of 1934, 15 USC § 78a, by fraudulently inducing Plaintiffs and the Class to purchase investments marketed by Stanford through the use of materially false and misleading Monthly Account Statements, sales materials and oral presentations;
- (b) whether Defendants violated the provisions of theSecurities Exchange Act Section 10b and rule 10b-5 by

knowingly or with severe recklessness providing the substantial assistance in connection with the violations of Securities Exchange Act Section 10(b) [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] alleged herein;

- (c) whether Defendants violated the provisions of the
   Securities Exchange Act Section 12 by knowingly or with
   severe recklessness communicating material misstatements
   and/or omissions that were disseminated by use of the
   means and instruments of transportation or communication
   in interstate commerce or of the mails; and,
- (d) whether Defendants violated the provisions of the Securities Exchange Act Section 17(a) by knowingly or with severe recklessness (a) employing devices, schemes or artifices to defraud; (b) obtaining money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaging in transactions, practices or courses of business which operate or would operate as a fraud or deceit.

45. Plaintiff's claims are typical of the class she represents. Plaintiff and members of the class all invested in CDs or securities through Stanford and based on representations made by

Defendants. The losses experienced by Plaintiff were caused by the same events and conduct that gives rise to the claims of the other class members.

46. Notice can be provided to members of the Plaintiff Class by a combination of published notice, Internet notice, and first-class mail using techniques and forms of notice similar to those customarily used in product liability cases and class actions.

### CAUSES OF ACTION FIRST CLAIM

### <u>FIRST CLAIM FOR RELIEF</u> (Violations of § 10(b) of the Securities and Exchange Act and Rule 10-b5)

47. Plaintiff repeats and re-alleges each and every allegation contained in the foregoing paragraphs as if set forth herein.

48. As more fully set forth in the factual allegations above, Defendants, through the use of the mails and the means and the instrumentalities of interstate commerce, fraudulently induced Plaintiff and the Class to purchase investments, being marketed by Stanford through the use of materially false and misleading Monthly Account Statements, sales materials and oral presentations.

49. Defendants knowingly transmitted to Plaintiff and the Class and disseminated, directly and through its agents, materially false and misleading statements, as more fully described above, describing and recommending the purchase of the securities purchased by Plaintiff and the Class.

50. At the time of the misstatements and omissions described above, Defendants knew or should have known that such statements were materially false and misleading and omitted facts required in order to make the statements made, in light of the circumstances under

which they were made, not misleading, but knowingly or recklessly made such statements to Plaintiff and the Class in order to induce them to purchase the investments.

51. Plaintiff and the Class reasonably relied upon the information provided to them and statements made by Stanford and its agents recommending the purchase of the securities. At the time of such investments, Plaintiff and the Class had no knowledge that the information and recommendations provided by Defendants contained material misstatements and omissions.

52. Plaintiff and the Class would not have purchased the CDs and securities but for the materially false and misleading information provided to them by Defendants.

53. As a result of their investments, Plaintiff and the Class have been damaged and their original investment capital has been substantially depleted.

#### SECOND CLAIM

# AS TO STANFORD, DAVIS, COMEAUX, PARRISH AND PENDERGEST-HOLT Aiding and Abetting Violations of Securities Exchange Act Section 10(b) and Rule 10b-5

54. Plaintiff repeats and re-alleges each and every allegation contained in the foregoing paragraphs as if set forth herein.

55. In addition to violating the provisions of the Securities Exchange Act Section 10(b) and Rule 10b-5, Stanford, Davis, and Pendergest-Holt, in the manner set forth above, knowingly or with severe recklessness provided substantial assistance in connection with the violations of Securities Exchange Act Section 10(b) [15 U.S.C. § 78j(b)] and Rule 10b-5 alleged herein.

56. For these reasons, Stanford, Davis, Pendergest-Holt, Comeaux, and Green aided and abetted violations of Section 10(b) of the Exchange Act [15 U.S.C. . § 78j(b)] and Rule 10b-5.

#### <u>THIRD CLAIM</u> (Violations of Section 12 of the Securities Act)

57. Plaintiffs repeat and re-allage each and every allegation contained in the foregoing paragraphs as if set forth herein.

58. Defendants sold the securities to Plaintiff by means of oral and written communications, which contained material misstatements and/or omissions and were disseminated by use of the means and instruments of transportation or communication in interstate commerce or of the mails.

59. Plaintiff and the Class, without knowledge of the falsity of Defendants' statements and of the material omissions in the written materials provided by Defendants including, but not limited to, Monthly Account Statements and other misrepresentations made by Defendants, as described above, and reasonably believing such statements to be true and complete, purchased investments from Defendants.

60. Plaintiff and the Class would not have purchased the investments but for the materially false and misleading information provided to them by Defendants.

61. By virtue of the foregoing, Plaintiff and the Class have been damaged and are entitled to damages and other relief for Defendants' violations of Section 12 of the Securities Act as alleged herein.

### <u>FOURTH CLAIM</u> (Violations of Section 17(a) of the Securities Act)

62. Plaintiff repeats and re-alleges each and every allegation contained in the foregoing paragraphs as if set forth herein.

63. Defendants, directly or indirectly, singly or in concert with others, in the offer and sale of securities, by use of the means and instruments of transportation and communication in

interstate commerce and by use of the mails, have: (a) employed devices, schemes or artifices to defraud; (b) obtained money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in transactions, practices or courses of business which operate or would operate as a fraud or deceit.

64. As part of and in furtherance of this scheme, Defendants, directly or indirectly, prepared, disseminated or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations, which contained untrue statements of material fact and which omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

65. Defendants made the referenced misrepresentations and omissions knowingly or grossly recklessly disregarding the truth.

66. For these reasons, Plaintiff and the Class have been damaged, and are entitled to damages and other relief for Defendants' violation of Section 17(a) of the Securities Act as alleged herein.

67. Plaintiff prays for a trial by jury.

#### PRAYER FOR RELIEF

Wherefore, Plaintiff prays for judgment as follows:

 For an order certifying that this action may be maintained as a class action against Defendants, establishing an appropriate Class, appointing Plaintiff Sandra Allen as Class Representative and her counsel to represent the Class, and directing that reasonable notice of this action be given to the Class members;

- 2. For an award of all remedies and damages incurred as a consequence of the liability of the Defendants, together with legal interest thereon from the date of judicial demand until paid;
- 3. For disgorgement and restitution of all earnings, profits, compensation and benefits received by Defendants as a result of their unlawful acts and practices;
- 4. For an award of a reasonable sum for attorney fees;
- 5. For the costs of these proceedings;
- 6. For such other and further relief as this Court may deem just and proper; and,
- 7. For trial by jury.

# **BY ATTORNEYS:**

/s/ Patrick W. Pendley PATRICK W. PENDLEY (LSBA# 10421) CHRISTOPHER L. COFFIN (LSBA# 27902) STAN P. BAUDIN (LSBA# 22937) NICHOLAS R. ROCKFORTE (LSBA #31305) PENDLEY, BAUDIN & COFFIN, L.L.P. P.O. DRAWER 71 24110 EDEN STREET PLAQUEMINE, LOUISIANA 70765 TEL: (225) 687-6396 FAX: (225) 687-6398

∞JS 44 (Rev. 12/07) **CIVIL COVER SHEET** The JS 44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON THE REVERSE OF THE FORM.) I. (a) PLAINTIFFS SANDRA ALLEN, ON BEHALF OF HERSELF AND ALL OTHERS DEFENDANTS Stanford Group Company, Stanford Financial Group, Stanford SIMILARLY SITUATED, International Bank LTD., Stanford Holdings, Inc., Stanford Capital Management, LLC, R. Allen Stanford, James Davis, and Laura Holt (b) County of Residence of First Listed Plaintiff EAST BATON ROUGE County of Residence of First Listed Defendant (EXCEPT IN U.S. PLAINTIFF CASES) (IN U.S. PLAINTIFF CASES ONLY) NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE LAND INVOLVED. (c) Attorney's (Firm Name, Address, and Telephone Number) Christopher L Coffin, Patrick W. Pendley, Stan P. Baudin, Nicholas R. Attorneys (If Known) Rockforte; Pendley, Baudin & Coffin, LLP; P.O. Drawer 71, 24110 Eden Street, Plaquemine, LA 70765; (225) 687-6396 II. BASIS OF JURISDICTION (Place an "X" in One Box Only) III. CITIZENSHIP OF PRINCIPAL PARTIES(Place an "X" in One Box for Plaintiff (For Diversity Cases Only) and One Box for Defendant)  $\Box 1$ U.S. Government ■ 3 Federal Ouestion PTF DEF PTF DEF Plaintiff (U.S. Government Not a Party) Citizen of This State ٥ **D** 1 Incorporated or Principal Place  $\square$  4 04 of Business In This State 02 U.S. Government J 4 Diversity Citizen of Another State  $\square$  2 **D** 2 Incorporated and Principal Place 05 0 5 Defendant of Business In Another State (Indicate Citizenship of Parties in Item III) Citizen or Subject of a 03 I 3 Foreign Nation 06 🗇 6 Foreign Country IV. NATURE OF SUIT (Place an "X" in One Box Only) CONTRACT FORFEITURE/PENALTY TORTS BANKRUPTCY OTHER STATUTES □ 110 Insurance PERSONAL INJURY PERSONAL INJURY ☐ 610 Agriculture 422 Appeal 28 USC 158 п 400 State Reapportionment 🗇 120 Marine 310 Airplane σ 362 Personal Injury -□ 620 Other Food & Drug 423 Withdrawal σ 410 Antitrust II 130 Miller Act п. 315 Airplane Product Med. Malpractice 625 Drug Related Seizure 28 USC 157 σ 430 Banks and Banking 140 Negotiable Instrument Liability 365 Personal Injury of Property 21 USC 881 ۵ 450 Commerce m. 150 Recovery of Overpayment 320 Assault, Libel & Product Liability 🗇 630 Liquor Laws PROPERTY RIGHT 460 Deportation σ & Enforcement of Judgmen Slander 368 Asbestos Personal 🗇 640 R.R. & Truck 820 Copyrights 470 Racketeer Influenced and ίΠ 151 Medicare Act n. 330 Federal Employers' Injury Product 650 Airline Regs. 30 Patent Corrupt Organizations □ 152 Recovery of Defaulted Liability Liability 660 Occupational 840 Trademark 0 480 Consumer Credit Student Loans а 340 Marine PERSONAL PROPERTY Safety/Health ٥ 490 Cable/Sat TV 345 Marine Product 🗇 690 Other (Excl. Veterans) Ū. 370 Other Fraud ۵ 810 Selective Service 153 Recovery of Overpaymen 371 Truth in Lending LABOR Liability Π SOCIAL SECURITY x 850 Securities/Commodities/ 350 Motor Vehicle of Veteran's Benefits 710 Fair Labor Standards 380 Other Personal 🗇 861 HIA (1395ff) Exchange 160 Stockholders' Suits 355 Motor Vehicle **D** Property Damage Act 862 Black Lung (923) Π 875 Customer Challenge 190 Other Contract Product Liability П 720 Labor/Mgmt. Relations 🗇 863 DIWC/DIWW (405(g)) 385 Property Damage 12 USC 3410 195 Contract Product Liability 360 Other Personal 730 Labor/Mgmt.Reporting Product Liability 864 SSID Title XVI 890 Other Statutory Actions 196 Franchise & Disclosure Act 🗇 865 <u>RSI (405(g))</u> Iniury п 891 Agricultural Acts REAL PROPERTY CIVIL RIGHTS PRISONER PETITIONS 740 Railway Labor Act FEDERAL TAX SUITS 892 Economic Stabilization Act 210 Land Condemnation 441 Voting 510 Motions to Vacate 790 Other Labor Litigation ٦ 870 Taxes (U.S. Plaintiff ٥ 893 Environmental Matters 220 Foreclosure 442 Employment п. Sentence 791 Empl. Ret. Inc. or Defendant) ٥ 894 Energy Allocation Act 230 Rent Lease & Ejectment D. 443 Housing/ Habeas Corpus: Security Act 871 IRS—Third Party 895 Freedom of Information 240 Torts to Land Accommodations 530 General 26 USC 7609 Act 245 Tort Product Liability ٥ 444 Welfare 535 Death Penalty IMMIGRATION Π 900Appeal of Fee Determination 290 All Other Real Property 445 Amer. w/Disabilities -540 Mandamus & Other п n 462 Naturalization Application Under Equal Access 550 Civil Rights 463 Habeas Corpus -Employment to Justice Ξ. 446 Amer. w/Disabilities 555 Prison Condition Alien Detainee Π. 950 Constitutionality of Other 465 Other Immigration State Statutes σ 440 Other Civil Rights Actions V. ORIGIN (Place an "X" in One Box Only) Appeal to District Transferred from Judge from Magistrate **X1** Original 2 Removed from Remanded from □ 4 Reinstated or □ 5 **1** 3 Multidistrict 07 another district State Court Proceeding Appellate Court Reopened Litigation (specify) Judgment Cite the U.S. Civil Statute under which you are filing (Do not cite jurisdictional statutes unless diversity): 15 U.S.C. 77b; 15 U.S.C. 77v(a); 15 U.S.C. 78a; 15 U.S.C. 78a VI. CAUSE OF ACTION Brief description of cause: Defendants participated in fraudulent investment scheme in violation of SEC regulations & defrauded plaintiffs VII. REQUESTED IN 7 CHECK IF THIS IS A CLASS ACTION **DEMAND \$** CHECK YES only if demanded in complaint: UNDER F.R.C.P. 23 8,000,000,000.00 **COMPLAINT:** JURY DEMAND: Yes 🗇 No

IF ANY	(See instruction	<sup>s):</sup> JUDGE	DO0	CKET NUMBER	
DATE 02/20/2009	, , conservative de la deservative de	Pasture of Attorney of Attorne			
FOR OFFICE USE ON	LY		0		
RECEIPT #	AMOUNT	APPLYING IFP	JUDGE	MAG. JUDGE	

VIII DELATED CACE(C)

AO 440 (Rev. 02/09) Summons in a Civil Action

# UNITED STATES DISTRICT COURT

for the

Middle District of Louisiana

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Sandra Allen, on behalf of herself and all others
Plaintiff
v.

Stanford Group Company, et al.

Defendant

#### Civil Action No.

#### SUMMONS IN A CIVIL ACTION

To: (Defendant's name and address) LAURA PENDERGREST-HOLT 408 E. Clayton Street Baldwyn, MS 38824

#### OR WHEREVER FOUND

A lawsuit has been filed against you.

Within 20 days after service of this summons on you (not counting the day you received it) — or 60 days if you are the United States or a United States agency, or an officer or employee of the United States described in Fed. R. Civ. P. 12 (a)(2) or (3) — you must serve on the plaintiff an answer to the attached complaint or a motion under Rule 12 of the Federal Rules of Civil Procedure. The answer or motion must be served on the plaintiff or plaintiff's attorney, whose name and address are: Christopher L. Coffin

Pendley, Baudin & Coffin, LLP P.O. Drawer 71 24110 Eden Street Plaquemine, LA 70765

If you fail to respond, judgment by default will be entered against you for the relief demanded in the complaint. You also must file your answer or motion with the court.

CLERK OF COURT

Date:

Signature of Clerk or Deputy Clerk

# IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS DALLAS DIVISION

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

STANFORD INTERNATIONAL BANK, LTD., STANFORD GROUP COMPANY, STANFORD CAPITAL MANAGEMENT, LLC, R. ALLEN STANFORD, JAMES M. DAVIS, and LAURA PENDERGEST-HOLT, Case No.: 3:09-CV-00298-L

1:09MC2-JAD

Defendants.

# **NOTICE OF APPEARANCE OF COUNSEL FOR RECEIVER**

The undersigned counsel hereby give notice that they have been retained to serve as counsel of record for Ralph S. Janvey in his capacity as Receiver in the abovereferenced matter. Counsel hereby requests that copies of all notices, orders and pleadings relating to this matter be served on the undersigned counsel.

1

Respectfully submitted,

### BAKER BOTTS L.L.P.

By: /s/ Kevin Sadler Kevin M. Sadler, Lead Attorney State Bar No. 17512450 kevin.sadler@bakerbotts.com Robert I. Howell State Bar No. 10107360 robert.howell@bakerbotts.com David T. Arlington State Bar No. 00790238 david.arlington@bakerbotts.com 1500 San Jacinto Center 98 San Jacinto Boulevard Austin, Texas 78701-4078 Tel: 512.322.2500 Fax: 512.322.2501

> Timothy S. Durst State Bar No. 00786924 tim.durst@bakerbotts.com BAKER BOTTS L.L.P. 2001 Ross Avenue Dallas, Texas 75201-2980 tel.: (214) 953-6500 fax.: (214) 953-6503

Attorneys for Ralph Janvey, Receiver

# Certificate of Service

On February 17, 2009 I electronically submitted the foregoing document with the clerk of court for the U.S. District Court, Northern District of Texas, using the electronic case filing system of the court. I hereby certify that I have served all counsel and/or pro se parties of record electronically or by another manner authorized by Federal Rule of Civil Procedure 5(b)(2).

/s/ Kevin Sadler

Kevin Sadler

, Case 3:09-cv-00298-N Document 3	Filed 02/17/2009 Page 1 of 4
	U.S. DISTRICT COURT NORTHERN DISTRICT OF TEXAS FILED
IN THE UNITED STATES D FOR THE NORTHERN DIS DALLAS DIVI	TRICT OF TEXAS
SECURITIES AND EXCHANGE COMMISSION	8 By <u>K/L</u>
Plaintiff,	S Deputy S
<b>v.</b>	§ Case No.:
STANFORD INTERNATIONAL BANK, LTD., STANFORD GROUP COMPANY, STANFORD CAPITAL MANAGEMENT, LLC, R. ALLEN STANFORD, JAMES M. DAVIS, and LAURA PENDERGEST-HOLT	<b>3-09CV0298-L</b>
Defendants.	s §

### **CERTIFICATION UNDER FED.R.CIV.P. 65(b)**

I, James Kevin Edmundson, do hereby declare under penalty of perjury, in accordance with 28 U.S.C. §1746, that the following is true and correct, and further that this declaration is made on my personal knowledge and that I am competent to testify as to the matters stated herein:

1. I am an attorney-at-law.

2. I am currently admitted to practice in the State of Texas.

3. I have worked in the Enforcement Division of the United States Securities and Exchange Commission for 14 years. I currently serve as Fort Worth Assistant Regional Director of Enforcement. I served for 10 years in the trial unit of the Enforcement Section, two years as Supervisory Trial Counsel directing the operations of the trial unit.

4. Between October 1, 1998, and the present, the Fort Worth District Office of the United States Securities and Exchange Commission has filed 61 civil injunctive actions in which

the Commission sought emergency relief.<sup>1</sup> In several of those cases, including ones in which the

1. SEC v. Star Exploration, Inc., et al, No. 3:08-cv-2248-O (N.D. Tex. 2008)(O'Connor, R.)(order appointing receiver); SEC v. Patrick Henry Haxton, et al., No. 3-08CV1467-L (N.D. Tex. 2008)(Lindsay, J.)( granting asset freeze, temporarily restraining order, requiring accountings; prohibiting document alteration or destruction, authorizing expedited discovery; and authorizing alternative methods of service); SEC v. W Financial Group, LLC, et al., No. 3:08-CV-499-N (N.D. Tex. 2008)(Godbey, D.)(granting temporary restraining order, order freezing assets, requiring preparation of sworn accountings, prohibiting document alteration or destruction, authorizing expedited discovery, repatriating all funds and assets and authorizing alternative methods of service); SEC v. McNaul, II, et al., No.08-1159-JTM (D. Kan. 2008)(Marten, J.)(granting order freezing assets and requiring preservation of documents, and order appointing receiver); SEC v. T-Bar Resources, LLC, et al., No. 3-07-CV-1994 (N.D. Tex. 2007)(Boyle, J.)(granting agreed preliminary injunction and emergency asset freeze, and appointment of receiver); SEC v. Terax Energy, Inc., No. 3-07-CV-1554 (N.D. Tex. 2007)(Lynn, B.) (granting temporary restraining order, order freezing assets, requiring an accounting, requiring preservation of documents, and authorizing expedited discovery); SEC v. Roberts, et al., No. 4:07-CV786-JLH (E.D. AR. 2007)(Holmes, J.)(granting agreed order of preliminary injunction, order freezing assets, requiring an accounting, and requiring preservation of documents); SEC v. AmeriFirst Funding, et al., No. 3-07-CV-1188 (N.D. Tex. 2007)(Fitzwater, S.)(granting temporary restraining order, order freezing assets, requiring an account, requiring preservation of documents, requiring repatriation of assets and authorizing expedited discovery, and order appointing temporary receiver); SEC v. Longs, et al., No. 4-07-cv-537-SWW (E.D. AR, Western Div.)(Wrights, S.)(agreed order of preliminary injunction, order freezing assets, requiring an accounting, requiring repatriation of assets, and requiring preservation of documents); SEC v. One or More Unknown Purchasers of Call Options for the Common Stock of TXU Corp, et al., No. 01-07-CV-1208 (N.D. Tex. 2007)(Lindberg, G.) (granting temporary restraining order and order freezing assets); SEC v. ABC Viaticals, et al., No. 3-06-CV-2136-P (N.D. Tex. 2006) (Solis, J.)(granting temporary restraining order and order appointing receiver); SEC v. Seaforth Meridian, LTD., et al. (No. 06-4107-RDR)(D. Kan. 2006)(granting ex parte order freezing assets, requiring repatriation of assets, authorizing expedited discovery, order requiring preservation of documents and order appointing receiver); SEC v. Integrated Equities, Inc., et al., No. 2:06-CV-00779-RCJ-GWF (D. Nevada 2006)(Jones, R.)(granting preliminary injunctions and order appointing temporary receiver), SEC v. Sunray Oil Company, Inc., et al., No. 3:06-CV-1097-R (N.D. Tex. 2006)(Buchmeyer, J.)(granting temporary restraining order, order freezing assets, and order appointing temporary receiver), SEC v. EFS, LLC, et al., No. 3-06CV0793-M (N.D. Texas 2006)(Sanders, B)(granting ex parte temporary restraining order and order freezing assets and order appointing temporary receiver), SEC v. ATM Alliance, et al., No.A-05-CA-190-LY (W.D. Tex. 2005)(granting ex parte temporary restraining order, order freezing assets, and order appointing temporary receiver); SEC v. Travis Correll, et al., No. 4:05-CV-472 (E.D. Tex. 2005)(Schell, R.)(granting ex parte temporary restraining order, order freezing assets and order appointing temporary receiver), SEC v. Allixon International Corp., et al., No. 3:05-CV-2260-P (N.D. Tex. 2005)(Godbey, D)(granting temporary order freezing assets); SEC v. Nelson, et al., No. 5:05-CV-0266-C (N.D. Tex. 2005)(Cummings, S.)(granting ex parte order freezing asset and order appointing temporary receiver); SEC v. Megafund, Inc., No. 3:05-CV-1328-L (N.D. Tex. 2005)(Lindsey, J.)(granting ex parte temporary restraining order, order freezing assets and order appointing receiver); SEC v. David Tanner, No. 05-4057-SAC (D. Kan. 2005)(Crow, J.)(granting ex parte temporary restraining order and asset freeze order); SEC v. Philip D. Phillip, No. 2-05CV-107-J (N.D. Tex. 2005)(Robinson, J.)(granting temporary restraining order and order freezing assets); SEC v. Jack A. Brown, No. 6:04-CV-537 (E.D. Tex. Dec. 2004)(Schneider, J.)(granting ex parte order freezing assets and order appointing receiver); SEC v. Kaye, No. 04-1275-MLB (D. Kan. 2004) (Belot, J.) (granting ex parte temporary restraining order, order freezing assets and order appointing receiver); SEC v. Kings Real Estate Inv. Trust, No. 5:04-04006-RDR-KGS (D. Kan. 2004) (Rogers, J.) (granting ex parte temporary restraining order, order freezing assets and order appointing receiver); SEC v. Cash Link Systems Inc., No. 3-04-CV-1573-L (N.D. Tex. 2004) (Lindsay, J.) (granting ex parte temporary restraining order, order freezing assets and order appointing receiver); SEC v. Levy, No. 304-CV- 00351-N (N.D. Tex. 2004) (Godbey, J.) (granting order freezing assets); SEC v. Montana, No. CIV-04-542 (S.D. Tex. 2004) (Kent, J.) (granting ex parte temporary restraining order, order freezing assets and order appointing receiver); SEC v. Holt, No. Civ-03-1825 (D. Ariz. 2003) (Rosenblatt, J.) (granting ex parte temporary restraining order, order freezing assets and order appointing receiver); SEC v. Henderson, No. 3-03-CV-2661-K (N.D. Tex. 2003) (Kinkeade, J.) (granting ex parte temporary restraining order, order freezing assets, and order appointing receiver); SEC v. IPIC Int'l, Inc., No. 3-03-CV-2781-P (N.D. Tex. 2003) (Solis, J.) (granting ex parte temporary restraining order, order

Case 3:09-cv-00298-N

asset freeze was granted ex parte, one or more defendants or relief defendants violated the asset

freeze.

5. Based on those experiences and the information I have been provided about the

freezing assets and order appointing receiver); SEC v. Rocky Mountain Energy Corp., No. H-03-1133 (S.D. 2003) (Lake, J.) (granting ex parte temporary restraining order, order freezing assets and order appointing receiver); SEC v. United States Reservation Bank and Trust, No. CIV-02-0581 (D. Ariz. 2002) (Carroll, J.) (granting ex parte temporary restraining order, order freezing assets, and order appointing receiver); SEC v. Southmark Advisory, Inc., No. 02CV-830E-(M) (N.D. Okla. 2002) (Ellison, J.) (granting ex parte temporary restraining order, order freezing assets, and order appointing receiver); SEC v. Tyler, No. 3-02-CV-0282-P (N.D. Tex. 2002) (Solis, J.) (granting preliminary injunction, order freezing assets and order appointing receiver); SEC v. Res. Dev. Int'l, L.L.C., No. 3-02-CV-0605-H (N.D. Tex. 2002) (Buchmeyer, J.) (granting ex parte temporary restraining order, order freezing assets and order appointing receiver); SEC v. Dillie, No. Civ-01-2493 (D. Ariz. 2001) (Teilborg, J.) (granting ex parte temporary restraining order, order freezing assets and order appointing receiver); SEC v. Stroud, No. Civ-01-999-L (W.D. Okla. 2001) (West, J.) (granting ex parte temporary restraining order, order freezing assets and order appointing receiver); SEC v. English, No. Civ-01-223-W (W.D. Okla. 2001) (West, J.) (granting ex parte temporary restraining order, order freezing assets and order appointing receiver); SEC v. Hill, No. 3-01-CV-2189-X (N.D. Tex. 2001) (Fitzwater, J.) (granting ex parte temporary restraining order, order freezing assets and order appointing receiver); SEC v. C-Tech, L.L.P., No. 3-01-CV-2542-P (N.D. Tex. 2001) (Solis, J.) (granting order freezing assets and an order appointing a receiver); SEC v. First Americap Corp., No. H-01-1153 (S.D. Tex. 2001) (Buchmeyer, J.) (granting ex parte temporary restraining order and an order freezing assets); SEC v. Perennial Fund I LP, No. C00-21181 (N.D. Cal. 2000) (Ware, J.) (granting ex parte temporary restraining order, order freezing assets and order appointing receiver); SEC v. Broadband Wireless Int'l Corp., No. Civ-00-1375 (W.D. Okla. 2000) (Russell, J.) (granting ex parte temporary restraining order, order freezing assets and order appointing receiver); SEC v. Garland, No. 3-00-CV-1149-X (N.D. Tex. 2000) (Kendall, J.) (granting temporary restraining order and order freezing assets); SEC v. New World Web Vision.Com, Inc., No. 4-00-CV-0231-Y (N.D. Tex. 2000) (Means, J.) (granting temporary restraining order, order freezing assets and order appointing receiver); SEC v. Stadtt Media, L.L.C., No. 3-00-CV-1489-P (N.D. Tex. 2000) (granting temporary restraining order, order freezing assets and order appointing receiver); SEC v. Ellis, No. 3-00-CV-1040-P (N.D. Tex. 2000) (Solis, J.) (granting ex parte temporary restraining order and an order freezing assets); SEC v. Le Club Prive, S.A., No. 3-00-CV-1851-R (N.D. Tex. 2000) (Buchmeyer, J.) (granting ex parte temporary restraining order, order freezing assets, and order appointing receiver); SEC v. Houston Texans NFL Football Team Holding Co., No. H-00-3072 (S.D. Tex. 2000) (Rainey, J.) (granting ex parte temporary restraining order and order freezing assets); SEC v. Oracle Trust Fund, No. 99-1483-MLB (D. Kan. 1999) (Belot, J.) (granting ex parte temporary restraining order, order freezing assets, and order appointing receiver); SEC v. Cornerstone Prodigy Group, Inc., No. 4-99-CV-0978-Y (N.D. Tex. 1999) (Means, J.) (granting order freezing assets and order appointing receiver); SEC v. Highland Financial Corp., No. 4-99-CV-0719-D (N.D. Tex. 1999) (granting ex parte restraining order, order freezing assets and order appointing a receiver); SEC v. Brooks, No. 3-99-CV-1326-D (N.D. Tex. 1999) (Fitzwater, J.) (granting ex parte temporary restraining order and order freezing assets); SEC v. Redbank Petroleum, Inc., No. 3-99-CV-1267-T (N.D. Tex. 1999) (granting ex parte temporary restraining order, order freezing assets, and order appointing receiver); SEC v. Cook, No. 3-99-CV-051-X (N.D. Tex. 1999) (Buchmeyer, J.) (granting ex parte temporary restraining order, order freezing assets, and order appointing receiver); SEC v. Inverworld, Inc., No. SA-99-CA-0822-FB (W.D. Tex. 1999) (Biery, J.) (granting order freezing assets and order appointing receiver); SEC v. Great White Marine and Recreation, Inc., No. W-99-CA-230 (W.D. Tex. 1999) (Smith, J.) (granting temporary restraining order); SEC v. Sunpoint Securities, Inc., No. 6-99-CV-667 (E.D. Tex. 1999) (Hannah, J.) (granting ex parte temporary restraining order, order freezing assets, and order appointing receiver); SEC v. American Automation, Inc., No. 3-98-CV-1596-D (N.D. Tex. 1998) (Fitzwater, J.) (granting ex parte temporary restraining order and order freezing assets); SEC v. Trinity Gas Corp., et al., No. 4:97cv-01018 (N.D. Tex. 1997) (Means, J.) (granting temporary restraining order, order freezing assets, order for accounting, order prohibiting destruction, order granting expedited discovery, order setting hearing date for preliminary hearing and appointing receiver).

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Document 3



Defendants named herein, I believe that irreparable injury and loss is likely to occur if the Court requires notice and a hearing.

SIGNED this  $\underline{/ \bigcirc}$  day of February 2009 at Fort Worth, Texas.

James Kevin Edmundson

Case 3:09-cv-00298-N	Document 5	Filed 02/17/2009	Page 1 of 7
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FOR THE	DALLAS DIVI		FEB 17 2009
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v. STANFORD INTERNATIONAL STANFORD GROUP COMPAN STANFORD CAPITAL MANAC R. ALLEN STANFORD, JAMES LAURA PENDERGEST-HOLT Defer	Y, GEMENT, LLC,	ş Ş Ş	° )9CVO298-L

# APPLICATION FOR ISSUANCE OF A TEMPORARY RESTRAINING ORDER, PRELIMINARY INJUNCTION, AND ORDERS FREEZING ASSETS, REQUIRING AN ACCOUNTING, REQUIRING PRESERVATION <u>OF DOCUMENTS, AND AUTHORIZING EXPEDITED DISCOVERY</u>

Plaintiff Securities and Exchange Commission ("Commission"), pursuant to Sections 20(b) and 20(d) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77t(b) and 77t(d)], Sections 21(d) and 21(e) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78u(d) and 78u(e)], Sections 41(d) and 41(e) of the Investment Company Act of 1940 ("Investment Company Act") [15 U.S.C. §§ 80a-41(d) and 80a-41(e)], Sections 209(d) and 209(e) of the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. §§ 80b-9(d) and 80b-9(e)], and this Court's general equitable jurisdiction to issue orders providing ancillary remedies and relief, requests that this Court issue temporary relief as follows:

1. Orders temporarily restraining and preliminarily enjoining:

A. Defendants, their officers, directors, agents, servants, employees, attorneys, and all other persons in active concert or participation with them, from

violating Section 17(a) of the Securities Act [15 U.S.C. §77q(a)], directly or indirectly, in the offer or sale of any security by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails, by:

- (1) employing any device, scheme, or artifice to defraud; or
- (2) obtaining money or property by means of any untrue statement of material fact or any omission to state a material fact necessary in order to make the statement(s) made, in the light of the circumstances under which they were made, not misleading; or
- (3) engaging in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser;

B. Defendants, their officers, directors, agents, servants, employees, attorneys, and all other persons in active concert or participation with them, from violating Section 10(b) of the Exchange Act or Rule 10b-5 [15 U.S.C. §78j(b) and 17 C.F.R. §240.10b-5], directly or indirectly, in connection with the purchase or sale of any security, by making use of any means or instrumentality of interstate commerce, or of the mails, or of any facility of any national securities exchange:

- to use or employ any manipulative or deceptive device or contrivance in contravention of the rules and regulations promulgated by the Commission;
- (2) to employ any device, scheme, or artifice to defraud;
- (3) to make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the

light of the circumstances under which they were made, not misleading; or

(4) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person;

C. R. Allen Stanford, James M. Davis, Laura Pendergest-Holt, Stanford Group Company, Stanford Capital Management, LLC, their officers, directors, agents, servants, employees, attorneys, and all other persons in active concert or participation with them, from violating Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§80b-6(1), (2)], directly or indirectly, by use of the mails or any means or instrumentality of interstate commerce, by:

- employing any device, scheme, or artifice to defraud any client or prospective client; or
- (2) engaging in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client;

D. Stanford International Bank, Ltd., Stanford Group Company, their officers, directors, agents, servants, employees, attorneys, and all other persons in active concert or participation with them, from violating Section 7(d) of the Investment Company Act [15 U.S.C. §80a-7(d)], directly or indirectly, by use of the mails or any means or instrumentality of interstate commerce, by:

(1) acting as an investment company, not organized or otherwise created under the laws of the United States or of a State, and offering for sale, selling, or delivering after sale, in connection Case 3:09-cv-00298-N

with a public offering, any security of which such company is the issuer; or

- (2) acting as a depositor of, trustee of, or underwriter for such a company; unless
- (3) the Commission, upon application by the investment company not organized or otherwise created under the laws of the United States or of a State, issues a conditional or unconditional order permitting such company to register and to make a public offering of its securities by use of the mails and means or instrumentalities of interstate commerce.

2. An order prohibiting Defendants, their respective officers, directors, agents, assigns, servants, employees, attorneys, and all other persons in active concert or participation with them, including any bank, securities broker-dealer, or any financial or depository institution, who receives actual notice of this Order by personal service or otherwise, from directly or indirectly assigning, transferring, conveying, encumbering, selling, dissipating, spending, or disbursing properties owned by or in actual or constructive possession of these Defendants.

3. An order requiring Defendants to file with this Court and serve upon Plaintiff Commission within ten days of the issuance of this order or three days prior to any hearing on the Commission's Motion for Preliminary Injunction, whichever is sooner, an interim accounting, under oath: (1) detailing all monies and other benefits which each received, directly or indirectly, as a result of the activities alleged in the Complaint (including the date on which the monies or other benefit was received and the name, address, and telephone number of the person paying the money or providing the benefit); (2) listing all current assets wherever they may be located and by whomever they are being held (including the name and address of the holder and the amount or value of the holdings); and (3) listing all accounts with any financial or brokerage institution maintained in the name of, on behalf of, or for the benefit of the Defendants (including the name and address of the account holder and the account number) and the amount held in each account at any point during the period from January 1, 2000 through the date of the accounting.

4. An order prohibiting Defendants, their officers, directors, agents, servants, employees, attorneys, and all other persons in active concert or participation with them, including any bank, securities broker-dealer, or any financial or depository institution, who receives actual notice of this Order by personal service or otherwise, from destroying, removing, mutilating, altering, concealing, or disposing of, in any manner, any books and records owned by, or pertaining to, the financial transactions and assets of Defendants or any entities under their control.

5. An order authorizing the Commission to serve process on, and give notice of these proceedings and the relief granted herein to, Defendants by U.S. Mail, e-mail, facsimile, or any other means authorized by the Federal Rules of Civil Procedure.

- 6. An order authorizing expedited discovery consistent with the following guidelines:
  - A. Any party may notice and conduct depositions upon oral examination and may request production of documents or other things for inspection or copying, or both, from parties and nonparties prior to the expiration of thirty (30) days after service of a summons and Plaintiff Commission's Complaint upon Defendants.
  - B. Any party may notice and conduct depositions upon oral examination subject to minimum notice of three days.

- C. All parties shall produce for inspection and copying all documents and things that are requested within three days of service of a written request for those documents and things.
- D. All parties shall serve written responses to any other party's request for discovery and the interim accountings to be provided by Defendants by delivery to Plaintiff Commission addressed as follows:

UNITED STATES SECURITIES AND EXCHANGE COMMISSION Fort Worth Regional Office Attention: David Reece Burnett Plaza, Suite 1900 801 Cherry Street, Unit #18 Fort Worth, TX 76102-6882 Facsimile: (817) 978-4927

and by delivery to other parties at such address(es) as may be designated by them in writing. Such delivery shall be made by the most expeditious means available, including facsimile machine.

7. An order requiring Stanford, Davis, and Pendergest-Holt to surrender their passports, pending the determination of the Commission's request for a preliminary injunction, and barring them from traveling outside the United States.

8. An order, pending determination of the Commission's request for a Preliminary Injunction, that Defendants, their directors, officers, agents, servants, employees, attorneys, depositories, banks, and those persons in active concert or participation with anyone or more of them, and each of them, shall:

(a) take such steps as are necessary to repatriate to the territory of the United States all funds and assets of investors described in the Commission's Complaint in this action which are held by them, or are under their direct or indirect control, jointly or singly, and deposit such funds into the Registry of the United States District Court, Northern District of Texas; and

(b) provide the Commission and the Court a written description of the funds and assets so repatriated.

This Application for Issuance of a Temporary Restraining Order, Preliminary Injunction, and Orders Freezing Assets, Requiring an Accounting, Requiring Preservation of Documents, and Authorizing Expedited Discovery is based on Plaintiff Commission's Complaint, supporting memorandum, declarations and exhibits thereto, and the argument of counsel.

February 16, 2009

Respectfully submitted,

STEPHEN J. KOROTASH Oklahoma Bar No. 5102 J. KEVIN EDMUNDSON Texas Bar No. 24044020 DAVID B. REECE Texas Bar No. 24002810 MICHAEL D. KING Texas Bar No. 24032634 D. THOMAS KELTNER Texas Bar No. 24007474

U.S. Securities and Exchange Commission Burnett Plaza, Suite 1900 801 Cherry Street, Unit #18 Fort Worth, TX 76102-6882 (817) 978-6476 (dbr) (817) 978-4927 (fax)

SEC v. Stanford International Bank, Ltd., et al. Application for Issuance of Temporary Restraining Order 7

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### MEMORANDUM OF LAW IN SUPPORT OF MOTION FOR EX PARTE TEMPORARY RESTRAINING ORDER, PRELIMINARY INJUNCTION AND OTHER EMERGENCY RELIEF

# I. <u>PRELIMINARY STATEMENT</u>

Plaintiff Securities and Exchange Commission submits this Memorandum of Law in Support of its Motion for *Ex Parte* Temporary Restraining Order, Preliminary Injunction and Other Emergency Relief to halt a massive, ongoing fraud orchestrated by Robert Allen Stanford and James M. Davis and executed through companies they control, Antiguan-based Stanford International Bank, Ltd. ("SIB"), and its affiliated Houston-based investment advisers, Stanford Group Company ("SGC") and Stanford Capital Management ("SCM").

#### **Certificates of Deposit**

Acting through a network of SGC financial advisers, SIB has sold approximately \$8 billion of so-called "certificates of deposit" to investors by promising high interest rates. SIB claims that it offers high yields because of its unique investment strategy, which has purportedly

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enabled the bank to achieve double-digit returns on its investments over for past 15 years. As further described below, the bank's claims are improbable and unsubstantiated.

Further, SIB and its advisers have misrepresented to CD purchasers that their deposits are safe because the bank: (i) re-invests client funds primarily in "liquid" financial instruments (the "portfolio"); (ii) monitors the portfolio through a team of 20-plus analysts; and (iii) is subject to yearly audits by Antiguan regulators. Recently, as the market absorbed the news of Bernard Madoff's massive Ponzi scheme, SIB told investors that the bank had no "direct or indirect" exposure to Madoff's scheme.

These assurances are false. SIB's investment portfolio was not invested in liquid financial instruments or allocated in the manner described in its promotional material and public reports. Instead, a substantial portion of the bank's portfolio was invested in illiquid investments, such as private equity and real estate. Further, the vast majority SIB's multi-billion dollar investment portfolio was not monitored by a team of analysts, but rather by two people – Allen Stanford and James Davis. And contrary to SIB's representations, the Antiguan regulator responsible for oversight of the bank's portfolio, the Financial Services Regulatory Commission, does not audit SIB's portfolio or verify the assets SIB claims in its financial statements. Finally, SIB has exposure to losses from the Madoff fraud scheme despite the bank's public assurances to the contrary.

SGC has also failed to disclose material facts to its advisery clients. In December 2008, SGC's clearing broker advised SGC that it would no longer facilitate wire transfer requests to SIB on behalf of existing clients who desire to purchase SIB CDs. The clearing broker decided to stop transferring money to the bank because of suspicions about the bank's purported investment returns and the overall lack of "transparency" into the bank's portfolio of

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investments. SGC never disclosed to clients that Pershing refused to transfer client funds to SIB.

During the past several weeks, the Securities and Exchange Commission subpoenaed SIB bank records and witnesses in an effort to account for the \$8 billion of investor funds held by the bank. Among others, the SEC issued subpoenas to Stanford, Davis, and O.Y. Goswick, a SIB board member residing in Texas, who is purportedly responsible for "investments." None of these witnesses appeared for testimony or produced a single document. Further, SIB represented that Juan Rodriquez, SIB's president who resides in Antigua, would voluntarily appear in the United States to give sworn testimony to the SEC and account for investor funds. Mr. Rodriguez failed to appear for testimony. The SEC did, however, take sworn testimony from Stanford Financial Group's Chief Investment Officer and SIB investment committee member (Laura Pendergest-Holt) and a former Senior Investment Officer (the "SIO"). Neither Ms. Pendergest-Holt and the former SIO could only identify Stanford and Davis as people having knowledge and access to the vast majority of SIB's portfolio.

#### **Stanford Allocation Strategy**

Stanford's fraudulent conduct is not limited to the sale of CDs. Since 2005, SGC advisers have sold more than \$1 billion of a proprietary mutual fund wrap program called Stanford Allocation Strategy ("SAS"), using materially false and misleading historical performance data. The false data has helped SGC grow the SAS program from less than \$10 million in around 2004 to over \$1 billion, generating fees for SGC/SCM (and ultimately Stanford) in excess of \$25 million. And the fraudulent SAS performance was used to recruit

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registered financial advisers with significant books of business, who were then heavily incentivized to re-allocate their clients' assets to SIB's CD program.<sup>1</sup>

### **Emergency Relief Is Appropriate**

The SEC has learned that Allen Stanford, on or about February 6, 2009, imposed a "twomonth moratorium" on CD redemptions, and instructed SGC advisers that the bank would not honor redemption requests from clients. Moreover, at least one SGC financial adviser misrepresented to a client that the Commission had frozen CD-related accounts for two months. [App. 672-73, 1118]. Finally, last week, SIB's counsel notified the Commission that he was withdrawing as counsel. [App. 1121]. In so doing, SIB's counsel advised the Commission that he and his law firm "disaffirm all prior oral and written representations" regarding Stanford Financial Group and its affiliates. [App. 1122].

The fraudulent scheme is ongoing. SIB is continuing to sell CDs. And SGC/SCM is continuing to sell SAS. Moreover, the vast majority of investor funds have not been accounted for and remain under the control of the Defendants. Investor funds and bank assets need to be located, secured and marshaled by a Receiver for the benefit of investors. Emergency relief is, therefore, necessary and appropriate in this matter.

To protect investors and to halt this fraudulent scheme, the Commission seeks: (1) an *ex parte* temporary restraining order and preliminary injunction against future violations by Defendants; (2) an immediate freeze of all assets of Defendants; (3) an order requiring Defendants to provide an immediate accounting; (4) a repatriation order; (5) an order that Stanford and Davis surrender their passports; (6) an order prohibiting the destruction of records;

<sup>&</sup>lt;sup>1</sup> In addition to the antifraud violations described above, SIB, SGC and SCM violated Section 7(d) of the Investment Company Act, which prohibits foreign investment companies and their underwriters from selling securities in the U.S. without registering with the Commission. Had SIB complied with the law and registered as an investment company, SIB would have been subject to examination by the Commission.

(7) an order expediting discovery; and (8) the appointment of a Receiver to take control of the assets of the Defendants to marshal and preserve assets for the benefit of the investors defrauded by the Defendants.

### II. <u>DEFENDANTS</u>

**Stanford International Bank, Ltd.** purports to be private international bank domiciled in St. John's, Antigua, West Indies. [App. 527, 859, 887]. SIB claims to serve 30,000 clients in 131 countries and holds \$7.2 billion in assets under management. [App. 538].<sup>2</sup> SIB's multibillion portfolio of investments is managed by the SFG's chief financial officer in Memphis, Tennessee. [App. 058, 388, 936]. Unlike a commercial bank, SIB does not loan money. [App. 50, 668, 862, 1011, 1017]. SIB sells the CD to U.S. investors through SGC, its affiliated investment adviser. [App 668].

**Stanford Group Company,** a Houston-based corporation, is registered with the Commission as a broker-dealer and investment adviser. [App. 585]. SGC has offices located throughout the U.S., including Dallas, Texas. [App. 928, 945]. SGC's principal business consists of sales of SIB-issued securities, marketed as "certificates of deposit." [App. 590, 668]. SGC is a wholly owned subsidiary of Stanford Group Holdings, Inc., which in turn is owned by Robert Allen Stanford ("Stanford"). [App. 46, 586, 942].

**Stanford Capital Management**, a registered investment adviser [App. 585], took over the management of the SAS program (formerly Mutual Fund Partners) from SGC in early 2007. Stanford Capital Management markets the SAS program through SGC. [App. 679].

**Robert Allen Stanford,** a U.S. citizen, is the Chairman of the Board and sole shareholder of SIB and the sole director of SGC's parent company. [App. 46, 76, 586, 881-82].

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SIB's Annual Report for 2007 states that SIB has 50,000 clients [App. 859].

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**James M. Davis,** a U.S. citizen and resident of Baldwin, Mississippi and who offices in Memphis, Tennessee and Tupelo, Mississippi, is a director and chief financial officer of SFG and SIB. [App. 80, 881-82].

Laura Pendergest-Holt is the Chief Investment Officer of SIB-affiliate Stanford Financial Group and a member of SIB's investment committee. [App. 31, 74-75, 524]. She supervises a group of analysts in Memphis, Tupelo, and St. Croix who "oversee" performance of SIB's "Tier II" assets. [App. 80-81].

#### III. STATEMENT OF FACTS

#### A. The Stanford Empire

Allen Stanford has created a web of affiliated companies that exist and operate under the brand Stanford Financial Group ("SFG"). [App. 926-37]. According to the company's website, SFG is a privately-held group of companies that has in excess of \$50 billion "under advisement." [www.stanfordfinancial.com].

SIB, one of SFG's affiliates, is a private, offshore bank that purports to have an independent Board of Directors, an Investment Committee, a Chief Investment Officer and a team of research analysts. [App. 524, 882, 895]. While SIB is domiciled in Antigua, a small group of SFG employees who maintain offices in Memphis, Tennessee, and Tupelo, Mississippi, purportedly monitor the bank's assets. [App. 80-81, 388].

SIB is operated by a close-nit circle of Stanford's family, friend and their confidants. For example, Davis was Stanford's college classmate at Baylor University in the 1970s. SIB's Board of Directors includes Davis, Stanford, Stanford's father James A. Stanford, and O.Y. Goswick, a Stanford family friend from Mexia, Texas, whose business experience includes cattle-ranching and car sales. [App. 882, 899]. SIB's investment committee, which is purportedly responsible

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for the management of the bank's multi-billion dollar portfolio of assets, is comprised of Stanford, Stanford's father, Davis, Goswick and Laura Pendergest-Holt. [App. 524]. Pendergest-Holt, who became acquainted with Davis at their church in Baldwin, Mississippi, joined SFG in 1997, after graduating from Mississippi State University with a master's degree in mathematics. [App. 73]. Prior to joining SFG, Pendergest-Holt had no experience in the financial services or securities industries. [App. 73].<sup>3</sup> Based on these relationships, and the fact that Stanford is the sole shareholder of SIB and SGC, it appears that Stanford is subject to little or no independent oversight.

#### **B.** Stanford International Bank

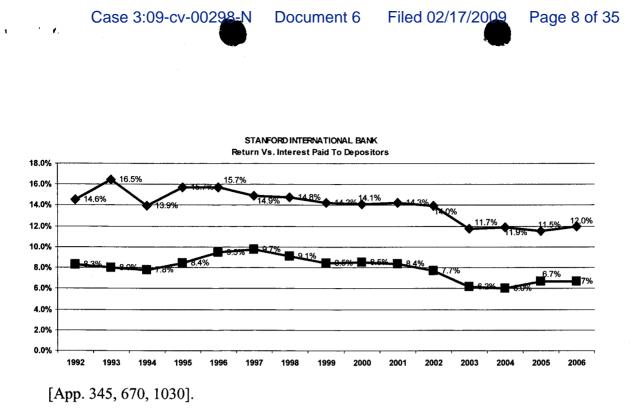
As of November 28, 2008, SIB reported \$8.6 billion in total assets. [App. 541]. SIB's primary product is the CD. [App. 74, 403, 590, 668-70].<sup>4</sup> SIB aggregates customer deposits, and then purportedly re-invests those funds in a "globally diversified portfolio" of assets.

For almost fifteen years, SIB represented that it has experienced consistently high returns on its investment of deposits (ranging from 11.5% in 2005 to 16.5% in 1993):

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<sup>&</sup>lt;sup>3</sup> Further, Ken Weeden holds the title of Managing Director-Research and Investments. He supervises a group of "analysts" that work in Memphis and Tupelo. Weeden reports to Pedergest-Holt, who is Weeden's sisterin-law. [App. 588]. Davis' son, and at least one of his college classmates, are research analysts whose responsibilities include, in part, oversight of a small portion of SIB's portfolio of assets.

<sup>&</sup>lt;sup>4</sup> SIB sold more than \$1 billion in CDs per year between 2005 and 2007, including sales to U.S. investors. The bank's deposits increased from \$3.8 billion in 2005, to \$5 billion in 2006, and \$6.7 billion in 2007. [App. 856]. SIB markets CDs to investors in the United States exclusively through SGC advisers pursuant to a Regulation D private placement. In connection with the private placement, SIB filed a Form D with the Commission. [App. 668, 906-12].



Since 1994, SIB claims that it has never failed to hit targeted investment returns in excess of 10%. [App 407, 590]. And, SIB claims that its "diversified portfolio of investments" lost only \$110 million or 1.3% in 2008. [App. 541]. During the same time period, the S&P 500 lost 39% and the Dow Jones STOXX Europe 500 Fund lost 41%. *Id*.

SIB's historical returns are improbable, if not impossible. After reviewing SIB's returns on investment over ten years, a performance reporting consultant hired by Stanford characterized SIB's performance as "not possible – almost statistically impossible." [App. 159-150]. Further, in 1995 and 1996, SIB reported identical returns of 15.71%, a remarkable achievement considering the bank's "diversified investment portfolio." [App. 345, 670] According to Pendergest-Holt, it is "improbable" that SIB could have managed a "globally diversified" portfolio of investments so that it returned identical results in consecutive years. [App. 106]. Likewise, the above-referenced performance reporting consultant believes that it is "impossible" to achieve identical results on a diversified investment portfolio in consecutive years. [App. .

151]. Nonetheless, SIB continues to promote its CDs using these improbable/implausible returns. [App 345, 590, 670].

SIB's consistently high returns of investment have enabled the bank to pay a significantly higher rate on its CD than conventional banks. [App. 531, 533]. For example, SIB offered 7.45% as of June 1, 2005, and 7.878% as of March 20, 2006, for a fixed rate CD based on an investment of \$100,000. [App. 668]. On November 28, 2008, SIB quoted 5.375% on a 3-year Flex CD, while comparable U.S. Banks' CDs paid under 3.2%. [App. 541].

SIB's extraordinary returns have also enabled the bank to pay disproportionately large commissions to SGC for the sale of SIB CDs. [App. 591, 669].<sup>5</sup> SGC receives a 3% fee from SIB on sales of CDs by SGC advisers. [App. 591]. Financial advisers receive a 1% commission upon the sale of the CDs, and are eligible to receive as much as a 1% trailing commission throughout the term of the CD. [App. 591, 669]. SGC promoted this generous commission structure in its effort to recruit established financial advisers to the firm. [App. 669]. The commission structure also provided a powerful incentive for SGC financial advisers to aggressively sell CDs to United States investors, and aggressively expanded its number of financial advisers in the United States. *Id*.

SIB purportedly managed the investment portfolio from Memphis and Tupelo. SIB's investment portfolio, at least internally, was segregated into three tiers: (a) cash and cash equivalents ("Tier 1"), (b) investments with "outside portfolio managers (25+)" that are monitored by the Analysts ("Tier 2"), and (c) unknown assets under the apparent control of Stanford and Davis ("Tier 3"). [App. 31, 586]. As of December 2008, Tier 1 represented approximately 9% (\$800 million) of the bank's portfolio. [App. 586]. Tier 2, prior to the bank's

<sup>&</sup>lt;sup>5</sup> In 2007, SIB paid to SGC and affiliates more than \$291 million in management fees and commissions from CD sales, up from \$211 million in 2006. [App. 869-870].

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decision to liquidate \$250 million of investments in late 2008, represented approximately 10% of the portfolio. [App. 586]. And Tier 3 represented 80% of the bank's investment portfolio. [App. 586].

# C. <u>SIB's Fraudulent Sale of CDs</u>

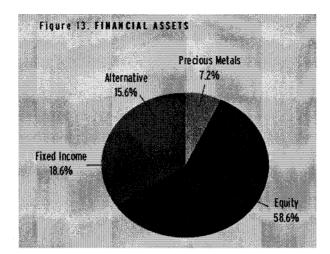
# 1. SIB Misrepresented that Its Investment Portfolio is Invested Primarily in "Liquid" Financial Instruments.

In selling the CD, SIB touts the liquidity of its investment portfolio. [App. 85, 352]. For example, in its CD brochure, SIB emphasizes the importance of liquidity, stating, under the heading "Depositor Security," that the bank focuses on "maintaining the highest degree of liquidity as a protective factor for our depositors" and that the bank's assets are "invested in a well-diversified portfolio of highly marketable securities issued by stable governments, strong multinational companies and major international banks." [App. 528].<sup>6</sup>

In its 2007 annual report, which was signed and approved by Stanford and Davis [App. 881], SIB represented that its portfolio was allocated in the following manner: 58.6% equity, 18.6% fixed income, 7.2% precious metals and 15.6% alternative investments. [App. 871]. These allocations were depicted in a pie chart [App. 871], which was approved by Stanford and Davis. [App. 881].

<sup>&</sup>lt;sup>6</sup> Likewise, the bank trained SGC advisers that "liquidity/marketability of SIB's invested assets" was the "most important factor to provide security to SIB clients." [App. 1040].





[App. 871]

SIB's investment portfolio is not, however, invested in a "well-diversified portfolio of highly marketable securities issued by stable governments, strong multinational companies and major international banks." Instead, a significant portion of the bank's portfolio is invested in illiquid investments – namely private equity and real estate. [App. 97, 588]. In fact, in 2008, the bank's portfolio included at least 23% private equity. [App. 1123-24]. The bank never disclosed in its financial statements its exposure to private equity and real estate investments.<sup>7</sup> [App. 504, 871].

Further, on December 15, 2008, Pendergest-Holt met with her team of analysts by teleconference following the bank's decision to liquidate more than 30% of its Tier 2 investments (approximately \$250 million). [App. 587-88]. During the meeting, at least one analyst expressed concern about the amount of liquidations in Tier 2, asking why it was necessary to liquidate Tier 2, rather than Tier 3 assets, to increase SIB's liquidity. *Id.* 

<sup>&</sup>lt;sup>7</sup> One of the bank's analysts candidly admitted that including private equity and real estate in the Equity allocation "does not make sense." [App. 589].

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Pendergest-Holt told the analyst that Tier 3 was primarily invested in private equity and real estate and that Tier 2 was "more liquid" than Tier 3.<sup>8</sup> [App. 97, 587-88].

# 2. SIB Misrepresented that Its Multi-Billion Dollar Investment Portfolio is Monitored By a Team of Analysts

Prior to making their investment decision, prospective investors routinely asked how SIB safeguarded and monitored its assets. [App. 37]. In fact, investors frequently inquired whether Allen Stanford could "run off with the [investor's] money." *Id.* In response to this question, at least during 2006 and much of 2007, the SIO told investors that SIB had sufficient controls and safeguards in place to protect assets. *Id.* In particular, the SIO was trained by Pendergest-Holt to tell investors that the bank's multi-billion portfolio was "monitored" by the analyst team in Memphis. *Id.* In communicating with investors, the SIO followed Pendergest-Holt's instructions, misrepresenting that a team of 20-plus analysts monitored the bank's investment portfolio. *Id.* In so doing, the SIO never disclosed to investors that the team of analysts only monitor approximately 10% of SIB's money. *Id.* In fact, Pendergest-Holt trained the SIO "not to divulge too much" about oversight of the bank's portfolio because that information "wouldn't leave an investor with a lot of confidence." *Id.* Likewise, Davis instructed the SIO to "steer" potential CD investors away from information about SIB's portfolio. [App. 37, 43].

Contrary to the bank's representation that responsibility for SIB's multi-billion portfolio was "spread out" among 20-plus people, even Pendergest-Holt and the SIO did not know the whereabouts of the vast majority of SIB's investment portfolio. [App. 356]. In fact, the only people that Pendergest and the SIO could identify as knowing the whereabouts of the bulk of SIB's portfolio were Stanford and Davis. [App. 31, 98, 588]. According to Pendergest-Holt, she

<sup>&</sup>lt;sup>8</sup> Pendergest-Holt also stated that Tier 3 always included real estate. [App. 588]. Pendergest-Holt's statements contradict what she had previously stated to SIB's senior investment adviser. [App. 40, 45].

. .

and her team of analysts have never been privy to Tier 1 or Tier 3 investments. [App. 86, 586]. Similarly, the SIO did not have access to the bank's records relating to Tier 3, even though he was responsible, as the bank's Senior Investment Officer, for "closing" deals with large investors, "overseeing the bank's investment portfolio" and "ensuring that the investment side is compliant with the various banking regulatory authorities." [App. 32, 359]. In fact, in preparing the bank's periodic reports (quarterly newsletters, month reports, mid-year reports and annual reports), Pendergest and one of the analysts send to Davis the performance results for Tier 2 investments. [App. 64]. And Davis calculates the investment returns for the aggregated portfolio of assets. Id.

# 3. SIB Misrepresented that its Investment Portfolio is Overseen by a Regulatory Authority in Antigua that Conducts a Yearly Audit of the Fund's Financial Statements.

SIB told investors that their deposits were safe because the Antiguan regulator responsible for oversight of the bank's investment portfolio, the Financial Services Regulatory Commission (the "FSRC"), audited its financial statements. [App. 391] But, contrary to the bank's representations to investors, the FSRC does not audit or verify the assets SIB claims in its financial statements. [App. 675]. Instead, SIB's accountant, C.A.S. Hewlett & Co., a small local accounting firm in Antigua is responsible for auditing the multi-billion dollar SIB's investment portfolio.<sup>9</sup> [App. 675, 512, 881]

# 4. SIB Misrepresented that Its Investment Portfolio is Without "Direct or Indirect" Exposure to Fraud Perpetrated by Bernard Madoff.

In a December 18, 2008, letter to investors and a December 2008 Monthly Report, the bank told CD investors that their money was safe because SIB "had no direct or indirect exposure to any of [Bernard] Madoff's investments." But, contrary to this statement, at least

<sup>9</sup> The Commission attempted several times to contact Hewlett by telephone. No one ever answered the phone.

\$400,000 in Tier 2 was invested in Meridian, a New York-based hedge fund that used Tremont Partners as its asset manager. Tremont invested approximately 6-8% of the SIB assets they indirectly managed with Madoff's investment firm. [App. 1110]. Pendergest-Holt, Davis and Stanford knew about this Madoff exposure. Pendergest-Holt and an analyst were personally notified by Meridian of the Madoff exposure. [App. 1122-1124]. On December 15, 2008, the analyst confirmed the Madoff exposure through a weekly report (entitled "Laura Report") that was typically sent to Pendergest-Holt, Davis and Stanford. The report estimated "a loss of \$400k ... based on the indirect exposure" to Madoff. [App. 1125-1126].

### 5. Pershing Transparency

On or about December 12, 2008, Pershing, citing suspicions about the bank's investment returns and its inability to get from SIB "a reasonable level of transparency" into its investment portfolio, informed SGC that it would no longer process wire transfers from SGC to SIB for the purchase of the CD. [App. 675]. Since the spring of 2008, Pershing tried unsuccessfully to get an independent report regarding SIB's financials condition. *Id.* On November 28, 2008, SGC's President, Danny Bogar, informed Pershing that "obtaining the independent report was not a priority." *Id.* Between 2006 and December 12, 2008, Pershing sent to SIB 1,635 wire transfers, totaling approximately \$517 million, from approximately 1,199 customer accounts. *Id.* 

### C. SGC and SCM Misrepresented SAS Performance Results.

From 2004 through 2009, SGC and SCM induced clients, including non-accredited, retail investors, to invest in excess of \$1 billion in its SAS program by touting its track record of "historical performance." [App. 679]. SCM highlighted the purported SAS track record in thousands of client presentation books ("pitch books"). [App. 679-681]. For example, the following chart from a 2006 pitch book presented clients with the false impression that SAS



accounts, from 2000 through 2005, outperformed the S&P 500 by an average of approximately 13 percentage points [App. 757]:

			ear Return	-		
	2005	2004	2003	2002	2001	2000
SAS Growth	12.09%	16.15%	32.84%	-3.33%	4.32%	18.04%
S&P 500	4.91%	10.88%	28.68%	-22.10%	-11.88%	-9.11%

SCM used these impressive, but fictitious, performance results to grow the SAS program to over \$1 billion in 2008. [App. 679].<sup>10</sup>

The SAS performance results used in the pitch books from 2005 through 2009 were fictional and/or inflated. Specifically, SCM misrepresented that SAS performance results, for 1999 through 2004, reflected "historical performance" when, in fact, those results were fictional, or "back-tested", numbers that do not reflect results of actual trading. [App. 9-12; App. 682-685]. Instead, SCM, with the benefit of hindsight, picked mutual funds that performed extremely well during years 1999 through 2004, and presented the performance of those top-performing funds to potential clients as if they were actual returns earned by the SAS program.<sup>11</sup> [App. 10-

<sup>&</sup>lt;sup>10</sup> SGC also used the SAS track record to recruit financial advisers away from legitimate advisory firms who had significant books of business. [App. 594; 681] After arriving at Stanford, the newly-hired financial advisors were encouraged and highly incentivized to put their clients' assets in the SIB CD. [App. 669-670].

<sup>&</sup>lt;sup>11</sup> On occasion, the pitch books included disclaimers describing the back-tested performance as hypothetical. These disclaimers were wholly insufficient because they (i) appeared in only some of the pitch books, (ii) were buried in small text at the back of the document, and (iii) did not adequately dispel the misleading suggestion that the advertised performance represented actual trading. [App. 800-801]

11]. Similarly, SCM used "actual" model SAS performance results for years 2005 through 2006 that were inflated by as much as 4%.<sup>12</sup> [App. 577-582; 681-684; 757].

SCM's management knew that the advertised SAS performance results were misleading and inflated. [*e.g.*, App. 10-13]. From the beginning, SGC/SCM management knew that the pre-2005 track record was purely hypothetical. [*Id.*]. And, as early as November 2006, SCM investment advisers began to question why their actual clients were not receiving the returns advertised in pitch books. [App. 12-15; 597]. In response to these questions, SCM hired an outside performance reporting expert, to review certain of its SAS performance results. [App. 111]. In late 2006 and early 2007, the expert informed SCM that its performance results for the twelve months ended September 30, 2006 were inflated by as much as 3.4 percentage points. [App. 122-126]. Moreover, the expert informed SCM managers that the inflated performance results included unexplained "bad math" that consistently inflated the SAS performance results over actual client performance.<sup>13</sup> [App. 123, 152]. Finally, in March 2008, the expert informed SCM managers that the SAS performance results for 2005 were also inflated by as much as 3.25 percentage points.<sup>14</sup> [App. 140-145].

<sup>&</sup>lt;sup>12</sup> SCM told investors that SAS has positive returns for periods in which actual SAS clients lost substantial amounts. [App. 682-683]. For example, in 2000, actual SAS client returns ranged from negative 7.5% to positive 1.1%. In 2001, actual SAS client returns ranged from negative 10.7% to negative 2.1%. [*Id.*]. And, in 2002, actual SAS client returns ranged from negative 26.6% to negative 8.7%. [*Id.*] These return figures are all gross of SCM advisory fees ranging from 1% to 2.75%. [App. 842] Thus, Stanford's claims of substantial market out performance were blatantly false. (e.g., a claimed return of 18.04% in 2000, when actual SAS investors lost as much as 7.5%). [App. 682-683].

<sup>&</sup>lt;sup>13</sup> During sworn testimony, the expert characterized this "bad math" problem as "fishy," and could not provide any innocent explanation as to why the supposed mathematical errors worked consistently to the favor of the SAS models. [App. 123].

<sup>&</sup>lt;sup>14</sup> Despite being informed in early 2007 that its 2006 performance results were materially inflated, SCM continued using inflated results for 2005 until in early 2008 it received irrefutable evidence of the inflated 2005 results. SCM did not inquire into the accuracy of the pre-2005 numbers until the SEC exam staff in early 2009 asked SCM management pointed questions about pre-2005 performance. [App. 131; 681; 684].



Despite their knowledge of the inflated SAS returns, SCM management continued using the pre-2005 track record and never asked the performance expert to audit the pre-2005 performance. [App. 131; 577-582; 681; 684]. In fact, in 2008 pitch books, SCM presented the back-tested pre-2005 performance data under the heading "Historical Performance" and "Manager Performance" along side the audited 2005 through 2008 figures. [App. 794]. SCM's outside consultant testified that it was "misleading" to present audited performance figures along side back-tested figures. [App. 154].

Finally, SCM compounded the deceptive nature of the SAS track record by blending the back-tested performance with audited composite performance to create annualized 5 and 7 year performance figures that bore no relation to actual SAS client performance. [App. 682; 794]. A sample of this misleading disclosure used in 2008 and 2009 follows:

			Calenda As of	r Year F March 3						
	YTD	200	7 2006	2005	2004	2003	2002	2001	2000	1999
SAS Growth	-7.44%	12.40	% 14.65%	8.82%	16,15%	32.84%	-3.33%	4.32%	1804%	22.59%
S&P 500	-9.44%	5.49	% 15.79%	491%	10.88%	28.65%	-22.10%	-11.88%	-9.11%	21.04%
		(not a	Annual	ized Re	turns than 1	year)	L			
	YT	o	iyear	3	years	5 yea	¥5	7 years		Rince Eplica
SAS Growth	-7.44	1%	0.80%	9	.36%	15.31	1%	11.03%	12	.30%
S&P 500	-9.44	1%	-5.08%	5	.85%	11.3	2%	3.70%	2	45%

Other than the fees paid by SIB to SGC/SCM for the sale of the CD, SAS was the second most significant source of revenue for the firm. In 2007 and 2008, SGC/SCM received approximately \$25 million in fees from the marketing of SAS. [App. 680].

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## IV. LEGAL DISCUSSION AND ARGUMENT

Because the Commission is "not ... an ordinary litigant, but ... a statutory guardian charged with safeguarding the public interest in enforcing the securities laws," its burden to secure temporary or preliminary relief is less than that of a private party. *SEC v. Management Dynamics, Inc.*, 515 F.2d 801, 808 (2<sup>nd</sup> Cir. 1975). "[W]hen 'the public interest is involved in a proceeding of this nature, [the district court's] equitable powers assume an even broader and more flexible character than when only a private controversy is at stake." *FSLIC v. Sahni*, 868 F.2d 1096, 1097 (9th Cir. 1989), *citing FTC v. H.N. Singer, Inc.*, 668 F.2d 1107, 1112 (9th Cir. 1982). For example, the Commission does not need to show irreparable injury or a balance of equities in its favor. *Id.; see also SEC v. Unifund SAL*, 910 F.2d 1028, 1035 (2<sup>nd</sup> Cir. 1990). Nor does the Commission need to demonstrate the lack of an adequate remedy at law, as private litigants must. *See SEC v. Cavanagh*, 155 F.3d 129, 132 (2<sup>nd</sup> Cir. 1998); *SEC v. Scott*, 565 F. Supp. 1513, 1536 (S.D.N.Y. 1983), aff'd *sub nom., SEC v. Cayman Islands Reins. Corp.*, 734 F.2d 118 (2<sup>nd</sup> Cir. 1984).

Moreover, the ancillary remedy of a freeze order requires a lesser showing than that needed to obtain injunctive relief. *See SEC v. Gonzalez de Castilla*, 145 F. Supp. 2d 402, 415 (S.D.N.Y. 2001) ("courts may order a freeze even where the SEC has failed to meet the standard necessary to enjoin future violations"). For example, to obtain an asset freeze, the Commission need not show a reasonable likelihood of future violations. *CFTC v. Muller*, 570 F.2d 1296, 1300 (5<sup>th</sup> Cir. 1978). Instead, when there are concerns that defendants might dissipate assets, a freeze order requires only that the court find some basis for inferring a violation of the federal securities laws. *Unifund Sal*, 910 F.2d at 1041. Similarly, it is well-established that the Court has the authority to grant any form of ancillary relief where necessary and proper to effectuate

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the purposes of the federal securities laws. SEC v. Materia, 745 F.2d 197, 200 (2d Cir. 1984), cert. denied, 471 U.S. 1053 (1985). Included in the court's equitable powers is the authority to appoint receivers. See, e.g., SEC v. First Fin. Group, 645 F.2d 429, 439 (5th Cir. 1981).

### A. The Defendants Violated the Antifraud Provisions of the Securities Act and Exchange Act.

# 1. Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder.

Section 17(a) of the Securities Act prohibits the employment of a fraudulent scheme or the making of material misrepresentations and omissions in the offer or sale of a security. Section 10(b) of the Exchange Act and Rule 10b-5 thereunder prohibit the same conduct, if committed in connection with the purchase or sale of securities.<sup>15</sup> A violation of these provisions occurs if the alleged misrepresentations or omitted facts were material. Information is material if there is a substantial likelihood that the omitted facts would have assumed significance in the investment deliberations of a reasonable investor. *Basic, Inc. v. Levinson*, 485 U.S. 224 (1988).

Establishing violations of Section 17(a)(1) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder requires a showing of *scienter*. *Aaron v. SEC*, 446 U.S. 680 (1980). However, actions pursuant to Sections 17(a)(2) and (3) of the Securities Act do not require such a showing. *Id. Scienter* is the "mental state embracing intent to deceive, manipulate or defraud." *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 193 (1976). *Scienter* is established by a showing that the defendants acted intentionally or with severe recklessness. *See Broad v. Rockwell Int'l Corp.*, 642 F. 2d 929 (5th Cir.) *en banc, cert. denied* 454 U.S. 965

<sup>&</sup>lt;sup>15</sup> Even if the investments offered do not exist, the antifraud provisions of the federal securities laws still apply. *SEC v. Lauer*, 52 F.3d 667, 670 (7th Cir. 1995).

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(1981). Stanford, Davis, Pendergest-Holt, and the Stanford corporate defendants violated these antifraud provisions.<sup>16</sup>

### 2. Defendants' Fraud Was in Connection with Offer or Sale of Security.

There is little doubt here that the defendants fraud was in connection with the offer, sale or purchase of securities.

## a. Defendants' Clients Sold Other Securities in Order to Purchase CDs.

First, even the "scratch the surface" level of evidence able to be compiled in advance of this emergency motion confirms that defendants fraudulent behavior, statements and omissions concerning SIB's CD program coincided with significant – and successful – efforts to lure investors to convert (*i.e.* sell) their existing securities holdings into investments in SIB's CDs. From August 2008 through December 2008 alone, approximately 50 SGC clients liquidated approximately \$10.7 million in stocks, bonds, and other similar securities and invested that money in SIB's CDs. [App. 593]. This sampling, particularly when viewed in light of the heavy incentives SGC gave to its advisers to push SIB's CDs, strongly suggests that the fraudulent behavior outlined above coincided directly with the selling of, at least, millions of dollars in investments that are quintessential securities, such as stock. Accordingly, there can be no serious dispute that Defendants fraudulent conduct was in connection with the offer or sell of securities. *See SEC v. Zandford*, 535 U.S. 813, 825 (2002) (holding that the "in connection with" element is satisfied by "a fraudulent scheme in which the securities transactions and breaches of fiduciary duty coincide").

<sup>&</sup>lt;sup>16</sup> To the extent the Court concludes that Stanford, Davis and Pendergest-Holt should not be held directly liable for violating Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, the evidence demonstrates that they are liable for aiding abetting violations of those provisions.

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#### b. The CD is a security.

In addition to fraud in connection with the *selling* of securities, the defendants' fraud was also in connection with the purchase of securities, i.e., SIB's CDs. In fact, SIB itself admits that "[b]y making this offering to Accredited Investors in the United States, SIBL and its officers are subject to certain laws of the United States, including the anti-fraud provisions of the U.S. federal securities laws and similar state laws." [App. 888]

The Supreme Court has emphasized that all notes – including products such as the "certificate of deposits" sold in this case – are presumed to be securities. *Reves*, 494 U.S. at 64. This presumption may be rebutted only by a showing that the note bears a strong resemblance to certain enumerated non-securities such as "the note delivered in consumer financing, the note secured by a mortgage on a home, the short term note secured by a lien on a small business or some of its assets, the note evidencing a "character" loan to a bank customer, short-term notes secured by an assignment of accounts receivable, or a note which simply formalizes an open-account debt incurred in the ordinary course of business. *Reves*, 494 U.S. at 65. To determine whether such resemblance exists, the Supreme Court has applied a "family resemblance test," instructing that it is necessary to analyze the following four factors: (1) the motivation of the parties; (2) the plan of distribution; (3) the reasonable expectations of the investing public; and (4) the existence of factors which would reduce the risk of the instrument. *Id.* Notably, no one factor by itself is dispositive. *Id.* 

A comparison of the instruments deemed to be securities in *Reves* to the current CDs demonstrates that there should "be little difficulty in concluding that the notes at issue here are 'securities:" *Reves*, 494 U.S. at 67.

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Factor	Reves	SIB
Motivation of Parties	"the Co-Op sold the notes in an effort to raise capital for its general business operations and purchasers bought them in order to earn a profit in the form of interest." <i>Reves</i> , 494 U.S. at 67-68.	SIB sold the notes in an effort to raise capital for its general business operations and purchasers buy them in order to earn a profit in the form of interest.
Plan of distribution	Notes were "offered and sold to a broad segment of the public, and that is all we have held necessary to establish the requisite 'common trading' in an instrument."	Notes were offered to a broad segment of the public.
Public's Reasonable Expectation	"Advertisements for the notes characterized them as 'investments' and there were no countervailing factors that would have led a reasonable person to question this characterization." <i>Reves</i> , 494 U.S. at 68-69.	SIB provides to its U.S. investors, among other things, a document titled "Disclosure Statement U.S. Accredited <b>Investor</b> Certificate of Deposit Program. This document prominently features a page labeled, "SECURITIES INVESTMENT STATEMENT," and refers to the purchase as "an investment decision."
Whether some factor such as the existence of another regulatory scheme "significantly reduces the risk of the instrument, thereby rendering application of the	"notes here would escape federal regulation entirely if the [Securities] Acts were held not to apply." <i>Reves</i> , 494 U.S. at 69.	Absent securities laws, no federal regulation over fraudulent statements and omissions made in sale of CDs appears to apply.

Importantly, the *Reves* Court held that if the seller's purpose is to finance substantial investments and the buyer is interested primarily in the profit the instrument is likely to generate, the instrument is likely to be a security. *Id.* at 66. That is precisely the situation here. Likewise, when the issuer solicits individuals, as compared to solicitations of sophisticated institutions, that indicates "common trading" and weighs in favor of finding the instrument a security. Again, that is the case here, where SIB, acting through its affiliated investment adviser and broker-dealer routinely solicits individuals via retail investments. [App. 593, 668]. Third, the public would reasonably view these instruments as securities investments, particularly where SIB itself

Securities Acts unnecessary." describes them repeatedly as investments and advises clients that the offering of the CDs is subject to the antifraud provisions of the federal securities laws. Importantly, in *Stoiber v. SEC*, 161 F.3d 745, 750 (D.C. Cir. 1998), the D.C. Circuit Court held that courts should consider instruments to be securities on the basis of public expectations, "even where an economic analysis of the circumstances of the particular transaction might suggest that the instruments are not securities as used in that transaction."<sup>17</sup>

The only factor that arguably weighs against the conclusion that the CDs are securities concerns the existence of some other risk-reducing system, given that SIB is subject to some regulatory oversight by the Financial Services Regulatory Commission of Antigua. To put it simply, this putative oversight is irrelevant.<sup>18</sup>

First, unlike some earlier lower court decisions, in *Reves*, the United States Supreme Court made it clear that its fourth factor considered the existence of alternate *federal* regulatory system, such as FDIC protection. 494 U.S. at 69. (citation omitted and emphasis added). For example, in evaluating this factor after *Reves*, the Tenth Circuit noted that regulation by a state is not enough. See *also Holloway v. Peat, Marwick, Mitchell & Co.*, 900 F.2d. 1485, 1488 (10th Cir. 1990), *cert. denied*, 498 U.S. 958 (1990) (holding that the Supreme Court in *Reves* clearly required an alternative *federal* regulatory system); *see also Bradford v. Moench*, 809 F. Supp.

<sup>&</sup>lt;sup>17</sup> In *Stoiber*, the D.C. Circuit Court noted that the Supreme Court in *Reves* described this factor as "a oneway ratchet" that "allows notes that would not be deemed securities under a balancing of the other three factors nonetheless to be treated as securities if the public has been led to believe they are. It does not, however, allow notes which under the other factors would be deemed securities to escape the reach of regulatory laws." 151 F.2d at 751.

<sup>&</sup>lt;sup>18</sup> The Commission has noted elsewhere certain facets of the FSRC's regulatory role. The question is not whether the FSRC carries out those prescribed responsibilities, but whether that oversight – as designed – "virtually guarantees" the full recovery of deposits. In evaluating that question, it is worth noting how the administrator and chief executive of the FSCR was quoted late last week in the press, when he described his agency's new approach to overseeing SIB's activities: "it's not a Friday afternoon cocktail *anymore* …." (emphasis added).

1473, 1483 (D. Utah 1992) (following *Holloway* decision and holding Utah regulatory system cannot serve as risk reducing factor).<sup>19</sup>

As the Supreme Court made clear in *Marine Bank*, a certificate of deposit does not invariably fall outside the definition of a 'security' and "each transaction must be analyzed and evaluated on the basis of the content of the instruments in question, the purposes intended to be served, and the factual setting as a whole." *Marine Bank*, 455 U.S. 551 n.11 (1982). Here, the factual setting weighs strongly in favor of subjecting SIB's CDs to the federal securities laws. There simply is nothing here suggesting that the regulatory oversight provided by Antigua comes close to providing the "virtual guarantee" of repayment the holder of the particular CD at issue in *Marine Bank* or *Wolf* had, in contrast to an ordinary long-term debt holder who assumed the risk of the borrower's insolvency. Here, SIB's CDs have no FDIC protection, or any insurance protection from any Antiguan regulatory or government authority.<sup>20</sup>

Indeed, SIB itself admits in various offering documents that its customers assume the risk of SIB's insolvency, stating in substance that "the ability of SIB to repay principal and interest

<sup>&</sup>lt;sup>19</sup> The Commission recognizes that several circuits, including the Fifth Circuit, have concluded – prior to *Reves* and under significantly different circumstances – that certain certificates of deposit should not be considered "securities" under the Securities Act and Exchange Act. *See Wolf v. Banco Nacional de Mexico*, S.A., 739, F.2d 1458 (9th Cir. 1984), *cert. denied*, 469 U.S. 1108 (1985); *Callejo v. Bancomer, S.A.*, 764 F.2d 1101 (5th Cir. 1985); *Tafflin v. Levitt*, 865 F.2d 595 (4th Cir. 1989), *aff'd on other grounds*, 493 U.S. 455 (1990 (Pre-Reves)) (holding that certificates of deposit which were regulated by the banking system of Mexico or a state in the United States were not securities.). Due to the emergency nature of this request and because, regardless of how the Court applies Reves to SIB's CDs, it is clear that defendants fraudulent conduct was, as discussed above, in connection with the selling of securities, the Commission has not extensively addressed why those pre-Reves cases do not control here. Likewise, we have not addressed here the question of whether SIB's products could be considered "investment contracts" covered by the federal securities laws. Should the Court wish additional briefing on that issue, the Commission is prepared to provide it.

It should be noted, however, that the Commission – the primary agency responsible for determining whether the securities laws cover certain instruments – has applied the Securities Act to instruments the offering party claimed were similar to certificates of deposits, despite the existence of certain oversight by a foreign regulator. See In the Matter of State Bank of Pakistan, Admin Proc. File No. 3-7727, 1992 SEC Lexis 1041 (May 6, 1992)

<sup>&</sup>lt;sup>20</sup> This lack of refund guarantee is only exacerbated by SIB's attempts to lull investors with various claims of "insurance" that do not provide protection to the investor.

on the CD Deposits is dependent on our ability to successfully operate by continuing to make consistently profitable investment decisions" and "you may lose your entire investment." [App. 890]. This is precisely the sort of risks the antifraud provisions and other protections of the federal securities laws were designed to address.

### 3. Defendants Misrepresentations and Omissions Were Material.

The misrepresentations to and information withheld from investors in this case concern, among other things, the disposition of offering proceeds, the security of investment principal, the returns associated with the investment, and the liquidity of the investment. These issues go to the core of an individual's investment decision. There is a substantial likelihood that these false representations and omissions would have assumed actual significance in the investment deliberations of a reasonable investor. They are therefore material. *See SEC v. Research Automation Corp.*, 585 F.2d 31, 35-36 (2d Cir. 1978) (misleading statements and omissions concerning the use of money raised from investors were material as matter of law); *see also United States v. Siegel*, 717 F.2d 9, 14-15 (2d Cir. 1983) (holding that failure to disclose the misappropriation of more than \$100,000 was a fact which would be important to a stockholder in his decision making).

### 4. The Defendants Acted With Scienter

In making their material misstatements and omissions, the Defendants acted with *scienter*, which is a mental state embracing intent to deceive, manipulate, or defraud. *Ernst & Ernst v. Hochfelder, et al.*, 425 U.S. 185, 193 (1976).<sup>21</sup> Here, the misrepresentations go to the core of the investment model marketed to investors. Selling investments marketed as highly

A violation of Section 17(a)(1) of the Securities Act also requires a showing of scienter. However, the U.S. Supreme Court has held that scienter need not be shown in order to establish violations of Sections 17(a)(2) and (3) of the Securities Act. *Aaron v. SEC*, 446 U.S. 680, 696-97 (1980).

liquid, but which were in fact heavily invested in illiquid private equity and real estate, while knowing that only two people actually knew the portfolio allocation and kept that information under lock and key is, at a minimum, severely reckless. Indeed, this action speaks of a high degree of *scienter*. Moreover, the actions of controlling individuals, and therefore their *scienter*, are attributable to the controlled company. *See SEC v. Manor Nursing Centers, Inc.*, 458 F.2d 1082, 1094 (2d Cir. 1971).

## B. Stanford, SGC and SCM Violated, and Davis and Pendergest-Holt Aided and Abetted Violations of, the Antifraud Provisions of the Investment Advisers Act of 1940.

Through their deceitful and fraudulent conduct in selling the CDs and SAS, Defendants violated the antifraud provisions of the Investment Advisers Act. This is true, even if the Court, for the sake of argument, determines that the defendants' fraud was not in connection with the offer, sale or purchase of securities for purposes of Section 17(a) of the Securities Act or Section 10(b) of the Exchange Act.

## 1. Section 206 Imposes a Fiduciary Duty on Defendants Prohibiting Defendants Fraudulent Conduct

Sections 206(1) and 206(2) of the Advisers Act (15 U.S.C. §§ 80b-6(1) & 80b-6(2)), prohibit an investment adviser from defrauding any client or prospective client by, directly or indirectly, employing any device, scheme, or artifice to defraud or engaging in any transaction, practice or course of business which operates as a fraud or deceit upon any client or prospective client. While *scienter* is required to establish a violation of Section 206(1), negligence alone is sufficient to establish fraud liability under Section 206(2). *SEC v. Capital Gains Research Bureau, Inc.*, 375 U.S. 180, 195 (1963); *Steadman v. SEC*, 603 F.2d 1126, 1134 (5th Cir. 1979), *aff'd on other grounds*, 450 U.S. 91 (1981). Unlike the antifraud provisions of the Securities Act and the Exchange Act, Sections 206(1) and 206(2) of the Advisers Act do not require that the activity be "in the offer or sale of any securities" or "in connection with the purchase or sale of any security." SEC v. Lauer, 2008 WL 4372896, \*24 (S.D. Fla. September 24, 2008); Advisers Act Release No. 1092, 6 Fed. Sec. L. Rep. (CCH) ¶ 56,156E, at 44,057-7 to 44,058 (Oct. 8, 1987).

Instead, Section 206 establishes federal fiduciary standards to govern the conduct of investment advisers. *Transamerica Mortgage Advisers, Inc. v. Lewis*, 444 U.S. 11, 17 (1979). The fiduciary duties of investment advisers to their clients include the duty to act for the benefit of their clients, the duty to exercise the utmost good faith in dealing with clients, the duty to disclose all material facts, and the duty to employ reasonable care to avoid misleading clients. *SEC v. Capital Gains Research Bureau, Inc. et al.*, 375 U.S. 180, 194 (1983). An adviser has "an affirmative obligation to employ reasonable care to avoid misleading [his or her] clients." *Id. Scienter* is required to establish a violation of Section 206(1) but is not a required element of Section 206(2). *SEC v. Steadman*, 967 F.2d 636, 643 fn.5 (D.C. Cir. 1992) (Section 206(2) violation only requires proof of negligence, not *scienter*).

## 2. Stanford, SGC and SCM are Investment Advisers Subject to Heightened Fiduciary Duties.

The definition of an investment adviser in Section 202(a)(11) of the Advisers Act, 15 U.S.C. § 80b-2(a)(11), includes "any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities." SGC/SCM do exactly that on a daily basis. Likewise, Stanford, as control person of both of those entities, satisfies the statutory definition of an investment adviser. *See In re Jay Deforest Moore, et al.*, Investment Advisers Act Rel. No 1548 (Jan. 19, 1996), 61 SEC Docket 544, 545 (charging individual with

direct violations of Sections 206(1) and (2) of the Advisers Act because he "exercised exclusive control over" the firm and, therefore, was the firm's alter ego).

Likewise, Davis and Pendergest-Holt aided and abetted the Adviser Act violations. Aiding and abetting liability requires a showing of: (1) a primary violation; (2) knowledge or a general awareness of the aider and abettor of having played a role in an overall activity that was improper; and (3) knowing and substantial assistance by the secondary violator of the conduct that constitutes the violation. *Woodward v. Metro Bank of Dallas*, 522 F.2d 84, 94-95 (5th Cir. 1975); *In the Matter of Glen Copeland*, (CCH) ¶83,903, at 87,732 (July 5, 1985); *Investors Research Corp. v. SEC*, 628 F.2d 168, 178 (D.C. Cir.), *cert. denied*, 449 U.S. 919 (1980). Recklessness satisfies the knowledge requirement, especially as to fiduciaries. *See In the Matter of Kemper Financial Services, Inc.*, Investment Company Act Rel. No. 21113 (June 6, 1995); *SEC v. Washington County Utility District*, 676 F.2d 218, 226 (6th Cir. 1982); *Rolf v. Blyth, Eastman Dillon & Co., Inc.*, 570 F.2d 38, 44-47 (2d Cir. 1978), *cert. denied*, 439 U.S. 1039.

Both Davis and Pendergest-Holt knew of the representations made to clients as to the securities that would be purchased to support their CD investment, and in fact, actually trained them to mislead investors. There is no doubt both Davis and Pendergest-Holt knowingly provided substantial assistance to the fraud violations of SBI, SCM and Stanford.

### 3. Each of the Defendants Acted with Scienter

As described in detail above, the defendants intentionally misled their clients. For example, knowing the importance to which investors would assign to the issue of exposure to the Madoff fund, the defendants voluntarily undertook to assure investors that SIB "had no direct or indirect exposure" to any Madoff investments. Pendergest-Holt, Davis and Stanford knew when this statement was made that it was false. In the market environment of December 2008, it is

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hard to imagine a more material breach of an investment adviser's heightened duty of care owed to clients.

## C. SIB and SGC Failure to Register as an Investment Company Violated Section 7(d) of the Investment Company Act of 1940.

Section 7(d) of the Investment Company Act of 1940 prohibits investment companies organized under the laws of foreign jurisdictions from making a public offering of securities in the United States, except by entry of an order from the Commission permitting registration. *See Investment Funds Institute of Canada* (1996 SEC No. Act. Lexis 334 (March 4, 1996). Both SIB and SGC (acting as SIB's underwriter) were bound by this requirement and failed to register, which was intended to, and had the effect of, shielding SIB's CD program from Commission oversight.

SIB qualifies as an "investment company" under either a "traditional" or an "inadvertent" investment company analysis. The "traditional" investment company is defined by ICA Section 3(a)(1)(A) as any issuer that holds itself out as primarily engaged, or proposes to be primarily engaged, in the business of investing, reinvesting or trading in securities. SIB's primary business is to manage the deposits of its customers, not any commercial banking activity. Moreover, these customer deposits are invested primarily in securities.<sup>22</sup> [App. 867].

Likewise ICA Section 7(d), in addition to prohibiting SIB's offering, prohibits SGC's activities as an underwriter for SIB. SGC acted as an underwriter pursuant to ICA Section 2(40) because of its activities in connection with the sale of SIB's CDs.

<sup>&</sup>lt;sup>22</sup> Alternatively, SIB also qualifies as an "inadvertent" investment company pursuant to ICA Section 3(a)(1)(C)'s definition of "any issuer which is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, or trading in securities, and owns or proposed to acquire investment securities having a value exceeding 40 per centum of the value of such issuer's total assets (exclusive of Government securities and cash items) on an unconsolidated basis." In every year since 2004, equity investments have accounted for at least 48 percent of SIB's total assets.

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### V. <u>APPROPRIATE RELIEF</u>

### A. <u>Injunctive Relief</u>

In analyzing the need for injunctive relief, courts focus on whether there is a reasonable likelihood that the defendant, if not enjoined, will engage in future illegal conduct. *See, e.g., SEC v. Comserv Corp.*, 908 F.2d 1407, 1412 (8th Cir. 1990); *SEC v. Bonastia*, 614 F.2d 908 (3d Cir. 1980); *SEC v. Commonwealth Chem. Sec., Inc.*, 574 F.2d 90, 100-101 (2d Cir. 1978). In determining the likelihood of future violations, the totality of the circumstances is to be considered. *Murphy*, 626 F.2d at 655. In granting or denying injunctive relief, courts have considered the following factors: (1) the egregious nature of the defendant's actions; (2) the isolated or recurrent nature of the violations; (3) the degree of *scienter* involved; (4) the sincerity of the defendant's assurances, if any, against future violations; (5) the defendant's occupation will present opportunities (or lack thereof) for future violations.<sup>24</sup> Additionally, other courts consider the defendant's age and health. *See SEC v. Youmans*, 729 F.2d 413 (6th Cir. 1984); *SEC v. Wash. County Util. Dist.*, 676 F.2d 218, 227 n.19 (6th Cir. 1982); *SEC v. Universal Major Indus. Corp.*, 546 F.2d 1044, 1048 (2d Cir. 1976), *cert. denied*, 434 U.S. 834 (1977).

Preliminary and permanent injunctive relief against Defendants are appropriate. Their violations were not merely technical in nature, but, rather, lie at the very heart of the remedial statutes.

<sup>&</sup>lt;sup>23</sup> This consideration is limited in other circuits by *SEC v. First City Fin. Corp.*, 890 F.2d 1215, 1219 (D.C. Cir. 1989), in which the Court of Appeals said that the "lack of remorse' is relevant only where defendants have previously violated court orders, *see SEC v. Koenig*, 469 F.2d 198, 202 (2d Cir. 1972), or otherwise indicate that they do not feel bound by the law, *see SEC v. Savoy Indus.*, 587 F.2d 1149, 1168 (D.C. Cir. 1978)."

<sup>&</sup>lt;sup>24</sup> See SEC v. Carriba Air, Inc., 681 F.2d 1318, 1322 (11th Cir. 1982); see also, SEC v. Bonastia, 614 F.2d 908, 912 (3d Cir. 1980); SEC v. Commonwealth Chemical Securities, Inc., 574 F.2d 90, 100-101 (2d Cir. 1978).

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Moreover, Section 20(a) of the Securities Act and Section 21(d)(1) of the Exchange Act authorize the Commission to seek emergency relief when it appears that a person is engaged or is about to engage in acts or practices in violation of the federal securities laws. 15 U.S.C. § 77t(a), 15 U.S.C. § 78u(d)(1). Defendants fraud is ongoing. A temporary restraining order is appropriate under the circumstances.

## B. <u>Ancillary Relief</u>

### 1. Asset Freeze

An order freezing assets is appropriate to ensure that sufficient funds are available to satisfy any final judgment the Court might enter against the Defendants and to ensure a fair distribution to investors. *See, e.g., Manor Nursing Ctrs.*, 458 F.2d at 1106 (freeze of assets pending transfer to trustee); Unifund, SAL, 910 F.2d at 1041-42. An asset freeze as to each defendant's assets is appropriate to assure satisfaction of whatever equitable relief the court ultimately may order and to preserve investor funds. *Id.; CFTC v. Muller*, 570 F.2d 1296, 1300 (5th Cir. 1978). Additionally, an asset freeze "facilitate(s) enforcement of any disgorgement remedy that might be ordered" and may be granted "even in circumstances where the elements required to support a traditional SEC injunction have not been established." *See SEC v. Unifund Sal*, 910 F.2d 1028, 1041 (2d Cir.) *reh'g. denied*, 917 F.2d 98 (1990). It is well recognized that an asset freeze is sometimes necessary to ensure that a future disgorgement order will not be rendered meaningless. *See, e.g., United States. v. Cannistraro*, 694 F. Supp. 62, 71 (D.N.J. 1988), *modified*, 871 F.2d 1210 (3d Cir. 1989); *SEC v. Vaskevitch*, 657 F. Supp. 312, 315 (S.D.N.Y. 1987); *SEC v. R.J. Allen & Assocs., Inc.*, 386 F. Supp. 866, 881 (S.D. Fla. 1974).

The ancillary remedy of a freeze order requires a lesser showing than that needed to obtain injunctive relief. See SEC v. Gonzalez de Castilla, 145 F. Supp. 2d 402, 415 (S.D.N.Y.

2001) ("courts may order a freeze even where the SEC has failed to meet the standard necessary to enjoin future violations"). For example, to obtain an asset freeze, the Commission need not show a reasonable likelihood of future violations. *CFTC v. Muller*, 570 F.2d at 1300. This lower standard results from the recognition that injunctive relief raises the possibility of future liability for contempt; an asset freeze only preserves the *status quo. Unifund Sal*, 910 F.2d at 1039. Accordingly, when there are concerns that defendants might dissipate assets, a freeze order requires only that the court find some basis for inferring a violation of the federal securities laws. *Unifund Sal*, 910 F.2d at 1041.

Here, there is a clear basis for fearing dissipation of funds. It appears that \$250 million has been liquidated from Tier 2 since December 2008, and the Commission has learned of significant attempts to liquidate the portfolio within the last week. Moreover, not only is there "some basis for inferring a violation of the federal securities laws," for the reasons set out above, the Commission is more than likely to succeed on the merits of its case for antifraud violations.

### 2. Defendants Should Be Ordered to Preserve Relevant Evidence.

The Commission seeks an order prohibiting the movement, alteration, and destruction of books and records and an order expediting discovery. Such orders are appropriate to prevent the destruction of key documents and to ascertain what additional expedited relief may be necessary.

### 3. Expedited Discovery Is Appropriate.

The Federal Rules of Civil Procedure give District Courts discretion to permit expedited discovery. Defendants are usually given until at least 45 days after the service of a summons and complaint to respond to document requests, Fed. R. Civ. P. 34(b), and 30 days after such service to appear for a deposition, Fed. R. Civ. P. 30(a) or respond to interrogatories, Fed. R. Civ. P. 33(a). But each of these Rules provides that the Court, in its discretion, may shorten these

in

periods. See also Gibson v. Bagas Restaurants, Inc., 30 Fed. R. Serv. 2d 792, 87 F.R.D 60 (W.D. Mo. 1980) (accelerated discovery is allowable within the discretion of the Court). Moreover, where urgent relief is sought and expedited discovery is needed to accomplish that result, a court may grant accelerated discovery. See Notaro v. Koch, 35 Fed. R. Serv. 2d 580, 95 F.R.D. 403 (S.D.N.Y 1982). Expedited discovery is required in this case to enable the Commission more fully to develop the evidence prior to the conduct of a preliminary injunction hearing. The Commission should have the opportunity to supplement a complete evidentiary record prior to the preliminary injunction hearing. Also, expedited discovery is vital to determining the scope of the fraud and the whereabouts of investor funds. Accordingly, the Commission requests depositions on notice of 3 days, with notice provided as noted below.<sup>25</sup>

### 4. Alternative Service and Notice Provisions

Rule 4(f)(3) of the Federal Rules of Civil Procedure provides that the Court may authorize alternative means for service of process in foreign countries. The Commission respectfully requests that the Court authorize service upon the defendants by serving them, in the manner described in the Commission's proposed order, by providing notice and service of process on each Defendant by e-mail transmission and by facsimile.

### 5. Accounting

The Commission seeks an order requiring Defendants and Relief Defendants to make an immediate accounting. An accounting will enable the Commission to determine more accurately the scope of the fraud and disposition of investor funds. It will help ensure the proper distribution of the assets. *See SEC v. Int'l Swiss Invs. Corp.*, 895 F.2d 1272, 1276 (9th Cir. 1990); *Manor Nursing Ctrs.*, 458 F.2d at 1105-06. An accounting is particularly justified

<sup>&</sup>lt;sup>25</sup> This is particularly important here because Defendants have not produced any documents during the investigation, and have failed to comply with lawfully issued subpoenas.

23 1

because of Tyler's use of investor funds and the Relief Defendants' receipt of property traceable to Tyler's illicit conduct and to investor funds.

#### 6. Appointment of a Receiver

As noted above, the defendants in this case have made every effort to deny access to the records and data necessary to enforce the federal securities laws. In addition, many of the funds appear to be easily transferrable outside the United States. A receiver is necessary here to marshal, liquidate and distribute assets to the victims of the defendants' scheme and especially warranted in light of the Defendants' efforts to shield relevant financial data and other key documents from independent review, the recent effort to remove operations from the United States, and recent large liquidations and lying to investors seeking to redeem their CDs.

## 7. An Order For Passport Surrender Are Appropriate.

An order for repatriation of funds and records sent offshore and still under the control of the defendants is appropriate. There is evidence that funds and records have been transferred overseas. In addition, based on the defendants' frequent foreign travel, the fact that Stanford maintains vast holdings (including residential real estate) in foreign locales, and Stanford's self-proclaimed dual residency, the Commission seeks an order requiring the defendants to surrender their passports to the court. These orders will ensure the efficacy of whatever equitable relief might ultimately be granted. *See R.J. Allen & Assocs., Inc.*, 386 F. Supp. at 881.

#### 8. A Repatriation Order is Necessary.

The Commission also seeks a repatriation order requiring the Defendants to return to identified accounts in the United States, all trading proceeds that may be located outside this Court's jurisdiction. Such equitable relief is appropriate where the Commission is seeking disgorgement in its prayer for relief. SEC v. R.J. Allen & Assoc., Inc., 386 F. Supp. 866, 880-

881 (S.D. Fla. 1974).

Respectfully submitted,

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STEPHEN J. KOROTASH Oklahoma Bar No. 5102 J. KEVIN EDMUNDSON Texas Bar No. 24044020 DAVID B. REECE Texas Bar No. 242002810 MICHAEL D. KING Texas Bar No. 24032634 D. THOMAS KELTNER Texas Bar No. 24007474

U.S. Securities and Exchange Commission Burnett Plaza, Suite 1900 801 Cherry Street, Unit #18 Fort Worth, TX 76102-6882 (817) 978-6476 (dbr) (817) 978-4927 (fax)

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UNITED ST	ATES SECURITIES AND EXCHANGE COMMISSION
In the Ma	atter of: )
	) File No. FW-02973-A
STANFORD	GROUP COMPANY ) Amended: 2/6/2009
WITNESS:	Michael J. Zarich
PAGES:	1 through 118
PLACE:	Securities and Exchange Commission
	801 Cherry Street, 19th Floor
	Fort Worth, Texas
DATÉ:	Friday, January 30, 2009
	The above-entitled matter came on for hear
pursuant	to notice, at 11:38 a.m.
	Diversified Reporting Services, Inc.
	(202) 467-9200
CALIFORNIA - CALIFORNIA	1a46b99o-8d5b-48o7-82d

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1	APPEARANCES:
2	
3	On behalf of the Securities and Exchange Commission:
4	M. THOMAS KELTNER, ESQ.
5	MICHAEL KING, ESQ.
6	KEVIN EDMUNDSON, ESQ.
7	DAVID REECE, ESQ.
8	CRAIG ELLIS, Regulatory Staff
9	Division of Enforcement
10	Securities and Exchange Commission
11	801 Cherry Street, 19th Floor
12	Fort Worth, TX 76102
13	
14	On Behalf of the Witness:
15	PATRICK K. CRAINE, ESQ.
16	Bracewell & Guiliani, LP
17	1445 Ross Avenue, Suite 3800
18	Dallas, TX 75202
19	(214) 758-1048
20	
21	
22	
23	
24	
25	
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1	PROCEEDINGS
2	MR. KELTNER: We're now in the record, Mr. Zarich.
3	I'd just like to go through a few preliminaries very quickly.
4	I know you've had a chance to talk to Terry about
5	testimony and how it works you know. We'll try to follow
6	Terry's admonitions you know, no non-verbal responses, all
7	that kind of stuff.
8	But just real briefly, I'm Tom Keltner. With me
9	today are Kevin Edmundson and Michael King of the Enforcement
10	Division. Mr. King has stepped out. He'll be back briefly.
11	David Reece is also here, and also Craig Ellis from our Reg
12	staff.
13	We've requested your testimony as part of a formal
14	inquiry in the matter of Stanford Group Company. We'll go
15	ahead and get you under oath at this point, if you're okay
16	with that.
17	MR. ZARICH: Okay.
18	MR. KELTNER: Could you please raise your right
19	hand?
20	Whereupon,
21	MICHAEL J. ZARICH
22	was called as a witness and, having been first duly sworn,
23	was examined and testified as follows:
24	EXAMINATION
25	BY MR. KELTNER:

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	you please state and spell your	1	Q	Okay. Mr. Zarich, you're here under subpoena
2 full name for the record.		2	_	After you received the subpoena, could you tell me
3 A Michael Joseph Zar		3	-	u did to look for documents and other responsive
4 Q How do you spell Z	arich?	. 4	materia	
5 A Zarich is Z, as in	zebra, a-r-i-c-h.	5	A	I did. I checked per our previous phone
6 Q Before we went on	the record, I gave you and your	6		ation. I checked for some files that I thought I
7 counsel a copy of the Formal	Order in this matter, including	7	-	ave, and it turns out I did, and then Patrick has
an amendment, a couple of am	endments, that added myself and	8	submitt	ed those to you all today on a floppy disk.
9 Michael King to the Formal O	rder, as well as a copy of the	9	Q	Okay, and the computer that you pulled these
) Commission's Form 1662, whic	h you also should have received a	10	documen	ts from, that was a personal computer?
l copy of with your subpoena?		11	А	It was. It was a home desktop computer.
2 A Yes, that's correc	t.	12	Q	Okay, and just generally, how did those documents
3 Q Do you have any qu	estions regarding those documents	13	end up	on that computer? Was it a computer you used for
4 at this point?		14	work, f	rom home, logging in, that kind of thing?
A I do not.		15	А	It was. It was and I should backtrack. There
Q Okay. They will b	e available throughout your	16	were so	me on a floppy as well. There were some disks on a
7 testimony, if you choose to	reference them, or if you have	17	floppy.	But yeah, it would be downloaded probably from
questions at a later date.	I'll be happy to answer those	18	e-mail	and looking at files, so forth and so on.
questions. Mr. Zarich, are	you represented by counsel today?	19	Q	Okay, and these are all documents that would have
) A Yes, I am.		20	been on	there for quite some time? They weren't recently
MR. KELTNER: And	would counsel please identify	21	added o	or anything like that?
2 himself?		22	A	No. It's been I left Stanford a year and a ha
3 MR. CRAINE: Patri	ck Craine from Bracewell	23	ago, so	at least a year and a half.
4 Guiliani, here on behalf of	Mr. Zarich.	24	Q	Okay. Were there any so did all the documents
5 BY MR. KELTNER:		25	that yo	ou're producing today come from that computer?
			-	
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		r		
	Page 7			Page
A Yes, or the floppy	· •	1 <b>1</b>	А	No.
Q Okay, and when you	say the floppy, what is that?	2	, Q	Okay. So no e-mails that say things like, call m
A Oh, the disk. I s	till call them floppies.	3	and the	en led to discussions about
Q Like CDs?		4	А	No.
A A CD, I'm sorry.		5	Q	Since you brought it up, who are you still close
5 Q Okay.		6	with a	t the company?
A And they were on a	floppy. I had a work computer,	7	A	And I don't know if we want to differentiate my
the laptop that I turned int	o Stanford, that frequently	8	time in	n Houston or Antigua, but Houston I still talk to Br
crashed. So I think over ti	me I had compiled some files on	9	Hennin	gs. He's in commissions. Mark Grosebeck is a
that disk.		10	financ:	ial advisor in Houston.
		I		
Q Okay. You transfe	erred some files over from time to	11		Willie North and Ben Simiski. I believe that's

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by e-mail we communicate.

when you were down in Antigua? A Yeah, very much so.

0 And what's Sasha's role?

15 for e-mail? 16 A I did not, because I don't have access to the Stanford Exchange server. There wouldn't have been any on 17 hotmail or anything like that. 18 19 Q Any recent e-mail correspondence you had with 20 people from Stanford? A I have some friends there, lunch -- you know, 21 22 Super Bowl, who's going to win. Some friends in Antigua and 23 the Houston office that I keep in touch with.

13

14

A Yes.

24 Q Sure. Anything related to the investigation that's 25 going on now?

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Q Okay. What about e-mail? Did you do any review

crowd. Mark and Ben work together, and then in Antigua,

Sasha Mercer is probably my most frequent, and it is usually

A She's the -- they call her the protocol officer,

which is really the kind of concierge. She's responsible for

Q Okay. So did you interact with her quite a bit

Q Okay. At this point, just to kind of set the

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organizing trips to the bank, clients, prospects, hotel accommodations, airfare. Kind of runs the tour, if you will.

that ground now, sin So we may	Page 9 probably going to go back over some of a now we've got a court reporter. you know, don't get frustrated if stuff we talked about before. ad of starting from the beginning, how		1 2 3 4	Page it basically became my group. At some point in there, it redefined as the Investment Advisory Group, which I ran ri- up until December 31 of 2005, which then and then I was
So we may we're going back ove	- you know, don't get frustrated if stuff we talked about before.		3	
we're going back ove	stuff we talked about before.			up until December 31 of 2005, which then and then I was
			4	
A Okav.	d of starting from the beginning, how			transferred down to Stanford International Bank in Antigua
	nd of starting from the beginning, how		5	as the role of senior investment officer, until my
Q Sojust ki	f		6	resignation in July 2007.
did you come to work	at Stanford Group?		7	Q Okay. Who hired you initially?
A I was hire	i in 1999, June-July in Denver, Colorado,		8	A It was joint, Chip McNeil that I mentioned, who
	nt analyst, in what was then the Private		9	technically my supervisor, and we both reported to Bob Gle
Client Services Grou	, which is the advisory arm or the		10	who ran that whole department, the Private Client Services
	of Stanford Group Company, the		11	Group.
broker-dealer/RIA.			12	Q Okay, and then did your reporting chain stay pre
	i to create and promote a mutual fund		13	much the same until you moved to Houston?
	alled MFP. The PCS, Private Client		14	A Yes, yes. In Denver it did, and then in Houston
	an array of fee-based products, separate		15	it was Chip McNeil and then Jay Comeaux and Alvaro
-	is program and a few others. So that was		16	Trullengue. I had a few reports over the years, but
-	Do you want me to kind of run through the		17	Q Sure.
whole quick history				COURT REPORTER: Can I get the spelling of that
			18	
	would be great.		19	last name? THE WITNESS: Oh, yeah. Al Trullenque,
	here in 2002, the beginning of 2002, end		20	
	enver office was essentially closed, and		21	T-r-u-l-l-e-n-q-u-e.
_	d a job in Houston, in which case		22	BY MR. KELTNER:
	If moved to Houston to still run that		23	Q Okay, and after you got to Houston, who was in
group in 2002.			24	the I guess, we'll call the Investment Advisory Group.
He left th	e company, I believe late that year, and		25	know it changed names over time.
and the second of the second of the second of the second second second second second second second second second	1446b99e-8d5b-48e7-824e-50cb5f1c	974e	icwa at Art	
	Page 11		<b></b>	Page
A We got the	re, it was the two of us, Chip and		1	ramp up, and I made my first hire, I believe, in 2004. 20
myself, and we hired	an assistant.		2	or 2004 was Jason D'Amato.
	s or her name?		3	Q Okay, and how did you know Mr. D'Amato?
	afraid it's sad to say I'm going to have		4	A A resume that came in through our Human Resource
	per. I could come up with it.		5	Department.
-	that Jurika, or is that a different		6	Q So you hired D'Amato in, you think early '04, '0
assistant?			7	somewhere in that time frame?
	no. She's gone. She was with us maybe		8	A Yes.
	tine months. I do know Susan, though.		ľ	0 And so he

10 0 Okay. In what ballpark was she? What year would 11 you say that nine months fell in?

12 A Oh, that would have been 2002, probably into a 13 little bit of 2003.

14 0 Okay, and since we're talking about her, what was 15 her job?

16 А She was an assistant, an administrative assistant. filing, phones. That could be just fairly low level 17 18 administrative stuff. Some projects here and there.

19 Q Okay. So how does your staff change after that? I 20 mean, kind of -- what are the significant changes going 21 forward?

22 A And forgive me for dates, but my next -- Chip was let go, I want to say fall of 2003, I believe. Then I 23 24 essentially then had the reins myself, and then it was a

small department at the time. But the growth was starting to

25

Was he kind of your number two? А Yes, yes.

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So he comes in --Q I quess MFP is established at this point. A Yes.

Okay, and were there other senior people, or is it 15 0 mostly you and Mr. D'Amato at this point? 16 17 It was us. We reported. We did report to Jay now, А

18 as I mentioned, and then there was a period in there we switched over to Ben Finkelstein. F-i-n-k-e-l-s-t-e-i-n. 19

20 0 Okay. Was he in the Fixed Income group?

I believe he's still there. He's an institutional 21 А Fixed Income trader/transacter. 22 And then just to -- since we're on the path, let's 23 0

go ahead and walk through how -- both up and down, how the 24

management chain changes. Because I know at some point Stys 25

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1 comes in and Parrish comes in. Could you kind of sort that	1 then it did spin out to Stanford Capital Management.
2 out for us?	2 Q Okay, and the business unit that you managed becam
3 A Yes. Let's just go to the beginning. Bob Glenn,	3 Stanford Capital Management?
4 Chip McNeil, and I'd say Jay and Alvaro together, because	4 A Correct, correct.
5 they're a team. That's Jay Comeaux and Alvaro Trullenque.	5 Q Okay, and so were you still in that group when Sty
6 . Ben Finkelstein and then Eddie Rollins, and then really Danny	6 and Parrish come into the picture?
7 Bogar would be my last report.	7 A No.
8 Q And just for the record, who is Danny Bogar?	8 Q Okay. So did Parrish largely replace you, is that
9 A He was I think he's still there, the managing	9 correct?
0 director over Stanford Group Companies, which would be the	10 A Yes. Jason did, I don't know if de facto is right
1 broker-dealer. I guess anything really under the	11 Jason did technically replace me.
2 broker-dealer, Investment Banking, Coins and Bullion.	12 Q Okay, Jason D'Amato.
3 There's actual BD itself.	13 A D'Amato when I left for the bank, and then I think
4 Q And would you include the investment advisor in	14 Zach Parrish came in shortly after and Jason reported to
5 that, or no?	15 Zach. Then Mark Stys came in after that. I think it's kind
.6 A We were under that, yes.	16 of in between Zach and Jason, I believe.
7 Q Okay, and so I know at one point	17 Q Then during this time frame, you're down in
8 A Oh, go ahead.	18 Antigua?
9 Q At one point the investment advisor spins out to a	19 A Correct.
0 new company?	20 Q So you have probably have some picture in what's
1 A Yes.	20 going on up in Houston that you're not directly involved?
2 Q Okay, and that was	22 A Yes, and I will say I did not live full time in
3 A Then that was after the talks were starting when	
24 I was still there in 2005, but I think the ultimate spinout 25 was beyond after I left the bank. I want to say 2006, and	24 maybe a week a month I was still in Houston, in which case I 25 was officed at the 5050 location, which is where the
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- previously been spending time in Memphis. 19
- 20 Q Okay, and roughly when was that?
- That would have been in that '05, '04-'05 period. 21 А

22 Q Okay, and I know we've talked about a lot of this, 23 but just to get the context. When you say "that research 24 group," can you tell me who you're talking about?

Yes. Laura Pendergast is the chief investment 25 А

position as senior investment officer, was that I would not

the time line at this point, was it around the end of '05,

Okay, and just since we're kind of going through

Yes. Jim Davis approached me with a position in I

move down there. They tried to get me to move, with my

family to move down there, but I did not.

early '06 when you made the move to Antigua?

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1	officer of the Stanford Financial Group, and among her duties	
2	she has, I want to say, 20 or so research analysts that	
3	handle sectors and kind of macro research on currencies,	
4	regions. They're responsible for Asia, Latin America,	
5	whatever.	
6	So they put out reports that the financial advisors	
7	would use to educate themselves and their clients, interest	
8	rates and markets, where they're going.	The second second
9	So it made sense for the Investment Advisory Group	
10	to meet with them, to give us ideas how we're going to	
11	allocate portfolios and strategies.	
12	Q So you interacted with them on MFP-related issues;	
13	is that correct?	· · · ·
14	A Right.	
15	Q Okay. Advice on investment strategy, which sector	
16	they should be in, which parts of the world, those kinds of	
17	things?	
18	A Yes, yes.	
19	Q Was it also part of the responsibilities or work	
20	flow of this group in Memphis to consult on the management of	
21	the assets of the bank?	-
22	A Yes. I would say from a monitoring standpoint, the	-
23	20 analysts in Memphis were responsible for overseeing a	
24	portion of the assets of the bank. As we've discussed, the	
25	assets of the bank is an investment portfolio on a loan	
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	,	
	Page 19	
1	investments such as hedge funds, funded funds.	
2	Q Okay, and what's your basis for saying this? Are	
3	you basing this on your time in Memphis or on your time in	
4	Antigua? I mean, how do you know?	
5	A It was certainly part of my training, and this is	
6	the educational process at Stanford in general. I mean, I	
7	knew that even from day one about the bank and this is how it	
8	works. But I was while I was at the Investment Advisory	
9	Group, I was asked to go on some trips to Europe, which is	
10	where a lot of the money managers and banks and institutions	
11	are domiciled that run the money for the bank in Antigua.	
12	So I met a lot of them, a lot meaning like ten,	
13	maybe eight. I had never the literature, and I don't want	1. A. A.
14	to say literature, but the training is that there's 25 or 30	
15	of them, private banks.	
16	Q And you think you met around ten?	

A I'd say ten.

 Q
 Okay, and in terms of seeing documentation or

 19
 statements, do you think there were 25 or 30, or how many did

 20
 you actually see? What was your sense based on your actual

 21
 experience, as opposed to what the training material said?

A No, I did not see statements that indicated that
there were 30 or 25. I was never forwarded statements direct
anyway. I did receive statements in Antigua. I think just

25 by being there I would receive statements, but always one

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	1	portfolio. So
	2	Q Right.
	3	A Go ahead.
	4	Q So let's talk about that for a minute. So you say
	5	it's not a loan portfolio. Are you saying as opposed to a
	6	conventional bank, where they take money in and they loan it
	7	out, they've got a loan portfolio, SIB is a little different.
	8	Can you tell me how it's different?
	9	A Correct. Yeah, the model is different, in just
	10	that first of all, there's no loans at the bank. There's
	11	just one chartered bank in Antigua, and the only product they
	12	have is a certificate of deposit with maturities from one
	13	month to five years.
	14	So the depositor puts their money on. They get a
	15	guaranteed rate, whatever percent. That money like
	16	traditional banks would loan that money out to create a
	17	spread.
	18	This bank would invest it and try to create a
	19	spread over the returns that they would make in those
	20	investments to obviously be profitable and be able to pay the
	21	liabilities of the depositors and give them their money back
	22	in maturity.
	23	Q And then just big picture, since we're talking
	24	about it. What types of assets would they invest in?

A Stocks, bonds, commodities, currencies, alternative

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here and there, or a piece, never the whole picture.
Q Okay. I mean, one of the things we're trying to do
is get our arms around how the bank works. It might be
helpful you know, somebody with your expertise and your
time down in Antigua.
I'm trying to distinguish in my own mind how the
investment side of this thing is similar to or different from
a hedge fund, because it sounds a lot like a hedge fund in
the sense you know, you've got your equities, your fixed
income, your alternative investments. How would you compare
and contrast those to a hedge fund?
A I would say because it is a bank, and it's
chartered as such, and the only product is certificate of
deposits that they issue, makes it very bank-like. So
regardless of what this investment portfolio does, there's
still an implied guarantee that has to be paid to the
depositor.
So it is a bank. It's chartered as a bank, as
banking products. The asset side, I always looked at it more
like a mega-endowment. Well, I guess not mega compared to
like Yale or Stanford, that it was managed very much in that
regard, you know.
They use a lot of private equity, meaning Yale and
Harvard. I didn't see a lot of private equity in there, but
just kind of a lot of investment vehicles that smaller

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1	Page 21	Page 22
1	institutions or individuals can't get, that they were able to	
2	put their money with these managers or banks or whatever, to	
3	generate this positive spread to keep the bank profitable	3 A The mutual fund?
	year-in and year-out.	4 Q Yes. Were they in the business before you got
5	I was traveled and met enough of these	5 there?
6	managers you know, or it was believable. You know, I met	6 A The mutual fund? Yes.
7	them, and as we spoke on the phone, I mentioned Credit Suisse	7 Q They had a mutual fund allocation?
8	as a private bank who handles one of the sleeves, let's say	8 A Yes. Chip had done yeah. There was assets in
9	the 25 sleeves.	9 place, so it wasn't it didn't start at zero. It might
10	I don't know how much they managed, but they would	10 have had eight million in it.
11	even go further into the diversification process by having	11 Q Yeah. I think you told me before seven and a half,
12	maybe 20 managers you know, underlying managers or funds	12 so in that ballpark?
13	or whatever in there. So a very diverse concept.	13 A Right. So I should that's a good point. I
14	Q Okay. Well, I think for now we've got kind of an	14 mean, I didn't go from I created from zero. I built the
15	overview of the bank and how it works. So let's leave that	15 models and picked the funds and hired the promoters.
16	for a moment and then we'll come back to it in a little bit.	16 Q Okay. So when you show up, what do you do? How do
17	So I want to back up to earlier you told us that	17 you get started in establishing this program or growing this
18	you were hired to come in and establish a mutual fund wrap	18 program?
19	program?	19 A It starts with building models, or
20	A Yes.	20 Q I mean, kind tell me about it. You're building
21	Q Okay. Was that pretty much the understanding from	21 models. I assume there's kind of a piece of it where you're
22	day one?	22 figuring out how do we get clients, how do we market you
23	A Yes.	23 know, that sort of stuff.
24	Q Okay. That's what you were hired to do?	24 A The models start out obviously with kind of a risk
25	A Yes.	25 tolerance assessment. You want to, and this is modern
	Page 23	Page 24
1	portfolio theory, asset allocation 101. You know, you want	1 A Yes.
2	to create a model that has the you know, the right growth	2 Q Okay, and what's on the you said it goes from
3	objectives, the return objectives with the least amount of	3 one to nine in terms of risk. I guess what's the most
4	risk, and you define an optimal mix of equity bonds and cash.	4 conservative and what's
5	That's what it was back then. Now they have all these other	5 A One conservative, and based on the
6	asset classes.	6 optimization you know, you would think of one being the
7	You design a questionnaire to assess a client's	7 most conservative with the most fixed income, or cash, in the
8	risk and investment objectives, and you score it and then you	
9	come up with you know, this is a young person who's going	9 fixed income, you've got government debt, high yield debt.
10	to stay for 30 years. They're going to be in the growth all	10 So you have different risk parameters of debt in there, to
11	the way to conservative. So conservative, moderate growth.	11 nine, being all equity.
12	I had nine models, 1 being conservative, 9 being	12 Q Okay, and is nine growth?
13	the most growth. The questions in the questionnaire are	13 A Growth. Yeah, that would be there.
14	designed to you know, peg the clients on whether	14 Q And as you kind of scale back in the risk profile,
15	And then as far as creating the allocations, we	15 I think I've seen growth plus income and different things
16	were using Ibbtosson at the time as an optimization.	16 like that. I mean, what
17	Q Can you spell that for Terry?	17 A The models for change. After I left from nine to
18	A Oh. Ibbtosson is I-b-b-t-o-s-s-o-n.	18 five, and that they were defined, I think. Yes, you're
19	Q And what's Ibbtosson?	19 right. I want to say growth, growth plus income. But I
20	A Ibbtosson is an optimization software, and what it	20 think there was five. I think Jason and Seth would you
21	does is take historical information from various asset	21 know, because I don't recollect
22	classes and you find the right mix of the growth model, or	22 I recollect we had nine models right up in there,
23	conservative or moderate.	23 and they switched over to five.
24	Q Okay. So you said when you started out, quickly	24 Q And when you say Seth, is that Seth Hare, H-a-r-e?
25	thereafter you had nine strategies?	25 A Yes, yes. Seth Hare was our third hire, my third
	2	
1		

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	Page 25		Page 26
1	hire.		1 commoditized style product, that's where maybe you could
2	Q Is he an advisor type or an administrative type?		2 differentiate. Because at the end of the day, these
-3	A Analyst.		3 allocations are probably what Morgan Stanley's putting out in
4	Q Analyst. And when they went from nine to five		4 a variation.
5	strategies, is that the same time they renamed the program		5 So my thought was to truly add value, would in
6	SAS?		6 taking those managers you know, that could be sorry.
7	A Yes.		7 Q That's fine.
8	Q Okay, and what does SAS stand for?		8 A So I know at one time I had this like 13 point
9	A I believe it's Strategic Allocations I don't		9 manager selection, meaning how long has the manager been
10	know actually.		10 there, what's their background, what's the style of
11	Q Strategic Allocation Strategy or Stanford		11 consistency, what are the historical returns, the risks, all
12	Allocation Strategy, something like that?		12 these kind of 13 steps that you would go through you know,
13	A Yes.	Σ. Υ	13 to pick a manager. Due diligence, if you will.
14	Q And so this change from nine to five and the change		14 Q And you're talking about the managers that manage
15	in name, does this happen in '06 when you're down in Antigua?		15 the mutual funds that end up
16	A I believe so, yes.		16 · A The mutual funds you put
17	Q Okay. So we talked a little bit about how you put		17 Q Into the different wrap programs?
18	the strategies together. Then I assume part of it is		18 A Right. Like you have a mutual fund in there that's
19	figuring out how you make this thing attractive to customers,		19 really lagging for a couple of years or whatever, or a
20	how do you market it. So what was the strategy there?		20 manager leaves or something happens where you need to replace
21	A The next step, you've got your allocation set, your		21 that fund manager.
22	model set, is the fund selection process. So you have X in		22 Then you go out to the universe of 8,000, and you
23	large cap growth, X in large cap value, and then you want to		23 start looking for a manager that you feel would be the best
24	fill the best manager or mutual fund manager in the space.		24 one to perform going forward.
25	It was my thought, and even at the time in a pretty		25 You would call them up, maybe talk to one of their
		<u>I</u>	
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Page 27 1 analysts and how do you buy, what's your risk management process and all those kind of things, and make a selection. 2 So that to me was one of the big selling points -- you know, 3 that somebody's always watching it, you know. You've got 4 someone that's watching the allocation that will re-balance 5 it, that will do the fund changes for you, and that are 6 .7 watching these managers. 8 Whereas, if a broker or a financial advisor is not 9 going to know if -- you know, Joe Blow, the lead manager left 10 the fund. So that's the job of IAG or SCM to manage that process, to oversee it. 11 12 Q Okay. BY MR. ELLIS: 13 14 Q Okay. Perhaps I can clarify something here, Tom. 15 Do you have a general sense of how often in these programs you would change the allocation of each model, and there's a 16 17 second question, how often you might switch out a manager for 18 each piece of the allocation? 19 A When I was running it, I had a 5 percent -- two 20 points to the question. One, I had a 5 percent band, if you will, on the allocation. So if a client deviated over that 21 52 5 percent threshold, you'd re-balance it. 23 You didn't want to -- you know, you've got 24 transaction costs and potential taxes, so you didn't want to 25 re-balance too frequently. That came out to be probably 1a46b99e-8d5b-48e7-824e-50cb5f1c974e

Page 28 about once a year. And similar on the fund side, I don't 1 think you change funds to -- you don't want to change funds 2 too frequently. 3 In my memory, recollection might have one or two a 4 year you would change a fund out, and not because of 5 performance. You know, I mean, there's -- funds will lag. If you have a fund manager, I don't want this to 7 get too technical, that their systems are in place and the 8 managers are still there and they're doing what they always 9 say they do. Yet they're lagging 10 You know, we know the late '90s was a good example 11 of that. That's not a reason to sell them out. You sell 12 them out if there's more of a bigger change in the fund, like 13 they left the firm or they're doing something. They're large 14 caps buying small cap stocks. 15 Something like that is a reason to change out a 16 17 manager. How often would you actually change the allocation? 18 0 Say for example you had a growth allocation that on real 19 basic terms was 60 percent --20 21 Oh, I see. А -- 40 percent allocation. How often would you 22 ο 23 adjust the model allocation? 24 About annually, and it's tweaking. А 25 BY MR. KELTNER:

	Case 3:09-cv-00298-N Docum	hent 12	Filed	02/17/2009 Page 9 of 10 Page 3
1	Page 29 Q Yes, it's not actively managed. Yeah, it's not		1	rage 3
2	tactical would be the word I would use, by any stretch of the		2	would change from time to time?
	imagination, where you're going to go all cash. It would be		1 3	A Yes.
	magination, where you re going to go arr cash. It would be more like you might you know, maybe you have 23 percent in			Q But it's not like you were going in on a monthly
			4	basis and changing allocations or changing managers or
	growth and 17 percent in value, and there's a shift in the		5	
	market.		6	funds
	You know, you may go more in value, 20 percent in		7	A No.
	value and 18 percent in growth. We'd look at that about		8	Q When you first started out, let's take growth for
	A Well, we'd look at it all the time, but maybe		9	example. Ballpark, how many different assets or funds would
	change it about once a year.		10	you have allocated to?
	Q And was that usually around year-end, or I mean,		11	A I ran about five equity generally speaking, a
	was it at the end of the year, where you sat down and		12	large value, a large growth; a small value, a small growth
	thought, okay, how are we going to reallocate these things,	)	13	and an international manager. Then in the fixed income
	or was it		14	piece, a high yield corporate bond fund and maybe like a
	A No, I don't recollect.		15	government bond fund and then cash.
	MR. CRAINE: Excuse me. I didn't quite hear the		16	What is that eight, I guess eight plus cash is n
	question.		17	was about it. Then remember you might have like number 9
	BY MR. KELTNER:		18	model. Wouldn't have any of those fixed incomes. So you'
	Q Was there any rhyme or reason to when in the year		19	allocating amongst the five equity pieces.
	you would do the reallocations or		20	Q Okay, and so were a lot of these, just to
	A I don't recollect it being a calendar year. I		21	characterize them, were they large funds, some index funds
	think it's more of a fluid process than a set time.		22	those types of things, or were they
	Q Okay, but typically not much more often than once a		23	A No, I believe in the active managed approach. So
	year would you sit down and make the changes?		24	no index funds, and part of my personal due diligence bias
	A Yes.		25	was to steer away from large fund companies, looking for
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	Page 31 smaller asset size. Not always, but <b>Q Sure.</b> A I think that's you know, more you know,	4e	2	Page in a period of just incredible bull market. We all could probably remember Redhead and Qualcom and you're dealing w stocks that are doing 100, 220 percent a year. I'm trying to promote a program that's targeting
	Page 31 smaller asset size. Not always, but <b>Q Sure.</b> A I think that's you know, more you know, staying away from the Fidelities and the Vanguards you know. It's like I guess it kind of sizzle too in the	4e	2 3 4 5	Page in a period of just incredible bull market. We all could probably remember Redhead and Qualcom and you're dealing w stocks that are doing 100, 220 percent a year. I'm trying to promote a program that's targeting 12 percent a year, 14 percent a year. But I'm losing my
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1	Q Okay, and would those typically be bigger clients		1	should be the client fills out that questionnaire we spoke
2	that you would be called in for, was it just kind of off the		2	about, here's my investment horizons and my risk tolerance.
3	board? In terms of they had more money to invest?		3	We scored up, it's a Model 7 and we would generate
4	A That's a good question. Yes, I would say in		4	a proposal which would be like a Model 7 looks like
5	general, yes.		5	this you know, X in bonds and equity and cash and here ar
6	Q Okay. So if it was an important pitch, you would		6	the funds we recommend, and we would present it as such to
7	be brought in?		7	the client, kind of flip through the pages and talk about
8	A Yes, and that's I guess as I became more		8	asset allocation, not having your eggs all in one basket,
9	respected in the firm you know, after I was I guess		9	et cetera.
10	the advisors were more confident putting me in front of		10	Q And so what's that proposal look like? What's the
11	clients.		11	client getting?
12	Q Okay. So when you're talking to the brokers and		12	A The one we worked off for years was a PowerPoint
13	you know the brokers are then going to have to go out and		13	presentation. It was ten pages, maybe 12 pages. The title
14	pitch this to a client, what are you giving them in terms of		14	page. Do you want me to kind of run through what it would
15	the tool box? I mean, what do they have to work from? Do		15	look like?
16	they have any materials?		16	Q Yes.
17	A Well, there's a brochure on the program, that talks		17	A The title page. I recollect it was it started
18	about kind of the merits we've been talking about you		18	macro. The first couple of pages talk about the theory of
19	know, actively managed. We're going to pick your funds with		19	asset allocation and why you would do this, and then your
20	this 13-step process, re-balance it when necessary. But you		20	first chart would be the broad allocation, equity, bonds,
21	would ultimately present a proposal, and that's really where		21	cash.
22	I would be brought in.		22	Then the next chart would be like let's break down
23	I guess to clarify, it would be like you know,		23	equity value growth, and then let's break down bonds. Then
24	and the same thing with the bank, too, at the end you		24	you would lead into the hypothetical page, and the
25	know, like to close it. But that proposal process was,		25	hypothetical page would be, which everyone wants to see,
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1	returns. The hypothetical is just that.		1	Q So it's not

five years.

Q

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would have earned?

would be presented?

should I define --

models --

model.

А Yes.

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Correct.

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would be a graph. Like if you had \$10,000, if you invested 4 \$10,000 five years ago, this is what it would have grown to. You would also, say in those five years it annualized 5

6 14 percent. This is what the S&U and maybe compare it to the 7 S&P did whatever, 12 percent.

8 0 Okay, and again we talked about this a little bit 9 before, but I know there's lots of different ways to present 10 performance, so I want to make sure that we're all on the 11 same page.

12 А Yes.

13 0 Explain to me kind of like you would explain to a client what hypothetical performance is? 14 15 A Hypothetical is a lookback. This is -- it's a good

question. This as if you were here five years ago in these 16 seven funds I'm recommending, this would have been your 17 18 return.

But Mr. and Mrs. Client, this doesn't mean this is 19 20 what's going -- you know about the disclosures. That was last three pages probably were disclosures. This doesn't 21 62 mean this is what you're going to do the next five years.

Okay, and it doesn't mean this is what we did the 23 Q 24 last five years?

25 A That's correct.

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So the recommendation we're giving you today, had

0 Okay, and again, I'm just trying to clarify this,

When I say, do you understand what I'm meaning, or

because there are lots of different terms and we want to make

sure we're on the same page. Can you compare that for me

to -- you know, model performance, how model performance

A I think I do. I think this to me is model

performance, but you want to know like how would those nine

Q Well, I think we've seen some other, maybe other

groups or other firms, and maybe perhaps Stanford at various

times, have presented model performance, as in this is what

our model did the last five years -- you know. This is what

the models were, this is what the return numbers were for the

So they're historical in a sense, in that this is

you been in it for the last five years, this is what you

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1	what our model looked like the last five years. Do you		1	our historical record."
2	understand what I'm saying?		2	A They may.
3	A I do. I think and I can't say. I mean, every firm		3	Q Okay, and that when you say the concern is with
4	on the street probably does that, where they do this model,		4	misrepresentation, is that what you mean?
5	look back I mean, I guess we're sticking to mutual funds	· · · · · · · · · · · · · · · · · · ·	5	A That is what I mean, that a sales person is
6	in this case.		6	embellishing, or
7	You know, here's the mutual fund allocation. The		7	Q Right.
8	same thing that I'm talking about in those proposals	6 e	8	A I mean, benefit of the doubt or just not saying
9	again you know. These are the five funds we're		9	anything. I mean, they say, well, the disclosures. That's
10	recommending today. Look at this great performance.		10	in reality what.
11	Q Okay.		11	Q So the other concern would be whatever you call it
12	A Even to a single fund you know, it's a five star		12	on the first page, the client may not look at page 20, where
13	fund. It did 18 percent last year, in 2008. It's amazing,	<u>.</u>	13	it says "This is hypothetical performance." Is that the
14	you know. You've got to put your money in it.		14	other concern on the misrepresentation side?
15	Q And you know, I think it's obvious, but what are		15	A Yes.
16	the limitations of hypothetical performance?		16	Q So where the financial advisor might be silent and
17	A The concern is misrepresentation, to the client.		17	just let the client assume whatever they want about the
18	Q Right, and define that for me.		18	A There is a concern there, yes, the education kind
19	A I guess misrepresentation as in you know, if I'm		19	of aspect.
20	there that's one thing, or a Compliance person's there. But		20	Q Okay.
21	we're there 5 percent of the time. I don't know how it's	m 16 1	21	BY MR. ELLIS:
22	being sold.		22	Q Can I kind of take a step back, because I've heard
23	Q You don't know what the sales guys are doing?		23	you guys use the word "model" in two different ways, and I
24	A Exactly.		24	want to make sure we're really clear on how we're using this
25	Q Okay. So the sales guys may very well say "This is	23 21 21 24 44 4	25	going forward.
				· · · · · · · · · · · · · · · · · · ·
100.00000	1a46b990-8d5b-48e7-824e-50cb5f1	c974e	Tradition and the	•a
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	Page 39			Page 40
1	I think when Tom is talking about model		1	Q Okay, and that's actual client performance used to
2	performance, he's referring to this is actually how in 1999,		2	market the fund, as opposed to hypothetical performance?
3	if you had invested into a model at that time, here's how it		3	A Right.
4	would have performed."		4	BY MR. ELLIS:
5	The advertising that it sounds like you're talking	6	5	Q So in the materials you're talking about that in
6	about says if you took our current recommendations today, and		6	the presentations that you referred to, the model wasn't
7	if they would have been in place in '99, here's how they		7	adjusted in each year going back to reflect what the model
8	would have performed. Am I understanding what you're saying		8	was at that time. It was strictly taking the current
9	correctly?		9	allocation that had been recommended to the client.
10	A Right. But I think they're both being presented		10	A Correct.
11	that way, and we got into this on the phone call. There is a		11	Q And how it okay.
12	way to do it correctly, and we got into this on the phone		12	BY MR. KELTNER:
13	call. You've got to go you've got to backdate you		13	Q I think we're all clear, but the hypothetical is a
14	know, your models, to reflect changes that were made along		14	backward look.

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A Yes.

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Q

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25 hindsight; correct?

Correct.

Okay.

with hindsight it's 20-20.

15 the way, to correctly say this is what we did.16 Even then, we're forgetting like fees. We're

17 forgetting important aspects in there, when we all know, I 18 mean, in reality, if you're going to say that or do that, 19 you've got to -- you should have GIPS-approved actual track 20 records of clients' performance, if you're going to say 21 unequivocally this is what we did.

BY MR. KELTNER:

Q Okay, and is another way to say that composite performance?

25 A Yes.

22

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It has nothing to do with historical performance.

Well, I mean, it is historical performance, but

Q Right, and so, I mean, could anyone generally pick

the five best performing funds in the last -- you know,

looking back five years? There's no trick to picking the

best-performing funds when you're looking with the benefit of

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	Page 41	122 1	neu	Page 42
1	A Correct, and that's the fallacy. It's not	N	1	hypothetical performance, right?
2	intentional. I mean, you're just when you pick a fund or		2	A Yes. It was up, yes, to a point.
3	a group of funds, you're likely going to pick funds that		3	Q Okay. So it wasn't an historical track record?
4	perform well. So they're going to look good. Whether it's		4	A Correct.
5	one or eight put together, they're just going to look good,		5	Q Who was involved in putting together those pitch
6	because you're not going to pick		6	books or PowerPoint presentations?
7	Q Sure, yes.		7	A The original ones were already kind of in place
8	A But then you're going then we're not going to		8	with Chip McNeil, and then approved by Compliance. $\ensuremath{\mathrm{I}}$ did
9	kid ourselves. You're not going to show a client like, oh,		9	very, I did not modify it a lot. Let me just back up. With
10	that.		10	Chip, he the reason why they were in place because he was
11	Q You want to pick the best possible funds looking		11	doing this with separate account managers.
12	forward, but you also want to pick funds that have a good		12	Do I need to distinguish the separate account
13	historical track record?		13	managers? It's really the same asset allocation approach,
14	A Right. As a fiduciary, you want to pick the funds		14	but instead of putting mutual funds into the sleeve, you're
15	that you feel have the best chance of outperforming in the		15	putting in these 100,000 minimum separate account managers,
16	future. I mean, that's our job.		16	where the client actually owns the positions.
17	Q But you're going to put this in front of a client.		17	It's not a mutual fund. So it's higher minimums.
18	You obviously don't want to show		18	So you'd have a million-dollar you know. To allocate
19	A That's the rub.		19	between seven managers, you'd need at least \$700,000.
20	Q You don't want to show them a fund that lost		20	MR. CRAINE: You just let him ask a question and it
21	20 percent the last five years?		21	will be better for you and better for him.
22	A Yes.		22	THE WITNESS: Okay.
23	Q Okay. So when you were running this group, the		23	MR. CRAINE: Okay.
24	performance that was given, that your group put together that		24	BY MR. KELTNER:
25	was given to brokers, that was given to clients, that was all	1	25	Q So the fact that you all were using hypothetical
		4		
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	Page 43	- m		Page 44
1	performance, I think I've seen some of those old		1	while you were there, were hypothetical in nature?
2	presentations, and we might look at one or two here in a		2	A Yes. I mean, I hope.
3	minute. It wasn't a secret that you were using hypothetical		3	Q Okay.
4	performance numbers, was it?		4	A To Michael's point, I guess I really don't know
5	A No.		5	what was in his head, but I hope he knew, as a CFA and an
6	Q To people in your own group, to the people you		6	educated person building these models.
7	reported to?		7	Q Okay, and he would have seen some of these pitch
8	A No.		8	books, right?
9	Q Okay.		9	A Yes.
10	BY MR. KING:		10	Q Okay, and when would he have seen them?
11	Q How do you know that?		11	A Well, he took over that proposal generation
12	A I guess just educated. I mean, well you know,	· · ·	12	process. That's why he was hired, to take over that
13	Jason and I were you know, we work together. I think	<ul> <li>The second se Second second sec</li></ul>	13	function.
14	Jason was hired to kind of take over that process of mutual		14	Q Okay. So D'Amato, what time frame was he involved
15	funds, the allocations and things		15	in putting the pitch books together, for lack of a better
16	BY MR. KELTNER:		16	word?
17	Q And that's Jason D'Amato?		17	A Right off the batt, just again depending on when he
18	A Yes.		18	was hired.
19	Q And so you guys worked hand in hand very closely?		19	Q Okay, and when you think that was later '03,
20	A Yes, oh, yes.		20	early '04?
21	Q Okay, and so Jason would pretty much know		21	A Yes. I mean, I could maybe on a break. I
22	everything you know?		22	could you know
23	A Yes, yes.		23	Q Think about it?
24	Q Okay, I mean, he would have understood that these		24	A Think through the time line some.
25	numbers that you all were giving the clients through brokers,		25	Q That's okay for now, but if you think of something
1	· · · · · · · · · · · · · · · · · · ·			
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1 <b>di</b> i	ferent, if you think of it as a different time	Page 45 frame?	1	A	Yes.		Page 46
2	A Well, it's not really a time frame. I c		2	Q	And then w	what happens?	
	bably zero it in, though.		3	A			lepending on the time,
4	Q And who helped Mr. D'Amato put those pit	ch books	4		erate a pro		
	ether?		5	Q		does that	•
5 00	A No one, until we hired Seth.		6	Ā		client's name on it.	
			7	Q			on just who happened
	Q Okay, Seth Hare?		8	-		appened to be availab	
8	A Yes.		9	put it to		••	
9	Q And so	1	10	-		: it tactfully you	a know, it's a little
0	A Sorry, go ahead.		11			pe job. So you kr	
1	MR. CRAINE: Good job.		12			it, because you coul	
2	BY MR. KELTNER:		12				on and I hired Seth to
3	Q I'll try not to cut you off. So when th	e i	14	do it.	a dajy ana	chon crontaarr, cace	··· -··· - ··· ·· ··· ··
l cli	ent you know, fills out their questionnaire	and they	14	Q	Okaw So	it sounds like today	vou're certainly
gi.	re it to the broker, and then the broker, I assu	me, sends		_		tions and concerns ab	
6 <b>it</b>	to the Investment Advisory Group		16				out using
7	A The broker would present it to their cli	ent.	17		-	mance; is that fair?	T many T have T
l	Q Well, no. The broker gets the questionn	aire?	18	A	You mean a	is a Good Samaritan.	I mean, I know I
•	A Oh, yes, yes.		19	mean.			
	Q And they fill out their profile and this	is my age	20	Q		lier you talked about	the risk of
and	I this is my risk tolerance. Is that the type o	£.	21	misleading	g investors		
inf	formation?		22	А		nk we have a duty to	
	A That's how the process works, yes.		23	Q	Okay, and	you know, today you	know there's a risk
	Q Okay, and then that questionnaire goes t	o the	24	around	we talked	earlier about the ri	sks, about how that
Jn	restment Advisory Group; is that correct?		25	could be m	misrepreser	nted to a client or a	a client might be
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	ifused?	Page 47			<b>al live cl</b> i That's rig		Page 48
- 2 3	<b>ifused</b> ? λ Yes.	Page 47 o change		about?	That's rig		Page 48 at what you're talking
2 3 1 hor	A Yes. Q Did there come a time where you wanted to	Page 47 o change		about? A Q	That's rig <b>Okay. So</b>	ght. assuming you control	Page 48 at what you're talking
ho	nfused? A Yes. Q Did there come a time where you wanted to you presented performance, or was there ever ta	Page 47 o change	2 3 4	about? A Q allocation	That's rig Okay. So n and some	ght. assuming you control	Page 48 at what you're talking I for mistakes in and money in and money
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2 3 4 hor 5 7 7 3 9 Ja: be 2 3 al: 4 ac: 5 th: 4 ac: 5 th: 7 yor 7 yor 9 ch: 1 2 wh:	A Yes. Q Did there come a time where you wanted to you presented performance, or was there ever ta out A Yes. Q Okay. Tell me about that. A There was a time and I think it was ri son and Seth were hired whereas, if we were to bothetical model returns, we need to build these as accurate as possible. When I say that, to take into account any ong the way. One thing we haven't talked about is tual performance of the clients, you know. You go the actual performance is what they do. If base two, if you want less dispersion between those a've got to go back into your models. You would simply do that by taking into a anges. You make fund changes you made along the tocation changes. Q So that's what you're talking about now, at I was loosely using as the term "model perform	Page 47 o change lk ght after o advertise models to o changes is the jet a model if you want ie two, account way, and and that's mance"	2 3 4 5 6 7 8 9 9 10 11 12 13 14 15 16 17 18 19 20 21 22	about? A Q allocation out, what model perf client per right? A Q performand variables? A Q this type A Q A Q A if it cama can't reco	That's rig Okay. So in and some you're tal formance, y rformance v That's con Okay. So Ce number, ? Yes. Okay, and of model p Yes. Okay, and I want to And who wa You know, e from Comp ollect the he, to be f	<pre>ght. assuming you control timing differences a lking about now and v you would expect ther very close to the mod rrect. it's more of a true if you can control f so there were discus performance? then when did those say '04. as involved in these I think it was yc pliance or the respon reason why, but I kr</pre>	Page 48 at what you're talking I for mistakes in and money in and money what I described as a to see the actual del performance, historical for those other ssions about moving to take place? conversations? ou know, I don't know hsibility I felt. I now if you just the program. I mean,

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1	performance, we should do it right, you know.		1	for different client:	
2	Q Okay, and so as another way to look at this, you		2		was discounting built into it.
3	wanted when you're advertising this stuff, you wanted it		3	Q Okay, perh	aps for bigger clients, that kind of
4	to represent what the actual clients were getting?		4	thing?	
5	A Well, and I also wanted to do it to brag, because		5	A Really a b	roker-client, at their discretion. Ther
6	the analysis I was doing was we've done well, you know. I've		6	was, I recollect, a	30 percent. There was something built
7	done well. Let's promote that. Let's promote that these		7	in. There was some (	discretion in there, but I don't remembe
8	were this is the actual changes. I mean, I still think,		8	what it was.	
9	like you said, you can't say this is the actual performance,		9	Q Okay, and a	as far as the actual compensation for th
10	like you could with a true composite. But you could say		10	individual brokers,	I guess was there a grid and then you
11	look, these take into account changes we made along the ways,		11	know, they got some p	percentage of the 150 or 200 basis
12	funds we made mistakes in. They're still in there. We		12	points?	
13	didn't take those out. We kept them in there until the point	- <b>1</b>	13	A They got 4	5 percent.
14	where they were sold.		14	Q So almost i	half of the commissions or the fees that
15	Q And that type of performance reporting should		15	were paid to the adv	isory firm went to the broker?
16	result in a deviation between the model and customer		16	A Correct.	
17	performance that's relatively tight; correct?		17	BY MR. ELL	
18	A Yes. On that, you would a couple of hundred basis		18	Q Can I clar	ify? Before 2004, did you do anything t
19	points because of fees. I mean, yes, very tight or fairly		19	memorialize your con	temporaneous changes in your investment
20	tight.		20	allocation, or your	changes in fund managers, that would
21	Q Okay, and since we're there, I'm trying to remember		21	allow you to basical	ly keep track of what your model did fro
22	the fees on this program, were they around 150 basis points?		22	month to month?	
23	A They originally were 2 percent on the first tier.		23	A Yes. That	was at the advice of Compliance.
24	They might have come down to 150.		24	Q And how die	d you do that?
25	<b>Q</b> And I understand there was perhaps some flexibility	7	25	A Well, write	e-ups on any fund changes. Two things.
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	Page 51				Page 53
1	One, just kind of internal due diligence, why a fund was		1	A It takes a	download. The assets were held at Bear
2	changed, replaced, why the new manager. Then an e-mail,	- 11	2	Stearns' facility an	d it takes just a dump and generates the
3	because that's part of the active management aspect of the		3	performance of the c	lient. So it takes in beginning market
4	program to send out. "We switched this fund for this,		4	value, any withdrawa	ls, redemptions, contributions during th
5	because of all these XYZ reasons."		5	way, and then ending	value, dividends and generates the
6	Q Okay. Did you have anything in place from 1999 to	0	6	performance, the act	ual client performance.
7	around 2004, when you're talking about, that you kept track		7	Q Okay, and	those were done quarterly?
8	of the performance as Model 1 or Model 2 or Model 3, and the	e	8	A Yes.	
9	client had invested precisely according to that model?	8. 11 - 1 -	9	Q Okay, and	were those performance reports generated
10	A We had certainly the performance reports, yes.		10	and sent to the clie	nt?
11	Q With funds specifically from that model or just		11	A Yes.	
12	from actual client returns?		12	Q And when w	e talk about performance, is that
13	A Well, both, because the client went into that		13	essentially an IRR,	internal rate of return that reflects th
14	model.		14	actual cash flows in	and out of the account?
15	MR. KELTNER: I guess this might be		15	A Yes.	
16			16	Q And then t	his Greenhill, how is it used? You said
17	BY MR. KELTNER:		17	it was used for clie	nt statements. Was it used by your grou
18	Q I don't want to cut you off. We can get some		18	in any way, in terms	of you know, internal tracking or
19			19	A Yes. I ha	d done I know I had done some analysi
20			20	on just looking at p	erformance over time versus benchmarks
20	performance. We've heard talk of a software called		21	and stuff like that.	But it would go Bear Stearns to
22			22	Greenhill. They'd g	enerate the reports, send them to us.
	A Greenhill's the vendor, a third party vendor was		23	Actually,	they didn't they'd generate, massage
23	used from when I started to 2004 or 2005.		24	the numbers, and the	n it would come to us, and we would
24			25	actually generate th	e reports, print them out in color,
25	Q Okay, and what is the Greenhill software to you?	1	1		

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	Page 53			Page	54
1	review them and then mail them out.		1	Q Okay.	
2	Q Okay, and so then what happens to that Greenhill		. 2	BY MR. KELTNER:	
3	data? Is it preserved? I mean, would you keep each		3	Q Could you not push a button, but could you go i	1
4	quarterly report?		4	and tell Greenhill "Aggregate these 15 growth accounts an	
5	A Yes, yes.		5	tell me what the aggregate performance is," or did you ha	7e
6	Q Okay.		6	to kick them all out to a spreadsheet and then manipulate	it?
7	BY MR. ELLIS:		7	A It was no, you could not. They might have h	ad .
8	Q So maybe with that in mind, I can clarify then when		8	that service. You know, maybe that was something else th	эy
9	we were talking about what I was trying to get at before.		9	had, but no, you would not do it.	
10	In order to determine what, say for example,		10	What you would have to do is I don't actuall	1
11	Model 1, how it performed in 2000, was there a record in		11	know how I did it, but you would have to identify what's	1
12	Greenhill or elsewhere that kept track of how bills and		12	Model 9, what's a Model 8 by either account number, and t	ıen
13	market allocations performed, or would you have to simply	)	13	just generate those segregated accounts.	
14	look at all the clients that invested according to Model 1?		14	Q So you might generate all 15 accounts, and then	
15	A You would have to do it wasn't flip the switch.		15	would you take a weighted average or would you just kind	o£
1.6	You'd have to kind of do a little leg work, but you could		16	eyeball it and	
17	generate that report.		17	A It would be a weighted average. You're right.	Ι
18	<b>Q</b> And it would be based on actual composite		18	think it would have to go to a spreadsheet.	
19	performance from a client?		19.	Q Okay. So you might kick out all, whatever. We	'11
20	A Yes.		20	say there's 50 growth accounts. You put them all in a	
21	Q Sorry, because I ask these ten-part questions. It		21	spreadsheet, get the internal rate of return for each one	and
22	wasn't necessarily that there was an account in Greenhill		22	then just weight it?	
23	that is Model 1? They just sort of tracked that model's		23	A Weight them out.	
24	performance, so that it's pure performance?		24	Q Weight it by the end of year balance or somethi	ng
25	A Correct.		25	like that?	
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Ι.	Page 55 A Yeah, either that or you pick a representative			Page maybe we should move to a more true model performance?	30
1			1		mote
2	account.		2	A Partly, as like I said, is to kind of maybe pro	
3	Q Okay.		3	the performance more verbosely, you know. If we've done	CHIS
4	BY MR. ELLIS:		4	well, let's not use hypothetical.	
5	Q Was there anything in Greenhill that would identify		5	I mean, people could see through that. That's	
6	which account followed which model?		6	little bit of a crutch. If we're actually doing this, le	
7	A No.		7	try to promote it as actual performance, and for regulate	ry
8	BY MR. KELINER:		8	reasons.	
9	Q Was there a system in numbering the accounts that		9	You know, I think at the time the SEC was kind	
10	would tell you? In other words, did they have different		10	had some, I don't know, coming down, was frowning upon th	ese
11	prefixes or could you tell by just looking at an account		11	type of hypothetical look-backs, and promoting that as ac	tual
12	number what strategy it was?		12	performance.	
13	A I don't think so.		. 13	Q Okay. So I think I understand the motivations.	
14	Q Okay. So it sounds like you had this Greenhill		14	Did anything come of the discussions, or did you continue	to
15	capability to generate composite performance; correct?		15	use the hypothetical numbers?	
16	A For individuals.		16	A No, it was done. They were built, for lack of	a
17	Q Yes, for individual accounts?		17	better word. It was complete.	
18	A Yes.		18	Q When was that? When did that happen?	
19	<b>Q</b> And we talked a few minutes ago about discussions		19	A The '04-'05 time frame.	
20	about maybe we should get, move from true hypothetical		20	Q Okay. So you think	
1			21		.d
21	performance to something more like historical model				
21 22	performance to something more like historical model performance. Was there discussion about going to composite			Jason to do. I oversaw it, we did it. But that's only -	
22	performance. Was there discussion about going to composite		22		- I
22 23	performance. Was there discussion about going to composite performance?		22	don't know what happened beyond that. I mean, you've got	- I
22 23 24	performance. Was there discussion about going to composite performance? A No.		22 23 24	don't know what happened beyond that. I mean, you've got keep updating it.	- I to
22 23	performance. Was there discussion about going to composite performance?		22	don't know what happened beyond that. I mean, you've got	- I to
22 23 24	performance. Was there discussion about going to composite performance? A No.		22 23 24	don't know what happened beyond that. I mean, you've got keep updating it.	- I to

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1	you doing it on a go-forward, or are you going back and			1	А	1999.			
2	pulling up all the			2	Q	Okay.			
3	A Going back.			3	A	- So yes, Ju	ne '99 or July '99.		
4	Q So you're going back and trying to essentially			4	Q	So you had	to go back physica	11y to '99	and
5	build the model?			5		-	gree, what you had		3
6	A Yes. I had to provide them, before they came			6	А	Yes.			
7	there, all the fund changes that were made. I remember the			7	0		nk you were able to	accurately	do that,
8	project vividly. Fortunately for me, there wasn't too many.	1000 A		8	-	there gaps?	-	-	
9	So we had to go back to I would assume, probably around my			9	A		ent it was accurate		
10	inception or even			10	Q		let me ask you anot		hen we go
11	You know, because my inception was basically the			11	-	-	the Greenhill data		2
		Į.					nance to the number		
12	program's inception, and go through and build all those			12		-			reported
13	changes into this model, and you come up to say 2005 and it's			13			2000, 2001, these n	-	
14	done. So now that model hypothetical thing is more accurate.			14			e going to see a de		
15	Q Okay.			15	A	-	ng to see a deviati		
16	A But now moving forward, you've got to still that			16			should be tight, fa		
17	was the hard part. The easy part is them okay, we made a	9.3-56 A.6.7		17	Q	Okay, beca	use one of the ques	tions I ask	ed you
18	change. Let's lock it into the model.	and		18	before, a	and we'll lo	ok at the numbers h	ere in a mi	nute, there
19	Q Okay, and when you say I remember the project			19	were year	rs where you	all reported 18 pe	rcent retur	ns with a
20	vividly, what did you have to do?	and the second second		20	market lo	oss of 9.			
21	A I had to dig through files and like we talked			21	A	Yeah.			
22	about, all the notifications. When did I make this fund			22	Q	And those	numbers were carrie	d forward i	nto future
23	change and files, e-mails. It wasn't that difficult.			23	advertise	ements. So	do you think those	numbers ref	lected what
24	Q Okay, and so but it sounds like when did			24	clients a	actually got	, as opposed to a h	istorical o	r a model
25	you remind me what year you started?			25	with the	benefit of	hindsight?		i jeren a
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1		fic974e		1	Q	Go ahead.		1a46b99e-8dt	
1 2	Page 59	fic974e		1 2	en e	<b>Go ahead</b> . BY MR. KEL	Notice contraction of the second	1a46b99e-8d	
	Page 59 A I couldn't say.	Hc974e			Q	BY MR. KEL	INER: L, let's go ahead,		Page 60
2	Page 59 A I couldn't say. Q Well, that's why I'm asking you how confident you			2		BY MR. KEL Okay. Wel		and here in	Page 60
2 3	Page 59 A I couldn't say. Q Well, that's why I'm asking you how confident you were in the work that you did looking back, because			2	minute, w	BY MR. KEL Okay. Wel we'll take a	l, let's go ahead,	and here in back. We'	Page 60 about one 11 go
2 3 4 5	Page 59 A I couldn't say. Q Well, that's why I'm asking you how confident you were in the work that you did looking back, because A At the time, I was confident. I can't put my stamp of approval on it today. But when the analyses were done and			2 3 4	minute, s quickly f	BY MR. KEL Okay. Wel we'll take a through a fe	l, let's go ahead, break. We'll come	and here in back. We' we're talki	Page 60 about one 11 go
2 3 4	Page 59 A I couldn't say. Q Well, that's why I'm asking you how confident you were in the work that you did looking back, because A At the time, I was confident. I can't put my stamp			2 3 4 5	minute, a quickly f just to a	BY MR. KEL Okay. Wel we'll take a through a fe	l, let's go ahead, break. We'll come w examples of what so we all kind of	and here in back. We' we're talki	Page 60 about one 11 go
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2 4 5 7 8 9	Page 59 A I couldn't say. Q Well, that's why I'm asking you how confident you were in the work that you did looking back, because A At the time, I was confident. I can't put my stamp of approval on it today. But when the analyses were done and I did the regression, too, towards actual performance reports, it looked good. Q So you went back and compared the stuff to actual client reports from 1999			2 3 4 5 6 7 8 9	minute, u quickly f just to s we've bea A Q	BY MR. KEL Okay. Wel we'll take a through a fe set context, an talking a Okay. Then we'll	l, let's go ahead, break. We'll come w examples of what so we all kind of	and here in back. We' we're talki know exactl	Page 60 about one 11 go .ng about, .y what
2 4 5 7 8 9 10	Page 59 A I couldn't say. Q Well, that's why I'm asking you how confident you were in the work that you did looking back, because A At the time, I was confident. I can't put my stamm of approval on it today. But when the analyses were done and I did the regression, too, towards actual performance reports, it looked good. Q So you went back and compared the stuff to actual client reports from 1999 A Greenhill.			2 3 4 5 6 7 8 9 10	minute, u quickly f just to s we've bee A Q regarding	BY MR. KEL Okay. Wel we'll take a through a fe set context, an talking a Okay. Then we'll g the bank.	<ol> <li>let's go ahead, break. We'll come w examples of what so we all kind of bout.</li> </ol>	and here in back. We' we're talki know exactl	Page 60 about one 11 go .ng about, .y what
2 3 4 5 6 7 8 9 10	Page 59 A I couldn't say. Q Well, that's why I'm asking you how confident you were in the work that you did looking back, because A At the time, I was confident. I can't put my stamp of approval on it today. But when the analyses were done and I did the regression, too, towards actual performance reports, it looked good. Q So you went back and compared the stuff to actual client reports from 1999 A Greenhill. Q From Greenhill. So at the end of this project,			2 3 4 5 6 7 8 9 10 11	minute, u quickly f just to a we've bea A Q regarding A	BY MR. KEL Okay. Wel we'll take a through a fe set context, an talking a Okay. Then we'll g the bank. Okay.	<ol> <li>let's go ahead, break. We'll come w examples of what so we all kind of bout.</li> <li>transition over to</li> </ol>	and here in back. We' we're talki know exactl	Page 60 about one 11 go .ng about, .y what
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2 3 4 5 6 7 8 9 10 11 12 13 14 15 16	<ul> <li>Page 59</li> <li>A I couldn't say.</li> <li>Q Well, that's why I'm asking you how confident you were in the work that you did looking back, because</li> <li>A At the time, I was confident. I can't put my stamp of approval on it today. But when the analyses were done and I did the regression, too, towards actual performance reports, it looked good.</li> <li>Q So you went back and compared the stuff to actual client reports from 1999</li> <li>A Greenhill.</li> <li>Q From Greenhill. So at the end of this project, you've reconstructed the models, and you've talked about model performance. Then as kind of a sanity check or a check, did you go back and compare to the actual client performance?</li> <li>A Yes.</li> </ul>			2 3 4 5 6 7 8 9 10 11 12 13 14 15 16	minute, u quickly f just to a we've bea A Q regarding A	BY MR. KEL Okay. Wel we'll take a through a fe set context, an talking a Okay. Then we'll g the bank. Okay. So you wan MR. CRAINE MR. KELTNE (Whereupon	<pre>1, let's go ahead, break. We'll come w examples of what so we all kind of bout. transition over to t to take an hour? : We can go off th R: Yeah. Let's go , a luncheon recess *****</pre>	and here in back. We' we're talki know exactl b a few ques the record. b off the re was taken.	Page 60 a about one 11 go .ng about, .y what ations
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2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19	Page 59 A I couldn't say. Q Well, that's why I'm asking you how confident you were in the work that you did looking back, because A At the time, I was confident. I can't put my stamp of approval on it today. But when the analyses were done and I did the regression, too, towards actual performance reports, it looked good. Q So you went back and compared the stuff to actual client reports from 1999 A Greenhill. Q From Greenhill. So at the end of this project, you've reconstructed the models, and you've talked about model performance. Then as kind of a sanity check or a check, did you go back and compare to the actual client performance? A Yes. Q Okay. BY MR. ELLIS: Q Were all MFP client accounts pulled into Greenhills			2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19	minute, u quickly f just to a we've bea A Q regarding A Q	BY MR. KEL Okay. Wel we'll take a through a fe set context, an talking al Okay. Then we'll g the bank. Okay. So you wan MR. CRAINE MR. KELTNE MR. KELTNE MR. Zarich	<pre>1, let's go ahead, break. We'll come w examples of what so we all kind of bout. transition over to t to take an hour? : We can go off th R: Yeah. Let's go , a luncheon receas</pre>	and here in back. We' we're talki know exactl b a few ques the record. b off the re was taken. S I O N on the record lunch break	Page 60 a about one 11 go .ng about, .y what stions .cord. ) , we were
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18	Page 59 A I couldn't say. Q Well, that's why I'm asking you how confident you were in the work that you did looking back, because A At the time, I was confident. I can't put my stamp of approval on it today. But when the analyses were done and I did the regression, too, towards actual performance reports, it looked good. Q So you went back and compared the stuff to actual client reports from 1999 A Greenhill. Q From Greenhill. So at the end of this project, you've reconstructed the models, and you've talked about model performance. Then as kind of a sanity check or a check, did you go back and compare to the actual client performance? A Yes. Q Okay. BY MR. ELLIS:			2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	minute, a quickly f just to a we've bea A Q regarding A Q	BY MR. KEL Okay. Wel we'll take a through a fe set context, an talking a Okay. Then we'll g the bank. Okay. So you wan MR. CRAINE MR. KELTNE (Whereupon A F T MR. KELTNE Mr. Zarich through some	<pre>1, let's go ahead, break. We'll come w examples of what so we all kind of bout. transition over to t to take an hour? : We can go off th R: Yeah. Let's go , a luncheon recess</pre>	and here in back. We' we're talki know exactl b a few ques the record. b off the re is was taken. S S I O N on the recor lunch break	Page 60 a about one 11 go .ng about, .y what .tions .cord.
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19	Page 59 A I couldn't say. Q Well, that's why I'm asking you how confident you were in the work that you did looking back, because A At the time, I was confident. I can't put my stamp of approval on it today. But when the analyses were done and I did the regression, too, towards actual performance reports, it looked good. Q So you went back and compared the stuff to actual client reports from 1999 A Greenhill. Q From Greenhill. So at the end of this project, you've reconstructed the models, and you've talked about model performance. Then as kind of a sanity check or a check, did you go back and compare to the actual client performance? A Yes. Q Okay. BY MR. ELLIS: Q Were all MFP client accounts pulled into Greenhills			2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19	minute, u quickly f just to a we've bea A Q regarding A Q talking f some of f	BY MR. KEL Okay. Wel we'll take a through a fe set context, an talking al Okay. Then we'll g the bank. Okay. So you wan MR. CRAINE MR. KELTNE (Whereupon A F T MR. KELTNE MR. KELTNE Mr. Zarich through some	<pre>1, let's go ahead, break. We'll come w examples of what so we all kind of bout. transition over to t to take an hour? : We can go off th R: Yeah. Let's go , a luncheon receas</pre>	and here in back. We' we're talki know exactl a few quess the record. o off the re- s was taken. S I O N on the record lunch break the to SAS ss. So what	a about one 11 go 

A Yes. I mean, unless for some reason that, which
would be a mistake, unless it was never added into Greenhill.
Q But it was supposed to have everything?
A Yes, yes.

 $\left( \right)$ 

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23 documents that you think may represent the pitch books and

24 things like that that were used for the MFP programs and SAS

25 programs.

	Case 3:09-cv-00298-N Docum	nent 12-2	Filed 02/17/2009 Page 7 of 10	Page 62
1	Some of these documents were produced to us this		1 proposal. I'm not sure it's an investment pr	
2	morning, and so they're not Bates-stamped, and some of the		2 allocation recommendations, mutual funds reco	mmendations.
3	others aren't either. So we'll work our way through them,		3 Should we just you want to just go through	
A	and it may be a little tedious, because we may identify some		4 Q Sure. I mean, if you go to what ap	
5	things by		5 sixth page	
6	We'll be very careful to talk about what we're		6 A Mm-hmm.	
7	talking about, so that when somebody looks at this record	1000	, in the second s	d compon "Mutual
8	later, you can tell from the context of what we're saying	your your	8 Fund Partners Plus, Hypothetical Performance.	
9	specifically which document we're talking about.	5.5 OCT. 201	9 A Okay.	
10	So I'm marking as Exhibit Number 1, it's a document		10 Q Do you see that page?	
11	that was in your production this morning. It's entitled		11 A Mm-hmm.	
12	"Investment Proposal." It appears to be perhaps a prototype		12 Q Then it says "Growth of assets on t	he first chart"?
13	that's used maybe for other investors. Why don't you just go		13 A Yes.	
14	ahead and tell me what Exhibit Number 1 is?		14 Q Do you recognize this type of infor	mation?
15	(SEC Exhibit No. 1 was marked for		15 A I do. The content let me rephra	ise that. The
16	identification.)		<pre>16 graphics looks to be I would say pretty confi</pre>	dent is a Zephyr.
17	BY MR. KELTNER:		17 Analytics, which is a tool to generate graphs	and such, and
18	Q Just for the record, I'll note it says "Investment		18 statistics and analysis such as these.	
19	Proposal" on the cover page, has the Stanford Group company		19 Then it's clearly again the models	we're talking
20	logo, and has a place that looks like it's set forth to put		20 about, this particular one, income model. My	guess would be
21	the client name and the date.		21 this was around the time when the nine models	became five, as
22	Then the following page says "Introduction" and it		22 we spoke of this morning, and those fives wer	e numbered.
23	has some information regarding the Stanford family and Lodis		23 They were named "Income Growth," et cetera.	
24	Stanford.	n	24 Q And the pages behind the page that	we're on now
			25 entitled "Mutual Fund Partners Plus, Hypothet	
25	A Well it's clearly you're right some kind of			
25	A Well, it's clearly you're right, some kind of 	c974e		6b99e-8d5b-48e7-824e-50cb5
25	ta46b99e-3d5b-48e7-824e-50cb5ft	c374e		
25	1=466695e=8456=48e7-824e=50cb5ft Page 63	c974e	ra4	Page 64
25	14466698e-8456-48e7-824e-50cb5ft Page 63 Performance," the following pages, are those files of the	c974e	1 A Is this all the way back? This is	Page 64 CD. Yeah.
1 2	14466998-8456-4807-8246-50cb5ft Page 63 Performance," the following pages, are those files of the different funds to which money was allocated?	co74e	1 A Is this all the way back? This is 2 These are looking more like possibly what I w	Page 64 CD. Yeah. was using.
1 2 3	Page 63 Performance," the following pages, are those files of the different funds to which money was allocated? A Correct. The assumption here is the funds on the	cs74e	1 A Is this all the way back? This is 2 These are looking more like possibly what I w 3 Q Just for the record, this appears t	Page 64 CD. Yeah. was using. to be the sixth
1 2 3 4	Page 63 Performance," the following pages, are those files of the different funds to which money was allocated? A Correct. The assumption here is the funds on the page Hancock Classic, Cartesian, Calamos, Keely, that have	cs74e	1 A Is this all the way back? This is 2 These are looking more like possibly what I w 3 Q Just for the record, this appears t 4 page from the back of the document. At the t	Page 64 CD. Yeah. Was using. to be the sixth
1 2 3 4 5	Page 63 Performance," the following pages, are those files of the different funds to which money was allocated? A Correct. The assumption here is the funds on the page Hancock Classic, Cartesian, Calamos, Keely, that have these percentages here, that combined 100 percent would make	cs74e	1       A       Is this all the way back? This is         2       These are looking more like possibly what I way         3       Q       Just for the record, this appears the page from the back of the document. At the the page from the back of the document. At the the page of the page	Page 64 CD. Yeah. Was using. to be the sixth
1 2 3 4 5 6	Page 63 Performance," the following pages, are those files of the different funds to which money was allocated? A Correct. The assumption here is the funds on the page Hancock Classic, Cartesian, Calamos, Keely, that have these percentages here, that combined 100 percent would make up Stanford MFP Plus.	cs74e	1 A Is this all the way back? This is 2 These are looking more like possibly what I w 3 Q Just for the record, this appears t 4 page from the back of the document. At the t 5 it says "Disclosures." Are you on the page e 6 "Disclosures"?	Page 64 CD. Yeah. Was using. to be the sixth
1 2 3 4 5 6 7	Page 63 Performance," the following pages, are those files of the different funds to which money was allocated? A Correct. The assumption here is the funds on the page Hancock Classic, Cartesian, Calamos, Keely, that have these percentages here, that combined 100 percent would make up Stanford MFP Plus. The Stanford MFP Plus model benchmark should be the	co74e	1       A       Is this all the way back? This is         1       A       Is this all the way back? This is         2       These are looking more like possibly what I way         3       Q       Just for the record, this appears the page from the back of the document. At the the sit says "Disclosures." Are you on the page of "Disclosures"?         7       A       I'm in Glossary, sorry.	Page 64 CD. Yeah. Was using. to be the sixth
1 2 3 4 5 6 7 8	Page 63 Performance," the following pages, are those files of the different funds to which money was allocated? A Correct. The assumption here is the funds on the page Hancock Classic, Cartesian, Calamos, Keely, that have these percentages here, that combined 100 percent would make up Stanford MFP Plus. The Stanford MFP Plus model benchmark should be the weighted indices for each of these funds corresponding to	cs74e	1       A       Is this all the way back? This is         2       These are looking more like possibly what I way         3       Q       Just for the record, this appears the page from the back of the document. At the the second, this appears the page from the back of the document. At the the second management of the page of "Disclosures." Are you on the page of "Disclosures"?         7       A       I'm in Glossary, sorry.         8       Q       It's just behind that.	Page 64 CD. Yeah. Was using. to be the sixth
1 2 3 4 5 6 7 8 9	Page 63 Performance," the following pages, are those files of the different funds to which money was allocated? A Correct. The assumption here is the funds on the page Hancock Classic, Cartesian, Calamos, Keely, that have these percentages here, that combined 100 percent would make up Stanford MFP Plus. The Stanford MFP Plus model benchmark should be the weighted indices for each of these funds corresponding to those percentages. But I have no way of telling that. Then	c374e	1       A       Is this all the way back? This is         2       These are looking more like possibly what I way         3       Q       Just for the record, this appears to         4       page from the back of the document. At the to         5       it says "Disclosures." Are you on the page of         6       "Disclosures"?         7       A       I'm in Glossary, sorry.         8       Q       It's just behind that.         9       A       Yes.	Page 64 CD. Yeah. was using. to be the sixth top of the page, entitled
1 2 3 4 5 6 7 8 9 10	Page 63 Performance," the following pages, are those files of the different funds to which money was allocated? A Correct. The assumption here is the funds on the page Hancock Classic, Cartesian, Calamos, Keely, that have these percentages here, that combined 100 percent would make up Stanford MFP Plus. The Stanford MFP Plus model benchmark should be the weighted indices for each of these funds corresponding to those percentages. But I have no way of telling that. Then of course the S&P is the S&P 500 index.	co74e	1       A       Is this all the way back? This is         2       These are looking more like possibly what I way         3       Q       Just for the record, this appears the page from the back of the document. At the the sit says "Disclosures." Are you on the page of "Disclosures."         6       "Disclosures."       Are you on the page of the document. At the the sit says "Disclosures." Are you on the page of "Disclosures."         7       A       I'm in Glossary, sorry.         8       Q       It's just behind that.         9       A       Yes.         10       Q       Okay. So you see the first paragraphic set the firs	Page 64 CD. Yeah. Was using. to be the sixth top of the page, entitled
1 2 3 4 5 6 7 8 9 10 11	Page 63 Performance," the following pages, are those files of the different funds to which money was allocated? A Correct. The assumption here is the funds on the page Hancock Classic, Cartesian, Calamos, Keely, that have these percentages here, that combined 100 percent would make up Stanford MFP Plus. The Stanford MFP Plus model benchmark should be the weighted indices for each of these funds corresponding to those percentages. But I have no way of telling that. Then of course the S&P is the S&P 500 index. Q Sure. So looking at this page that we started at,	cs74e	1       A       Is this all the way back? This is         2       These are looking more like possibly what I way         3       Q       Just for the record, this appears the page from the back of the document. At the the the the the the the the the th	Page 64 CD. Yeah. Was using. to be the sixth top of the page, entitled
1 2 3 4 5 6 7 8 9 10 11 12	Page 63 Performance," the following pages, are those files of the different funds to which money was allocated? A Correct. The assumption here is the funds on the page Hancock Classic, Cartesian, Calamos, Keely, that have these percentages here, that combined 100 percent would make up Stanford MFP Plus. The Stanford MFP Plus model benchmark should be the weighted indices for each of these funds corresponding to those percentages. But I have no way of telling that. Then of course the S&P is the S&P 500 index. Q Sure. So looking at this page that we started at, the one entitled "Mutual Fund Partners Plus Hypothetical		1       A       Is this all the way back? This is         2       These are looking more like possibly what I         3       Q       Just for the record, this appears to         4       page from the back of the document. At the to         5       it says "Disclosures." Are you on the page of         6       "Disclosures"?         7       A       I'm in Glossary, sorry.         8       Q       It's just behind that.         9       A       Yes.         10       Q       Okay. So you see the first paragraphic the chart that starts "Calculation of Historic 12         12       A       Yes.	Page 64 CD. Yeah. was using. to be the sixth top of the page, entitled aph underneath ical Returns"?
1 2 3 4 5 6 7 8 9 10 11 12 13	Page 63 Performance," the following pages, are those files of the different funds to which money was allocated? A Correct. The assumption here is the funds on the page Hancock Classic, Cartesian, Calamos, Keely, that have these percentages here, that combined 100 percent would make up Stanford MFP Plus. The Stanford MFP Plus model benchmark should be the weighted indices for each of these funds corresponding to those percentages. But I have no way of telling that. Then of course the S&P is the S&P 500 index. Q Sure. So looking at this page that we started at, the one entitled "Mutual Fund Partners Plus Hypothetical Performance," so does this generally represent what we had		1       A       Is this all the way back? This is         2       These are looking more like possibly what I way         3       Q       Just for the record, this appears the page from the back of the document. At the the sit says "Disclosures." Are you on the page of "Disclosures"?         7       A       I'm in Glossary, sorry.         8       Q       It's just behind that.         9       A       Yes.         10       Q       Okay. So you see the first paragraphing the chart that starts "Calculation of Historia"         12       A       Yes.         13       Q       Okay. So it says "Calculation of Historia"	Page 64 CD. Yeah. was using. to be the sixth top of the page, entitled aph underneath ical Returns"?
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	Page 65			Page 66
1	A Mm-hmm.		1	return. This is a hypothetical. It may fall short of
2	Q So does this generally describe how the		2	explaining that, but it just says it does say it's
3	hypothetical calculations were calculated like we talked		3	hypothetical.
4	about earlier today? Is this an accurate description of the		4	BY MR. KING:
5	hypothetical?		5	Q How does it fall short?
6	A I don't think it's a description. It's hard to		6	A Well, I guess it doesn't get technical into what
7	answer that. It's more of a legal question. I think it's an		7	hypothetical is, kind of how we've been explaining it all
8	attempt to explain it.		8	day, that this performance is not a stream, a historical
9	Q Can you tell me what it means?		9	stream of current recommendations of funds or whether it
10	A It means to me that these performances are based on		10	just uses the word "hypothetical." So I guess it would leave
11	the allocation that's set forth in this proposal. Yes, the		11	that up to interpretation.
12	historical performance is based on the allocation set forth		12	Q Okay, and sometimes I've seen in other perhaps more
13	in the proposal.	1. C	13	recent drafts, language to the effect that these numbers are
14	Q Okay, and so as it says here, these are not actual		14	calculated with the benefit of hindsight. Would that be more
15	current portfolios but hypothetical historical allocations,		15	accurate or give the reader more information, in terms of
16	based on the allocation assumptions made in the proposal?		16	letting you know that it's a current it's essentially a
17	A Yes.		17	lookback?
18	Q So what does that mean to you?		18	A Again, kind of a legal question, and it depends on
19	A Again, hypothetical. I mean		19	the audience, because I know what a hypothetical is. I think
20	Q So is it attempting to explain to the client that		20	a lot of people in the business do. But I think to answer
21	this is based on today's assumptions with the benefit of		21	your question yeah, you probably could put more simple
22	hindsight or with the lookback, as opposed to actual		22	language in there.
23	performance data?		23	Q That kind of brings me to a question that I though
24	A Yes. Or more to your latter point, that this is		24	about earlier. When we were talking about the dangers of
25	not an actual client portfolio. This is not an actual	1	25	using hypothetical performance or the risks around that, I
			2.5	

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	Page 67	
1	think one of the things you said, and correct me if I'm	
2	wrong, was that you don't know what people say when you're	and an and an and an and an and an
3	not there or when Compliance isn't there; correct?	
4	A Yes.	
5	Q Okay. What were the FAs told? I mean, were they	
6	told how to present this stuff? Were they told make sure	
7	that people know this is hypothetical and not actual? You	
8	know, what kind of training was there for the FAs?	
9	A There were product training sessions. I don't know	
10	the frequency, but we did have them in the Private Client	
11	Services Group or Investment Advisory Group. Certainly, when	
12	a big part of that was when new brokers and teams came over,	
13	and I can't speak to but I'm sure Compliance and Branch had	-
14	their levels of training as well.	
15	Q But I know that generally there were these	
16	meetings. But were the FAs specifically told, when you talk	
17	to your clients, you've got to make clear that this is	
18	hypothetical and not actual historical performance?	
19	A I don't remember. I would assume yes, but I can't	
20	say definitively either I don't remember, or	
21	Q Now, you talked about Compliance. Aside from	
22	general assumptions that Compliance would have reviewed this	
23	stuff, anything specific you can point to? You know, do you	
24	remember specific people, specific meetings, specific review	

procedures? How do you know Compliance would read this

25

Page 68 stuff? 1 Like I said earlier, the presentations that I was А 2 working off for those -- you know, I guess until this kind of 3 format came along, it was pretty static. So it was signed 4 off once and probably reviewed periodically as Compliance 5 would do audits. 6 So it was approved, and then as long as we had made 7 no changes to it, it was good from that point on. 8 BY MR. KING: 9 10 Q Until what was approved? A The proposal and the disclosures, the presentation. 11 Like this, maybe the one we spoke of earlier, ten pages. So 12 it's like this is what we're going to send out. The format. 13 Now what obviously changes all the time would be 14 the allocation of the dollar amount, the client name. The 15 format was approved by Compliance. 16 17 BY MR. KELTNER: And how would that -- because it sounds like you 18 0 were using the same format pretty much from when you got 19 there. So I guess first, how do you know it was reviewed by 20 21 Compliance? I remember once looking at it. 22 А 23 And who is that? Q When I first got there, it was Rep Poppell, 24 А P-o-p-p-e-1-1, I believe. Rep, R-e-p. 25

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	Page 69			Page 7
1	Q Okay, and so what do you remember about Rep being		1	A I think the language, the verbiage of the
2	involved? What did he do?		2	presentation.
3	A Well, I guess just that, as far as we're talking		3	Q Okay. What do you mean by that? Like give me an
4	here. I mean, his job was to I think at the time the BD		4	example.
5	and the RA was kind of blended together. But him and members		5	A The disclosures, glossary you know, the history
б	of his team would come up to Denver maybe quarterly and do		6	of the firm, stuff that's not pertaining specific to a clier
7	their audits.		7.	situation. Client situation being dollar amount invested.
8	What you know, I probably like mock SEC audits,		8	BY MR. KING:
9	go through files and make sure the client's agreements are		9	Q Was Stanford using a client proposal when you got
0	signed and things like that.		10	there?
1	Q Okay, but specific to the proposals, what did		11	A Yes, it was just again, it was a PowerPoint
2	Compliance do?		12	template. It wasn't a generation system or anything like
3	A I just recollect that it was really just		13	that. But yes, there was one there.
4	approved you know, and then if it was ever changed, that		14	Q And so how soon after you arrived do you have to
	we would have to get that re-approved.		14	get re-approval from Compliance for some change?
5				A I just you know, and I'm again, drawing back
6	Q Okay, and tell me about that. How did you know		16	far. But changing from the separate account. The program
7	that and did it happen?		17	
9	A I just think that was you know, my superiors		18	was called Portfolio Advisors, to this new MFP program
Э	trained me on that.		19	required something, but I just don't remember who and how i
)	Q Okay, and was there an instance where		20	actually happened, and if it was me or Chip McNeil.
	A I mean, there was I'm sorry, go ahead.		21	BY MR. KELTNER:
2	Q Were there instances where that happened? Well,		22	Q Okay. We talked a while back or before the break
3	first, what types of change would require Compliance, because		23	about the discussions that took place about hypothetical,
4	as you were saying, lots of things changed from proposal to		24	whether the data should be presented as hypothetical or as a
5	proposal. So what would trigger a compliance review?		25	model that more closely represented actual performance or
	1a46b99e 8d5b-48c7-824e-50cb5f1c974		- 22,6273-040	1a46b99e-805b-4867-824e-50c
	14460338-9000-4687-9746-00CDD11C374	e		
				Page 7
1	Page 71 composites, kind of as three different buckets.			rage /
			1	•••
	Were there any discussions regarding changing how		2	A Yes, yes. And I don't know about these ones her
3	the information was presented to the client? In other words,		3	but for me, they were.
	the document that we just looked at clearly says hypothetical		4	Q Oh, so that might not have required Compliance's
5	performance, and we talked about how adequate the disclosure		5	involvement, correct, on the disclosures?
5	was or wasn't.		6	A It may be. Again, I don't know, and I seriously
1	But were there discussions about changing what it		7	doubt I wrote the disclosures for like you said, the legac
	was titled? In other words, dropping the word hypothetical		8	programs.
	or adding the word historical? I mean, those seem like, just		9	Q Do you know remember having specific conversation
ł	to me, the kind of things that you would run by Compliance.		10	with anyone in Compliance regarding historical performance
L	Is that true, or were there ever those discussions?		11	results for this mutual fund wrap program?
	A I don't remember specific to that to disclosures,		12	A No, I don't recollect.
-	discussions on that.		13	
	BY MR. KING:			
	BY MR. KING: Q Who drafted the disclosures?		14 15	things that they do, reviewing account forms and doing quarterly SEC-type audits, you don't know that they were

17

21

22

- Q Were you involved in drafting the disclosures?
- 18 A No, no. 19 Q Were you consulted on drafting the disclosures?

20 A No, because they are -- I think it was more or less

- stock language -- you know, when I --
- Q What do you mean by stock language? A From previous proposals that were already in place,
- 23 24 other programs.
- 25 Q Were the disclosures that were used in the MFP

looking specifically at client proposals related to the

how these thins may have changed over time, and you know,

22 which forms you may recognize. I want to go through just a

A I don't think they were. I mean, I don't remember

So I'm going to go ahead and mark as Exhibit

Number 2 a document that I'll represent to you that it's an

MR. KELTNER: I'm just trying to get a sense for

Mutual Fund Partners program?

23 few more and kind of walk forward in time.

that they were.

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	Case 3:09-cv-00298-N Documen	it 12-2	Filed (	02/17/2009 Page 10 of 10
1	Page 73 e-mail with an attachment, entitled it's an e-mail			Page 74
1 2			1	Q Analyst, financial?
2	exchange between Seth Hare and Charlie Rawl, on or around		2	A Yes.
	July 25th, 2005, and it appears to attach one of these presentations.		3	Q And I think we said earlier today that you, Mr.
4	presentations.		4	D'Amato and Mr. Hare at various times prepared some of these
5 6	I'll just note that you were copied on the initial		5	presentations?
67	request e-mail from Charles Rawl to Seth Hare on July 25th,		6	A Correct.
7	2005 at 1:38 p.m. You can see		7	Q And so this is typical of the protocol, where an FA
8	(SEC Exhibit No. 2 was marked for		8	might e-mail one of the three of you, in this case Mr. Hare,
9	identification.)		9	and request a proposal. Then Mr. Hare would pull it together
10 11	BY MR. KELTNER:		10	based on the criteria in the questionnaire and then send it
11 12	Q I mean, the initial e-mail exchange, if you'd just		11	back?
12	look at the bottom of the page, you see there where you're	×.	12	A Yes.
13 14	listed as a copy on the July 25th	• )	13	Q This is an example of that?
14	A Yes, yes.		14	A Yes. Well, it appears to be.
15	Q And just for context, again who's Charles Rawl?		15	Q So let's go ahead and look at the presentation.
16	A He was a financial advisor with the Stanford Group.		16	I'll note the front page has the Stanford crest, and it says
17	Q Okay, and Seth Hare, I think you said is somebody		17	"Prepared for Louis L. Jacob, presented by Charles Rawl."
18	who worked in your group?		18	Just thumb through it real quickly and tell me if
19	A He was a junior analyst within the group, yes.		19	you recognize this format? I think I've seen several hundred
20	Q I think you said he was the third hire that you		20	in this format. I didn't know if this one might be more
21	made?		.21	familiar to you.
22	A Yes, and I should qualify that with Seth, other		22	A This one has, yes.
23	than Operations.		23	Q Okay, and again, just for the record, what is
24	Q The third		24	Exhibit Number 2?
25	A Analyst.		25	A It's an e-mail with a proposal attached.
	17		-	
	1a46b99e-8d5b-48e7-824e-50cb5f1c974e	•	Service Pass	1a46b99e-8d5b-48e7-824e-50cb5f
	8	•	S-VIET FAIN	
1	Ta466599e Bd5b-4967-824e 50cb5ttc974e Page 75 Q Okay, and just generally, what's the proposal?	9 9	1	1#46b999-8d5b-48e7-824e-50cb5f Page 76 and various ratios and statistics.
1 2	Page 75		1 2	Page 76 and various ratios and statistics.
1 2 3	Page 75 Q Okay, and just generally, what's the proposal?		2	Page 76 and various ratios and statistics. It also compares this model against its balanced
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1a46b99e-8d5b-48e7-824e-50cb5f1c974e

25 Income. It shows historical returns going back five years

AB990-8d50407 120-50cb5f1c974e

25 represent model performance or is it hypothetical back-tested

	Case 3.09-cv-00298-N Document 12-3	Filed 02/17/2009 Page 1 of 10
1	rage //	1 A Correct. I think it adds more validity to what
2	- A When we were talking earlier about going back	2 you're doing, to the marketing efforts.
. 3	through? You know, it was prior to this, because this is	3 Q Okay. So what I'm a little confused by is if you
4	about when I was on the way out to my next assignment with	4 wanted people to know that this is your real track record or
5	the company. You know, if we can remember when Seth was	5 closer to your real track record, would you want hypothetica
6	hired, you know. Somewhere in '04, late '04 maybe, somewhere	6 stamped on top of it? Do you follow my question?
7	in '04.	7 A Not really.
8	<b>Q</b> And really, I'm trying to clarify whether these	8 Q Okay. Well, you said you wanted to be able to show
9	numbers represent the whole hypothetical performance	9 clients your real track record, right, or something close to
10	A I understand, yes.	10 it?
11	Q or the newer version that	11 A Right.
12	A And I can't say.	12 Q Okay, and if you were going to do that, would you
13	Q Okay.	13 call that hypothetical, or what would you call that?
14	A Not being able to you know, just on this.	14 A Oh, hypothetical.
15	BY MR. KELTNER:	15 Q Okay, and why is that?
16	Q One of the things you told us earlier was that this	16 A Well, it still is. I mean, anything that's not,
17	discussion about using, for lack of word, more accurate model	17 unless it's the client's actual return, it's hypothetical.
18	performance. In other words, closer to real performance.	18 Q But what if it tracks the actual model, because
19	You said you wanted to do that, because you wanted to	19 wasn't that your goal, to come up with performance numbers
20	demonstrate your real track record, right?	20 that tracked your actual model?
21	A Close to, a more accurate reflection.	21 A Right. But it's still hypothetical.
22	Q Sure, and you said that was, I think, because you	22 Q Still hypothetical?
23	were proud of your real track record, and you wanted to be	23 A Yes.
24	able to show clients that, versus hypothetical, benefit of	24 Q Okay, and explain that to me?
25	hindsight numbers?	25 A I think hypothetical is non-accurate. I mean,
20		
al according		1446998-4d5h-4897-824-50cb
	1a46b99e-8d5b-48e7-824e-50cb5f1c974e	19491797-9421-9428-3424
	Page 79	Page 80
1	that's not the right word. It's not the real performance.	1 it's one client or a composite of clients. As much as we di
2	Unless you use the real performance, then it's hypothetical.	2 or I wanted to achieve the accurate reflection of the model,
3	BY MR. KING:	3 it's still hypothetical today.
4	Q So when you use the term hypothetical, you mean it	4 BY MR. KING:
5	to mean anything other than a composite?	5 Q So in your view, all models are hypothetical?
6	A Correct.	6 A Yes.
7		7 . O Okay New when we talk about calculating the mode

7	BY MR. KELTNER:
8	Q Okay. So if you were going to use if you wanted
9	to be able to present something to investors that was true,
10	historical performance, you wanted to be able to slap
11	historical performance on the top of it, is the only way to
12	do that to do composites? I'm trying to understand, in the
13	context of what Michael just asked you.
14	A In my opinion, yes, yes.
15	Q Okay. So you personally, you're at your new firm;
16	they're doing something similar to this not say they do.
17	But you're at your new firm, and you're presenting something
18	to clients as a historical performance track record.
19	Would you do that with anything less than composite
20	data?
21	A No.
22	Q Okay, and why not?
23	A Well, part of it is I've learned that you can't.
24	But it's still, back to your earlier question, it's not the
25	real performance. It's not the actual performance, whether

#### Q Okay. Now when we talk about calc 7 8 with the benefit of hindsight, would you agree with me that 9 are two different types of models. One done without the benefit of hindsight, and one done with the benefit of 10 hindsight? 11 A Yes. 12 Q Okay, and can you tell me the difference is between 13 14 those two? A I mean, I guess -- wait, one with the benefit of 15 16 hindsight? Q Right. You can have a model that doesn't utilize 17 hindsight as an investment technique; correct? 18 A Yes. I guess that would be an actual composite of 19 performance. 20 Q Well, now, couldn't you just have a model portfolio 21 22 that's not an actual investor, a model portfolio of five 23 securities that if that were an investor, that that's what 24 we're going to have this year? 25 A Yes.

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	Page 81	Page
1	Q Right, and those would not have to be picked with	1 have did Stanford present to clients, in pitch books o
2	the benefit of hindsight, right? You could pick those today	2 otherwise, composite data or was it all, as we talked about
3	and say if you invest in this, this is our model?	3 here, hypothetical?
4	A Oh, sure. Sure.	4 A As far as I know, hypothetical.
5	Q So not all models are done with the benefit of	5 BY MR. KING:
6	hindsight?	6 Q Now, was it all hypothetical with the benefit of
7	A Correct.	7 hindsight, or was it just merely a model?
8	BY MR. KELTNER:	8 A I guess I don't the semantics are kind of nor
9	Q And just to follow up on that, I mean, you said at	9 all clear yet.
10	some point that's it sounds like that what you were trying	10 BY MR. ELLIS:
11	to get to, where your actual model was what you were	11 Q If I understand right, once you said you remember
12	presenting the client?	12 with clarity this process where you had Jason D'Amato and
13	A Yes. Well, I think ultimately the composite	13 believe Seth Hare go back, and you provided them with all
14	returns, right.	14 your investment recommendations, and they reconstructed -
15	Q But before okay. Do you know who Steve Reardon	15 A Yes.
16	is?	16 Q what your investment models would have, what
17	COURT REPORTER: I'm sorry, the name?	17 they performed during the past, rather than just taking the
18	BY MR. KELTNER:	18 from an allocation and looking back with it. That's our
19	Q Steve Reardon?	19 distinction between a model versus a model with hindsight
20	A I know the name, but I can't	20 BY MR. KELTNER:
21	Q Okay. Are you aware that the Stanford Group and	21 Q In other words, one represents what you actually
22	the advisory group brought in an outside consultant to	22 told your clients to put their money in; the other one is
23	compile composite data?	23 sitting here today, I'm going to pick the best possible
24	A I have heard that, yes. I've heard that.	24 portfolio. That's the hindsight situation, sitting here
25	Q Before he came in to do his work, did Stanford	25 today.

1	A Right.	
2	${\tt Q}$ I think what Mr. King is talking about is this is	
3	my actual model and you know, taking a hypothetical whatever	
4	it is, \$1,000, put it in there, this is what the return	
5	numbers were going forward. You know, one reflects your	
6	actual model that you had investors in.	
7	I mean, so when he's talking about model you	and the second se
8	know, with the benefit of hindsight, that's sitting here	
9	today, versus model performance based on your real model,	
10	your actual allocation models, okay.	
11	So what we're trying to get our arms around is	
12	which numbers are going to clients? Were they all models	
13	with the benefit of hindsight, or were they did they	
14	reflect your actual allocations?	
15	A I would say hindsight, until this project, as Craig	
16	brought up and we talked about. But and the project was	
17	completed, but I do not know what happened after that. So	
18	there was a period of time in this '04-'05 where the models	
19	were used in hypothetical performance.	
20	Q With the benefit of hindsight?	
21	A No, without. Like we went through, let's say,	
22	January 30th of 2004, and recreated all the models to reflect	
23	the actual changes in the portfolios.	
24	MR. KING: Let me see if I can clean this up for	
25	you. During your tenure, did Stanford Group provide any	

#### Page 84 composite numbers to clients in its I guess what did you call 1 2 it? MR. KELTNER: Pitch books. 3 4 MR. KING: In its pitch books? THE WITNESS: Composite, no. 5 6 BY MR. KING: Q During your tenure, did Stanford provide any model 7 numbers to clients in its pitch books that did not utilize 8 9 hindsight? A I don't know. 10 Q During your tenure at Stanford, did Stanford Group 11 12 provide to customers in its pitch books model numbers that 13 did include numbers that used hindsight? 14 A Yes. 15 Q And how long did it do that? How long did it provide numbers -- well, when did it stop using hindsight in 16 17 its pitch books? A I don't know. 18 BY MR. KELTNER: 19 20 Q Well, we've talked a lot around this project that 21 was done, and what we're trying to pinpoint is when that was 22 done and when changes were made based on that project? A Yeah, I apologize for not knowing when. I remember 23 24 the project. I remember doing the analyses, and I don't remember the follow-through, how it transpired into this. 25

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	Case 3:09-cv-00298-N Docur	nent 1	2-3	Filed	<del>-02/17/</del>	2009	Page 3 of 10	
1	Page 85 Q. So sitting here today, do you know one way or			1	nitch book	e are util	rage of izing hindsight or not?	°
2	another whether they stopped using the models with the			2	-		ars, a lot of years have gone by since	
3	benefit of hindsight?					-	I cannot say one way or the other, unde	
		1 1		3				
4				4			at I know that the project I initiated	1
5	know.			5.			s carried forward.	
б	BY MR. KING:			6			ow. I mean, it was done and there was a	
7	Q So that wasn't done during your time at Stanford?			7	period of	time where	I think things were good. But what	
8	A The models were, yeah. This project we did?			8	-	-	under oath do I no, I don't know.	
9	Q No. You don't know whether they stopped using			9	Q	Okay. So	you initiated a project whereby Stanford	
10	hindsight in their models during your time there?			10	would stop	o using hind	dsight in its performance reporting to	
11	A Right.			11	clients?			- F
12	Q Okay. I want to make sure I understand. You're	100 A.		12	A	Yes.		1420
13	running this program, right?		)	13	Q	Did Jason 1	D'Amato work on that initiative with you	?
14	A Yeah.			14	А	Yes. Jaso	n and Seth.	20 July
15	Q And you're sending out the pitch books and you're			15	Q	And what w	as Jason's role in particular?	
16	responsible, at least to some degree, for the historical			16	A	He really p	passed the torch on finding the MFP,	
17	performance reporting, right?			17	MFP Plus,	now SAS pr	ogram to him. Seth was hired as another	757 1
18	A Right.			18	junior ana	lyst to do	more kind of the day-to-day proposal	
19	Q Okay. But you don't know whether the numbers being	2 		19	generation	1.		- A LEWIS
20	provided to clients were with hindsight and at what point			20	Q	But in the	actual process of converting from model	s
21	they stopped using hindsight?			21	-		dels that didn't involve hindsight, what	ģ.
22	A Correct.			22		D'Amato's		. 80
23	Q Okay. Explain how that could be to me. I mean,	144962		23			ave been over that project. I mean,	1990A.C
24	how is it that the person running the program doesn't know						in the charge of the department. I had	10000
1				24				
25	whether or not the numbers that are going to clients in these	19 19 19 19 19 19 19 19 19 19 19 19 19 1	· - 1	25	the ultima	te respons	ibility. But he would have done the	
	1a46b99e-8d5b-48e7-824e-50cb5						1a46b99e-8d5b-48e7-824e-50ct	
					÷			
	Page 87			<b>—</b>			Page 31	8
1	Page 87 day-to-day crunching the numbers, the analytics, probably				Q	And who ac	Page 86 tually calculated the models with	8
1			)	1	-		-	8
2	day-to-day crunching the numbers, the analytics, probably with the help of Seth.			2	hindsight?	Was that	tually calculated the models with you or was that Jason or is that Seth?	8
2 3	<pre>day-to-day crunching the numbers, the analytics, probably with the help of Seth. Q So is there any doubt in your mind, as you sit here</pre>			2 3	hindsight? A	Was that Well, soft	tually calculated the models with you or was that Jason or is that Seth? ware does a lot of it you know, that	Contract in the shadowing the second of
2 3 4	<pre>day-to-day crunching the numbers, the analytics, probably with the help of Seth. Q So is there any doubt in your mind, as you sit here today, that Jason D'Amato understood that prior to you</pre>	10 - 10 - 10 - 10 - 10 - 10 - 10 - 10 -		2 3 4	hindsight? A generates.	Yas that Well, soft You have	tually calculated the models with you or was that Jason or is that Seth?	Contract in the shadowing the second of
2 3 4 5	<pre>day-to-day crunching the numbers, the analytics, probably with the help of Seth. Q So is there any doubt in your mind, as you sit here today, that Jason D'Amato understood that prior to you initiating this project, the numbers that were being provided</pre>	10 - 10 - 10 - 10 - 10 - 10 - 10 - 10 -		2 3 4 5	hindsight? A generates. the alloca	Was that Well, soft You have	tually calculated the models with you or was that Jason or is that Seth? ware does a lot of it you know, that to plug in the funds and the weightings	Contract in the shadowing the second of
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_	Page 89			Page 90
1	A Right.		1	Q If I understand right, when you say you're always
2	Q And you're telling me that the primary person who		2	doing some amount of hindsight, it sounds to me like you're
3	did that was Jason D'Amato?		3	referring to the fact that when I'm picking a fund for my
4	A Yes.		4	client's use, I'm obviously going to look at the past track
5	Q Who picked the mutual funds?		5	record. Is that
6	A I did. I did for years and then Jason.		6	A I just think the word "hindsight" is getting thrown
7	Q Okay. So give me a year where you know that		. 7	around a lot. Yeah, I think you do. You look. You look at
8	hindsight was being used to develop these models?		8	a historical, just like you would look at anything else. But
9	A Again, this hindsight thing. Hindsight's always		9	that's just performance.
10	used to look at, I mean, a track record. You're always using		10	MR. KING: But we're not talking about the
11	hindsight, but as far as presenting it with a historical		11	selection of the funds. We're talking about the presentation
12	hindsight numbers, always when I was there.		12	of data to the client. That's the context.
13	Q Okay, so let's say for 2004. Would you agree that		13	MR. CRAINE: Exactly. I wanted to clarify it,
14	hindsight was used in 2004?		14	because he said yes, I always used hindsight. But it's not
15	A Yes.		15	like he you were probably saying of course I look back at
16	Q Who picked the mutual funds in the hypothetical		16	past returns when picking funds and directing them to
17	model with hindsight for 2004?		17	clients. I did want to get that
18	A It was right around you know, when I was passing		18	MR. KELTNER: Well, that's what Michael was asking
19	the torch to Jason. Again dates. I mean, he was hired to		19	about, selecting funds.
20	take over that program. I don't know when.		20	Real quickly I want to fly through a couple of
21	<b>Q</b> Even if he wasn't picking them, is it likely that		21	these other presentations. I've had marked as Exhibit
22	Jason was the one inputting them into the software and		22	Number 3 a document that appears to be another pitch book.
23	generating the models?		23	It's entitled "Stanford Allocation Strategies," and it says
24	A Yes.		24	"Prepared for Barry Rumac," R-u-m-a-c, and "Presented by
25	BY MR. KELTNER:		25	Nigel Bowman." Do you know Mr. Bowman?
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1	historical performance, and then goes on to talk about that	1 A Well, hypothetical, I mean, I guess it could be
2	the allocation is based on allocation assumptions made in the	2 misleading here to say historical allocation. I mean, it is
3	proposal, I mean, does that sound like the hypothetical	3 misleading. It implies that it's the actual performance of
4	performance that you were using when you were there, where it	4 the portfolio or a composite.
5	talks about based on the assumption, the allocation	5 Q Okay. Which implies that?
6	assumptions made in the model?	6 A This cover page saying "historical allocation
7	A It's similar, but I don't know if it's apples to	7 performance."
8	apples. But I'm not sure. As far as the consistency of the	8 Q Okay, and to you, the use of the term "historical
9	language?	
10	Q Right.	9 allocation performance" to describe hypothetical performance
11	A I don't know.	10 is misleading?
12	Q If you go back to the performance page that we were	11 A Yes.
13	on a minute ago, the page entitled "Stanford Allocation	12 Q And that's something you would not have done when
13	Strategies, SAS Growth Performance," and you know, we looked	13 you were there?
15	at the historical track record going back '99, 2000, 2001,	14 A I hope not.
	2002, 2003.	15 Q Sitting here today
16		16 A I don't think so.
17	If I were to tell you that those numbers matched	17 Q And you absolutely would not be comfortable with
18	the numbers that were being used in prior years when the	18 it?
19	staff was clearly labeled as hypothetical, but it's now	19 A Correct.
20	labeled as historical dropping the title "hypothetical," is	20 Q And again, not to belabor the point, but is the
21	that something you would have done when you were there?	21 danger here that you're calling this stuff historical
22	Would you have been comfortable presenting this stuff as	22 performance in the front of the book, and you're dropping a
23	historical without a hypothetical disclaimer?	23 sentence at the back of the book that says something about
24	A No.	24 "hypothetical performance"?
25	Q Okay, and explain to me why not.	25 A The danger is misrepresenting your performance.
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1	Page 95 Q Right. So the danger is that the client is going	Page 9
- 2	to think this is true historical performance generated by the	2 A It does. It's a track record for SAS. It looks
2		3 like just returns well, in one risk parameter. But track
0	manager?	4 record for SAS growth model versus just the S&P 500.
- 4	A Yes, and the financial advisor. And/or the	
5	financial advisor.	5 Q Okay, and again this is entitled "Historical
6	Q Just real quickly, I'm going to hand you a document	6 Performance." No use of the word "hypothetical." Again, yo
7	that I'm marking as Exhibit 4. I'll represent to you that	7 think that's misleading, right?
8	this is what we believe to be a very current pitch book. It	8 A Ido.

2	to think this is true historical performance generated by the		2	A It does. It's a track record for SAS. It looks
3	manager?		3	like just returns well, in one risk parameter. But track
4	A Yes, and the financial advisor. And/or the		4	record for SAS growth model versus just the S&P 500.
5	financial advisor.		5	Q Okay, and again this is entitled "Historical
6	Q Just real quickly, I'm going to hand you a document		6	Performance." No use of the word "hypothetical." Again, you
7	that I'm marking as Exhibit 4. I'll represent to you that		7	think that's misleading, right?
8	this is what we believe to be a very current pitch book. It		8	A Ido.
9	was produced to the SEC in the course of a recent		9	Q Okay. Based on you know, you said you talked a
10	examination.		10	number of clients over the years. You sat in on pitches.
11	It's entitled "Stanford Allocation Strategy,		11	Your typical client walking into the office, do you think
12	SAS Proposal," and it's prepared for Jane Foster, presented		12	your typical client understands the difference between
13	by Tom Woolsey, or Woolsey, W-o-o-l-s-e-y. First, do you		13	hypothetical and historical performance?
14	know Mr. Woolsey?		14	A I probably couldn't answer that. I mean,
15	(SEC Exhibit No. 4 was marked for		15	everyone's different. Some do and some don't.
16	identification.)		16	Q Okay. But if you slap "Historical Performance"
17	THE WITNESS: I do not.	-	17	across the top of the page, surely you can tell me what the
18	BY MR. KELTNER:		18	typical client would conclude from that?
19	Q Flipping to the seventh page, and it's a document		19	A It implies that it's the actual performance of this
20	entitled "Historical Performance" at the top?	·	20	particular model.
21	A Mm-hmm.		21	Q In other words, if I were a client, and I had
22	Q Do you see that?		22	invested in this model at the beginning of the year, these
23	A Yes.		23	are the results that I would have gotten; correct?
24	Q Okay, and again this a track record for the growth.		24	A Yes, or even back further than the year. It reads
25	Does this appear to be a track record for the growth fund or		25	to me historical performance as this model did 12.4 percent
June Marcald			A OF CALE AND A DECIMAL	ARCHINA ARCHINA
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1	Page 97 in 2007, 14.6 in 2008 you know, so on and so on.		1	Page 98 the numbers there under historical performance from 2007 back
2	Q So somewhere in Stanford's files, I should be able		2	to 1999, that that would have been misleading; correct?
3	to go back and find a client who is in this model in 2007		3	A Yes.
4	that got these numbers, right, or close to these numbers?		4	Q And how does that during the break, you
5	MR. KING: If they're in fact hypothetical.		5	characterized that in a particular way. What's your reaction
6	MR. KELTNER: If they are historical.		6	to the fact that it appears that Stanford Group Company used
7	THE WITNESS: If they're historical composites,		7	those 2007 back to 1999 numbers under the heading "Historical
8	yes.		8	Performance"?
9	BY MR. KING:		9	A Well, I used the word "shocking," but it was used
10	Q I mean, if that if an investor in this program		10	in really that it wasn't prevented by Compliance or
11	were invested on January 1st and stayed in in that current,		11	apparently no checks and balances to I mean, I quess if
12	in the current allocations all the way through the end of the		12	this was disseminated out to clients or wherever it was, it
13	year, then that client would have gotten the numbers on this		13	seems like that should have been picked up on.
14	page, as represented on Exhibit 4?	)	14	Q And why do you characterize that as "shocking"?
15	A That it's implying that, yes.		15	A Well, it's a lack of oversight. It is, like I
16	MR. KELTNER: I'm going to go off the record.		16	said, historical performance just implies historical
17	We'll take a five-minute break and be right back.		17	performance of the actual clients and not hypothetical.
18	(A brief recess was taken.)			
19	MR. KELTNER: We'll go back on the record. I think		18	Q Okay, and in reviewing Exhibit 4, did you note
20	Mr. King wanted me to note a few discussions that took place		19	anything else that you would consider significant?
21	during the break briefly.		20	A There was one, and I'm not sure if it was this
22	BY MR. KING:		21	exhibit. There was a disclosure that said performance was
23			22	net of management fees. That's actually incorrect, because
	Q And also to give you an opportunity to discuss you were talking, I think, about Exhibit 4 a		23	you have
24	discuss you were talking, I think, about Exhibit 4 a		24	It's semantics, but you have advisor fees too. So
0.5				
25	moment ago, and I think you referenced earlier that putting 1a46b99e-8d5b-48e7-824e-50cb5ffct	174e	25	it's actually gross. It's net of mutual fund management 146699e-8d5b-48e7-824e-S0cb5ffc
25	moment ago, and I think you referenced earlier that putting	174e	25	
	moment ago, and I think you referenced earlier that putting 1a455599e-8455-4867-#24e-50cb5ffct Page 99	174e	25	1#46599#-8455-48#7-824#-50c55ftc Page 100
25	moment ago, and I think you referenced earlier that putting 13465996-8455-4867-8246-50cb5ffcd Page 99 fees, but gross of advisor fees. Anything that says "net of	174e	1	1a46b99e-8d5b-48e7-824e-50cb5f1c
	moment ago, and I think you referenced earlier that putting 1a465599e-8455-4667-824e-50cb5ffct Page 99 fees, but gross of advisor fees. Anything that says "net of fees" is misleading as well.	774e	1	1a46b99e-8d5b-48e7-824e-50cb5ftc Page 100 Stanford's fees, we didn't have any other discussions during the break; correct?
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1 2	moment ago, and I think you referenced earlier that putting 1a465599e-8455-4667-824e-50cb5ffct Page 99 fees, but gross of advisor fees. Anything that says "net of fees" is misleading as well.	174e	1 2 3 4	Page 100 Stanford's fees, we didn't have any other discussions during the break; correct? A Not pertaining to this, no. MR. KELTNER: Just real quickly, during the break I
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1 2 3 4 5	moment ago, and I think you referenced earlier that putting Ta465599e-8d55-48e7-824e-SockSfree Page 99 fees, but gross of advisor fees. Anything that says "net of fees" is misleading as well. BY MR. KELTNER: Q Okay. So it's gross of the fees that Stanford charges?	174e	1 2 3 4 5	Page 100 Stanford's fees, we didn't have any other discussions during the break; correct? A Not pertaining to this, no. MR. KELTNER: Just real quickly, during the break I ran up and got another document, what I'm going to mark-as
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1 2 3 4 5 6 7 8 9	<pre>moment ago, and I think you referenced earlier that putting Ta46b390-8d3b-4807-8246-50cb5ftcf  Page 99 fees, but gross of advisor fees. Anything that says "net of fees" is misleading as well. BY MR. KELTNER: Q Okay. So it's gross of the fees that Stanford charges? A Charged. But to me, it's a management fee. To a client, that's what a management fee is, is what you're charging me, 2 percent, 1 percent, one-and-a-half. Q So to be more accurate, in your view, you would</pre>	174e	1 2 3 4 5 6 7 8 9	Page 100 Stanford's fees, we didn't have any other discussions during the break; correct? A Not pertaining to this, no. MR. KELTNER: Just real quickly, during the break I ran up and got another document, what I'm going to mark as Exhibit 5. just want to try to wrap up around a few of these issues. Exhibit 5 appears to be another SAS presentation. It says "Prepared for Chris Rahaim," R-a-h-a-i-m, and
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1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	<pre>moment ago, and I think you referenced earlier that putting Fage 99 fees, but gross of advisor fees. Anything that says "net of fees" is misleading as well. BY MR. KELTNER: 2 Okay. So it's gross of the fees that Stanford charges? A Charged. But to me, it's a management fee. To a client, that's vhat a management fee is, is what you're charging me, 2 percent, 1 percent, one-and-a-half. 2 So to be more accurate, in your view, you would back out 150 basis points or 200 basis points as Stanford fees from these return numbers, if you're going to call them net of fees? A Or put another way, you just say this is gross of all fees. 2 Okay. A But yeah, that would be hard to do. 3 But if you say it's net of all fees, it should be net of fees? A Correct. 3 An Cirrect. 3 An it's not.</pre>	776	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	<pre>Page 100 Stanford's fees, we didn't have any other discussions during the break; correct? A Not pertaining to this, no. MR. KELTNER: Just real quickly, during the break I ran up and got another document, what I'm going to mark as Exhibit 5. just want to try to wrap up around a few of these issues. Exhibit 5 appears to be another SAS presentation. It says "Prepared for Chris Rahaim," R-a-h-a-i-m, and "Presented by Charles Rawl." Again, does Exhibit 5 appear to be a SAS growth proposal? (SEC Exhibit No. 5 was marked for</pre>
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25 this issue of whether the numbers used were gross or net of

25 chart in the upper right-hand corner that's got 2004 through

		ent 12-3	- <del>iled 0</del>	2/17	2009 Page 7 of 10
	Page 101				Page 102
1	2007?		1	A	You know, I can't I don't know how
2	A Yes.		2		We talked about changing the models. I don't know
3	Q Okay, and it says "As of August 2005." I mean,		3 ho	w many	models SAS had.
4	based on the preceding page and the discussions that we've		4	Q	Okay. Let's look at it this way. In 2004, what
5	had, does it appear to you that this is the hypothetical		5 wa	s the a	nnual return for MFP Growth?
6	model performance that we've been talking about all day		6	А	16.15 percent.
7	today?		7	Q	Okay, and for SAS Growth?
8	A Yes.		8	А	Oh, 16.15 percent.
9	Q Okay, and then I want you to grab Exhibit Number 4.		9	Q	Okay, and for 2003?
10	Leave that one out. You see Exhibit Number 4? Flip to the		10	А	32.84 percent.
11	page entitled "Historical Performance."		11	Q	For both SAS and MFP Growth?
12	A Okay.	· · · ·	12	А	Yes.
13	Q What I want to do is put this, this Exhibit		13	Q	Okay, and likewise 2002, the loss of 3.3 for both?
14	Number 4 side by side with Exhibit Number 5. I'll just note		14	A	Yes.
15	that Exhibit Number 4 is SAS Growth, or is MF, SAS Growth.		15	Q	And 2001, 4.32 percent positive?
16	Oh, I'm sorry. Exhibit Number 4 represents MFP Growth;		16	А	Correct.
17	correct?		17	Q	And 2000, a gain of 18.04 percent?
18	A I'm sorry. I thought four was		18	A	Correct.
19	Q Four I have as SAS Growth.		19	Q	Okay, for both SAS Growth and MFP Growth?
20	A Okay.		20	A	Yes.
21	Q So Exhibit 4 is SAS Growth and Exhibit 5 is MFP		21	Q	Okay, and when we looked a minute ago at Exhibit
22	Growth; correct?	r - Handler	22 Nu	mber 5,	which is MFP Growth, it was labeled "Hypothetical
23	A Yes.		23 ні	storica	1 Performance."
24	Q Are those the same things, other than the fact that		24	А	Right, yes.
25	the names were changed?		25	Q	And as we've talked about ad nauseam, that's
1.000.000				23-135-840- 1 <sup>-1</sup> -201	

	Page 103			
	5			
ypotheti	cal performance with the benefit of hindsight?		1	A Yes, yes. I go
А	Mm-hnm.		2	Q So Stanford is
Q	Yes?		3	two different headings, o
А	Yes.		4	Historical; correct?
Q	Okay, and as we talked about earlier, you see in		5	A Correct.
xhibit 4	the exact same return numbers portrayed as		6	BY MR. ELLIS:
istorica	l performance; do you see that?	9 	7	Q Does this give
А	Yes.		8	or give you any more of a
Q	Okay, and would you agree with me that that's		9	numbers represent the res
isleadin	g, implying that this is historical when it's		10	2004, or the fact that th
recisely	the same numbers that were disclosed as		11	today, does that indicate
ypotheti	cal and historical, hypothetical/historical		12	A Well, I'll tell
erforman	ce?		13	Q Okay, sorry. G
А	I'm sorry, misleading how again?		14	A Well, I'll tell
Q	Well, it portrays these hypothetical numbers that		15	very interesting here. I
re in the	e earlier version as historical; correct?		16	historical performance, i
А	Yes, that is misleading.		17	am I doing that right, is
Q	Okay, and they're precisely the same numbers;		18	have a three-year period,
orrect?			19	returns.
А	Yes.		20	Q Correct.
	BY MR. KING:		21	A And it's possib
Q	So Stanford's using the same numbers under two		22	returns back there, becau
ifferent	headings, right?		23	returns have remained the
A	As in the MFP Plus Growth and SAS?		24	rolls around and you chan
Q	No. As in hypothetical and historical?	 	25	different calendar year r
- S. Yorcutetered and Manh	1,4600,945,000,945,000,000,000,000,000,000,000,000,000,0		940802.000A	g song tig to a subscript a subscription and a subscription of the subscription of the subscription of the subs
	A Q A Q A A Q A isleadim recisely ypotheti. A Q ce in the A Q cre in the A Q crect? A Q ifferent A	<ul> <li>Q Yes?</li> <li>A Yes.</li> <li>Q Okay, and as we talked about earlier, you see in shibit 4 the exact same return numbers portrayed as istorical performance; do you see that?</li> <li>A Yes.</li> <li>Q Okay, and would you agree with me that that's isleading, implying that this is historical when it's recisely the same numbers that were disclosed as grothetical and historical, hypothetical/historical series of the same numbers that were disclosed as grothetical and historical, hypothetical/historical series in the same numbers that were disclosed as in the earlier version as historical; correct?</li> <li>A Yes, that is misleading.</li> <li>Q Okay, and they're precisely the same numbers; formerct?</li> <li>A Yes. <ul> <li>BY MR. KING:</li> <li>Q So Stanford's using the same numbers under two ifferent headings, right?</li> <li>A As in the MPP Plus Growth and SAS?</li> <li>No. As in hypothetical and historical?</li> </ul> </li> </ul>	<ul> <li>A Mm-hmm.</li> <li>Q Tes?</li> <li>A Yes.</li> <li>Q Okay, and as we talked about earlier, you see in shibit 4 the exact same return numbers portrayed as istorical performance; do you see that?</li> <li>A Yes.</li> <li>Q Okay, and would you agree with me that that's isileading, implying that this is historical when it's recisely the same numbers that were disclosed as synothetical and historical, hypothetical/historical surformance?</li> <li>A I'm sorry, misleading how again?</li> <li>Q Well, it portrays these hypothetical numbers that that is misleading.</li> <li>Q Okay, and they're precisely the same numbers; sorrect?</li> <li>A Yes.</li> <li>BY MR. KING:</li> <li>Q So Stanford's using the same numbers under two ifferent headings, right?</li> <li>A in the MPP Plus Growth and SAS?</li> <li>No. As in hypothetical and historical?</li> </ul>	A       Mm-hmm.       2         Q       Yes?       3         A       Yes.       4         Q       Okay, and as we talked about earlier, you see in       5         shibit 4 the exact same return numbers portrayed as       5         sisterical performance; do you see that?       7         A       Yes.       7         Q       Okay, and would you agree with me that that's       9         isleading, implying that this is historical when it's       10         recisely the same numbers that were disclosed as       11         prothetical and historical, hypothetical/historical       12         streamere?       13         A       Yes, that is misleading how again?       14         Q       Well, it portrays these hypothetical numbers that       15         recisely the same numbers inder version as historical; correct?       16         A       Yes, that is misleading.       17         Q       Okay, and they're precisely the same numbers;       18         portect?       A       Yes.       20         BY MR. KING:       21       22         Q       So Stanford's using the same numbers under two       23         ifferent headings, right?       24       24

	Page 104
1	A Yes, yes. I got you.
2	Q So Stanford is using the same set of numbers under
3	two different headings, one under Hypothetical and one under
4	Historical; correct?
5	A Correct.
6	BY MR. ELLIS:
7	Q Does this give you any does it jog your memory
8	or give you any more of an impression of whether these
9	numbers represent the results of your model calculations from
0	2004, or the fact that these are the numbers they're using
1	today, does that indicate to you whether these are
2	A Well, I'll tell you I'm sorry.
3	Q Okay, sorry. Go ahead.
4	A Well, I'll tell you there was one thing that was
5	very interesting here. The Exhibit 4, with just the
6	historical performance, is through June of 2008. Exhibit 5,
7	am I doing that right, is through August of 2005. So you
8	have a three-year period, yet you have the same calendar year
9	returns.
0	Q Correct.
1	A And it's possible that there could be locked-in
2	returns back there, because these further back calendar year
3	returns have remained the same. So in other words, if 2008
4	rolls around and you change some funds, you should have
5	different calendar year returns.

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	Case 5.03-CV-00230-N Docum Page 105		licu	Page 106
1	So the fact that they're similar does in fact lend		1	minutiae, I wanted to take a few steps back. One of the
2	credence that there might be some of those changes locked in.		2	things we talked about during our informal interview, a
3	Does that make sense?		3	couple of issues that I think fit together.
4	Q Yes. But that's based you're just basing that		4	You brought up the idea of performance issues
5	on observation, not from any recollection you have of when?		5	coming to a head, I think it was a term you used last time we
6	A Observation of these two reports.		6	talked, and I think the context for that was around the time
7	BY MR. KELTNER:		7	that they brought in the outside consultant, and there was
8	Q And that would be if it was actually you		8	talk in late '06 about getting performance numbers. I mean,
9	wouldn't expect to see a change if these were true historical		9	tell me what that was about.
10	results, right?		10	A I had been hearing in the halls, around the coffee
11	A Correct.		11	machine, on frequent visits back to the U.S. office from
12	Q So it's only if you're changing the model today and		12	Antigua, that there was disgruntled FAs, financial advisors,
13	then looking back in time that you would expect to see the		13	about the performance of the program.
14	change?		14	Q Okay, and specifically what were the FAs unhappy
15	A Right. The allocations here, the recommended		15	about? Was it just that the program wasn't doing well, or
16	allocations here are completely different than the		16	was there more to it?
17	allocations here.		17	A I certainly heard both, that the performance was
18	Q Could you identify		18	subpar and that I guess even more so, it wasn't what it was
19	A Oh, I'm sorry. The two presentations, Exhibit 4		19	advertised.
20	and Exhibit 5, have completely different recommended funds,	and the second	20	Q Okay. So to clarify, the financial advisors were
21	you know. I think I've got to scratch that, because I don't	615 × 1 × 10	21	upset, because their clients weren't getting the advertised
22	think the funds are in here. Yeah, I have to retract that.		22	performance?
23	I can't make the comment.		23	A Yes.
24	BY MR. KELTNER:		24	Q Okay. So what can you tell me about that, in terms
25	Q Okay. Now that we've gotten mired in exhibits and		25	of what you heard?
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1	A Just a general you know, your group's gone to		1	A I did not. I just kind of
2	hell in a handbasket, what's going on? You know, just		2	Q Kind of what?
3	advisors complaining about performance.		3	A I just didn't I didn't get involved. I was a
4	Q To try to nail this down a little bit, you		4	sounding board.

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conversations?

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know.

Yes.

were concerned about?

two. Bless you.

conversations?

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Not really.

No. No, I don't.

problem or what years they were talking about?

5	mentioned	at the h	peginning	of	our	conversation	that
6	Mr. Grose	beck was	a friend	of	your	:s?	
7	A	Yes.					

Q	Okay.	Was	Mr.	Grosebeck	one	of	the	people	you	
talkad to	about	thia	÷							

9	talked to about this issue?
10	A Yes.
11	Q Okay, and what did Mr. Grosebeck talk to you about
12	A He's not one to complain. I mean, he just, I
13	think you know, voiced concerns about it, about the
14	returns. I don't know specifics of the conversation.
15	Q Okay. So you heard this hallway talk from
16	Mr. Grosebeck and who else?
17	A Charlie Rawl, Charles Rawl, Mark Tidwell. I mean,

18 probably other advisors that I don't recollect names. 19 Q Okay. So they had talked to you about this 20 performance reporting issue while they were still at the 21 company, still at Stanford? A Yes, yes. 22

23 Q And so what came out of this? I mean, did you have 24 any discussion with D'Amato or Stys or Como or Parrish

25 regarding these issues?

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to you about?

Okay. Sounding board for the FAs?

Okay. Anything else you can remember about those

Did it give you an idea of the magnitude of the

A Well, this would have been in the 2006 kind of time

Q So it was the 2006 performance reporting that they

frame, but not as far as magnitude, if that's what -- you

A 2006 that this was happening. I suppose the

returns of question would have been probably the last year or

Q So anything else you can tell me about these

Q Okay. But just to summarize it and make sure I

understand, again the issue was the financial advisors were concerned or upset that their actual clients were not

	Case 3:09-cv-00298-N Doc	unnent 12-3	Filed	<del>+ 02/17/2009 -</del>	-Page 9 of 10	
	Page 1				1 490 0 0	Page 110
1	receiving the performance that was presented to clients i	n	1	THE WITNESS:	: Not that I know of.	It was just her.
2	advertising?		2	MR. CRAINE:	Yes great. Go ahead.	
3	A Correct, and just generally upset about	4 1	. 3	THE WITNESS:	: She was asking about	what was the
4	performance. I should probably add that meaning relative	2 2	4	name of that performar	nce vendor we used to u	se.
5	performance.		5	I'm like, "G	Oh, that's Greenhill."	Pretty short
6	Q Relative to the market?		6	call.		
7	A Yeah. SAS is down. What's going on over there	?	7	She's like,	"Oh, the SEC's here	you know.
8	Q Okay. Along those same lines, I understand tha	t	8	They're trying to get,	, I guess get some old	archived
9	recently you've been contacted by Stanford regarding		9	performance."		
10	performance reporting issues; is that correct?		10	I said, "Wel	ll, there should be rec	ords. That stuff
11	A Well, they as you know, had an examination, SEC		11	should be kept ten yea	ars," putting on your h	at, or is it
12	examination I guess this month for a couple of weeks, and	I	12	seven? Or call Green	hill, you know. I said	they're in D.C.
13	got two calls from Operations personnel.		13	They probably have are	chive files, and then t	hat was it.
14	Q Okay, and who were the Operations personnel?		14	BY MR. KELIN	NER:	
15	A The first call was from Laura Comeaux,		15	Q Okay. What	did you did you say	anything else to
16	C-o-m-e-a-u-x.		16	her? Were you surpris	sed that they were call	ing to get
17	Q How is she related to Mr. Comeaux?	- - - -	17	historical data? Were	e you surprised they wo	uld have to call
18	A To Jay Comeaux? She is his daughter-in-law, hi	s	18	an ex-employee to get	the historical data?	
19	son's wife.		19	A Very surpris	sed. I mean, I was ver	y cordial and
20	Q So was that the first call?		20	very friendly. I want	t to help them, but I w	as just like why
21	A Yes.		21	are you calling me?		
22	<b>Q</b> Okay, and what did she call you about?		22	Q Okay, and wh	hy were you surprised?	
23	A She called		23	A Well, I had	left that department f	our years ago.
24	MR. CRAINE: And then just so I'm clear, there	was	24	Q And were you	u surprised that an adv	isory firm that
25	nobody from Legal present or involved?	977	25	presents their track r	record to clients would	n't have at their
		· ·				
CER SCHOOL IN	1466999-8655-4867-8246-5	0cb5f1c974e	2020712/00/02		1a4	16b99e-8d5b-48e7-824e-50cb5f1
		1.1				Page 112

	Page 111			Page 112	
1	fingertips the documentation to support the track record that	· · · · ·	1	an old backup drive.	
2	they claim?		2	BY MR. KELTNER:	
3	A Yes.	(C) COM - C	3	Q Okay. Specifically, what were they asking you for?	
4	Q Is that because working in the business, you		4	A Old funds and allocations. When I say "old," I	
5	understand that you have to have evidence for a track record		5	think pre	
6	if you're going to use it for your clients?		6	Q Pre-'05?	
7	A Yes, and performance reports. You have to have		7	A Yeah, '05, '04, '03 and beyond.	-
8	records of anything sent to clients in the performance		8	Q Okay, and what were you able to tell them about	
9	reports.		9	where to find that stuff?	
10	Q Okay. Anything else you said to Laura on that		10	A I had no idea as far as files. I suggested to go	
11	call?		11	to IT.	-
12	A No.		12	Q So they were trying to find client data, or were	
13	Q Okay. So what leads to the second call?		13	they trying to find the old allocation data, like where the	1
14	A It was Laura and this time she brought in		14	model was invested or what the model was?	Trees.
15	Julie Mayse, who was another one of my hires.		15	A I think more the latter, more what was invested,	
16	Q What was that last name?		16	you know. It was a strange call. I mean, it wasn't where's	The second
17	A Mayse is M-a-y-s-e.		17	this, but it was like old allocations.	
18	Q Okay.		18	Q Yeah. What was the	
19	A And Marie Gardner, and there might have been a		19	A Not proposals but like the models, like your old	
20	fourth person, not Legal.		20	9 models. Where are those allocations?	
21	MR. CRAINE: Thank you.		21	Q Okay. What was the tenor of the call or what was	
22	THE WITNESS: And they were asking to get more	# 5 4 4 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	22	it like to you?	
23	archived information on some of these old model allocations.		23	A I'm sorry. Could you elaborate?	
24	Where would they be kept? I said I don't know. I suggested	11 12년 4월 11일 - 11일 12월 12월 12월 12월 12월 12월 12월 12월 12월 12월	24	Q Sure. I mean, were they I mean	
25	call IT, maybe go through my old network or something. Go to		25	A You mean like stressed, or	
			1.220007148		- And
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	Page 113			102/17/2009 Page 10 of 10 Page 114
1	Q Stressed or were they embarrassed at all to be		1	made, performance results from the changes, performance of
2	asking for this stuff, anything like that?		2	the program and current commentaries and expectations." We
3	A I don't think so.		3	can go ahead and mark it as Exhibit 6.
4	Q Who was leading the call?		4	It's an e-mail dated June 21 from Michael Zarich to
5	A Laura.		. 5	SGC Houston Branch, copying Jason D'Amato, Priscilla Olivia,
6	Q And again, what's Laura's role?		6	it looks like.
7	A She's in Operations with SCM, but I don't know her		7	(SEC Exhibit No. 6 was marked for
8	title, her official title. And they did say that Rhonda		8	identification.)
9	Lear, I think is the Compliance officer, would be calling me,		9	THE WITNESS: My assistant.
10	and she never did. Or might be calling me with questions,		10	BY MR. KELTNER:
11	but she never did.		11	Q So ballpark this time frame, is this close in time
12	Q Okay. Did they give you any indication as to what		12	to when you were given the offer to go to Antigua?
	they had found so far? No?		13	A Yes, I think I'm sorry. It was probably a
.3		2 • •	14	couple of months prior. I think August.
.4 			14	Q Okay. So what was the purpose of this State of the
.5	Q Just real briefly, I don't even think I need to		15	Union address?
.6	mark this as an exhibit necessarily, but there's an e-mail		10	A Well, it was common to have sales meetings with the
.7	that we found dated June 21, '05, and it's just sent by you			brokers. I mean, that's part of what I would do, not just in
.8	to the SGC Houston branch e-mail. That's all the FAs in		18	this branch but in other branches. I'm curious at Point 2 is
.9	Houston?		19	
0	A Yeah. Branch FAs, assistants.	- - 	20	kind of what we've been beating around all day, lookback at
1	MR. KELTNER: It says "Please Jason D'Amato and		21	the strategic changes in the program.
22	myself in the Lodis Room, Monday, June 27th at 3:00 p.m. for		22	Q When you say "strategic"
23	a State of the Union address on the MFP program."		23	A Meaning when we talked about trying to make those
4	It says "We'll be discussing methodology and		24	models as realistic as possible, I don't know.
5	process, lookback at strategic changes, why changes were		25	Q Okay. So you think this
9.5 M 3	1945-1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 1947 - 19	974e	2.95% 0.54	1246b99e-8d5b-48e7-824e-50cb5i
	Page 115	All Annual All		Page 116
1	A I mean, it's I'm sorry.		1	MR. KELTNER: We're going back on the record
2	Q So you think does this give you any idea that	 -	2	briefly after a short break. During the break, we agreed to
3	maybe the process of doing that project took place in '05,		3	adjourn to another date next week that we'll work out, that's
4	close to your leaving for Antiqua?		4	mutually agreeable. We'll go ahead and go off the record at
5	A I'd like to think that. I will say certainly it's		5	this point and we'll reconvene next week.
6	a sales meeting. I'm sure the pretense is to sell MFP, again		6	(Whereupon, at 3:37 p.m., the examination was
7	to keep promoting it. But that's what number two is. If I		7	adjourned.)
			8	* * * *
8	had to guess, that was probably on the heels of that analysis		9	
9	project, whatever you want to call it.		. 10	
0	Q And who would have run a meeting like that? Would		11	
. 1	that be you or D'Amato or		12	
2	A I would have. I would have run, most likely. I		13	
. 3	might have had he might have spoke took, but I would have		14	
4	run it.		- 15	
15	Q Was there anything significant about this State of		16	
16	the Union address?		17	

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17 A Yeah. I'm surprised at really my vernacular, but
18 I'm sure it was just a sales meeting. You know, Jay
19 Comeaux's the branch of Houston.

20 He probably said get my -- because he wants to have 21 sales meetings with his team all the time. He's like -- you 22 know, do a sales meeting with my group, and that's 23 probably --

24

25

MR. KELTNER: Let's go ahead and go off the record. (A brief recess was taken.)

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#### Zarich\_Michael\_20090204.txt

1	UNITED S	TATES SECURITIES AND	EXCHANGE COMMISSION
2			
3	In the Ma	atter of:	)
4			) File No. FW-2973
5	STANFORD	GROUP COMPANY	)
6			
7	WITNESS:	Michael Zarich	
8	PAGES:	119 through 296	
9	PLACE:	U. S. Securities ar	nd Exchange Commission
10		Fort Worth Division	n of Enforcement
11		801 Cherry Street,	19th Floor
12		Fort Worth, Texas 7	76102
13	DATE:	Wednesday, February	y 4, 2009
14		. · ·	
15	The	above-entitled matte	er came on for hearing, pursuant
16	to notice	e at 10:00 a.m.	
17			
18			
19			
20			
21			
22			
23			
24		Diversified Repo	orting Services, Inc.
25		(202)	) 467-9200

Page 1

		Zarich_Michael_20090204.txt	
5	EXHIBITS:	DESCRIPTION IDENT	IFIED
6	7	Memphis meeting SIBL questions,	
7		10/24/05	138
8	8	SIB investment portfolio performance	
9		presentation	176
10	9	Treasury meeting 12/9/05	191
11	10	Client SIBL questions	196
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13	12	Client presentation of Stanford SIO	228
14	13	Antigua client prospects' presentation	231
15	14	Continuation of Role Play Q and A	244
16	15	Stanford Int'l Bank, Ltd. letter visits	252
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18	17	FSRC quarterly report	273
19	18	Outline of FSRC On-site Examination	279
20	19	Letter to J. Rodriguez re examination	280
21	20	SIB Annual Report, although it's from	
22		2006	282
23	21	Resume of M. Zarich	290
24	22	Bio of M. Zarich	291

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PROCEEDINGS

- 2 MR. KELTNER: We'll go ahead and go on the record 3 at 10:00 a.m. This is a continuation of Mr. Zarich's
- 4 testimony.
- 5 I'm just reminding Mr. Zarich, you remain under
- 6 oath, so same rules, same procedures that we talked about
- 7 last time will apply today.

- Zarich\_Michael\_20090204.txt 1 APPEARANCES: 2 On behalf of the Securities and Exchange Commission: 3 KEVIN EDMUNDSON, ESO. MICHAEL KING. ESO. 4 5 D. THOMAS KELTNER, ESQ. DAVID REECE. ESQ.
- 6 7 CRAIG ELLIS, Accountant
- 8 Division of Enforcement
- United States Securities 9
- 10 and Exchange Commission
- 801 Cherry Street, 19th Floor 11
- 12 Fort Worth, Texas 76102
  - On behalf of the witness: 14
  - PATRICK K. CRAINE, ESQ. 15
  - Bracewell & Giuliani 16
  - 17 1445 Ross Avenue, Suite 3800
  - Dallas, Texas 75202 18
  - 20
  - 21 22
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1 CONTENTS EXAMINATION 2 WITNESS: 3 Michael Zarich 122 4 Page 2

Zarich\_Michael\_20090204.txt THE WITNESS: Okay. 8 9 Whereupon. 10 MICHAEL ZARICH 11 was recalled as a witness and, having been previously duly 12 sworn, was examined and testified further as follows: 13 EXAMINATION 14 BY MR. KELTNER: 15 0 The last time when we left off we had spent a lot of time talking about SAS and NFP, and you really just 16 started to touch issues related to the CD program, and your 17 18 move to Antigua. 19 A Yes. 20 Q And we talked a little bit about that obviously, 21 before, in an informal interview. But I want to go ahead 22 briefly today and talk about, just from the beginning, how you were approached to make the move down to Antigua, who 23 24 approached you. Just kind of start there. A I was approached, I want to say, in probably August 25

1 of 2005 by Jim Davis, who is the CFO of Stanford Financial 2 Group. He offered me the position of senior investment officer, which would be an investment officer on-site at the 3 Bank of Antigua. I accepted the position and then we 4 commenced it to a three-, four-month training period with 5 6 Laura Pendergest for a start date of January 1st, 2006. Q Okay. Initially, how did Mr. Davis explain the 7 8 position to you? 9 A It was a strategic vision of him and Al Stanford to have an investment person on-site at the bank that could

10 speak more intelligently to how the assets were managed at Page 4 11

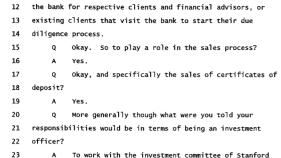


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Zarich\_Michael\_20090204.txt



- 24 National Bank, which would be Jim Davis, Allen Stanford, and
- 25 specifically the chief investment officer of the Stanford
- 9
- 1 Financial Group, Laura Pendergest, and a team of analysts in 2 Memphis, in helping oversee and monitor the portfolio but
- a mempinite, in herping oversee and monitor the portrollo bat
- 3 specifically to speak of that somewhat, I guess, as a liaison 4 between this investment committee and the analysts to talk
- 5 about a portfolio to these client prospects.
- b about a por crorito to chese criteric prospects
- Q Okay, so you help explain how the assets are
- 7 invested to prospective clients?
- 8 A Yes.
- 9 Q Okay. But what was your actual oversight role to
- 10 be? I mean what were you told in terms of were you going to
- 11 be overseeing the portfolio. Were you going to be actively
- 12 involved receiving reports daily, weekly?
- 13 A Initially, none. I was under the impression I
- 14 would be more involved with the investment side. I think as Page 5

Page 5

#### Zarich\_Michael\_20090204.txt

- 19 A The portfolio was divided into essentially three
- 20 tiers: tier one, tier two, tier three. Tier one is cash;
- 21 tier two is an investable portfolio of stocks, bonds,
- 22 alternative investments, commodities. Some cash as well that
- 23 is under Laura Pendergest, the chief investment officer and
- 24 her team of analysts that I would be more from an oversight
- 25 and monitoring privy to that side of the portfolio. And tier
- 1 III was under the discretion of Jim Davis and Allen Stanford.
- 2 And at the time, I have an impression, over time I would be
- 3 privy to more of the portfolio, meaning tier III.
- 4 Q We talked a little before we went on the record,
- 5 giving you a preview of some of the things we might look at.
- 6 That included some of these Q and A documents that we worked
- 7 through in Memphis. There's a lot of discussion in those
- 8 documents or at least mention of the different tiers. What
- 9 were you told during the training sessions about what was in 10 tier III?
- 11 A That it was similar to tier II, that it was an
- 12 investment portfolio of stocks, bonds and equities, utilizing 13 some of the same private banks or institutional money
- 14 managers out of Europe, primarily, but it was proprietary
- 15 then.
- 16 Q And who told you that?
  - A Laura.
- 18 Q Laura Pendergest?
- 19 A Yes.

17

- 20 Q Laura Holt? I'm sorry. Which do you call her? 21 A Pendernest I take it she's married -- Holt --
  - Pendergest. I take it she's married -- Holt --Page 7

- Zarich\_Michael\_20090204.txt15I mentioned on the call it did turn out to be more of a16marketing position, but just monitoring the portfolio, never17investing. I was never under the impression I would be18involved at that level of the portfolio to move money, invest19money, but just be privy of how some of the money is managed.20Q okay. You said initially you were under the21impression. Did you get that impression for Mr. Davis?22A Yes.
- 23 Q Okay. And so after you spoke with Mr. Davis, you
- 24  $\hfill had the impression that you would be overseeing the$
- 25 investment portfolio on some level, even if you weren't
- 1 actively involved in the day-to-day trades?
  - A That's correct.
  - Q And did you get a similar message from Ms.
  - Pendergest?
  - A Yes.
- Q So once the training commences, is your role
  replained to you any differently, or are you continuing to
  have that same impression?
- 9 A The difference is and I should backtrack a little. 10 I was under the impression that I would under time get to see 11 more and more of the portfolio to be able to explain it 12 better to clients. So going into the training it became 13 clear that I would be overseeing parts of the portfolio but 14 enough of the portfolio to hopefully speak intelligently to 15 potential investors on how the assets of the bank were
- 16 managed.

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Q So what were you told in terms of which parts of
the portfolio you would be able to see? Page 6

- Zarich\_Michael\_20090204.txt 22 okay, I believe so.
- 23 Q Again, we'll drill on this a little bit more later,
- 24 but one thing with is the proprietary nature of tier III.
- 25 because looking through the Q and A documents, it looks like
- 1 when clients inquired about tier II, they were told. Well,
- 2 what were they told when they inquired about tier II? If
- 3 they called up and said I want to see what's in tier II.
- 4 A I don't remember talking about the tiers to
- 5 clients. I think that was part of training.
- 6 MR. KELTNER: Sure. Sorry, I'll try not to clip 7 your answers.
  - BY MR. KING:

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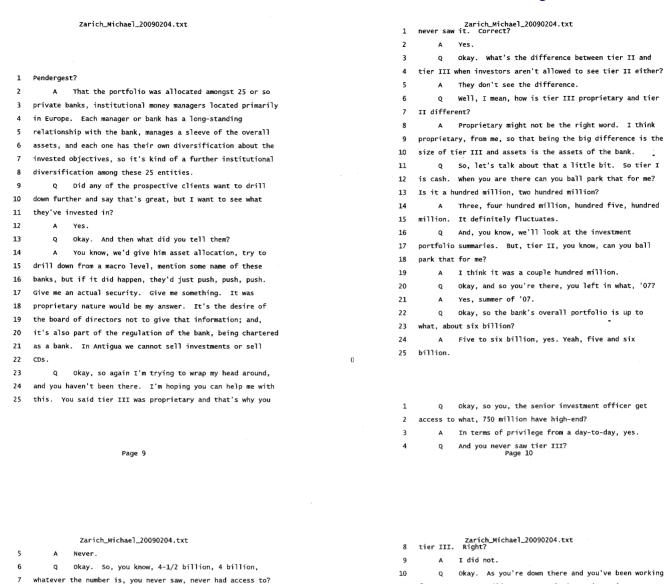
16

- Q You said part of your training was not to talk about the tiers?
- 11 A Correct. To a prospect of tier I, tier II, tier 12 III, that was more of an internal accounting process?
  - Q Who trained you to do that?
  - A Laura Pendergest.
  - BY MR. KELTNER:
  - Q Let me ask you more generally. When a client
- called or a prospective client was on the island, and they
  said, I'd like to see the investment portfolio, presumably
  you were talking to a big fish, \$5 million plus investors?
- 20 A Yes.
- 21 Q I assumed, at least, a few of them asked what money 22 was invested?
- 23 A All of them.
- 24 Q Okay. And when they asked that, what did you tell
- 25 them, that is, what were you coached to tell them by Page 8



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8 A Correct.

9 0 Since we're going down that path, before we

10 directly into the Q and A documents, I think you told me you 11 talked to a few of the analysts in Memphis.

12 A I did a part of my training, and as we mentioned

13 last week. I was up there a lot anyway with my role with the investment advisor group, but I didn't spend time at all. 14

15 Q Okay. And did you also see a few of them at

16 Antigua from time to time?

17 A That's correct. The analysts rotated on two-week 18 rotations, two at a time, continuously, while I was in Antigua. 19

20 Q Okay, when you spoke with them, I would think just 21 as an investment professional and out of curiosity, you know, 22 given the bank's impressive track record -- you know, hitting 23 their 15 percent roughly for 20 consecutive years -- did you 24 ever ask this? How do we do it? What's in tier III? Did

25 you ever ask that question?



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A Not tier III, but about I should say each of the analysts were charged with overseeing a particular bank or financial institution out of these 25, give or take. So I 4 would talk specifically about their particular manager that 5 their monitoring.

Q I think earlier you said that you expected that

eventually you'd see more of the assets, but you never saw

Page 11

A Right, asset class.

Q And what about, I guess I've seen pie charts. Is that the kind of thing you shared with clients?

11 for a year or so, did you ever go back to Jim Davis or Laura

A Not to Jim Davis. And I don't recollect

specifically to Laura asking about tier III. It's to see

contact when CD investors come down to Antiqua. Correct?

ask you about the investment portfolio, the answers you

provide are based fairly on tier I and tier II?

for the whole portfolio were done quarterly.

these percentage breakdowns by asset class?

Q So I quess you're kind of the primary investment

Q So were they supposed to come down and they want to

A Yes. And, not necessarily: I mean the allocations

Q When you say allocations, are you talking about

Pendergest and ask questions about tier III?

more of the long portfolio.

A Yes.

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3 Yes, there's quarterly publications. 4

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Q Okay, like in the quarterly reports and then in the

annual reports?

A Correct.

0 Where did you get those allocation numbers?

They were down by the Memphis analysts. 9 Α

Q Who sent them to you?

Well, the quarterly report is kind of a glossy, Page 12

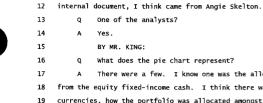


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Zarich Michael 20090204.txt



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- 0 What does the pie chart represent? There were a few. I know one was the allocation
- from the equity fixed-income cash. I think there was one on
- currencies, how the portfolio was allocated amongst
- currencies and then maybe alternative investments, how they 20
- 71 were allocated among hedge funds and alternatives.
- 77 9 What information would you need to put together the 23 nie chart?
  - A You would need all the portfolio holdings.
  - Including tier III? 0
  - Yes.
  - 0 How did you get the pie chart from Angie Skelton?
  - E-mail Δ
    - BY MR. KELTNER:
  - Were there any assets in tier III just by class 0
- that were different than tier II? I think you said it was 6
- very similar, same advisors, stocks, bonds. Did you say 7 8 that?
- I think it was several of them but I don't know. I 9 Δ
- 10 mean I would infer it as well looking at the quarterly
- 11 reports based on the overall allocation if we were stating 50
- 17 percent in equity that there was 60 percent in equity, but
- 13 what that equity composed of. I didn't know.
- Q Okay. What did you tell investors about the 14 Page 13

  - Zarich\_Michael\_20090204.txt
- 19 anv dailv.
- 20 9 So where would that REIT asset show up in the pie
- 21 chart?
- 22 Alternative. А
- 23 So if the pie chart's telling me that alternative 0
- is a 10 percent piece or an 8 percent piece, there shouldn't 24
- 25 be a big 40 percent real estate piece out there. I mean
- 1 that's your impression?
- z Yes. А
- 3 Q Okay. And where did you get that impression?
- Well, just on I guess the weightings of the 4 Δ
- 5 portfolio.

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- Q Just for the pie chart?
- А Yes.
- Q That came out of Memphis?
- ٩ Δ Yes.
- 10 0 So let's talk a little hit about these training
- 11 sessions. So we've seen some of the Q and As and we'll look
- 12 at them here in a minute. Explain to me generally initially
- 13 what do they tell you you were going to be in and then kind
- 14 of how the process worked in terms of training.
- 15 A Twould be a point person on island at the bank
- 16 to visit with prospective clients, financial advisors and
- 17 existing clients that come down there. I would work with the
- 18 president of the bank, Juan Rodriguez, to help present the
- 19 bank kind of as the sequence of events. He would start it
- 20 off talking about the history of the island and how the bank 21 came to be, the history of Stanford Financial, how the bank
  - Page 15

- Zarich\_Michael\_20090204.txt alternative assets? Because I want to know what that term 15
- 16 means to you. A Alternatives is an asset class that's not a 17 fixed-income, not a security. It's typically less correlated 18 19 to those other asset classes, cash, fixed-income, real estate, because it uses typically some bedging, long, short. 20 21 arbitrage, various styles within alternative investments to 22 lessen the overall volatility of the portfolios was why it would be used, why you would use them. 23 24 Q Okay, so I kind of understand what it's not. I
- still don't understand fully what it is. Is it a derivative 25
- 1 portfolio?

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- A It could be derivatives, stocks that short the 2 market. 3
  - 0 CAGs?
- 5 A You might consider commodity futures trading as an 6 alternative
- 7 0 So I take it you didn't know what was in the 8 alternative bucket?
- 9 A I saw the managers I did visit with when I was in 10 Europe, some of the underlying managers, but generally more from an asset allocation standpoint, broad asset allocation 11
- 12 standpoint.
- Q Okay. What about exposure to real estate? I think 13 14 I saw in the Q and A something about we don't have any real
- 15 estate exposure. Was that your impression?
- A There was no hard real estate that I knew of. but 16
- real estate access through refunds, like a real estate 17
- investment trust fund that tends to be more liquid trade than Page 1418
- Zarich\_Michael\_20090204.txt 22 came to be in compliance operations, and I would step in and 23 talk about how the deposits, how the assets of the bank are 24
  - managed.

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- 0 So the high level of presentation on how the CD
- proceeds were invested, basically? 1
  - A Yes.
  - so allocation type information, but no specifics? 0 А Correct.
  - Q Were there any hot button issues? Well, for
- 6 example, there's going to be a lot of prospective questions 7 from clients in there. Whether things they told you, this is 8 what you need to worry about. This is what you need to focus 9 on or anything like that.
- A Not to worry, clearly to focus on the questions for 10 11 my piece really came down to just the same questions and just
- 12 a thousand different iterations. How do you do it. How is 13 it done. How safe is my money. What are you doing here,
  - Just to say over and over.
- 14
- Q So in short how do you achieve these impressive 15 16 returns year over year?
- 17 A Cal State is my money. You know, where is the 18 money.
- 19 Q And, again, we'll drill down a little bit in a
- minute, but generally what were people told when they asked 20 21 how do I know my money's safe?
- A That it was safer than a traditional bank in that 22 23 there were no loan portfolios. If there was no loan
- portfolio, there's no loan reserves. Being an offer or 24
- entity that's not regulated by U.S. banking laws, we have the 25 Page 16

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- 1 flexibility to have this investment portfolio, any markets,
- 2 any security, long, sort, cash, flexible, liquid, so a lot of
- 3 it I think trying to release a lot of my presentation talked
- 4 about how the models were different than what a particular
- 5 client might be used to in a banking model. 6

Q And then a distinction between a commercial bank 7

- and a typical commercial bank and Stanford is essentially how the money is invested? 8
- A Correct. You know, a traditional bank, a 9
- 10 commercial bank takes deposits in. It lends them out and
- 11 creates a narrower spread, has to keep loan reserves, which
- 12 of course erodes more of the capital revenue; whereas,
- 13 Stanford International Bank, that model, it invested
- 14 therefore potentially creating a larger spread in the global 15 markets.
- 16 Q Okay. Well, let's go ahead and let's go quickly. 17 Who was leading your training sessions?
- 18 A Laura Pendergest and, T apologize, T don't remember
- 19 her last name, but there was an external consultant that kind 20 of facilitated it. It was Tammy, Tamara. It was really the
- three of us for a couple of months, not every day. 21
- 72 BY MR. KING:
- 23 0 Before you go too far down the road. T want to go
- 24 back to one thing you said just a minute ago. You said that
- 25 in your overall focus it was how you do it, the safety of the

Page 17

- Zarich\_Michael\_20090204.txt 5 take time and review the document, just let me know. At a
- 6 high level, what is Exhibit 7?
- THE WITNESS: This looks to be questions I put
- 8 together based on some of my observations. Let me backtrack.
- 9 I think the early part of the training I spent one on ones
- 10 with each of these analysts and came back to Laura with some
- 11 of my initial questions.
  - BY MR. KELTNER:
- 13 Q So this looks like maybe guestions that you had
- 14 compiled after you had training sessions.
- 15 A Early on.

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- 16 0 Okay, and then there are obviously answers in here.
- 17 Are these answers that you came up with on your own or were
- they based on what you were told by Laura? 18
- 19 A These answers were from Laura that I believe I
- 20 wrote them in. In other words I don't think she wrote these
- 21 in. I believe I asked the questions and probably typed them 22 in and wrote them in.
- 23 Q Okay. So do you think you had collected a bunch of
- 74 questions and then perhaps had a meeting on October 24th with 25 Laura where you asked her the questions?
  - A Correct

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- Q And then are you sitting there with a laptop typing
- in answers as you go or are you taking notes?
- A I would guess I was with a laptop taking notes.
- Q So you're taking these answers down live as Laura's
- 6 giving them to you?
  - A Most likely, but don't recollect for certain.
    - Page 19

2 about what you would say when someone would ask about the 3 safety of the money. Δ A Right. 5 Q What do you say if someone asked you about where is 6 the money? A I would mention again the 25 private banks and 7 institutions, and they would use either their own custodians 8 or other custodians just like any other investor, whether 9 10 it's UBS or Bear Stearns, or Schwab or HSBC. So the assets were kind of held at these multiple facilities around the 11 17 world 13 0 And how did you know that that's where the money 14 was? 15 А I would only have known on parts of tier II by 16 seeing the statements. 17 Q Okay, as far as the other \$4 million, how did you 18 know where that money was?

Zarich\_Michael\_20090204.txt money and where is the money. And I think you just told us

- 19 A \$4 billion?
- Q \$4 billion 20
- 21 I did not. Δ
- 22

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- MR. KELTNER: Okay. So I'm going to hand you a document that I'm marking as Exhibit 7.
- 24 (SEC Exhibit No. 7 was marked for
- 25 identification.)
- MR. KELTNER: It's entitled SIBL questions from 1 2 October 24, 2005, or 10/24/05 Memphis meetings. I know you had a brief opportunity to flip through these documents 3
- before we started testimony; and, if at any point you want to 4 Page
- Zarich\_Michael\_20090204.txt Q Okay. But generally? 8 9 MR. REECE: Was that the standard practice? THE WITNESS: I did it a lot, but I wouldn't say 10 11 standard practice. 12 BY MR. KELTNER: 13 Q Is that how you remember the meetings going when 14 these training sessions when you were doing the Q and As that you would sit there live and take information down? 15 16 A Yes, I mean I'm a big note taker and it would have 17 been a combination of probably handwritten and typed in. 18 0 But are you fairly confident that the questions are 19 questions that you put together and the answers came from 20 Laura? 21 Yes. 22 9 So for lack of a better way to get through this, 23 I'm just going to go through it in order and hit a few questions for you. Item 1 says what oversight you have on 24 Wade and David's commodity trade portfolio and Mark's equity

1 strategy. Let's start with who are those people? Who are 2 Wade, David and Mark?

- A Wade McGee, David Fontenot and Mark Collingsworth 3 are all three analysts with the Memphis group. David 4
- Fontenot has left the firm and they were managing essentially 5 a commodity portfolio in-house, trading future contracts on 6
- 7 commodities. 8
- Q Okay. And Mark, what was his role? Is it 9 Collingsworth? Is that right?
- A Yes, Collingsworth, he had an equity strategy, a 10
- long only equity strategy. Wade and David have a commodity Page 20 11

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12 trading portfolio. There is a distinction there. 13 0 And are these in-house portfolios or are these advisors that are overseeing? 14 15 A My impression Mark's was kind of a prototype portfolio, but it wasn't live with actual money. And then 16 17 Wade and David I believe were managing assets. 18 O So I think I saw some later questions, and I'm 19 paraphrasing here, but essentially are the advisors in 20 Memphis going to be allowed to handle real money down the 21 road. So at this point, the advisors are just using -- not 22 to be pejorative -- but play money? I mean, they're using a 23 synthetic portfolio? 24 A I believe Mark Collingsworth's was, but I believe 25 Wade and David's was not.

- O The commodity portfolio?
- 2 A Right.

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Q So you think at some point in this '05 timeframe

4 they're running a commodity portfolio?

5 A Right.

6 Q Continuing in item number 1. it says they have an

7 investment policy in place, weekly holdings reports. They

have discretion. However, SIO has overriding abilities. 8

- ٩ Occasionally, they run by trades before executing. So the SIO. that's you? 10
- 11 A I would read that as the CIO, but I never have any 12 discretion.
- 13
- Q Because what we're trying to get -- I mean, when we
- 14 get to this, you'll see a recurring theme, but it says the

Page 21

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- 19 your recollection was, how things actually worked, and if
- 20 that was actually what investors were told.

21 So what kind of internal auditing procedures, and A

- 22 is checks and balances. And it talks about Patricia. Mr.
- 23 Davis, and SIO, to determine cash available, and then Mr.
- 24 Davis approves the wire. Just stopping there first, who is 25 Patricia?
- 1 A Patricia Maldonado is the manager, for lack of a 2 better word, over tier I cash. She's essentially the cash manager of tier I. 3
  - Q Okay, and is she in Houston?
  - А She is in Houston.

6 0 Does she work for Stanford Group or who does she work for? 7

- A She works for Stanford Financial.
- Q Stanford Financial Group?

10 A I believe she reports directly to Jim Davis, or she 11 did.

12 Q What does she do? I mean, you can't get in your 13 title what she did.

14 A Treasury would oversee the cash at the bank, all

- 15 the money coming in, all the money going out, making sure
- 16 that the assets and liabilities were mixed right. There's no
- 17 shortage of cash. Maybe with a bunch of deposits, CDs coming
- 18 due in a month or two, they would kind of keep that balance
- 19 of cash at a bountiful level just to maintain liquidity.
- 20 Q So this cash that comes in, is that largely CD
- 21 investments?

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- Zarich\_Michael\_20090204.txt 15 senior investment officer does 'x' and there are also
- 16 references to the chief investment officer doing things. 17 What we're trying to figure out is whether you were told to
- 18
- tell people that you did these things. And it looks like it 19 from the face of the document. So that's what I'm trying to
- 20 get clarified.

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- A Hm-hmm. Is there a question?
- O That's essentially the question were you told
- 23 that this would be a role, or were you told that this is what
- 24 you should tell them?
  - A It seems looking at this that I was told this would
- 1 be my role.
  - Q Okay, so senior investment officer is likely you? А Yes.

4 O Okay. And whether what you actually did later is 5 different is another issue. But I'm just trying to get, you know, when you're taking these notes and the training is 6

- going on you were told that this would be your role?
- A Yes.

0 Okay. So at this point you were told that you would have overriding abilities most likely? 10

11 A Based on this question, yes.

Q And you take that to mean that you would have had

- some sort of veto role with regard to trades or positions?
- A Yes. Reading this, that's what I would take.

15 Q Skipping down just a little bit to item 5, there's 16 a question entitled, "What kind of internal auditing

17 procedures are in place?" I guess, let's just get through

18 this and let's talk about how this is consistent with what Page 22

Zarich\_Michael\_20090204.txt A Yes.

Q Okay. And then they would be the ones that would 23 24 then wrap the money. Where does the money go once the CD 25 money comes in?

1 A It would be wired, I think at the time there was 2 three banks. So the client money would go into, I know, HSBC 3 was one of them. Toronto Dominion was another, and I think 4 there was a third in the states, but I don't recollect. And 5 that's where she would manage at all those banks, manage the 6 cash.

7 Q Okay. There's a statement in here about the SIO 8 determines cash available in conjunction with Davis and Patricia? Did you have any role in overseeing the cash in 9 10 tier T?

А No

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Q It goes on to say: "Patricia monitors liquidity 12 13 needs and all the work together to monitor cash in tier one. 14 Always be aware of tier II, cash 2." So what's the distance 15 between tier I cash and tier II cash?

- A In tier II you're going to inevitably have cash if 16 17 you liquidated investments or you're moving cash in there and 18 you're waiting to invest the assets. You might have some cash to accumulate, so I think you would want to make sure 19
- 20 you don't have too many cashes. Patricia with tier I doesn't
- 21 necessarily know tier II or 3. So I think what this tells me
- 22 is just make sure we don't have too much cash, that we're
- 23 fully invested.

Q Okay. In the following sentence there's a

reference to drawing down 50 million monthly. Do you know Page 24 25

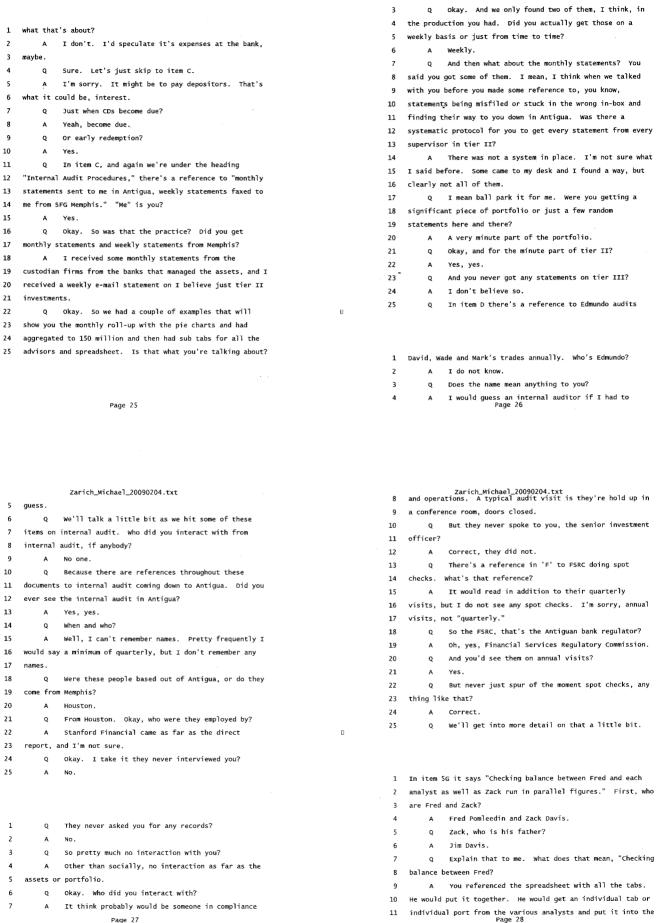


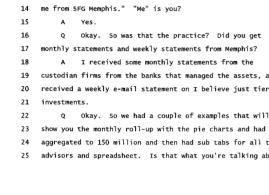
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1 2 e-mail

Zarich\_Michael\_20090204.txt A That would be referencing the tier II weekly





5	guess.
6	Q We'll talk a little bit as we hit some of these
7	items on internal audit. Who did you interact with from
8	internal audit, if anybody?
9	A No one.
10	Q Because there are references throughout these
11	documents to internal audit coming down to Antigua. Did you
12	ever see the internal audit in Antigua?
13	A Yes, yes.
14	Q When and who?
15	A Well, I can't remember names. Pretty frequently I
16	would say a minimum of quarterly, but I don't remember any
17	names.
18	Q Were these people based out of Antigua, or do they
19	come from Memphis?
20	

- 21 Q From Houston. Okay, who were they employed by? 22 Stanford Financial came as far as the direct Α 23 report, and I'm not sure. 24 Q Okay. I take it they never interviewed you?
- 25 A NO.

1	Q	They never asked you for any records?
2	А	No.
3	Q	So pretty much no interaction with you?
4	А	Other than socially, no interaction as far as the
5	assets or	portfolio.
6	Q	Okay. Who did you interact with?
7	А	It think probably would be someone in compliance
		Page 27

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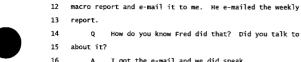
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Q How do you know Fred did that? Did you talk to him about it?

- A I got the e-mail and we did speak.
- 0 So you know that Fred was the one that prepared
- those spreadsheets? 18
- 19 A Yes.

report.

- Q And what's the reference to Zack running parallel figures?
- 22 A I believe he is running also your same kind of
- 23 year-term roll-up, probably for a checking balance. But I
- 24 did not receive. Maybe it was a backup or something, but I
- 25 did not receive e-mails that I know of from Zack Davis.
- 1 Q So the idea may not be in the basically Fred and 2 Zack are preparing the same data, and just set them side by 3 side and made sure that they could?
  - A That's how I would view it.
  - BY MR. KING
  - o Item 5G on Exhibit 7 would be a checking balance
- from tier II? 7 8 A What I received from them was only tier II.
- 0 So you don't know whether this item 56, whether
- q that checking balance was ever applied to tier III?
- 10
- 11 A Correct. I don't know.
- 12 BY MR. KELTNER:
- 13 Q So does item 5 represent what you were told to tell
- 14 investors by Laura?
- Page 29

Zarich\_Michael\_20090204.txt

- 19 go from bank to bank to bank, you know, custodian. And with
- 20 a very large suitcase to actually take the money.
- 21 Q Okay. If you can see I'm struggling with all the
- 22 safeguards and procedures that he referenced, they would all
- 23 apply to tier II. right?
- A Yes. 24
- 25 Q Okay, and as far as you know, you know nothing

1 about the safeguards surrounding tier III, right? 2

A Right.

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Q Okay. I guess here's what I'm struggling with. An investor, when they ask you the question, they're not asking 4 what safequards are there for 20 percent of my money, are they?

A Right.

Q Okay. So as I understand it, when they ask that question, it's a little misleading. I mean are investors going to assume that those safeguards apply to all money? A It was my belief that the money in tier III, although may not have had these eyes on it, was still invested with some of these same banks located around the

14 world. So to answer your question, it was just belief and 15 trust.

MR. KING: Did vou ever tell a potential investor

- 17 that the analysts didn't know what money was in tier III? 18 THE WITNESS: No.
- 19 BY MR. KELTNER:
- 20 Q Yeah, so I quess that's kind of the overriding
- 21 question is investors may ask you the general guestion what

Zarich\_Michael\_20090204.txt A Yes and no. I think this would not be a polished answer to a potential investor. As we talked of it, again, I

17 think this is kind of for my own edification entering into 18 this process.

19 Q Okay. We talked earlier about, you know, investors asking where the money is and how the returns are gained, and 20 21 pretty much every single one asking you where the money is

22 invested. Presumably, some of them also asked about controls

23 and safequards. So what were the told if they asked a

24 question like this?

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A I would talk about how many analysts are looking

- 1 over the portfolio. You have 20 plus analysts in Memphis.
- 2 Each analyst is in a sense segregated with their own piece of
- 3 the nortfolio that they monitor. It's monitored daily. You

4 have checks and balances. You have, you know, globally

- 5 diversified array of money managers, different custodians
- 6 The money is virtually very spread out. So that was another
- 7 typical question. Could Allen Stanford run off with the 8 monev.
- q Yeah. I think we saw that one. It was somewhat Α 10 entertaining.

Q Oh, was it? So, I mean a typical question was 11 12 could Allen Stanford run off with my money?

13 A Right, and the answer would be it would be

14 extremely difficult. There's no money at the bank. In fact

15 that was one of the jokes of the tour, when whoever did the

16 tour took the clients on the tour of the bank, there

actually is a safe, but it's a safe that had petty cash in 17

it. The money's invested across the globe, so he'd have to Page 30 18

- Zarich\_Michae]\_20090204.txt 22 safeguards are there, and your response is in part there's
- 23 this team of global analysts. Each one of them manages an
- 24 investment advisor. That's part of the answer.

25 A That's the monetary part of the answer. The

1 reality is where the money is it's diversified and held.

2 Q Sure. But the reality is what 75, 80 percent of

the money the analysts never see, right? 3

A As far as I knew they did not.

0 Okay. And so was that communicated to your

investors? Were investors told we've got all these

6 7 safeguards in place. We've got all these analysts that look at the money, but they only look at 10 percent of it or 20 8 9 percent of it?

A I did not. I would not tell an investor that.

- BY MR. KING:
- Q Why not?

A You know, that was partly because it was

proprietary. I was trained not to divulge too much 14

- information, but it just wouldn't leave an investor with a 15
- 16 lot of confidence. 17
  - Q Who have you a trained to do that?
  - A Laura Pendergest.
  - BY MR. KELTNER:

Q Tell us about it a little bit. Item 6, has there 20 21 ever been an outside audit on the following page in item 6,

22 CAS Hewlitt & Company. We talked to you a little bit in our

23 interview about CAS Hewlitt. Have you ever met anyone from

- the firm? 74
  - A I have not. Page 32

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1	Q Okay. You were down in Antigua for what, a year
2	and a half, two years, year and a half?
3	A Yes, year and a half.
4	Q Okay. Did you ever see anyone from CAS Hewlitt?
5	A I did not.
6	Q Were you ever given a copy of the audit?
7	A I don't believe so.
8	Q Sitting here today and aside from the audit letter
9	and the financial statements, can you say one way or the
10	other whether or not it was conducted while you were there?
11	A I couldn't say.
12	Q What were you told about CAS Hewlitt?
13	A I recollect he or they had a longstanding
14	relationship with Allen Stanford, or maybe even his father.
15	They were one of the few auditors that we'd kind of take them
16	on early on in the bank. And there was, you know, just a
17	trusted relationship there. And the question would often
18	come up. Why not a big name auditor?
19	A Right.
20	Q And what's the answer to that question?
21	A I've heard answers they wouldn't even give Stanford
22	the time of day 20, 25 years ago, and these were the guys
23	they trusted and done this since, I think, the beginning.

25 best you would ever push back and say, you know, I'd feel a

Page 33

O Did that ever make it hard to sell the CDs to the

- 5 probably speak to that better, Juan Rodriguez.
- 6 Q Sure. What kind of answer would you or Juan give?
- 7 A Oh, I may have used it, you know, that such and 8
- such audited Enron. Did that do you any good? You know, stuff like that. 9
- 10 Q So basically a big name audit firm is not a
- 11 quarantee, that kind of thing?
- 12 A Yes.
- 13 Q When you were down in Antigua -- it's a more

14 general question -- do you know of any other clients that CAS Hewlitt has?

15

16 A I do not.

17 Q Never had a list of references or anything like that? 18

- 19 A I don't recollect seeing any references.
- 20 0 Okav. Moving forward to item 8. it says: "How is

21 leverage calculated on the overall portfolio? Most

22 leveraging done in tier III, margin against existing

23 securities, hedge funds that leverage is also included. Most

- 24 leveraged capital used to purchase alternative funds and
- 25 about LIBOR plus an 8." Okay. So let's talk about that



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1 first one. What did you know about the leverage in tier III? A That that's trigger something. I recollect that 2 tier III held a fair amount of fixed-income type securities, 3 4 presumably investment grade. So if you were going to lever a 5 piece of the portfolio, as this concurs, you would lever off 6 the safer investment. Take the leverage. Take the margin,

if you will, and buy into other assets to enhance your

your big four firm? 2 3 A I can't say my role at the bank was such as last kind of closer role with a CD. I would imagine selling the 4 CD product was probably difficult, depending on the financial 5 6 advisor's relationships and scale.

Zarich\_Michael\_20090204.txt 1 lot better about this at Price Waterhouse, or you know, pick

0 Did you get that guestion when folks came down to 7 8 Antiqua or otherwise?

A Yes.

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Q Okay, and when clients asked a question, I know 10 11 you'd give the relationship story, but when they really 12 drilled down did you have anything else you could tell them?

- 13 A You know, you would talk, and Juan maybe answered 14 the question. I maybe answered the question. The board of
- 15 directors has talked about maybe getting another auditing
- firm in here but realized Mr. and Mrs. client, this is going 16
- 17 to be expensive. It's going to erode some of the yields.

18 though the yields won't be as competitive with these things. 19 Q So, was part of the answer CAS Hewlitt cheaper than 20 a big name audit firm?

21 A I would say a big part of the answer was getting a 22 big audit firm's expensive.

- 23 0 And the other side of the question being that 74 Hewlitt is less expensive?
- A Oh, I think to the client, do you want a lower 25
- 1 yield. I think you put it to the client, which would you
- 2 rather have -- 75 basis points less yield -- and also, you
- 3 know, I know you could probably ad nauseam about do you even
- 4 trust the auditing firm. You know, I think Juan could Page 34

Zarich Michael\_20090204.txt 8 return.

Q So your recollection is that tier III included. I q 10 guess, more safe, secure, fixed-income assets that were then 11 levered to invest in alternative investments?

12 A Or, certainly, a larger percentage, just given the 13 size of tier III.

14 Q So what do you know about the leverage in tier III? 15 I guess that was just part of the strategy to lever up the alternative piece? 16

A Alternative investments would be levered from other 17 18 safer securities. I believe there was the investment policy 19 had a cap on that, maybe 30 percent.

20 BY MR. KING:

> Did you ever discuss with any potential investor 0

> the fact that certain tier III assets would be leveraged?

A I would never use the term tier III, but I did

- 24 discuss leverage, which is the same concept how leverage is
- 25 used in the portfolio, and now what parameters it's limited
- 1 at. 2

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Just so I make sure I got it, what did you tell Q them?

A I would tell them that the safer, fixed-income type 5 desk securities would be used for leverage to create margin 6 to buy alternative investments.

- BY MR. KELTNER:

Q Okay. You know, I want to sort of get through some 9 of this just quickly as we can, so just go to item 9 on page

10 2 of Exhibit 7, talking to advisors. Item 9, first, that

11 reference to advisors, that's the global network of 24, 25 Page 36

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12	advisors.	Is that correct?	
13	A	No, financial advisors; well, let me read it.	
14	Q	Okay.	
15	А	Yes, yes.	
16	Q	So that's a reference to these international money	
17	managers?		
18	А	Yes.	
19	Q	So SIO is a relationship manager. So that's you,	
20	right?		
21	А	Yes. *	
22	Q	This says, "On View is the global macro, top down	۵
23	expert. SP	G analyst does all the day-to-day analysis and	
24	weekly/mor	nthly reports. Call when I have something specific	
25	to discuss	s until relationship forms. They should come to us	
	_		
1		once a year and I will go there about twice a year.	
2		ink when we talked to you before, you said you met a	
3		f the analysts on trips, or the advisors when you	
4		to Europe. Is that true?	
5	A	Yes.	
6	Q	So this idea that each of the advisors would come	
7	to you at	least once a year, did that happen?	
8	Α	It happened not once a year, but they did have	
9		due diligence requirements from their firm, so	
10	there were	e some visits to the bank.	
11	Q	So, systematically, did every advisor come visit	
12	you?		
13	A	No .	
14	Q	So ballpark it for me.	
		Page 37	

n	the	ag	enda?									
	Α		When	I	originally	went	I	was	still	in	the	capacity

Zarich\_Michael\_20090204.txt

- 21 of the investment advisor group, the managing director of the 22 investment advisory group. It was my belief that Jim Davis
- 23 wanted me to go to kind of see the process, you know, kind of
- 24 feel the story, understand. Who knows? Maybe he was seeing
- 25 me as SIO down the road, but also kind of get a picture of
- 1 the global network of Stanford Financial,
- 2 In those meetings, very superficial. I would
- 3 actually leave when the portfolio discussions would start.

4 Statements would come out. I would leave the conference 5 room.

Q Why is that?

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Δ Because I wasn't in a senior investment officer

capacity and it was still viewed as proprietary information.

- Q So you were pressed to leave?
- А Probably.

11 Q So who was at this meeting? You, Laura Pendergest, 12 and Jim Davis?

13 A Yeah, it depends. Each trip was different. I

14 think the first couple was Laura, Jim and I, but he would go 15 visit other managers; and, sometimes, I would be with Laura. 16 And like I said we would have an hour meeting, maybe talking 17 about what we were doing in the states, the IRA, what they're 18 doing. Maybe there are some synergies there. And then it's 19 like, okay, well let's do our annual portfolio or view and

- 20 then I would step out.
- 21 BY MR. KING:

Zarich\_Michael\_20090204.txt I believe there were two firms. 15 А 16 0 Okay, so two firms. 17 And I think they were required to come annually. Α Q Okay. So those two firms came in and did their own 18 19 for their own purposes? 20 A Yes. 21 0 So the other 22 or 23 advisors didn't actually come 22 to visit? 23 A I don't recollect they did come in. 24 0 Okav, and ballpark it for me. I mean, as a 25 reference to you going to visit the advisors twice a year. 1 A I did not go see them after I became CIO. I had 2 visited them the previous year four times, ballpark. 3 o okav. 4 A And not all 25 of them. let's say, four times as in 5 four trips to Europe seeing maybe six, seven. 6 0 And when you went back was it the same six or seven, or did you stick through all 24? 7 A Same 8 9 0 So, again, when you went over and visited you met a core group of six or seven advisors, but never met the other 10 11 18? 12 А Yes. 13 O And so this idea that you would go to them at least twice a year didn't happen? 14

- A Did not happen.
- BY MR. KING:

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- 17 Q When you talked to those, I guess, with what we 18
- were calling analyst portfolio managers in Europe, what was Page 38
- Zarich\_Michael\_20090204.txt Q And that happened with each of these meetings that 22 23 you went to, essentially? A Yes. essentially 74 25 0 And you said you went four times, and each time met

with what five or six advisors? 1

- Yes. А
- Q And typically the same five or six?
- А Yes.

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- Q Okay. And was that pretty much universal whenever 6 it came time to talk about the money and the financial
- 7 statements, you were asked to leave?
- A Yes, and it wasn't -- I mean -- some of the 9 meetings, we might just have dinner. I mean it always 10 varied, but I was not in any meetings when the portfolio was discussed. 11
- 12 Q Again, just trying to work through this document 13 pretty quickly, skipping on to 18, page 4 of Exhibit 7: "Who's responsible for monitoring overlap of the security and 14 15 fund level? SIO. Each advisor may have their own exposure to Asia, merging markets, Eastern Europe, et cetera. There 16 17 are no limits to individual positions; however, portfolio 18 does have to be diversified across all countries, sectors, 19 regions, commodities, et cetera." So the senior investment 20 officer, that's you, right? 21 A Yes. 22 Q So this idea that you played a role in making sure

23 that there was no, I guess, overlap at the security level. First, the overlap, is that talking about different advisors 24 25 being invested in the same thing, so you're less diversified Page 40

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1	than you think?
2	A Yes.
3	Q Okay. So the danger is all the advisors in Enron,
4	or whatever the example is?
5	A Yes.
6	Q Okay. And so did you actually play that role? Did
7	you go through and look at all the reports and make sure that
8	there weren't overlaps in the individual security positions?
9	A I did not.
10	Q Okay. Do you know who did?
11	A I would think in tier II Laura and the analyst
12	monitored that.
13	MR. KING: How about tier III?
14	THE WITNESS: I don't know.
15	BY MR. KELTNER:
16	Q So item 19, quickly, there's a reference to "any
17	plans for real estate investments in the portfolio." And
18	there's a response back, "Currently we do not hold real
19	estate due to liquidity constraints." So I assume that's
20	what Laura Holt Pendergest told you, that there was no real
21	estate exposure?
22	A Yes.
23	Q Okay. There's a reference to data liquidity
24	constraints. Can you explain that to me?
25	A I believe my question was land. I mean hard assets

Page 41

Zarich\_Michael\_20090204.txt 5 A And they certainly wouldn't told, you know, we've 6 got a third of our portfolio locked up in real estate or 7 anything like that. 8 Q Just real quickly, item 20 refers to SSM. It says. 9 "Is SSM Investment a private placement or a capital 10 investment in a venture capital firm?" What's SSM? 11 A I don't know. It was something I saw, initially, 12 an investment. And I'm asking what it is, and it looks like 13 it was probably a venture capital firm or something, private 14 placement. 15 Q Okay. Were you told anything about money that was 16 invested outside of these 24 global investment advisors? In 17 other words, you know, were there any U.S. based firms that 18 were used in SSM be one? A It might, yes. I don't recollect. I know if any 19 20 very little invested with U.S. firms, but I never knew the 21 answer for certain if it was zero, five percent or ten 22 percent. 23 Q Okay. Did you ever hear anything about a 24 Memphis-based hedge fund or anything like that? 25 A No. No. It's possible SSM is in Memphis.



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Q	Does	the	name	Jim	Holt	mean	anything	to	you	or	
James Holi	t?										

- 3 NO. А
- 4 Q Skipping forward to item 22 on the next page of
- 5 Exhibit 7, entitled, "Explain credits and their potential 6 role in the overall portfolio," then the response is: "Tier
- 7 III or separate tier altogether, looking for additional ways

Zarich\_Michael\_20090204.txt would be difficult to sell mark to market and what not. So 1 2 it's not typically a liquid asset. 3 0 Okav. So was part of the story when you talked to 4 investors we've got this investment portfolio. It's very 5 liquid, you know. If people want their money out, we can get 6 it quickly? A Yes. 7 o So liquidity was that kind of a key piece of the 8 sales pitch? 9 A Yes, liquidity, and we should say -- I'm probably 10 going to say this a lot to day -- but it was never the sales 11 pitch to talk about the investments. It was a necessary part 12 of the process, because everyone asked. 13 14 O Right. 15 But it was not part of our pitch. And certainly А 16 when Juan Rodriguez is sitting in the presentation, you know, 17 it would be like all constantly remember this is a CD. So no matter what this portfolio does it's still a CD that pays 18 19 But in talking about the portfolio, liquidity was important. 20 I don't think from the concern of how am I going to get my 21 deposit back, but if something major happens in the world and 22 we have to liquidate this entire portfolio, most of the

23 securities can be sold in days.

24 0 Okay. And that was what the investors were told is 25 look. If there's a giant terrorist attack, or whatever the

1 cataclysmic event is, we can liquidate most of our positions 2 within a matter of days.

3 A Yes.

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- o okav. Page 47
- Zarich\_Michael\_20090204.txt to diversify it, less than 20 percent of entire portfolio. 8 9 These are basically large commercial loans from companies, 10 governments, et cetera. SIBL made by these loans as well 11 will hire underwriters and risk analysts specialists." When we talked about tier III a little bit, what are these 12 13 credits? A I have no idea. Whatever the answers refer to it's 14 15 20 percent of the entire portfolio, but I really don't know. 0 Okav. So I mean 20 percent sounds like a 16 17 significant exposure. Correct? 18 A Yes. 19 Q Okay. So you until today have no recollection of 20 what these credits are? A You know what? I actually do recollect. I think 21 22 it was something Jim Davis had talked about possibly doing; and, I think this is probably this document. It's just notes 23 24 and fragments of ideas, but yes there was. And I don't know if they actually ever did it, but it would be essentially 25
- 1 buying secondary debt in the market.
- 0 But aside from that, the monthly reports you got, 2 3 the weekly reports, you never saw any reference to credits or
  - anything like that?
  - A Never.

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- MR. KING: How did you know to ask this question?
- THE WITNESS: It must have come up in a
- 8 conversation with Jim Davis talking about that; and, I
- 9 believe, I probably asked Laura: "So is this something we
- might do, invest in these credit commercial loans?" 10
  - BY MR. KELTNER: Page 44

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Q Continuing on, item 26 says: "What is the plan and
time horizon for hiring staff in Antigua?" And it talks
about eventually we'll hire support staff, credit
professionals, analysts, and then in parens "(unless SFG
Memphis continue rotations, etc.) If Memphis ceases
rotations, then probably should hire a few analysts like
generalists." So what's the discussion there? Explain it to
me.
A I believe to build out an investment staff
permanent in Antigua at the bank.
Q Okay. What was the reasoning for that?
A Probably what you eliminate or reduce the reliance
on the Memphis analyst group, which I think was the start of
the genesis of the SIO and building all the investments
pieces, back to when you asked me about Jim Davis approaching
me. That was the one piece that's kind of been missing from
the bank. So when clients are down there, prospects are down
there. So where's your investment people? Oh, they're in
Memphis.

6 Q Okay, so was the issue that they could do their

jobs better from Antigua or was the issue the image for 7 8 clients?

- q A I would say both.
- 10 Q Okay. If they're getting statements from Europe
- 11 and all across the world, and they're doing an analysis
- 12 presumably related to assets that have nothing to do with
- 13 Antigua, does it matter where they are?
- 14 A I don't think so. I mean, unless, I don't think it Page 45

Zarich\_Michael 20090204.txt

- 19 allowed to talk to the investors? Would that be
- Collingsworth? 20
- 21 A They could talk. Anyone that was there would talk,
- 22 and I think 9 out of 10 questions would probably be about,
- 23 oh, you cover Asia? You know, what do you think of China's

24 government or something?

25 MR. KELTNER: So more superficial.

1	MR. KING: Did the analysts ever tell any of these
2	potential investors that they didn't know where their tier
3	III money was?
4	THE WITNESS: Not that I know of.
5	BY MR, KELTNER:
6	Q Okay, item 28: "who monitors the parameters set on
7	individual positions and overall asset allocation. Is this
8	done across all tiers?" And the response back is SIO and
9	board of directors. The SIO, that's you, right?
10	A Yeah.
11	Q And I think we've established you didn't do that?
12	A No. I think this more maybe held the position I
13	was initially trained or my thought. But no; I did not.
14	Q Okay. And this reference to doing it across all
15	tiers, I mean I think we talked earlier when clients asked
16	you about how the money was invested, you didn't distinguish
17	between tiers, right?
18	A Correct.
19	Q Okay. So if they asked you a question about what
20	controls are in place or what did you do, the answer was
21	general and applied across the entire portfolio?

Zarich\_Michael\_20090204.txt 15 matters from a regulatory standpoint. I think it looks good 16 and it's more cohesive.

- So it looks good to clients? Q
- Yes. А

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- Okay. When you had a particular big investor Q
- 20 scheduled to rotate through to come in for their visit to the hank was there an effort made to be certain that there was 21
- 77 an analyst team on-site, you know, when those investors came
- 23 through?
- A Yes. All investors, potential investors 24
- 25 Q Okay; and I think I know the answer, but why would

1 you want to have an analyst team on-site when the investors came through? 2

3 A I think to bolster that image and to answer 4 questions to them, the analysts would tend to be more 5 generalist in their areas, and they would never sit in on the 6 presentation, but they would be a part of the tour of the 7 bank. They would go into their room and they might, you 8 know, I would have already introduced them. Mark a Collingsworth's here. He covers U.S. Equity. So they might 10 ask questions to hear what the analyst has to say. 11 Q And typically how long would the interaction 12 between the analyst team and potential client be? A Mostly brief. like rotate through the room, kind of 13 a meet, handshake and leave, 14 15 0 Okay. So I take it there were no in-depth 16 questions from the investors to the analyst team? 17 A No. 18

- Q Okay. And, if there were any interactions, who was Page 46
- Zarich\_Michael\_20090204.txt A Yes. 22
- 23 Q Okay. And I think Michael has established, you
- 24 know. there was no distinction made between the tiers in
- 25 terms of what you did or didn't do?
- A Right. We'll see if that stops additional 1 questions on that. 2
  - BY MR. CRAINE:

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4 Q Just real quickly, flipping the page to item 30, it 5 says: "Where do you see the role of an SFG analyst involving over the next few years as it relates to their advisor 6 7 relationships?" There's a response. "They're becoming more and more involved with the advisor relationship." It goes on 8 q from there. Were their discussions about what the analysts 10 did in expanding their role?

11 A The question was, you know, at the time, I believe 12 the analysts for the most part were receiving statements from 13 their banking advisor, putting them into their spreadsheets, 14 giving them to Fred, put the whole thing together, needing 15 very little phone dialogue. What I was getting to, you know, are they going to be more involved with investment decisions. 16 17 And it looks like the answer here was, you know, eventually

they would go over to Europe and meet them. And maybe some 18 19 of them have, you know.

20 Q Candidly, we've heard from an analyst or two that it was essentially a data entry position? 21

A Yes.

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23 Q Does that seem accurate to you? I mean, they

- 24 essentially received statements? They keyed them into a
- spreadsheet and then they sent them to another analyst to Page 48 25

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1	aggregate?
2	A Yes.
3	Q That was their primary role?
4	A Yes.
5	Q Okay, and you know, more candidly, as we understand
6	it, most of these guys and girls/women, are in their late
7	20s, early 30s?
8	A That sounds right.
9	Q Typically their first jobs out of college in a lot
10	of cases?
11	A Yes.
12	Q Okay. So not necessarily seasoned financial
13	professionals?
14	A Yes.
15	Q Okay. And would they have even really known or had
16	the basis to challenge or question any investment decisions
17	made by these experienced financial advisors overseas?
18	A I think, yes. I think they were given, maybe they
19	understand targets of an advisor. The advisor certainly had
20	discretion over how they managed. My understanding of the
21	analyst role is to just make sure that they're kind of within
22	those constraints, so maybe some obvious red flags, you know,
23	like they blew out of a portfolio completely that they just
24	had one week that would go up the flagpole to Ken Weedon or
25	probably Laura. But, no. Not to the inertia of why are you

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- 5 role in recommending or denying such manager. 6 Q So it was in any way your job to go out and look
- 7 for prospective advisors?
- A It was not in my job description. 8
- 9 Q And did you do that. or?
- A I did a lot with my previous role with the 10
- 11 investment advisory group, searching managers, so I believe
- 12 maybe the reason why I was included on some of these trips to 13 visit with potential money managers, but I was never part of
- 14 the final decision?
- 15 Q Okay. Let's talk a little bit about something
- 16 that's mentioned in item 38 on the next page of Exhibit 7.

17 It says, "Is risk minimized if advisors reached targets prior 18 to year-end." Can you talk to me a little bit about this

- 19 idea of targeted returns?
- 20 A It was my understanding that an advisor would have
- 21 a particular target for the year, and you bet based on market
- 22 and economic environment, and the question seems to be

23 leading to if an advisor knocks out 20 percent in the first

- 24 six months, do they go to all cash, essentially removing that
- 25 money off the table, instead of risking potential volatility

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1 later on in the year.

0 So how does that work though, if you hit your 3 target return at 20 percent, but then you don't earn any

4 money for the rest of the year. Does that then drive the

- 5 return down on an annualized basis, or how does that work?
- A You know, it would depend on how much that advisor 6 has. The target returns of the bank were always calendar 7

Zarich\_Michael\_20090204.txt 1 buying these commodities and this doesn't seem like a smart 2 investment. Q Okay. And they certainly weren't monitoring day-to-day trade activity? 4 A Probably weekly, not day-to-day.

0 Without getting into detail, there's a reference here to a Gavelli, G-a-v-e-l-l-i managing tier I cash? Who 8 is that?

A Gavelli is a money manager out of -- he 's just 9 10 North of New York, Mario Gavelli. You thought you all had 11 your run of Mario, but I think there were discussions that he would be another one of those added cash managers to that 12 13 tier I. I don't know if that ever came to fruition. BY MR. KELTNER: 14

15 Q Okay. Just throughout the Q and As, there are some 16 questions that refer to biring and firing of advisors. Were 17 there any occasions where an advisor was terminated that you 18 know of?

A There was one that was terminated prior to my 19

- 20 arrival, I think, because there was a big turnover in
- 21 personnel. Remember, the advisor, 'x' company, there's
- 22 usually bankers that Stanford would deal with. I think that
- 23 some had left the firm and they just felt it was best to just
- 24 sever that relationship, but not while I was there that I
- 25 knew of.

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Q What about hiring of new advisors? Did you play 1 2 any role in that process? ....

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4	one,	from	a	due	di	ligence Page	standp 50	oint,	but	Ι	did	no1:	play	a

8	Zarich_Michael_20090204.txt year returns. So, obviously, understanding their expenses
9	and liabilities coming due, they might target a return of 123
10	percent. If you're already there in September, why risk the
11	last quarter? In practice, I don't know if that actually
12	happened. You know, I didn't notice anyone going to complete
13	cash at any time during the year from my vantage point.
14	Q Okay. But was that part of the explanation? You
15	know, if we have these target returns and when we hit them we
16	stop. We pull some of our money back out?
17	A As a potential, not a given; but it's one thing
18	that they would evaluate throughout the years.
19	Q Okay. And when they got the account statements you
20	never actually saw that happening?
21	A I did not.
22	(SEC Exhibit No. 8 was marked for
23	identification.)
24	Q Just real quickly, since we're talking about
25	returns, I'm going to hand you a document that I'm marking as

1 Exhibit 8. It's entitled, "Stanford International Bank's ten-year investment portfolio performance." Have you seen

Exhibit 8 before? 3

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- A Yes.
- 0 Okav. What is it?

A It's presumably a PowerPoint presentation

advertising the bank asset portfolio returns from year ending 7 8 1994 to year ending 2004, the investment return; and, I'll 9 represent to you that it came from the CD of stuff that you

10 produced to us. 11

Q How would you have gotten it? Page 52

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12 A It was an internal document. I don't know how. I 13 think it came from Laura's group at some point. This is not something that would be hopefully shown to clients. I would 14 have had it for my own internal reference because the 15 16 questions always came up. 17

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Q When you say hopefully it wouldn't be shown to

18 clients, what do you mean?

19 A Well, I was putting my compliance cap on or even my

20 role at the bank. Again, it's not about what the bank

21 portfolio has done is irrelevant to the CDs as far as the

- 22 clients can be certain, because this can be construed as
- 23 selling an investment.

24 Q Explain that to me.

- A The more you tout, if you will, the returns of the
- 1 bank and how great they are. I think you're inevitably
- 2 leading the clients to like, those are great returns. Those

3 are consistent. But their actual return is going to be their

4 yield on their CD. They're not getting this.

-Q Right. Okay; and so again you were told whenever 5

6 clients asked questions to steer them away from things like

7 this, like Exhibit A, to steer them away from the investment

8 portfolio and try to keep them focused on the CD itself?

٥ A Right. But if they drilled down and asked detailed

- 10 questions, you would answer as we talked about earlier. Yes.
- 11 0 Since we're talking about these target returns and
- 12 what not, one thing I wanted to ask you about that we've
- 13 always been a little curious about, if we look at 1995 and
- 14 1996 you see that the billion-dollar plus portfolio returned

Page 53

- A I think so. I think I've seen it.
- 20 Q Have you?

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- 21 A I'm going to look.
- 22 Q I just assumed that might stand out to an investor
- 23 to be that precise in your return numbers from year to year.
- 24 and we were just trying to figure out if an investor asked
- 25 and if there was an explanation for how that happened?
- 1 A I never would show this to an investor. 2 BY MR. KING: 3 Q How was this document used internally? I'm not sure. I don't know if advisors were doing 4 Α 5 presentations with it. 6 Q Presentations to who? A Clients maybe, or prospects. 7 Q When you say advisors, you mean advisors at 8 9 Stanford Group Company? 10 A Yes, financial advisors; and, I say that it has 11 disclaimers on it. I just wanted those returns. I mean, I 12 would answer a client's question, you know, the portfolio is 13 done at roughly 12 percent annualized. 14 Q If this weren't being provided to clients, would 15 there have been any reason to have a disclaimer at the 16 bottom? 17 А NO. 18 BY MR. KELTNER: Q Okay. Items 39 and 40 relate to the FSRC, the 19
  - 20 Antiguan banking regulator. The first one asks how is equity
- 21 treated in the overall allocation when it comes to

- Zarich\_Michael\_20090204.txt exactly the same percentage amount, 15.71 percent. I guess, 15 16 first, how hard is that to do on a \$2 billion portfolio? 17 And, two, was there a party explanation for how that 18 happened? 19 A I never heard one. It's a coincidence. It's not 20 hard to do. I mean, it's hard to do. It's not hard to achieve 15 plus percent, especially in '95 and '96. But if 21 22 you're asking to get the same return each year, it is a 23 little unusual. 24 0 On 25 different investment advisors? A Yes. 25
  - 0 Okay. How is that even possible down to the 1 2 decimal point?
  - A It's a coincidence; and I've never asked or heard an explanation. 4
  - 5 0 A coincidence? I mean a highly unlikely
- 6 coincidence?

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- A I can't really say. That's quite possible.
- 8 Q Okay. I mean to get down to the hundredth decimal
- 9 point, wouldn't you have had to return to pretty much
- precisely the same cash flows from one year to the next? 10
- 11 A I would think, and I've seen returns. I've seen 12 mutual funds do it. Each destination is different. One might do it like this and the other one do it like this, but 13
- 14 it's conceivable. You could end up with the same return at the end of the year, but not like this. 15
- 16 Q Just out of curiosity, have you seen the same
- 17 mutual fund, returned the same return to the hundredth
- decimal point in back-to-back years? 18
- Zarich\_Michael\_20090204.txt 22 diversified funds, and it references an FSRC report in the 23 answer. It says, "Funds are itemized out of individual 24 securities, equity funds, fixed-income funds and alternative 25 funds." What's that FSRC report in reference to? A The FSRC is their annual report that the bank 1 2 submits to the ESRC: 3 0 Have you seen that report? 4 A Yes. 5 Q And so it gives this itemized kind of detailed 6 breakout of the asset classes mentioned here, individual
- securities and equity funds. So it's a fairly detailed 7 report? 8 9 А Yes. Q So it actually has the actual positions that these 10 11 overseas advisors hold? A I recollect, no, just the broad allocation. 12 Q Okay, so it doesn't give like a security by 13 14 security, you know, Exxon or whatever? A I don't recollect it doing that. 15 16 Q Okay, you know, we'll go through it a little later. 17 Some of those reports were on the CD that you produced to us. or at least it appears that that's what they are. How did 18 19 those come to you? A They were given to me e-mail, probably from Laura. 20
- 21 Q Okay, so I guess that would be part of the year-end 22 audit?
- A Quarterly, actually. 23
- 24 Q Okay. So item 40 talks about -- it says -- how
- indefinitely I need to go with regulators. It says the Page 56 25



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Zarich\_Michael\_20090204.txt

- 1 questionnaire will arrive in December from the ESPC and talks 2 about some procedures and questions that may come up.
- 3 Practically speaking, what was your interaction with the FSRC 4 folks when they came in?
- A I met with them twice. They did an annual review, 5
- 6 so there's a quarterly report but there was an annual review;
- 7 and like this savs. it was roughly in January, February. And
- I sat in on a couple of those. I guess it would have been 8 9 2006. 2007.
- 10 Q Okay, so the year-end audits for '05 and '06 were 11 inspections, whatever they're called.
- 12 A Yes.
- Q So tell me about that. What did the regulators 13 14 want to talk to you about?
- A The first meeting, I believe, I really kind of did 15
- 16 my spiel on, you know, kind of the presentation: why I'm
- 17 there, what my role is: but nothing beyond that. And then
- 18 the second meeting the second year I don't remember saying - 19 much at all.
  - Q Okay, you know, you referenced the reports being 20
  - 21 fairly high level still, not drilling down to individual
  - 22 positions. So let's say for an individual advisor, you know,
  - 23 pick one, Coutts, whoever it is. Once the FSRC are seeing on
  - 24 that, are they just seeing like, this is our position. This
  - 25 is how much money we have with this advisor.

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Zarich\_Michael 20090204.txt

- securities." "Stop." I assume that's stop loss? 5 A Yes. 6
- 7 Q Okay. "Stop loss limits 8 to 10 percent on
- equities. Bonds have a no-loss discipline; generally, not 8
- 9 bought at a premium and held to maturity. The managers.
- 10 diversified funds, have to perform within their own relative
- 11 performance ranges. 40 to 50 percent portfolio is invested
- 12 in diversified funds." Is this a question that came up with
- 13 investors? You know, what happens if I need to get my money
- 14 out if something horrible happens?
- 15 A Yes.
- 16 Q Stop losses and then again back to the liquidity 17 point. Explain the stop losses to me.
- 18 A A stop loss is you put basically on a long only 19 position to have it sold out automatically if it hits a
- 20 certain level.
- 21 Q Okay, did you see those stop loss provisions in 22 place yourself, or do you have any first-hand knowledge of
- 23 that?

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24 A I did not see him. I don't have first-hand 25 knowledge.

1	Q	0kay.	so	who	would	you	have	gotten	that	from,	the
2	informati	on?									

- A Laura Pendergest.
- 4 Q That they exist?
  - Yes, Laura, right. Α
  - And this idea about bonds being bought with a 0
  - no-loss discipline, I mean, what's that mean?

Zarich\_Michael\_20090204.txt I believe they are seeing that report, the I 1 ۵ z believe you have in your position. That's what they get. 3 That is their quarterly report. Q Yeah, you being the senior investment advisor or 4 5 officer, was there anybody else from kind of the investment chain of command that was present for those interviews or 6 meetings? 7 8 A NO. 9 Q Okay, so Laura is not there. Jim's not there. 10 Correct? 11 A Correct. 12 O So did the FSRC ask you any more detailed. 13 appointed questions about, you know, where the money is, what are the actual underlying investments? 14 15 A They did not. 0 Were there any discussions with the FSRC about the 16

- 17 tiers, tier I, tier II, tier III? 18
  - A There were none.
- Q Okay. Flipping the page to item 41 and 42 in 19 20 Exhibit 7 there are two questions. 41: "What happens if the 21 portfolio misses target returns, and has this ever happened?" 22 So that question. I take it, was the typical response similar
- 23 to what's here in Exhibit 7. "We never fail to hit our
- 24 returns." Is that the answer that was given to clients?
- A Yes. 25

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- Q So this discussion in item 42 that starts, 1 2 "Assuming the worst, what risk measures are in place in case
- of a complete, global, financial meltdown, i.e. mass 3
- terrorist attack. So stops are in place for individual Page 58
- Zarich\_Michael\_20090204.txt It means you buy the bonds and you hold it 'til 8 Δ 9 maturity, realizing your coupons along the way and barring default along the way, you get your money back at maturity. 10 11 So despite the value of the actual face amount of the bond. 12 which can be volatile, you have un realized losses, but not 13 realized losses.

14 0 And a minute ago you referenced, and then there's 15 the liquidity issue or something like that. Looking at the final paragraph of 42 where it says, "As long as there's a 16 17 market to do business in, the portfolio will be traded. If 18 worse comes to worse, could liquidate 50 percent of the 19 portfolio in T plus two, another 25 percent T plus 5, and the

- 20 remaining 25 percent in 60 to 90 days." So just so I
- 21 understand that, you can liquidate 50 percent of the 22 portfolio in two days?
- A Yes. 23
  - Q Okay. And 25 percent in five days?
- 25 Yes. А

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Q And the balance of the portfolio can be liquidated 1 within 60 to 90 days? 3 А Correct. 4 0 Okay. And did you get that information from Laura? 5 А Yes. And again that was part of a response to clients. 6 0 7 The clients were concerned about liquidity issues? 8 A Yes. q Q Okay, and so in other words there were no liquidity

- issues to be concerned about, because we can get out of 75 10
- 11
- percent of the portfolio in five days? Page 60

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		Zarich_Michael_20090204.txt
12	A	Correct.
13	Q	And the remaining 25 percent in 60 to 90?
14	А	Right, and this is definitely my writing in the
15	notes, as:	suming that you can get assets to the markets.
16	Q	Assuming the markets aren't shut down?
17	А	Right.
18	Q	What's in that bucket that takes 60 to 90 days to
19	se11?	
20	А	That would be those alternative type investments.
21	Q	Hedge funds where you might have a lock-up period
22	where you	have to give notification and then wait.
23	А	Right.
24	Q	But certainly that's not an office building in
25	Houston?	

- 1 A Not that I know of.
- 2 Q Okay. So you're under the assumption that there's not a big real estate portfolio out there that you would have 3 4 to liquidate?
- 5 А I was told there was none.
  - And you were told that by Laura? Q
- 7 Α Yes.

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- O Did Jim Davis ever tell you that?
- 9 No. I don't recollect. Α
- 10 Q Okay, item 45, switching to the next page, there's
- 11 a question about how often the board of advisors meets,
- 12 members and bios. It says they "do not have a set meeting,
- 13 but more or less advise the investment committee on a
- 14 quarterly basis. Each member is an expert in their own area Page 61

Zarich\_Michael\_20090204.txt Q Who is this board of advisors. 19 20 It's an external board of kind of a columnist. А Luis Giusti is an example. 21 77 Q Can you spell that name? 23 A Yes, Luis, L-u-i-s; Giusti, I believe is 24 G-i-u-s-t-i. He is the former CEO of some big oil company, 25 so he was kind of the energy commodity specialist. Sir

- 1 Courtney Blackman, who was also on the board of directors,
- z who was a fed governor of Barbados. So in a presentation
- 3 format, you know, we worked with a dozen or so of these
- 4 advisors that kind of helped shape the investment policy, the
- 5 recommendations, I would reference. stick some of Stanford's
- 6 affiliated companies such as the Washington Research Group,
- 7 the Memphis Group, kind of just this collective, intellectual 8 mind trust.
- 9 Q Okay. Did you ever interact with the members of 10 the board of advisors?
- A I've met some of them, let's see, in presentation 11
- formats in different events. I certainly read the research 12
- 13 and had a few calls back and forth with the Washington
- 14 Research Group and definitely the Memphis Group, that kind of 15 interaction.
- 16 Q Okay, but as far as these outside advisors, you
- 17 mentioned the individuals. Were they meetings when they came
- 18 in and talked about investment strategies, anything like 19 that?
- 20 A They were hired. I know a few of them spoke at our
- 21 quarterly events, broker events. So yes, I met some along Page 63

- Zarich\_Michael\_20090204.txt 15 and offers advice intended to shape the overall strategy of 16 portfolio and weightings within policy parameters." First, I think you talked about the investment committee earlier. And 17 18 did you say that was Mr. Davis, Mr. Stanford and Allen 19 Stanford's father? A You know. I don't think it was ever memorialized. 20 21 It was certainly Allen Stanford, Jim Davis, Laura Pendergest 22 was maybe joined somewhere in there, joined the investment 23 committee. And at one time she told me O.Y. Goswick, who is 24 on the board was on this investment committee, but really
  - 25 from here it was Jim and Allen, and that's kind of the

1 understanding.

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- 0 Did vou ever meet 0.Y. Goswick?
- A T did not.
- 0 Ever hear him on a conference call?
- 5 A NO.
  - Q Did you ever see any indication that he was
  - involved in managing the money?
- A No. 8

9 0 Okay. What about Stanford's father. I think I've 10 seen his name on a few lists as maybe being on the investment 11 committee.

- A Well, perhaps. He's on the board of directors, and 17 13 I've met him, but I have not seen him interact with the 14 portfolio or anything.

15 Q Okay, so in terms of first-hand knowledge, you've 16 seen no indication that he was involved in managing the money 17 personally?

- 18 A Correct. Page 62
- Zarich\_Michael\_20090204.txt 22 the way. Some of the European advisors individually named
- 23 might be considered on the board of advisors.
- Q But in terms of an actual investment advisory 24
- 25 committee meeting where they came in and sat down and talked

1 strategy?

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- A No, that never saw that or participated.
- Q So, as I understand it, most of your interaction
- 4 with them was when these individuals would come in and speak 5 at some firm event or client event, something like that?
- 6 A Yes.
  - Q Who's Amyric, or Aymeric?
- 8 A Avmeric is Avmeric Martinioa. I'm sorry. What was 9 the question?
- 10 Q I think it says "Aymeric will provide member lists 11 and bios," at 45.
- 12 A He was Jim Davis's executive assistant or assistant 13 during this time period, 2005, 2006, 2007.
  - Q Oh, Amyric, I'm sorry. Yeah.
  - Martinioa, M-a-r-t-i-n-i-o-a. Α
  - Q Is there more you want to do on the spelling?
- 17 A I'm done.
  - MR. KELTNER: Michael. did you have anything else?
  - MR. KING: Why don't we take a quick break?
- 20 MR. KELTNER: Let's go off the record.
- 21 (A brief recess was taken.)
- 22 MR. KELTNER: We'll go back on the record at 11:45.
- 23 I just want to go ahead and tick through a few of these other
- 24 0 and A documents. So I'm going to mark as Exhibit 9 a
- 25 document entitled, "Treasury meeting 12/9/05," and hand that Page 64

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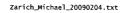
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1	to you.
2	(SEC Exhibit No. 9 was marked for
3	identification.)
4	MR. KELTNER: I know you've had a brief opportunity
5	to review it before we got started. Do you have a copy
6	Patrick?
7	THE WITNESS: Yes, I do.
8	BY MR. KELTNER:
9	Q So what's this document?
10	A This is from notes on December 9, 2005, of a
11	meeting I had with Patricia Maldonado who is the manager of
12	the treasury department of Stanford Financial Group.
13	Q Okay, and so does this meeting, did it take place
14	in Houston or Memphis?
15	A Houston.
16	Q Okay, so was anybody else there with you and
17	Patricia?
18	A It was just her and I.
19	Q Okay. So again, are these notes that you're just
20	taking live, presumably on your laptop? Would it have been
21	your practice to take written notes and then go back and type
22	them up, or would you typically type them?
23	A These were written and then typed up.
24	Q Why do you know that with respect to this? Was it
25	something that stands out?

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Zarich_Michael_20090204.txt
depending on it's too much, too little, whether it's going to
be redeployed into investments in tier II or III, it would go
back to cash. Tier I is I recollect Patricia is a very
dynamic piece, so depending on what kind of expenditures or
CDs are coming in or do go out, is how much they kind of keep
them there.
Q Okay. We'll go through this in a little more
detail on that, that when you were in your SIO role, were
there any significant liquidations of investment positions or
significant going to cash transactions?
A Not that I knew of.
Q Remember when you left?
A July of 2007.
Q The second paragraph or I guess third paragraph
starts, "There is a service agreement in place between the
SIBL and SFG treasury. In addition to shareholder reserves
treasury is responsible for overseeing and allocating
management fees received from SIBL."
A The service agreement is tipped to run the cash
from the bank, so I guess for a fee they would get. They're
affiliated companies but separate companies, so SIBL would

1	pay Stanford	Financial	Group	for	their	services	to	manage	the
2	cash.								

Q Okay, yeah. I think I see on the financial

4 statements annually a management fee being paid from the bank

- 5 for a whole host of services?
- 6 A Yes. 7 Q Okay

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Q Okay. Those management fees that SIBL paid, where Page 67

1	Zarich_Michael_20090204.txt A I remember.
2	Q Why did you go back and type them out?
3	A well, it's just
4	Q Your note-taking?
5	A Yes, you see, writing up I guess to commit it to
6	memory, just to review them and have them. This meeting of
7	course was part of my training as SIO, so I guess to have a
8	more codified. These are for me.
9	Q Did you put it in a binder or did you just keep the
10	electronic files?
11	A Electronic.
12	Q What was the purpose of your meeting with Patricia?
13	A To discuss her role, which is manager of tier I
14	cash, and just how that process flows, what it entails.
15	Q So was this just so you were going to play a role
16	with respect to tier I cash, or is this just so you would
17	have an answer when asked, the purpose of the meeting?
18	A More or less just to have an answer or just to
19	understand the process of having spent the bulk of the trade
20	up until then with Memphis, just to get a feel for, you know,
21	how at least this portion of the portfolio is managed.
22	Q Okay, so what cash is it that runs through
23	Patricia's group?
24	A It was my understanding that all the cash of the
25	portfolio was held in tier I cash.

1 Q Okay, so tier III sells an asset. Does that cash, 2 you think, end up in tier I cash?

3 A I think there is. Yeah, tier II and III would

4 inevitably accumulate cash during the course of business Page 66

8	Zarich_Michael_20090204.txt did they go? Do you know who ended up without the money?
9	A Depending on who they paid, I'm not sure if that
10	includes the manager fees. It's been a while since I've
11	looked at the annual report, but you have the management fees
11	or the banks, and advisors that are running the money, and
13	then you have fees for legal, treasury. Memphis I'm sure for
14	the research has paid a fee, so there's probably fees going
15	out to all these affiliated companies to service the bank.
16	Q What do you know about the structure of those
17	entities in terms of who owns them?
18	A Allen Stanford is the single shareholder.
19	Q And is that pretty much true across all the
20	entities?
21	A Yes.
22	Q Is that the consistent story when people are asked?
23	I mean is that something you know firsthand or just been
24	told?
25	A I would say been told.

1 Q But that's generally what, when people ask who owns 2 Stanford, the answer is Robert Allen Stanford.

3 A Yes.

11

4 Q Okay. And to your knowledge does Jim Davis have an 5 interesting?

6 A I don't think so. I don't know.

7 Q Okay. The following paragraph, Exhibit 9, starts

8 out: "Cash sits at three correspondent banks: TD, Toronto

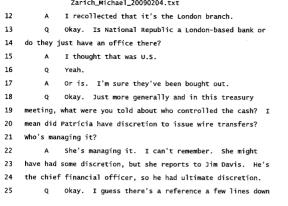
9 Dominion, HSBC and National Republic." Obviously, TD is in

10 Canada. Do you know where the HSBC and National Republic

branches are? Page 68

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1 to executing transactions. It says getting approval on 2 transactions over one million from Mr. Davis? 3 A Yeah. Q So it's consistent with what you remember Patricia 4 5 you Mr. Davis signed-off on the significant letters? 6 A Yes 7 MR. KELTNER: I think that's all I have on that

- 8 one. I'm just going to go through them in chronological ٩ order. I'm handing you a document I'm marking as Exhibit 10.
- 10 (SEC Exhibit No. 10 was marked for
- 11 identification.)
- 12 MR. KELINER: It's entitled "Client STRL
- 13 questions." I'll give you a brief chance to look through 14 this document here.
  - Page 69

Zarich\_Michael\_20090204.txt

- 19 probably want to be conscious of answering it from my
- 20 knowledge base.
- 21 Q Okay. So you think Exhibit 10, maybe, you got the
- 22 list of questions from Laura, and when you sat down with
- 23 Laura and she gave you the party line or the answers?
- A Yes. 24
- 25 Q I'm going to try to skip over some of the questions

1 that are duplicative and the answers seem to be duplicative

- 2 of prior exhibits. But skipping forward to item 6 of Exhibit
- 3 10, this question, how does the bank pay such high rates. I
- think we talked about that a little bit. Was that a 4
- 5 recurring question that you got from investors?
- A Yes.

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- Q Okav. and high rates rolled into what?
- A They're presumably U.S. rates, but where the
- 9 clients come from; and it depended. I mean, there is not
- 10 necessarily the CD in some countries, but pace lower rates or 11 typically a U.S. client or a U.S. rate or a London-European
- 12 rate, why are the CDs higher?
- 13 Q Just generally. I mean, I know it changed a little
- 14 bit over time, but what was the spread between SIBs, CDs, 15 and, you know, a U.S. bank?
- 16 A To LIBOR or U.S. CDs with equal maturities,
- 17 probably about 300 basis points.
- 18 Q So in five years you might see 600 basis points at
- 19 Stanford, and 300 at a U.S. bank? A Yes.
- 20 21
  - Q So, you know, you can read through the items on 6, Page 71

- Zarich\_Michael\_20090204.txt (The witness examined the document.) 15 16 BY MR. KELTNER: 17 O Can you tell me what Exhibit 10 is? These are a compilation of questions that would be 18 А 19 deemed as typical client questions that would come to the 20 bank. Q Okay. I have to go back and check, but I think 21 22 this document dates to probably a time after your training 23 was complete. But to your recollection was this done while you were still in Memphis? 24
- A I would think while I was still in Memphis or 25
- 1 around that process.

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- But I could be wrong. А
- Q So were these actual client questions, or were these illustrative client questions?
- A These would be a compilation of, I think, kind of a 6
- 7 top whatever here, 20 questions that Laura Pendergest had 8 received over the years in her role as CIO and to anticipate 9 these questions over and over or variations of that.
- 0 Okay When we talked about one of the prior 10
- 11 exhibits. I think you said they were questions that you would 12 come up with during your training.
- 13 A Yes.
- Q This Exhibit 10, are these questions that were 14 15 given to you by Laura or are these your own questions?
- 16 A The questions were given to me and the answers were
- 17 also given to me, but I don't know if it's in my writing.
- 18 I'm going to guess it was in my writing, because I would Page 70
- Zarich\_Michael\_20090204.txt 22 but generally what was the answer given to investors when 23 they asked?
- A We've covered on some of this. It's a unique or at 24 25 least a distinctive banking model. It's first and foremost.
- 1 It's domiciled at a zero, low-tax jurisdiction, so there's no
- 2 corporate tax. There's no loans, so you don't have loan
- 3 reserves. You have the flexibility of an investment
- 4 portfolio that could capitalize on various opportunities in
- 5 global markets. The very low overhead of employees, I think
- 6 that ties into legal, H.R. A lot of the other functions are paid out so you don't have to hire people at the bank. I
- 7 guess the board of directors sets their own rates so you're 8
- 9 not tied to a reserve or like a local bank that's required to
- take money out or lend money out in the community. 10 11 0 What about the sentence here in item 6, where it
- 12 savs: "We have a single shareholder, therefore we do not have to pay shareholder dividends?" 13
- 14 A Privately held, right. You know, if they're a
- private company, you don't have to pay dividends at the end 15
- 16 of the year. I think there's an extension to that in a
- shareholder who has not taken very many, that I remember, 17
- dividends at the end of the year and just reinvested into his 18 19 own bank.
- 0 I think I've heard an expression. Robert Allen 20
- 21 Stanford or Mr. Stanford has never taken a dime out of the bank. Was that kind of a recurring theme or was that part of 22 23 the Stanford story?
- A Yeah, I don't know if it's ever, but I understand 24 25  $% 10^{-1}$  that he rarely took a dividend, a profit at the end of the Page 72  $% 10^{-1}$

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1	year that he just reinvested his retained earnings.			
2	Q Okay. And that's speaking of the profits from the			
3	bank itself?			
4	A Yes.			
5	Q I guess that doesn't take into account management			
6	fees, referral fees, things that were paid to the			
7	broker-dealer?			
8	A Correct.			
9	Q Because I think I remember in '07 referral fees			
10	were about \$140 million and management fees were about \$150			
11	million. Does that sound ball park?			
12	A It was a big number. What's the percentage? That			
13	sounds feasible.			
14	Q Yeah, I mean, the referral fees on the CDs were			
15	three percent, right?			
16	A Okay. Oh, you know, I think it depends. To sell a			
17	CD you mean?			
18	Q Hm-hmm.			
19	A I think it varied from country to country. I			
20	believe it was three percent of the United States to the firm			
21	and to the broker.			
22	Q Three percent went to the Stanford Group Company			
23	broker-dealer?			
24	A Yes.			
24				

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- 5 paragraph of item 7 on the following page that s tarts out
- "The investment discipline dates back over seven years with 6
- 7 Stanford, and 20 years with the SIBL portfolio." What was 8 your understanding about the pre-SIBL track record or the
- 9 pre-SIBL experience? What's that in reference to, the 50
- vears before the 207 10

11 A Well, the company I guess, was the grandfather of

12 Lotus, started the company about seven years ago as an 13 insurance company. So this to me is in reference to the

14 success of the insurance company, It's my understanding that

15 second generation and then the third generation kind of

- 16 divested into more real estate investing. And ultimately
- 17 Allen Stanford real estate investment in the Caribbean and

18 Mexico led the bank as a place to park profits that he had made for his investors. 19

20 Q What was the insurance company? I mean was it a

21 nationwide like State Farm or was it like an agent?

22 A I want to say, and I didn't know. There wasn't a

23 lot of training on this but I just want to recollect it was a

24 regional maybe property and casualty. It was kind of a

25 local, Mahaia, Texas, spawned out of the depression insurance

- company. 1
- 2 Q So you think an actual insurer as opposed to like
- 3 an agency that sells insurance?

A I was led to believe an insurance company, an

- 5 insurer, yes.
- 6 Q Is that kind of the sum total of the history you 7 were given regarding the Stanford Family businesses?

Zarich\_Michael\_20090204.txt component that was a percentage, I think, of assets under 1 management or something like that. I think we've kind of 2 covered management fee service agreements, but also the 3 management fee to those running the assets of the bank? 4 5 A Right, yeah. 6 Q So here I'm looking at a copy of the '07 7 financials. I'm showing you referral fees of 149 million in 2007 and management fees of 143 million. So that money would 8 9 all go to one of the Stanford Financial Group companies, 10 riaht? 11 Hm-hmm. 12 Q Is that a yes? 13 Α Yes sorry. That was for Terry's benefit. 14 0 15 Yes. Α And the sole shareholder of those entities is also 16 Q 17 Robert Allen Stanford. Correct?

18 A Yes. Just real quick, there's a couple things in item 7. 0 I mean it's a similar question: "How do you achieve your 20

21 returns." The reference in the last paragraph on the page

- 22 that starts, "SIBL utilizes 20 plus advisors primarily
- 23 located in Europe and Canada. Many of these advisor 74 relationships have been around since the inception of the

SIBL portfolio." This language, I think you told us that 25

- 1 it's kind of a consistent sales message that's given to the 2 clients?

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- One other thing I wanted to touch on in the last Page 74 Λ O.
  - Zarich\_Michael\_20090204.txt Yes.

9 Q Was that one of the selling points for Stanford 10 bank? You know, we've got this seven-year history. We've 11 been around forever. Was that the kind of thing that showed up in marketing materials? I think I've seen pictures of 12 13 Lotus, things like that.

14 A I think in the marketing material there's reference to seven years, three generations, family-owned, but not 15 really at the bank. I personally didn't know, as I just 16 17 exhibit a lot about the history of the firm. You know, prior to the bank, as it pertains to selling the bank. 18

19 0 It's not much of a budget for cuts. Just real quickly, item 8 is entitled. "How safe are client's deposits 20 and what guarantees exist for payment of interest." I know 21 22 we've gone through some of this, so I don't want to belabor it, but the first sentence starts with, "From an investment 23 standpoint, hopefully, is very conservative." Explain to me 24 25 how it's conservative?

1 A From a diversification standpoint, conservative in that you're spread-out amongst a lot of our asset classes or 2 3 all asset classes. In addition, countries and currencies, so 4 you're not exposed to large concentrations of risk in

whatever market you're in or investment. 5

- Q But not necessarily in terms of it's all in 6 government issued securities or fixed-income, it's not 7 8 conservative from that standpoint?
- q A Correct. Conservative from a diversification
- 10 standpoint and to a discipline of staying within your
- parameters of that discipline, of that allocation, I should Page 76 11

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12	say.	
13	Q Okay. Again, I'll skip over some of the stuff	
14	we've covered, but in the paragraph below, there's a sentence	
15	that says, "The SIO cannot transfer money in and out of	
16	accounts and can only request transfers and wait for Mr.	
17	Davis's approval." Just to clarify, that role wasn't your	
18	role to manage the money to request transfers in and out.	
19	Correct?	
20	A That would be I think in the perfect execution of	
21	that position or realistic execution of that position the SIO	
22	would essentially maybe take over Laura Pendergest's role,	
23	could see that we move money from one advisor to the next but	
24	would have to be approved.	
25	Q Okay, but when you were there that was more Laura's	

1 job?

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- A Yes. 2
- 3 Q I real quickly want to touch on something you

Zarich\_Michael\_20090204.txt

- 4 mentioned in the last sentence of item 8. There's a
- 5 reference to excess FDIC insurance. What is that?
- A I think it's a separate policy. No, actually, I 6
- 7 think it's a policy with the actual funds held at
- 8 corresponding banks in the U.S., because EDIC has access
- insurance. So whatever's held at this national republic, 9
- 10 there's insurance to cover over the, whatever, the 100,000,
- 11 400,000 FDIC limit is. Presumably, there's probably millions
- 12 in this account.
- 13 Q Sure. I think before you told me you thought that
  - money was in a branch in London?

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#### Zarich\_Michael 20090204.txt

- 19 somehow get back to that safety of assets and the process.
- 20 government oversight.
- 21 Q They're not FDIC insured, but all this other stuff?
- 22 А Right.
- 23 0 Nine, just touching on it real guickly, says. "How
- 24 liquid is the portfolio?" And the response back, "Extremely
- 25 liquid. Up to 50 percent can be liquidated in two plus two;
- 1 20 percent in two plus three: and then the remaining within
- 2 90 days." So again this is information that you got from
- Laura, correct? 3
- A Correct 4
- Q So, again, juts rough math, 70 percent of the 5
- portfolio can be liquidated in three days or less? 6
- 7 A Excuse me, correct.
- 8 Q And that's what Laura told you?
- 9 Δ Hm-hmm
- 10 And the remaining can be liquidated within 90 days. 0
- 11 the balance of a portfolio?
- A Yes. 12
- 13 Okay. And item 10 touches on something we talked 0
- 14 about a little bit earlier. Will the bank publish individual
- 15 portfolio positions? It says, unfortunately we're not
- allowed to disclose individual positions because of banking 16
- 17 regulations. And that's generally, I think, consistent with
- 18 what you told me before today?
- 19 A Yes

21

- 20 Q Those banking regulations, are those Antiguan
  - banking regulations or were you told anything about that?

- Zarich\_Michael\_20090204.txt HSBC. 15 А 16 Q You think maybe the Republic Bank money was in the 17 U.S.? Yes, I believe that's a U.S. bank. 18 А 19 0 Why would it be called excess EDIC insurance, when it sounds like most of the money is in Toronto, London? 20 21 A I don't understand FDIC, but it would have to be 22 insurance on whatever banks are used in the U.S. to call it 23 excess FDIC insurance.
- 74 Q Okay. Candidly, one of the reasons we ask is
- because, you know, we've heard stories with, perhaps, 25

1 supervisors, particularly folks selling outside the U.S., but 2 also maybe within the U.S., as part of the sales pitch would strongly imply and/or say these things are insured. These 3

4 CDs are insured, and throw around words like excess FDIC

- 5 insurance. One, did you ever see anything like that or here 6 anything like that in a pitch?
- 7 A I did not. And I rarely participated on the sale side, you know, in the U.S. It was mostly in Antigua, a few 8 9 times, by conference call. So I have not witnesses, and I'm 10 sure I would have stopped it if I was in that meeting.
- 11 0 Because clearly CDs are not insured?
- A That's correct. 12
  - Q Okay. And in your interactions with clients, did
- 13 14 anvone ever ask, hey are these things insured or is there anything like FDIC insurance? 15
- 16 A Yes.

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- 17 0 And what would the response be?
- 18 Typically, steer back to the investment process and А
- Page
- Zarich\_Michael\_20090204.txt A Antiguan banking regulations, yes, as a charter 22 23 bank in Antigua, we were bound by law. I guess, for lack of a 24 better word, to hold ourselves out to be that as a bank and 25 not an investment vehicle.

1 Q Okay. Were you ever told that the law specifically said we can't tell you what's on our portfolio or was it an 2 3 issue?

4 A Yeah. I do. I think it was how you hold yourself out. I don't recollect it being specific. My understanding 5 of the training is the more you get into it. The more you 6 7 keep talking about it and lifting up the hood, the more you're emphasizing the investment side. 8

9 O Okay. So, again, the consistent theme of steering 10 investors away from the investment side and back to the terms 11 of the CD?

- 12 A Correct, yes.
- 13 Q The following paragraph says investment should only be discussed from an investment philosophy or macro 14
- perspective. The only product SIBL offers are certificates 15
- 16 of deposit. Therefore, the investment portion of the
- portfolio is really moot. The important issue to the client 17
- should be terms of CDs, rates, financial strength of the 18
- 19 bank, operational efficiency of the bank, regulatory
- 20 environment, et cetera. And that seems to encapsulate kind
- 21 of what you told me was the party line when people asked
- 22 about the returns.
- 23 A Yes.
- 0 The next paragraph says "Regulatory language states 24
- do not hold yourself out to be a fund." Is that hedge funds? Page 80 25



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okay.

			2
			3
1	Is that what you meant when you typed "fund?"		4
2	A Correct. The question came up a lot. You're		5
3	really just a fund to funds with a guarantee or it's just one	1	6
4	giant fund. That's a quite, I think, just as an emphasis. I		7
5			8
5	don't think it's taken from any direct language. But don't		9
	hold yourself out again.		10
7	Q Okay, so you were coached. You know, be very clear		11
8	that we're not a hedge fund. We're a bank.		12
9	A Yes, very.		13
10	Q And that was a recurring question you got from		14
11	investors?		15
12	A Okay.		16
13	BY MR. KING:		10
14	Q And item 10, the next paragraph says "We can		
15	mention advisor relationships, but generally do not in order		18
16	to protect their privacy and avoid clients calling direct to		19
17	an advisor." What does that mean?		20
18	A The European advisors, there was a time where there		21
19	was almost held in the strictest of confidence, but they've		22
20	kind of given us an okay. I'll name some of the advisors.		23
21	Credit Suisse response to the Societe Generale, but this is		24
22	at a point we wouldn't want clients circumventing the C&E.	0	25
23	potentially going straight to these advisors.		
24	Q Okay, so not that you ever did this, but it's		

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25 possible, I guess, or you could have provided a list of all

Page 81

	Zarich_Michael_20090204.txt			
5	becoming the SIO?		8	str
6	A Correct.		9	A11
7	Q So when you were in those meetings they didn't		10	mos
8	discuss tier II while you were there?		11	por
9	A That's correct.		12	loa
			13	per
10	Q And nor did they discuss tier III?		14	dis
11	A Correct.		15	com
12	Q So it's not like they had a tier II meeting with		16	
13	you, and then they said you need to leave, we're going to		17	
14	talk about tier III?		18	fun
15	A Right. That's correct. And I'll add to that that		19	mon
16	typically Jim and Laura did separate meetings as well, which			mon
17	made me believe that there was overlap with tier III and tier		20	
18	II. Why there were two different meetings, and you know, I		21	str
19	don't know.		22	100
20	MR. KING: So go back to the original question		23	hav
21	which is if a prospective client asked you for the names of		24	bon
22	these third party advisors, the names that you could have	0	25	any
23	been provided, would have only been those for tier II?	0		
24	THE WITNESS: Yes, that's correct.			
25	BY MR. KELTNER:			
23	DT MR. NELINEK:		1	
			2	the
			3	

2 funds question, item 17, a couple pages ahead in Exhibit 10, 3 says: "Is the portfolio a fund to funds?" And I think you 4

1

7

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said this was a common question you got from investors? 5 A Yes.

6 Q Okay. Just reading the answer seems to be "It's

Q Just to tie out a couple of issues on the fund to

nothing like a fund to funds by definition and legal

O But in theory at least, if you could give them some, you could have given them all had you been pressed? A Yes, all the ones I knew of, all dozen or so. Q And yet here, I think you told me before that you were clear, the advisors that you would get had asked about third-party LIBOR would have been advisors to money that was

names, the Coutts, the HSBC, that kind of thing? THE WITNESS: Yes. BY MR. KING:

Zarich\_Michael\_20090204.txt 1 of the third party advisors to a prospective client. Right?

A I could have. I was trained not to, maybe, say a few. And I was never pressed for all of them. Again, kind of like what I've said. You know, there was just the kind of the obvious ones I would rattle off, and everyone was like.

MR. KELTNER: Did those tend to be the well-known

located in tier II. Correct? A Correct.

Q And you don't know of any advisors that are

actually managing money in tier III?

A No. I don't know. Actually. I had not seen

statements or been in any meetings, but I know, as I

mentioned, Jim Davis would meet with some of these same banks on his own

0 But you don't know what they were talking about?

1 А NO. 2 BY MR. KELTNER:

3 Q And I think you told me earlier today that those 4 meetings that you went to with Mr. Davis were prior to you Page 82

Zarich\_Michael\_20090204.txt ructure. SIBL is a bank and offers only banking product. banks have investment portfolios. The only difference is t banks' portfolios are allocated more towards loan tfolios versus investment portfolios. SIBL does make ans, but they are cash back and represent less than five cent of the entire portfolio." So, again, the primary stinction between Stanford and National Bank and a mercial bank is how the money's invested? A Yes. O Right. Is there a real distinction between how a nd to funds invests its money and how Stanford invests its 1ey? well, a fund to funds is primarily specific to a А ategy. You might have a market neutral fund to funds that oks for equally long and short positions and they might ve 10 managers to do that; whereas, the bank has equity and nds and commodities, kind of the whole gray. But if it's

thing, it's a multi-manager approach.

Q Okay, but invested through sub advisors that manage air own funds?

A Correct. I think a lot of this, maybe it says it 4 in there too, is clearly a structure of a fund to fund is the 5 limited partnership or an LLC. It's not liquid. It's locked up. There's high fees. So it's volatile. 6

7 Q Okay, so the primary distinction is not how the

8 money's invested, as I hear it, because Stanford

International Bank is invested in the portfolio securities 9

10 just like a fund to funds would be. Right?

A On a grander scale, yes. Page 84 11

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Zarich Michael 20090204.txt Zarich\_Michael\_20090204.txt you get out. The client could get out at any time. 15 12 Q When you get down to the core assets, the fund to 16 Q Can you do that with respect, because you talked 13 funds is going to be invested in securities bonds, 17 about the liquidity of the fund investments that Stanford alternative investments, and Stanford has invested in those 14 could liquidate everything within 90 days? 18 15 same types of assets. Right? 19 A Yes. 16 A Yes. 20 Q Right. So you can get out of those funds as well, Q So the real difference between Stanford and a fund 17 can't you? You have just have to pay an early redemption 21 18 to funds is just in terms of the economics of the transaction 22 fee? 19 between the investor and the firm. In other words, I think 23 A Specifically, I mean yes, depending on that 20 what is said later on in this document is fund to funds 74 particular investment and, you know, the parameters of it, 71 requires, you know, your pay, your two and 20. Your two 25 the agreement. 77 percent management fee and your 20 percent fee on top of n 23 that, and there's lock-up provisions. And the CD is just a 24 time deposit where you pay the fixed interest rate. 25 A Yes. 0 Okav. But your understanding was that Stanford 1 could get out of all its investments essentially within 90 2 3 days? 4 А Yes. 1 Q So when you say that's different from a fund to 5 MR. KELTNER: Let's go off the record. Take a 2 fund. vou're talking about that distinction, not necessarily 6 break. distinctions to how the money is invested? 3 7 (Whereupon, a luncheon recess was taken.) 4 A The structure is a big distinction. Correct. 8 AFTERNOON SESSION 5 Q Okay. One of the things you talked about was the 9 MR. KELTNER: We'll go back on the record at 12:50. 6 money being locked up. The CDs were typically for a time So we've been going through a number of 0 and A documents. I 10 7 period. right? think we're done with the one we were just looking at. 11 A Yes. 8 12 (SEC Exhibit No. 11 was marked for 9 Q They're typically what: one year, two-year, or identification.) 13 10 five-vear? 14 MR. KELTNER: I'm going to hand you a document that 11 A Up to five. 15 I'm marking as Exhibit 11, and it's entitled "Questions from 12 0 Okay, so that vive-vear money is locked up for five 16 Role play." and came from the documents that you produced to 13 years in theory, right? 17 us on CD. And I think this one's the one: "Ouestions from A It's actually liquid. It's like a minor penalty if 14 18 Role Play II," I think is what it's called on the file. Page 86

Page 85

Zarich Michael 20090204.txt

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		Zarich_Michael_20090204.txt	Zarich_Michael_20090204.txt 22 A I think this is digging deep into memory. I th
	19	(The witness examined the document.)	
	20	BY MR. KELTNER:	-
	21	Q Just at a high level, what is this document and	24 was the meeting afterwards. We did get here, maybe this
	22	what do you connect it to? What was going on?	25 here. This here, and I'd have to look at, well, obviousl D
	23	A This was part of my training. It was well, in the	
	24	fall of 2005, there was a week or two where the Memphis	
D	25	analysts actually sat in as clients. I don't think they were	1 these notes would have been done afterwards as well, beca
			2 I would have been busy answering questions.
			3 Q Sure. So who's taking down the questions? I m
			4 did you do that during?
	1	given specific questions to ask, but I guess more of a live	5 A I believe as I mentioned this third party, myst
	2	baptism by fire. I think I was given like an hour with each	6 lady Tamara. She took them down.
	3	of them, sometimes in groups, and they were basically lobbing	7 Q Okay. This mystery lady, was she a long-term
	4	questions at me and I would answer them as I would in front	8 Stanford client, or was she brought in just to prep you?
	-	of a client.	9 A She was an external consultant and I want to sa
	6 7	Q Okay. So was this towards the end of a process?	10 her area was people, personnels and cultures. No, she st
		A Probably. Yeah, definitely through some of the	11 on retainer. I think she worked with other areas within
	8 9	initial training.	12 Stanford organization.
	-	Q Did Laura participate in the questioning?	13 Q Okay, and did she give you her background or te
	10	A No. I don't think so.	14 you hi, I'm so and so. This is what I do. That sort of
	11 12	Q So she sat in the room during the Q and A session?	15 thing?
	12	A Yes. Q Okay. Just so I understand. Analysts sitting	16 A She did. I don't remember. She showed up to o
	15	across from you pretending to be a prospective CD purchaser?	17 of our investment committee meetings. When I say investm
	15	A Yes.	18 committee, back to the Stanford Group days, presented
-	15	Q Okay. And so the analysts are peppering you with	19 something.
	10	questions and you're answering?	20 Q So she and Laura and you are the ones that are
	18	A Yes.	21 the room the entire day and then analysts are rotating
-	10	Q Okay. Did Laura help you with the answers? In	22 through and asking you questions?
	20	other words, if she thought you needed to modify answer, did	23 A Yes, not the entire day, but we did one group a
	20	she give you some guidance?	24 or something, I guess.
	<u> </u>	one give you some guitance:	

25 Q

A group, how many analysts is that? Page 88

APP 0051

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Zarich Michael 20090204 tyt

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Zarich\_Michael\_20090204.txt 1 from Laura Pendergest?

Q So in the first response to the question, "What do

4 you do," again the message seems to be that your role is to Page 90

8 FSRC report and transmitting it to them, what other

A Certainly to present the clients that came to the

11 bank and then just to run the day-to-day operations at the  $${\rm Page}$~92$ 

9 responsibilities did Juan Rodriguez have?

10

2 A Yes Q Okay. Was there anyone else involved in the 3 4 feedback process? 1 A I think only two in each of these meetings. 5 A NO. Q Okay. Who were the folks that were asking you 7 6 Q Okay, So, this Q and A document were questions questions? з from Role Play document Exhibit 117 Ts this something you 7 4 A I think it was the whole team. would have then gone back and talked to Laura about to see if 8 Q Okay. 5 9 the answers made sense? 6 A Do you want me to name them? 10 A Yes. 7 Q If you think it was the whole team, were there any 11 Q Okay. So you compiled your own answers after 8 folks that stand out? I mean people who you talked to for 12 you've had all this interaction? 9 longer periods of time? Who were some of the more senior A No. I think these are more polished. I mean, if I 13 10 people? Anything like that? could read through a couple? 14 11 A No. I will laugh, because I know the first 15 Q Yeah. 12 question came from Zack Davis and it was what do you do. And 16 Because the Role Play would have been very raw. А 13 I remember being completely caught off-guard, because I don't 0 Ob. sure. And these polished answers, are these 17 14 know, so I think this is a more polished answer here. 18 your answers after the fact that Laura reviewed, or are they 15 Q So you're asked all these questions. You give your 19 Laura's answers that you took down? 16 answers at the time and then afterwards you consult with A It would be a combination. Now, whether she wrote 20 17 Laura Pendergest and the consultant? 21 the answers down, it was probably me writing the answer down. 18 A Yes. You know, formalizing them and then giving them to her for 22 19 Q And they give you some suggestions on how you editing and proofing to polish them up. 23 should answer the questions? 20 74 (The witness examined the document.) A The consultant, she was more of a facilitator, a 21 25 BY MR. KELTNER: 22 note taker. She would help me presentation techniques and ۵ 23 stuff. She had no part of the nuts and bolts of the 24 training. Q So all the substantive issues, the feedback was 25 1 Q Okay. Are you ready? 2 A I apologize. I reviewed.

Page 89

		Zarich_Michael_20090204.txt		8	Zarich_Michael_20090204.txt he saw things.
5		the bank's investment portfolio.		9	Q So you don't know if he saw individual positions?
6	A	Hm-hmm.		10	A I don't know.
7	Q	And that's not in practice what you ended up doing.		11	Q Now, you worked for him, right?
8	Right?			12	A Yes.
9	A	That's right.		13	Q Did you discuss with him whether he was aware of
10	Q	And the note in here about you reporting the Juan		14	individual positions, for example, in tier III?
11	Rodrigue			15	A Never
12	А	Yes.		16	BY MR. KELTNER:
13	Q	Was he who you actually reported to? Was he your		17	Q Did you ever talk to him about the investment
14		upervisor?		18	portfolio?
15	Α	Yes.		19	A No, other than in front of clients. I mean, not
16		BY MR. KING:		20	together really, were presenting to clients.
17	Q	What was Juan Rodriguez's role in managing the		21	Q So your senior investment officer. He's your
18	portfoli	o of assets?		22	direct supervisor but you never had interaction regarding the
19	A	He would work with investment committee, but I do		23	investment portfolio?
20		to the extent of how much information he was privy		24	A Correct. It was the proverbial, definite dotted
21		now that he has made at least one trip, maybe		25	line to the investment committee and Laura in Memphis.
22	multiple	trips to Europe.	D		
23	Q	How do you know he works for the investment			
24	committe				
25	Α	The quarterly FSRC report and annual report is		1	. Q For you?
				2	A Yes, that's where I got all my information. That's
				3	where all my interaction was. He made sure I was on island.
				4	He's still my boss, approved bonuses and travel and day to
1		d my understanding from his office, so he would have		5	day supervision.
2	-	he pieces of investments to bundle it into the entire		6	BY MR. KING:
3	report t	hat would go on to the FSRC.		7	Q Other than day to day supervision and compiling the

٦

- 4 Q Did you know what information he was provided with
- 5 so that he could pass it along to the FSRC?
- 6 A I would guess he was provided with the allocations,
  - the breakdowns of assets. I don't know, again, how granular

# APP 0052

	Zarich_Michael_20090204.txt		15	Zarich_Michael_20090204.txt sometimes existing clients that might be on island
12	bank to oversee operations and compliance and client			
13	services. You know, keep it running efficiently and sound,		16	vacationing that just kind of come in. But, yes, it's
14	Q Okay. And when Juan Rodriguez was presenting to a		17	typically a high-end client prospect that would come to the
15	potential client, were you typically present during those		18	bank.
16	meetings?		19	Q I think you told us that your interaction with the
	-		20	client was at the very end of the process and that they had
17	A Yes. I was always.		21	already talked to the advisor? They were, I guess, doing
18	Q And I know we've asked this as to you. We've asked			
19	this as to the analyst, but I'm going to ask you as to him		22	their diligence. Is that fair?
20	now, which is "Did you ever hear Juan Rodriguez differentiate		23	A Yes. The stop at the bank would, you know,
	· · · ·		24	presumably be the last step to fly there, see it and meet the
21	between the various cheers at the bank and his conversations		25	people, see the organization and all the pieces in place. I
22	with respective clients?"	0		heekee, and an 2000 million and and and been been a
23	A No. He did not talk about the tiers in front of			
24	clients that I heard.			
25	BY MR. KELTNER:			
			1	think, hence, the reason, you know, the genesis for this SIO
			2	position is to have that last piece in place so that you see
			3	your operations in compliance and investments. And they're

Q How many of these client meetings did you and Mr. 1 2 Rodriguez do, ballpark? 3 A About average. A couple a week for about a year

4 and a half.

5 Q Okay. So 25 or 75 times? 100, 150, somewhere in 6 there? 7

- Yes, You know, some weeks none: some weeks 10. А
- Sure, and these are all five million plus 8 Q
- Q. prospective investors?

۵

- A Some. I mean different groups sometimes recruit 10
- 11 financial advisors that were being recruited to work at the
- 12 company. They might bring them down to the bank, they being
- 13 Stanford Group Company, to educate them on the bank. Yes,
- 14 certainly, the bulk of them were prospective clients,

Page 93

Zarich\_Michael\_20090204.txt

A I heard Juan mention 99 percent, almost all. Q So virtually every customer that came down and met 21 at the bank ended up buying CDs? Yes. п Α MR. KING: Was your compensation tied to that percentage? THE WITNESS: Now, my bonus was tied to growth at 1 the bank. Base salary was just base salary. I think we 2 talked about that on the phone a couple of weeks back, but it 3 tiered, I don't remember the numbers, but if the bank 4 brought in 50 million net new and a quarter 'x' amount, I 5 think the max was like if over 200 million came in, you might

- 6 get like two months salary on that quarterly bonus.
  - BY MR. KELTNER:

Q So like in '06, which you were there for the whole 8

9 '06 calendar vear? 10 A Yes.

19

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22

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Q what ballpark of how many months of bonus did you 12 get for '06?

- 13 A Six months.
- 14 Okay. Q
- 15 А I mean, as you all know, the growth has been pretty
- 16 extraordinary, so all the 200 million thresholds were met
- each quarter. So that came out to an extra six months salary 17 18 for that entire year.
- 19
- Q Just to clarify for the record, when you say net 20 new money, you mean new CD sales, less money that came out of
- 21 the bank?

were in the process, did you pretty much close the deal a 10 11 very high percentage of the time? In other words, after they came in and met with you and the bank president, typically 12 13 was the sale then consummated? 14 A Yes. 15 Q Was it the exception where somebody came in and met 16 with you all and decided not to invest? 17 A Yes.

4 all right there at the bank. And the close rates were very

5 high at the bank by that point. But, you're right. Advisors

have been working potentially years or months with these

Q Okay. And you kind of jumped to the question I was

going to ask next, which was given how far down the road you

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prospects.

Page 4 of 10

- 18 Q Okay. Could you ball park it for me? Page 94
- Zarich\_Michael\_20090204.txt A Correct. 22 23 0 Did I say that right? 24 A Yes, I mean, not just new. You could have 500 25 million new, and 700 million. It had to be net new.

1 0 The bank had to be growing? Yes. assets minus. 2 А Redemption. 3 0 4 Contributions plus redemptions. А 5 MR. KELTNER: That's clear. Thank you. 6 BY MR. KING: Did you ever have conversations with Juan Rodriguez 7 0 8 about the FSRC examinations? 9 A Not that I recollect. Like I mentioned there were two here at the end of the meeting. The questionnaire, the 10 annual one, a questionnaire would come in like around the end 11 12 of the year and then it would go to the various departments. And then the investment piece would go to Laura and Jim to 13 14 fill out. And there's pieces on the client information would go to the different departments and he was ultimately 15 responsible for. I guess, the role up and submitting it to 16 the FSRC. The same with the quarterly ones. 17 18 BY MR. KELTNER: Q I just want to hit one more point on this Role 19 Play. Most of it I think is repetitive, but item 3 where it 20 said "The Memphis Group manages the portfolio." It says "SFG 21 Memphis does not manage the portfolio, but rather assists me 22 23 in the day-to-day monitoring of the portfolio."

24 A Yes.

25

Q Is it more accurate to say they assisted Laura Page 96

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	Zarich_Michael_20090204.txt	Zarich_Michael_20090204.txt 1 tier III. But maybe I was naive. Maybe :	
		2 trust issue after months, or you know a yo	-
		3 More of it would have been opened up to m	
1	Pendergest in managing the portfolio?	4 monitoring it as some of the training mate	
2	A Yes.	5 MR. KELTNER: Okay. I'm going t	to mark a document
3	Q Okay. And that wasn't your role?	6 as Exhibit 12.	
4	A Yes. I think, and that would go with your first		12 was marked for
5	question today, what position was presented. And it wasn't	8 identification.)	
6	necessarily going to be at day one, but that I would evolve	9 MR. KELTNER: It appears to be a	
7	as SOI and to seeing more of it, doing more of it. That	10 presentation with a title at the top of t	
8	never happened.	11 Investment Officer." And in the lower le	
9	Q Okay. And did this oversee the bank?	12 International Bank Limited." And then a	
10	A And I see how it's misleading, but it's really	13 that's the bank that shows up in all the	literature?
11	meant to be monitoring, not controlling the assets. So I	14 THE WITNESS: Yes.	
12	want to just make that point.	15 BY MR. KELTNER:	
13	Q Now, and you know, that's kind of a recurring theme	16 Q Feel free to take your time and	just kind of thumb
14	throughout the documents where he talks about you doing	17 through this PowerPoint slide. And, again	n, I'll represent to
15	things that actually it looks like to us Laura did?	18 you we got this from your production off o	of your CD. Where
16	A Yes.	19 did Exhibit 12 come from?	
17	Q And I guess, you know, you can't leave the question	20 A This was a portion of the preser	ntation that was
18	unasked. I mean was the point of all this to give the	21 conducted to visiting prospects of clients	s at the bank,
19	impression that a person who was managing the money was in	22 particularly my piece of presentation.	
20	Antigua?	23 Q Okay. So this would be the piec	ce that you would
21	A No. I mean not all the clients. It was just to	24 present to the client, the prospective cl	ient?
22	have a spokesperson there that could talk about it credibly	25 A Yes.	
23	and, you know, in front of clients. I mean I was always the	U .	
24	one who would be clear. From day one, I do think, you know,		
25	that I thought I would have monitored more of it including		
25	char I chought I would have monitored more of it including	1 Q Okay. So consistent with this B	Exhibit 12, you
		2 know, how did you explain to the client as	gain what your role
		3 was?	
	Page 97	4 A To work with the investment com	mittee, to represent
	raye 31	Page 98	
	Zarich_Michael_20090204.txt	Zarich_Michael_20090204.txt 8 Advisor." And so the face value, if you	look at it it looks
5	the portfolio, talk about how it's allocated, the process of	<ol> <li>advisor. And so the face value, if you</li> <li>9 like this is for training and these are the</li> </ol>	
6	that. The process of staying within line of the investment	10 investment officer does. And so that's th	-
7	policy statement that the board of directors puts out, the	11 know.	ie question, you
8	targeted returns on an annual basis, that the investment site	12 A My thought is the senior investr	opt officer is a
9	is compliant with quarterly audits and the annual review.		
10	And then it's thoroughly allocated to portfolio	13 spokesperson for the investment committee, 14 is allocated, why it's allocated, how it's	
11	diversification from a risk standpoint.		-
12	Q Just walking through the bullet points on the first	15 monitored, that I was there as senior invo 16 speak on the behalf of Allen Stanford, Jir	
13	page of page 12, it says: "Insure investment portfolio within		, bavis, Laura
14	parameters of the investment policy statement." Is that	5	nast of the lange-
15	something you did?	18 Q And, again, this Exhibit 12 was	-
16	A No. I did not do it per se to move assets, but to	19 presentation that was used every time clie	Ents Came IN?
17	talk about how it's done from an asset allocation standpoint;	20 A Yes.	uld it be up op a
18	and, as it says on slide 3, how much in equity, how much	21 Q How would you present that? Would you present that? Would you sit down with ther	
19	interest income.	22 projector, or would you sit down with ther	at a computer:

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2 drops down.

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Q Okay. And again the next bullet point saying that

21 targeted returns are achieved. It was not your role to

22 achieve the goals, correct?

23 A Correct.

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24 Q It was your role to present, you know, how it was 25 managed but not to actually do bullet two?

1 A Correct.

Q Okay. And also strategically positioning the 2

3 portfolio to mitigate risk, that would have been the Memphis 4 team who actually did that? Or the investment committee.

5 A Okay.

6 Q And so again, we kind of have to ask the question.

7 I mean, the title of the slide is "Senior Investment

6 identification.) 7 BY MR. KELTNER: 8 Q Again, it's another document that we received in

4 to hand you another document that I'm marking as Exhibit 13.

A Projector, conference room.

25 was just a typical conference room?

Q I know there's a theater set up in Houston. This

A Yes, more round table like this with a screen that

MR. KELTNER: Okay. Since we're there, I'm going

(SEC Exhibit No. 13 was marked for

9 your production. Can you tell me what Exhibit 13 is? 10 A This looks to be the entire presentation we were 11 speaking of that was presented in Antigua to visiting clients Page 100

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Zarich\_Michael\_20090204.txt

12	prospects.
13	Q Okay. So who gives the bulk of this presentation?
14	Is that the president of the bank?
15	A Yes, Juan Rodríguez.
16	Q So Juan gives the general presentation and then you
17	would take over and do kind of your section on the role on
18	the investment piece?
19	A Yes.
20	MR. KING: Was this presentation also given to
21	prospective financial advisors?
22	THE WITNESS: Yes.
23	MR. KELTNER: Just one thing I wanted to point out

- 24 real quick. There's a page entitled management team at SIBL
- 25 headquarters, St. John's, Antiqua?
- 1 THE WITNESS: Hm-hmm.
- 2 BY MR. KELTNER:
- 3 Q And it's got you listed there? I apologize the
- 4 page numbers didn't print on this; maybe that page. It's the
- 5 management team at SIBL headquarters, and you see your name 6 in the middle of the page?
- 6 in the middle of the page?
- 7 A And it looks to be a typo, "CIO?"
- 8 Q I assume CIO is chief investment officer?
- 9 A Yes.
- 10 Q Okay. And do you think that was a typo?
- 11 A Yes. It's probably an old version.
- 12 Q Okay, and it looks like the last four slides on the
- 13 page per your presentation. Correct, where it says
- 14 investment portfolio and strategy?

Page 101

- Zarich\_Michael\_20090204.txt
- 19 spoke at length on some of the checks and balances at the
- 20 bank. You know, to even open an account there, multiple
- 21 forms of I.D., bank reference letters, and it's another
- 22 concern of clients, you know, who else is invested here at
- 23 this bank. So to just really hammer home the point, just how
- 24 astringent it is in Antigua.
- 25 Q So other than multiple forms of I.D. and letters of
- reference from the bank or another bank, were there any other
   checks and balances relating to the money order?
   A Yeah, they did. I guess I'm out of turn talking
   about it, but I know they used various external sources to
   verify people.
  - Q Do you know who they were?
- A I don't. I know Alan Burr is one. I don't think
   8 that was a regular firm. They might be one they call under
- 9 extraordinary circumstances if somebody's suspicious.
- 10 Q During their time in Antigua, did you ever
- 11 encounter any money laundering concerns?
- 12 A No.
- 13 Q Did you discuss with Juan Rodriguez any money
- 14 laundering concerns?
- 15 A No. I mean he would mention anecdotally that
- 16 people have been turned down by the bank and then he's maybe
- 17 they've issued like a handful of SAR reports annually, every 18 year. but.
- 19 Q Do you know if anyone was turned down during your
- 20 time in Antigua?
- 21 A I think so.
  - Page 103

Zarich\_Michael\_20090204.txt A Yes.

- 16 Q And there's essentially the same pages from Exhibit
  12?
  18 A Yes, it just looks like a different format, rough,
  19 but yes.
  20 Q There's a page in there entitled management support
  21 and it references portfolio management out of Memphis,
  22 Tennessee. What was the explanation that was given to
  23 investors and how was that explained? You know, where the
- 24 money is managed, who does it.

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25 A I recollect that's where I was introduced on the

management side, portfolio management side, and Memphis was
 introduced as the support to help monitor the portfolio and
 oversee the process. And then, of course, Jim Davis and his
 group and Laura Pendergest were on the investment committee
 of the board.

- MR. KELTNER: Anything else?
- BY MR. KING:

Q Look at the slide. I apologize again there's no page numbers. Entitled. "Anti-money laundering."

- 10 A Towards the back?
- 11 0 Yes.
  - A I got it.
  - 0 Tell me about that.

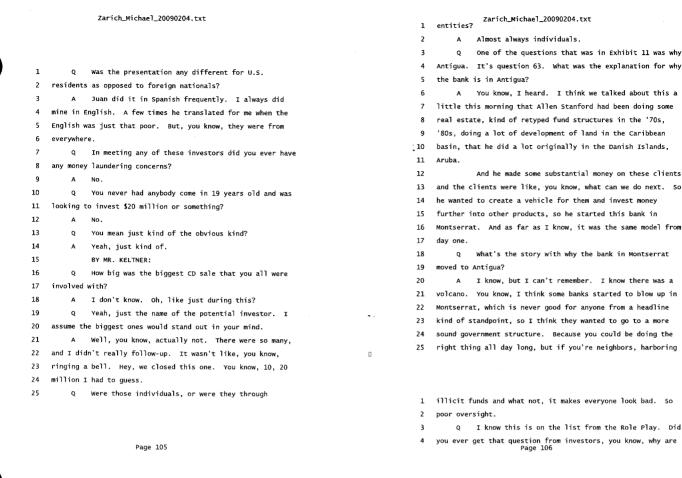
14 A Juan used to talk about some of the anti-money

- laundering laws of Antigua. His prevention act was in 1996
  how Antigua was ahead of the curve. They actually have a
  much more stringent anti-money policies than even the U.S.
- 18 I guess it goes through these amendments, and then kind of Page 102
- Zarich\_Michael\_20090204.txt 22 Q And how do you know that? 23 A Just probably in these presentations and client 24 meetings, them talking about it. 25 Q Who's in charge of money laundering program at the
  - 1 bank?

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A The chief compliance officer was Pedro Gonzalez, I 2 3 want to say. I'm sorry I can't remember his last name. So 4 there was a compliance team in place. Ultimately Juan is accountable and responsible as the president. 5 6 Q How many people were on the money laundering team? 7 А There was just a handful. I mean it was just all 8 the compliance team g Q How many compliance people are in Antiqua? A There was three in the bank. 10 11 Q Do you know who the three people are? A Yeah. I know Pedro. I'm saying it was either 12 13 Rodriguez or Gonzalez. I should know. I played golf with the guy all the time, and then Sean Smith. And then they had 14 I think an assistant. And that's just to comply. I mean 15 16 they're still screening, I know, at account services when the 17 accounts come in. So, again, I can't speak specifically to the process, 18 19 but a new account comes in, it's reviewed by the account 20 service person. Then it kind of goes up to the clients and they review it, everyone making sure all documents are in 21 22 place. 23 0 The potential investors that made the trip to Antigua, were they all U.S. residents? 24 A No. No, they were from all over the world. Page 104 25

Page 7 of 10



Zarich\_Michael\_20090204.txt A If memory serves me, it will come up in the 8 9 question of what U.S. agencies have anything to do with this 10 or do they. I think that would put at least a U.S. investor 11 at ease. It's kind of the same. Well, it's sold in the 12 U.S., so it's how it's sold, like I just said. The clients 13 responsible for income, so the IRS, they certainly have to 14 report their income earned to the IRS. 15 BY MR. KELTNER: Q So was it that the SEC might not have oversight of 16 the bank and its products, but it did have oversight of the 17 sales process? 18 19 A Yes. 20 0 That was the message? 21 That's what I would have said. А 22 MR. KING: Was that intended to provide prospective

investors with an additional level of security? 23 24 THE WITNESS: As I said earlier. I'd want to steer 25 away from any feeling of this thing is insured, protected,

1 because it's not.

2 BY MR. KELTNER:

3 Q Just the idea that there was some oversight around the sale, I mean, was that to make U.S. customers more 4

5 comfortable?

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- 6 A I can't say. I mean, I would think just to answer 7 the question, but to the client, I would just answer the 8 guestion if they asked it.
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- Q Who told you that there was SEC oversight on the 10 sales side? 11

A I think I just knew it, even well before I got Page 108



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Zarich\_Michael\_20090204.txt

- 5 you guys in Antigua. What's the benefit or anything like 6 that?
- 7 You know, in the sense from the low tax А
- 8 jurisdiction is beneficial to the point still that Allen was.
- 9 you know. He's been down there almost his whole life, you
- know, in the Caribbean. 10
- 11 Q Okay. Did you ever hear anything about any
- 12 regulatory problems in Montserrat or Stanford?
- A No, I did not. 13

14 MR. KING: I heard the opposite, and I heard the 15 regulatory was too lax there.

16 MR. KELTNER: Did you ever hear anything like the

17 banks in Montserrat were being told to close down?

- 18 THE WITNESS: I have not heard that.
- 19 BY MR. KING:
- 20 Q Your presentation to your prospective clients where

21 you were asked to put out SEC regulation of a bank or other

- 22 U.S. regulators? 23
- A It came up in the sense that how the CD was
- 24 distributed in the U.S. I guess it's a private placement, a 25 Reg D, so it was under the SEC's jurisdiction on the sales
- 1 side of the CD in the U.S. But any questions about those
- 2 agencies having oversight over the bank was more or less 3 deferred to the FSRC or any of the Caribbean oversight
- 4 authorities had jurisdiction over the bank.
- 5 Q What specifically was said about SEC or U.S.
- 6 regulators jurisdiction with regard to Stanford Company's
- 7 sale of the CD?



		12 0	T nee	
	Zarich_Michael_20090204.txt		15	Zarich_Michael_20090204.txt question and did you give substance to that answer?
12	there, of the CD program. And it was first rolled out when I		15	A I don't remember specifically. I'm sure I was
13	was in Denver, you know. What's this company? Because no		18	asked a question.
14	one even knew about it, and Jane Bates and maybe someone			MR. KELTNER: And that's how you would have
15	else, Juan, maybe. Yeah, Juan did. He came up in like '99		18	,
16	to Denver to sell, promote it to the FAs up there.		19	answered it?
17	Q And that's the context in which you learned about		20	THE WITNESS: Yeah, it's a private placement, Reg
18	there being a Regulation D private placement?		21	D. Credited investor, you know.
19	A Yes.		22	BY MR. EDMUNDSON:
20	BY MR. EDMUNDSON:		23	Q Do you feel fairly confident that you were asked
21	Q Do you recall any discussions as to whether or not	•	24	that question?
22	a bank had to register as an investment company to sell	۵	25	A Yes.
23	products in the United States?			
24	A I do not. You know, I don't know how long it was			
25	sold in the U.S. I know around this time it was more or less			
25	Sold in the 0.3. I know around this time it was note of less		1	Q Were you asked that or a similar question by the
			2	financial advisors when they came down in connection with
			3	their due diligence or learning about the bank?
			4	A NO.
1	being actively promoted. And maybe that's when the filings		5	Q Do you recall any internal discussions with any
2	all came about.		6	bank employees about the sales process under the Reg D
3	Q I want to make sure I understand your previous		7	filing?
4	answer. With respect to the Reg D clients, you understood		8	A I don't recollect.
5	that the bank CDs were not registered with in the United		9	BY MR. KELTNER:
6	States, but the sales process was subject to oversight and		10	
7	regulation by the Securities and Exchange Commission. Is			
8	that fair?		11	sales process for the sale of CDs pursuant to the Reg D
9	A Yes.		12	product?
10	Q Do you recall giving that explanation to investors		13	A Yes. Am I wrong? That's what I thought. That's
11	if you were asked?		14	what I was told.
12	A Yes, I mean, that's what I would have answered.		15	Q Okay. And you were never told otherwise? You
13	Q I want to be a little bit more specific. It's what		16	weren't told that the SEC has no jurisdiction over the CD
14	you would have answered. My question is were you asked that		17	sales?
	Page 109		18	A No. Page 110
	Zarich_Michael_20090204.txt		22	Zarich_Michael_20090204.txt Play Q and A. Let's find out which one. Whichever one ends
19	Q Let me back up. A minute ago you told us that		23	on question 66. I think you noticed that earlier.
20	generally your answer to that question, which you're fairly		24	MR. KING: It's Exhibit 11.
21	certain you would have been asked would have been that there			
22	is SEC oversight over the Reg D private placement of the CDs.	0	25	MR. KELTNER: Yeah, it's the questions from Role
23	Is that fair?			
24	A Yes.			
25	Q Okay. And so you certainly wouldn't have given the			• · · · · · · · · · · · · · · · · · · ·
			1	Play. So, 14. Okay.
			2	(SEC Exhibit No. 14 was marked for
			3	identification.)
1	client inaccurate information about that. Right?		4	BY MR. KELTNER:
2	A Only if I did. I said, was it inaccurate, and I		5	Q Okay. So you think Exhibit 14 is a continuation of
3	didn't know it.		6	Role Play document Exhibit 11? The numbers line up. It's 66
4	Q So did anyone from Stanford ever tell you that the		7	and 67.
5	SEC did not have jurisdiction over the sale of the CDS?		8	A Oh, yes.
6	A No. And I want to also clarify, I just was not a		9	Q So your answers with regard to how that document
7			10	was prepared and the circumstances around it would be the
	part of the operational side. That question just didn't		11	same?
8	really come up.		12	A Yes.
9	Q Aside from the client?		13	Q I think most of these are repetitive of prior
10	A Well, at the bank it might have come up, you know,		14	questions that we talked about in different Q and A
11	with Juan in the room or with an advisor, but most of them		15	documents. There's was a question 85 that says "Are most of
12	were already educated somewhere along the line.		16	the investments in stocks and bonds?" "Yes." And that's
13	MR. KELTNER: Sure. Okay. We may play a little		17	consistent with your understanding when you were at Stanford?
14	bit of the game of what is this just on some documents. Can		18	A Yes.
15	you identify them for the record?		10	

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but it starts with a question number 67 that says, "Do you
 have a feel for the overall position in each sector?" This
 is a continuation of one of the previous exhibits of the Role

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A Of the asset side? Yes.

been told?

Okay. Consistent with what investors would have

Q Okay. There's question 101. I don't think we've

gone through this in explicit detail, but says, "Is SIBL very

different from a commercial bank?" Yes. Again, we've talked

about loans, generally, but loans made up a very small piece Page 112

18 that's marked as Exhibit 13. This one doesn't have a title,

MR. KELTNER: I'm going to hand you a document

15 you identify them for the record?

THE WITNESS: Oh, okay.

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	Zarich_Michael_20090204.txt	1	Zarich_Michae]_20090204.txt BY MR. KELTNER:
		2	Q I guess a prospective customer, could they even
		3	show up at the bank unannounced?
		4	A Only, I mean, it's happened with maybe someone on
1	of Stanford's product mix or asset side of the balance sheet.	5	vacation, stopping by, but I don't believe it's ever
2	Is that correct?	6	happened.
3	A Yes,	7	Q Okay. So a true private bank so to speak?
4	Q And as I understand it, the majority of all the	8	A Yes
5	loans that were made were secured by CDs?	9	BY MR. EDMUNDSON:
6	A Yes, that was my understanding as well.	10	Q But the bank's assets in your view managed from
7	Q Okay. So you couldn't just walk in off the street		Memphis?
8	and get a loan unless you were a CD client?	12	A I'm sorry. Managed banks assets?
9	A Yes.	13	Q Managed the bank's assets from Memphis?
10	Q Okay. And I think even then, the loans were	14	A The direction of the asset management is wherever
11	limited to some percentage of your CD balance?	. 15	Jim and Allen are. And just for semantics, managed, they're
12	A I think it was 80 or is 80 percent.	16	not Jim and Allen, as far as I know, aren't buying and
1.3	Q Okay. What about other conventional bank	17	selling securities all day long. They're directing where the
14	activities? When I think of a bank, you know. I assume, you	18	money goes.
15	couldn't get a car loan from Stanford?	13	Q Where does Him Davis work?
16	A No car loans.	20	A He used to work in Memphis. I think now, maybe,
17	Q Okay. What about credit cards? Maybe, maybe not?	20	he's in Tupelo.
18	A I don't know if they had a credit card. They might		
19	have had a credit card for some kind of sweep accounts.or	22	BY MR. KELTNER: Q Mississippi?
20	something, but no car loans, mortgages.	23	
21	Q Okay. ATM accounts?	24	A Yes.
22	A NO ATM.	25	BY MR. EDMUNDSON:
23	BY MR. EDMUNDSON:		
24	Q Did the bank even have a walk-up facility?		
25	A No.		a util
		1	Q While you were the senior investment officer, in
		2	your view, did Jim Davis call the shots with respect to the
		3	assets of the bank?
	Page 113	4	A Yes. Page 114
,			
-	Zarich_Michael_20090204.txt	8	Zarich_Michael_20090204.txt a senior investment officer didn't know where a vast majority
5	Q Did he work in Memphis at the time? Or do you	9	of the assets were located?
6	think he may have worked in Tupelo at the time?	10	A I did not tell the client that.
7	A That's current. He worked at Memphis while I was	11	Q Did you inform the clients that you didn't even
8	there.	12	know what the vast majority of the assets were?
9	Q At the time you were employed there, he worked in	13	A NO.
10	Memphis?	14	Q Did you inform the financial advisors that you as
11	A Yes.	15	the senior investment officer did not know how the vast
12	Q And Laura reported to him. Is that fair?	16	majority of the bank's assets were invested?
13	A Yes.	17	A · I did not. Again, I only presented the big
14	BY MR. KING:	18	picture.
15	Q What do people do where the tier III assets are	19	Q Okay. And in those presentations you did not
16	invested?	20	distinguish between the tiers that you testified previously
17	A I mean I know Jim and Allen, and that's all I know.	20	about?
18	Q How do you know that?	22	A Correct.
19	A I don't. I don't.	23	BY MR. KELTNER:
20	BY MR. KELTNER:	25	

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- 24 Q Just to close that loop out, with respect to each
- 25 of the disclosures that Mr. Edmundson just referenced, did
- 1 the bank president make any of those disclosures? 2 A NO. Q And it was you and he were the primary presenters 3 4 in the presentations in Antigua? 5 A Yes. 6 Q And typically you two were the last people the 7 investors talked to before they made their investment 8 decision?
- 9 A No, they did a tour of the bank. They did usually
- 10 activities during the day, but they were mostly accompanied
- 11 by their financial advisor. Page 116



Q And in any client presentation that you ever 7 participated in, did you tell respective clients that you as



Q And why do you leave Laura off that list?

23 wrong. She might be. We just never talked tier III.

A Yes, from the training.

BY MR. EDMUNDSON:

A I'm not sure she was privy to it. And I could be

Q Is that based on conversations you had with Laura?

Q Mr. Zarich, with respect to tier III bulk of the

3 assets at the bank, you don't know who knows where those

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4 assets were?

A Correct.

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12	Q Was the visit to Antigua typically the last step in
13	the purchase process?
14	A Yes.
15	BY MR. EDMUNDSON:
16	Q How often did Allen Stanford visit the bank in
17	Antigua?
18	A Rarely.
19	Q In the year and a half that you were there, how
20	often do you think you saw him?
21	A Inside the building? I mean he was on the island a
22	lot, but in the building.
23	Q In the year and a half you were there, how often do
24	you believe you saw Mr. Stanford on-site conducting business?
25	A In the bank, five, six times.

Zarich\_Michael\_20090204.txt

1 Q A handful?

2	Α	Yeah, a handful.
3	Q	How often did you see Jim Davis physically at the
4	bank?	
5	А	A little more frequently, probably about once or
6	twice a qu	Jarter.
7	Q	Did you ever have any discussions with Mr. Stanford
8	about the	bank's assets?
9	А	No .
10		BY MR. KELTNER:
11	Q	Would your answer be the same for Mr. Davis?
12	А	Yes.
13	Q	Okay. So no detailed conversations with Mr. Davis
14	about the	bank's assets?

Page 117

		Zarich_Michael_20090204.txt		22	Zarich_Michael_20090204.txt (SEC Exhibit No. 15 was marked for
19	Q	What is the basis of your understanding?		23	identification.)
20	А	That's what I was told.		24	MR. KELTNER: Just kind of closing out the loop on
21	Q	By whom?		25	some of the Antiqua documents, I'm going to hand you a
22	А	Laura.	0	25	some of the Antrigue documents, I in going to hand you a
23		BY MR. KELTNER:			
24	Q	And so Laura in the course of these hours of			
25	preparat	ion that you did, the training that you did before		1	document that I've marked as Exhibit 15. It's entitled,
				2	"Stanford International Bank, Limited." The first sentence
				3	talks about a visit to SIBL and STCL, the client.
				4	(The witness examined the document.)
1	you went	to Antigua, she never volunteered. Did she know		5	BY MR. KELTNER:
2	where th	ne tier III money was?		6	Q And the second page is entitled, "Visit request,
3	А	Correct, yes. She never volunteered. I don't know		7	SIBL quidelines, October 2004."
4	if she k	nows.		8	A Yes.
5		BY MR. KING:		9	Q Can you tell me what Exhibit 15 is?
6	Q	Were investors told that Robert Allen Stanford and		10	A This looks to be the protocol for requesting trips
7	Jim Davi	s were the only people who knew where the tier III		11	to the bank to financial advisors for bringing client
8	assets w	we were investing?		12	prospects to the bank.
9	А	Not that I know of.		13	Q Okay. So would this be a document that would be
10		BY MR. EDMUNDSON:		14	given to the financial advisors so they know what the rules
11	Q	Did you have reason to tell prospective clients		15	of radar, what kind of a protocol?
12	that Mr.	Stanford was the sole shareholder of the bank?		16	A Yes.
13	А	I'm sorry. I did, yes.		17	Q Is the primary qualification for a visit to the
14	Q	You did?		18	bank \$5 million?
15	A	Yes.		19	A Yes.
16	Q	Did you mention to them that Mr. Stanford did not		20	O So either a current client with \$5 million in CDs
17	routinel	y take profits out of the bank?		21	or a prospective client looking to invest \$5 million?
18	А	Yes.		22	A Yes.
19	Q	That was part of the presentation?		23	Q So those are one of two ways to get your free trip
20	А	I guess that sound byte, I obviously don't know for		24	to Antiqua?
21	a fact b	out that's what I've been told, yes.		25	A Yes, I believe it was paid for by Stanford.
		Page 119			Page 120
					APP 005

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		Zarich_Michael_20090204.txt	
15	A	Correct.	
16	Q	Okay. Certainly no discussions about tier III?	
17	А	Correct.	
18		BY MR. EDMUNDSON:	
19	Q	Let me make sure I understand. You took trips with	
20	Mr. Davis	and Mr. Pendergest to Europe. Did you not?	
21	А	Yes.	
22	Q	And in those discussions you had some conversation	
23	about ban	cassets. Did you not?	
24	А	Yes. Jim is not. I mean he's a very conceptual,	
25	philosoph	ical, so he would talk about the history of Stanford	

4 invested. Those types of discussions you didn't have with 5 Mr. Davis? 6 A NO. 7 BY MR. KELTNER: 8 Q And, in fact, when he talked to the financial 9 advisors, you were asked to the leave the room, about the 10 details of the investment? 11 A Yes. 12 BY MR. KING: 13 Q I just have one last thing on this. While you were 14 in Antigua as a senior investment officer, what was your

1 and how this works and the nuts and bolts of the manager or a

Q So the details how the assets were actually

15 understanding of who you knew were the tier III assets were 16 invested?

17 A Jim and Allen.

2 hedge fund.

3

18	ΒY	MR.	EDMUNDSON:
			Page 118

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7 the due diligence trip was?

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Page 1 of 10

	Zarich_Michael_20090204.txt	1	Zarich_Michael_20090204.txt A They would do like lunch at the Sticky Wicket,
		2	typically, after the presentation in the morning. And then I
		3	think it varies. Some people want to golf and snorkel, and
		4	they would do like a tour of the island and then go back to
1	Q Okay. And typically how do those folks leave, the	5	their hotels and do the other restaurant, the five star
2	big investors? How do they get there?	6	restaurant. The Pavilion would be kind of the final night
3	A On one of the private jets, Stanford's.	7	and Juan and I would be at that dinner, kind of under any
4	Q And who were they accompanied by?	8	other questions. And it was almost always social at that
-	A Almost always the financial advisor, and there are	9	point.
- 7	typically groups, husband and wife, maybe some friends of theirs.	10	MR. KING: Was that a common practice or commercial
8		11	practice as you know in terms of selling CDs in the United
	Q I think I noted something in the guidelines about	12	States?
9	not scheduling overlapping trips? Or maybe it was back in	13	THE WITNESS: I don't think so. But I don't know
10 11	the Q and A. I can't remember. "Because the experience has	14	for sure.
11	to be unique, we will generally not allow more than one set	15	BY MR. KELTNER:
12	of visitors at the bank at one given time." A Yes.	16	Q So typically with these folks flying in on a
15	Q So was that part of the procedure? For what	17	weekend, or would they fly in during the week?
14	purpose, and why did you want just one group there at any	18	A Week day.
15	given time?	19	Q How long were they usually there?
10	A It was a production beyond the bank and the trips	20	A I think two nights.
17	were handled and coordinated by Sasha Mercer and Natasha	21	Q Okay, so they would get their tour, and wining and
10	Gonzalez. Freedom at the hangar, get them to their hotel.	22	dining, and maybe the following day would they have their
20	dinner, other activities, tour the island. See some of the	23	meetings at the bank?
20	other Stanford companies there. Visit the restaurant. Go to	24	A Get in usually in the afternoon, kind of go down,
22	the bank.	25	get checked in. I think they're kind of on their own that
23	Q Was the restaurant the one that Stanford owns?	11	
24	A A couple.		
25	Q Yes, what's it called, the "Sticky Wicket?"		
	e res, mae site carren, the stroky wroket:	1	first night. Business at the bank, dressed in a suit and
		2	tie, dressed up, come into the bank, presentation, lunch at
		3	the Sticky Wicket and then the island tour and dinner at the
	Page 121	4	Pavilion and then out. So it's two nights; out like on a Page 122

		Zarich_Michael_20090204.txt		8	Zarich_Mi A Ido. Ica
5	Wednesda	y in on a Monday afternoon, out on a Wednesday.		9	advisors, and then Ed
6	Q Okay, and again the primary hosts were you and the				there. And the finar
7	bank pre	sident?		10 11	broker-dealer, she to
8	Α	At the dinner at the Pavilion after that night of		12	· · ·
9	the pres	entation.			people as due diliger
10	Q	Okay, and I assume there was staff to do the tours		13	Q In connect
11	and all	those types of things?		14	meet with her in con
12	А	Yes, Sasha and Natasha.		15	A At the bank
13		BY MR. KING:		16	Q Yeah.
14	Q	Do you know Jane Vance?		17	A Just in the
15	А	Yes.		18	at a dinner.
16	Q	Who is she?		19	Q Do you know
17	А	She was chief compliance officer over the		20	assets of the bank?
18	register	ed investment advisor at the Group, the R.A.		21	A She never a
19	-	BY MR. EDMUNDSON:		22	Q Do you know
20	Q	Did you meet with her in Antigua?		23	the auditors?
21	A	Yes.		24	A Idon'tkno
22	0	Approximately how many times?	D	25	Q Do you know
23	A	Actually, my first trip there was with Jane. Jane	5		
24		go down with, I quess, new FAs for educational part			
25		education at the bank.			
				1	with the regulators?
				2	A Idon'tkno
				3	Q Do you know
1	Q	While you were employed at the bank in Anti-		4	information about the
2	-	While you were employed at the bank in Antigua,		5	A That would
		ately how many times did you observe Jane going down?		6	asked or was denied.
3	A	A couple.		7	Q And do you
4	Q	Did she make due diligence trips?		8	to the auditor or to
5	A	Yes.		9	due diligence at the
6	Q	Do you have an understanding of what the nature of		10	A Idon'tkn

8	Zarich_Michael_20090204.txt A I do. I can say she used to take the financial
9	advisors, and then Eddie Rollins started taking recruits down
10	there. And the financial advisors, as he took over the
11	broker-dealer, she took a group down that were more culprit
12	people as due diligence from Stanford Capital Management.
13	Q In connection with her due diligence trip, did you
14	meet with her in connection with her due diligence?
15	A At the bank?
16	Q Yeah.
17	A Just in the presentation format, I don't think; or
18	at a dinner.
19	Q Do you know whether Ms. Bates asked to review the
20	assets of the bank?
21	A She never asked me.
22	Q Do you know whether or not she asked to meet with
23	the auditors?
24	A I don't know.
25	Q Do you know whether or not she ever asked to meet
1	with the regulators?
2	A I don't know.
3	Q Do you know whether or not she was denied access to
4	information about the bank assets?

Q And do you know whether not she was denied access to the auditor or to the regulators in connection with her due diligence at the bank? A I don't know. And I take it from your answers throughout the day Page 124 Q

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A That wouldn't surprise me, but I don't know if she



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Zarich\_Michael\_20090204.txt Zarich\_Michael\_20090204.txt with them about the overall assets at the bank? 15 12 that you certainly did not walk her through the bank assets 16 A Not at a specific level, just again a broad 13 while she was now on-site? 17 presentation. 14 A Only the presentation you've heard today is what 18 Q And to your knowledge, were they provided access to she would have received from me. 15 19 regulators or to the auditors in connection with any due 16 O And that presentation would not include a detailed diligence they may have been doing on the bank in Antigua? 20 17 breakout of the bank's assets? 21 A Not to my knowledge; they were not. 18 A Yes, Or correct. 22 Q Do you have an understanding as to why Mr. Young 19 Q And you never facilitated the meeting with the would visit the bank? 23 20 regulators or the auditors? 24 A I just think to get educated, to see it, to meet 21 A Correct. 25 the president. 22 0 And beyond Jane Bates, did you ever have an n 23 occasion to meet with the other compliance officers for 24 Stanford Group Company while you were in Antiqua? 25 A Yes. Rhonda Leer. That might have been the same 1 Q Is it your understanding that he would do that, 2 become more familiar with a company or to discharge his 3 responsibilities as a compliance officer? A T would think. from a compliance officer's 1 trip. Rhonda Leer, who is now the compliance officer over 5 standpoint, to get a feel from an affiliated company that was 2 Stanford Capital Management. She is down there at the bank. 6 selling products in the U.S. 3 Q Anybody else? 7 BY MR. KEITNER: I don't remember anvone else. Oh. no. It's 4 А Q One document that I didn't necessarily want to make 8 5 Bernie. I think he's the head of compliance guy now, and he 9 a copy of, but I wanted to see if you could tell me what it came down with one other guy. I want to say Madoff --6 10 was, and then I could pull a copy of it if it's not clear to 7 Bernie -- you guys know his name. 11 you. There's a document in the materials that you produced MR. KELTNER: The guy from the NASD? 8 called a "Training and Marketing Manual." 12 q MR, EDMUNDSON: Bernie Young. It's about a half inch thick, had a bunch of 13 10 MR. KELTNER: Bernie Young? Young? Is that it? 14 procedures in there and things about the CD program, and some THE WITNESS: Yes. 11 15 of the substantive material that we've talked about from the 12 BY MR EDMUNDSON 16 PowerPoint slides, you know, how do you earn these returns 13 I need to ask the same questions. With respect to 0 and answers to questions like that. Does that ring a bell? 17 14 Mr. Young and Rhonda Lear, did you ever have a discussion 18 Do you know how that was used or what came from it? Page 126 Page 125 Zarich Michael 20090204.txt Zarich\_Michael\_20090204.txt 22 just been around one of the first sales guys. 19 A There may still be. There was. Oreste Tonarelli 23 0 And so he would take that training manual and he 20 did a training program. He's in Miami. It's possible it's 24 would sit down with you at FA's new financial advisors? 21 that. He's more ABC's kind of nuts and bolts product. 25 A Yes. 77 Q Yeah, but it looks fairly official. п A It's probably the training manual. 23 24 Q Okay. And that manual is used toe train financial

25 advisors?

0

1	A Yes, sales assistants, financial advisors. If it's
2	what I think it is, it's more kind of like what the products
3	are. Yes, a little background on the bank and things like
4	that.
5	Q And who is this gentleman that gave the
6	presentation?
7	A Oreste, O-r-e-s-t-e; Tonarelli, T as in Tom,
8	o-n-a-r-e-l-l-i.
9	Q And who is he? Where does he fit in?
10	A He's a long-time advisor. He's been selling the
11	bank from the beginning of the 80s and somewhere along the
12	line took up training. And he at one time, I think had it
13	was standard for all the new employees to go down there
14	nobody is selling it to his training facility in Miami and he
15	would do like a two-day beat-down on the bank.
16	Q Okay. So he was a financial advisor out of the
17	Miami office?
18	A Yes.
19	Q And, I guess, was he one of the leading sales guys?
20	Is that why he was in this role?

21 Α Yes, leading, he's selling a lot of it and it's Page 127

1 o And he would provide them with this information at 2 a high level and tell them what the CD is, how to sell it by company. 3 4 A Yes. Q Okay. Did you sit in on any of those presentation 5 materials? 6 7 A I did not. 8 How is it that you know about this? 0 A It was just the program in place. I don't know if 9 it still is. This was before I was SIO, just knew about it. 10 11 I mean I know the guy and talked to him. Q Okay. So you talked to him and you knew that's 12 13 generally what he did and what his role was? 14 A Yes.

15 Q Let's talk a few minutes about and in a little more 16 detail about the portfolio tracking. You know, we talked 17 earlier today about how you got weekly reports? A Yes. 18 19 MR. KELINER: I'm going to hand you a document that I'm marking as Exhibit 16, so again I'll represent to you 20 that this is a document I printed out for the production that 21 22 you gave us. 23 (SEC Exhibit No. 16 was marked for

identification.)

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25 MR. KELTNER: The entire document is about 514 Page 128

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6 A Yes, and Ziad would go, I really like these

Page 131

7 Brandeis guys. You should put money with them. So he had

	Zarich_Michael_20090204.txt			Zarich_Michael_20090204.txt
			1 2	15, 2004. Q That's my understanding as well, and that's
			2	Q That's my understanding as well, and that's consistent with what your understanding was when you were at
			4	Stanford in terms of the size of the portfolio. And before
1	pages, so what I did was I took basically the first three		5	did you tell me it ranged from what, 200 to 500 of the tier
2	pages from each tab. So the first page appears to be a		6	II assets?
3	summary page entitled, "Stanford International Bank Weekly		7	A You asked about tier I. Tier II, you know, we've
4	Statement for March 15, 2004."		8	got 2, 300 when I was there.
6	There's some more detail in that summary, and then it looks like there are also summaries for subsequent		9	Q Okay. Certainly not in the billions?
7	periods, March 8, 2004. Then there's what appear to be pie		10	A Certainly not.
8	charts, and then eventually you're searching tabs for each		11	Q So again, this first page appears to be a roll-up
9	investment advisor or at least what I believe to be each		12	of the subsequent pages. If you look through, I want to go
10	investment advisor. So I'm going to hand you Exhibit 16 and		13	through some of the sub advisors with you real quickly, so go
11	if you can confirm for me what that is.		14	to the first page that says "Credit Suisse."
12	THE WIINESS: This is of course before I was SIO,		15	A Yes.
13	but this is similar to what I would have received as my		16	Q Okay. So Credit Suisse, First Boston CSFB, so is
14	weekly report you spoke of on tier II assets.		17	this an advisor that you are familiar with?
15	BY MR. KELTNER:		18	A Yes.
16	Q Okay. So this first page that's entitled "weekly		19	Q Okay. Is this one of the ones you met with?
17	Statement for March 15, '04," this appears to be a roll-up of		20 21	A Yes.
18	all the assets that are on the tabs that follow. Is that		21	Q Okay. And where did you meet with them? A London.
19	generally what this is?		23	Q Okay. And so do you know who the London contact
20	A Yes.		24	was?
21	Q Okay. And just so I'm on the same page in		25	A I do. Ziad, Z-i-a-d; Jiryes, J-i-r-y-e-s; Ziad
22	understanding this, if you go to the right-hand side of the	Ū		
23	page where you see current balance, kind of in the middle of			
24	the page by itself, that 154 million 362 some odd thousand.			
25	That's the sum total of the tier II assets as of this March		1	Jiryes.
			2	Q And was the actual, I guess, senior advisor on the
			3	account?
	Page 129		4	A There was a team. There were others. He came to Page 130
	Zarich_Michae]_20090204.txt			zarich_Michael_20090204.txt
5	Zarich_Michael_20090204.txt Antigua as well, and I don't recollect Abbot, maybe		8	some discretion. Brandeis is a money manager that's actually
5			9	some discretion. Brandeis is a money manager that's actually investing in securities if that makes sense.
	Antigua as well, and I don't recollect Abbot, maybe		9 10	some discretion. Brandeis is a money manager that's actually investing in securities if that makes sense. Q Sure. So CSFB, they're getting a cut for advising
6	Antigua as well, and I don't recollect Abbot, maybe Mark Abbot?		9 10 11	some discretion. Brandeis is a money manager that's actually investing in securities if that makes sense. Q Sure. So CSFB, they're getting a cut for advising the bank on which funds they should be in, with which asset?
6 7	Antigua as well, and I don't recollect Abbot, maybe Mark Abbot? Q In speaking with Ziad, was he actually managing the		9 10 11 12	some discretion. Brandeis is a money manager that's actually investing in securities if that makes sense. Q Sure. So CSFB, they're getting a cut for advising the bank on which funds they should be in, with which asset? A Okay.
6 7	Antigua as well, and I don't recollect Abbot, maybe Mark Abbot? Q In speaking with Ziad, was he actually managing the money or was he a relationship guy? But you don't know how		9 10 11 12 13	some discretion. Brandeis is a money manager that's actually investing in securities if that makes sense. Q Sure. So CSFB, they're getting a cut for advising the bank on which funds they should be in, with which asset? A Okay. Q So is that similar to a fund-to-funds where, you
6 7 8 9	Antigua as well, and I don't recollect Abbot, maybe Mark Abbot? Q In speaking with Ziad, was he actually managing the money or was he a relationship guy? But you don't know how he spoke. Could you tell?		9 10 11 12 13 14	<pre>some discretion. Brandeis is a money manager that's actually investing in securities if that makes sense. Q Sure. So CSFB, they're getting a cut for advising the bank on which funds they should be in, with which asset? A Okay. Q So is that similar to a fund-to-funds where, you know, CSFB is getting their whatever, their management fee.</pre>
6 7 8 9 10 11 12	Antigua as well, and I don't recollect Abbot, maybe Mark Abbot? Q In speaking with Ziad, was he actually managing the money or was he a relationship guy? But you don't know how he spoke. Could you tell? A Yeah, this team, just to say him, he would allocate the money out to undermine managers. Q Okay. And so looking at the following page,		9 10 11 12 13	some discretion. Brandeis is a money manager that's actually investing in securities if that makes sense. Q Sure. So CSFB, they're getting a cut for advising the bank on which funds they should be in, with which asset? A Okay. Q So is that similar to a fund-to-funds where, you
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6 7 8 9 10 11 12 13 14	Antigua as well, and I don't recollect Abbot, maybe Mark Abbot? Q In speaking with Ziad, was he actually managing the money or was he a relationship guy? But you don't know how he spoke. Could you tell? A Yeah, this team, just to say him, he would allocate the money out to undermine managers. Q Okay. And so looking at the following page, there's a CSFB Credit Suisse, First Boston, Brandeis; and, the prior page is Credit Suisse, First Boston Equity. What's		9 10 11 12 13 14 15 16	<pre>some discretion. Brandeis is a money manager that's actually investing in securities if that makes sense. Q Sure. So CSFB, they're getting a cut for advising the bank on which funds they should be in, with which asset? A Okay. Q So is that similar to a fund-to-funds where, you know, CSFB is getting their whatever, their management fee, Do they also get a percentage of the Ops? A Oh, I don't think so, but I don't know. Their</pre>
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8 Is that different? 9 A That's why I think Brandeis is a diversified fund,

10 is a fund. I think the equities are actual individual

11 positions. Page 132

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4 team?

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Q

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Q

Q

А

Q

16 afterwards.

Geneva.

Yes. А

And who were the advisors on that account?

Did anybody else from that team you can recall?

A I don't. He had a partner, but I don't recollect.

Q Okay. The following page, "SG (CBG Compagnie) in

 $\mathsf{Q}$   $% \mathsf{Q}$  okay, that's helpful. So did you meet with the Page 134

Peter Brooks. This is the July report.

And he was in Switzerland?

He did. He did.

Okay, and did he travel Antigua?

15 care of Geneve," I'm guessing. We'll get you that spelling

A It's a Soc Gen -- Societe Generale.

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		Zarich_Michael_20090204.txt		15	zarich_Michael_20090204.txt A I don't. Let's just go ahead and do this, kind of
12	Q	Okay, so the diversified funds, for lack of a			
13	better a	assertion?		16	going through quickly.
				17	Q T.D. Private asset management. Did you meet with
14	A	It's a fund, mutual fund.		18	that group?
15	Q	Okay. Like Magellan, or whatever?		19	
16	А	Yeah, and that's how they're sold in Europe. They			
17	don't re	eally do separate accounts like we do here in the		20	Q Okay. And do you know who the advisor was for that
		carry do separate accounts tike we do here in the		21	account?
18	states.			22	A I don't remember.
19	Q	Okay, and then I guess the following page, that's		23	
20	CSFB bor	nds?			
21	- A	Yes.		24	A Toronto; they managed individual equities.
				25	Q The following page, Coutts Bank, Switzerland and
22	Q	So are these bonds? It doesn't look like there's a	D		
23	sub advi	isor here.			
24	А	These are individual bonds.			
25	Q	That CSFB has selected?			
				1	. that's C-o-u-t-t-s did you meet with that group?
				2	A Yes.
				3	Q Okay. Where did you meet with the Coutts Bank

1	Α	Yes.
2	Q	Okay, so looking at the pie chart here, it's 72
3	percent	fixed income, nine percent cash, and 19 percent
4	diversif	ied?
5	А	It's probably a fund.
6	Q	A fund of bonds, essentially?
7	А	Yeah, yep.
8	Q	Okay, and then going to the next page, Lehman 143.
9	Are you	familiar with that advisor?
10	А	I'm familiar with Lehman, but I don't know if 143
11	is.	
12	Q	Sure. Did you meet with the team from Lehman?
13	А	This could be a trading account. No. I did not.
14	Q	Okay. Do you know where they were located?

Page 133

		Zarich_Michael_20090204.txt	22	2	Zarich_Michael_20090204.txt A I think they're registered as a broker-dealer, and
19		I Soc Gen?	2	3	then also kind of an investment banking; and then their
20	A	I did.	24	4	broker-dealer sells the CD. And, you know, all the
21	Q	Okay. And who's that?	2	5	registrations are different down there, but they're
22	А	Blaise Friedli: B-l-a-i-s-e F-r-i-e-d-l-i.	0		
23	Q	And where did you meet with Mr. Friedli?			
24	А	Geneva.			
25	Q	And did he travel to Antigua?	:	1	essentially a brokerage.
			:	z	Q Okay. Just continue down the path. Axia, on the
			:	3	next page?
				4	A Yes, Geneva, Switzerland.
1	Α	He did not while I was senior manager.		5	Q Can you give me a name?
2	Q	we'll just do the same thing on the next page,	(	6	A I believe it's Steven Richards; and, again, part of
3		Int., S.A.		7	the team.
4	Α.	Yes, met with them, Geneva. I think Rene	1	8	Q He's the primary?
5	Baumgardr		•	9	A I think he would be.
6	Q	Did you say guess?	10	0	Q And did you live in Geneva?
7	А	Yea, Baumgardner, B-a-u-m-g-e.	1	1	A Yes, not Antigua.
8	Q	So the next page is Stanford Group, Casa de	12	2	Q Can we talk a little bit earlier about SSM Venture.
9	Valores.		1	3	Seeing this here, it looks like the position is around half a
10	A	That is a stanford affiliate in Quito, Ecuador.	14	4	million; and, I think it's listed as 100 percent diversified
11	Q	Okay.	1	5	investment.
12	Α	I think they were just doing bonds. Yes, 74.	. 10	6	A That's a fund. I mean, that tells me it's a fund.
13	Q	74 percent fixed income, so is that going to be in	1	7	I think this is probably why it asks the question, who's SSM
14		erican bonds, probably?	1	8	in my role plan. But I do not know who they are. They
15	A	Yes.	1	9	weren't in Europe; or at least I don't remember.
16	Q	Who ran that group or who are you associated with	20	0	Q Okay. How about Meridian on the following page?
17	that grou		2	1	A I think Meridian is just an actual hedge fund.
18	Α	Ulysses, U-l-y-s-s-e-s; Alvear, A-l-v-e-a-r.	2	2	Q Okay.
19	Q	Okay. Again, that's a Stanford affiliate?	2		A Not a bank but just a hedge fund.
20	А	Yes.	2.	-	Q And do you know the manager for Meridian?
21	Q	What do they do aside from manage the spa fund?	2		A No. But I want to differentiate not a bank, but an
		Page 135	2	-	Page 136



# Page 5 of 10

training. I mean, it's clearly dated.

BY MR. KELTNER:

would have given you your own data?

A I don't know.

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numbers?

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Yes. А

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Q investment officer?

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0 Okav.

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account data.

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Q Okay.

Zarich\_Michael\_20090204.txt BY MR. KING:

A Officially it was January 1st of 2006.

Unless -- I really don't know. Q I mean, it doesn't seem inconsistent with them

these legally, and I'll just get re-e-mails.

asking you to leave the room when they talk about live

A But I think there's documents to show I did receive

You know, it may coincide with the trip to Europe.

MR. KELTNER: Let's think for a minute about some

identification.)

THE WITNESS: It's the FSRC quarterly report, Financial Services Regulatory Commission. It consists of

asset information from the bank. I believe it has client Page 138

of these FSRC reports, where there's a document I'm looking 25 at as Exhibit 17. So, generally, what's Exhibit 17 at a high

(SEC Exhibit No. 17 was marked for

Mr. Zarich, when did you take over as senior

How did Exhibit 16 come into your possession? A Oh, what we're looking at. I'm thinking from the

Q So, I'm curious. Do you have any idea why they

1	actual fund. So this is an example of where the money just
2	goes direct to the manager, the fund manager.
3	Q Directly to the hedge fund manager?
4	A Yes.
5	Q Just continuing, Barbary Coast, Rapier Partners,
6	R-a-p-i-e-r?
7	A I don't know.
8	Q Banque Franck, B-a-n-q-u-e, F-r-a-n-c-k?
9	A Yeah, this is one of the meetings. I met the guy,
10	I think, in a hotel. I don't remember his name, like a
11	handshake, and I was excused and the meeting went on. So I
12	didn't go to their office, and I don't remember his name.
13	It's in Geneva.
14	Q Geneva?
15	A Yeah.
16	Q Okay. So were most of your meetings in Geneva and
17	London then?
18	A Yes, and Zurich, but I don't know who we saw in
19	Zurich.
20	Q And then RefCo?
21	A You know, I'm thinking RefCo and Lehman are
22	custodians. I mean as the custodians, so this is probably
23	some decisions that were at RefCo. I don't know who managed
24	them. It could be the commodity positions.
25	MR. KELTNER: Okay.

Zarich\_Michael\_20090204.txt

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Page	137
Page	137

	Zarich_Michael_20090204.txt		8	Zarich_Michae}_20090204.txt goes into this report.
5	information as it deposit times, country of origin, types of		-	-
6	CDs that are invested in. This report is what would be		9	Q Okay. So what do you get from Jim that shows you
7	submitted quarterly to the regulatory body.		10	tier III?
8	BY MR. KELTNER:		11	A I get nothing, but what I think the analysts get,
9	Q Okay. How does this report makes it way to the		12	for Fred or Laura, is probably just the asset allocation,
10	regulatory body?		13	probably just equity funds, cash, whatever they ask for.
11	A It's my impression that Juan Rodriguez kind of		14	Q Okay. But you never see an e-mail or a document that
12	coordinates a quarterback's process, various departments.		15	comes from Jim Davis. You just know that you're waiting for
13			16	Jim Davis to provide the information so you can finalize the
	such as the investment team, which supply information on		17	report?
14	assets. I'm sure his operation team supplies information on		18	A Yes.
15	the clients. Maybe there's a tier I cash. And then I		19	Q Okay. And why is it you assigned Jim to that as
16	believe he memorializes it and sends it to the FSRC, and then		20	opposed to Laura? Had you heard that and you heard we're
17	I receive a copy when it's all done from Moira.		21	waiting for Jim to give us the
18	Q Okay. Why do you get it?		22	A Oh, I've heard it, yes.
19	A You know, again, for me I like to look at how we're		23	Q Okay. So that typically one of the last steps was
20	allocated so I can speak intelligently on how much we have in			
21	equity, how much we have here and here.		24	getting the number from Jim Davis?
22	Q Okay.	U	25	A Yes.
23	A And, I know, also the client information is			
24	helpful. Where are your clients from? You know, technical			
25	agents come up as well.			
			1	Q Okay. So were the tier II numbers already compiled
			2	by the time you got the tier III numbers?
			3	A Yes, I think. I mean yes, I would say.



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> 1 0 Okay. The data on investments that ends up in the FSRC report, did you play any role in pulling that together? 2 3 A I did a few that towards my last few quarters in 4 Antigua, a substantial team would come from Memphis and look 5 at all the statements for tier II, all the managers, and kind 6 of reconcile everything into the spreadsheet, wait for Jim Davis to put tier III together, and that entire piece then 7 Page 139

And those would have come from Jim Davis? Yes. Sorry, yes. And these quarterly reports, they were submitted as Page 140

Q Okay, so the tier II numbers would have come from

5 the Memphis team and would have been placed at the end of the

6 report, and then you're just waiting for the tier III

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	Zarich_Michael_20090204.txt
12	part of the normal course of regulation from the FSRC? In
13	other words, they weren't part of the special audit. It was
14	regular quarterly reports?
15	A Yes.
16	Q And then at the end of '06, you know, was there
17	annual audit in early '07?
18	A Yes.
19	Q Okay.
20	A That's a good question. I think that annual audit
21	is more of a questionnaire. I mean it's still this, and I
22	just think there's more information, more specific
23	information leading up to an on-site examination.
24	Q I guess that may be an important distinction. I
25	think in the Q and A I saw some reference to the FSRC doesn't
	UTTING IT UNE Q AND A 1 SAW SOME PETERENCE TO THE FSRC doesn't
1	think in the Q and A I saw some reference to the FSRC doesn't audit, they examine?
1	audit, they examine?
1 2	audit, they examine? A Yes.
1 2 3	audit, they examine? A Yes. Q Okay. What's that?
1 2 3 4	audit, they examine? A Yes. Q Okay. What's that? A I think that's just banking terminology. It's not an audit. It's an examination.
1 2 3 4 5	audit, they examine? A Yes. Q Okay. What's that? A I think that's just banking terminology. It's not an audit. It's an examination.
1 2 3 4 5 6	audit, they examine? A Yes. Q Okay. What's that? A I think that's just banking terminology. It's not an audit. It's an examination. Q Okay. Why was that distinction important? Why did
1 2 3 4 5 6 7	audit, they examine? A Yes. Q Okay. What's that? A I think that's just banking terminology. It's not an audit. It's an examination. Q Okay. Why was that distinction important? Why did it find its way into the Q and A?
1 2 3 4 5 6 7 8 9	audit, they examine? A Yes. Q Okay. What's that? A I think that's just banking terminology. It's not an audit. It's an examination. Q Okay. Why was that distinction important? Why did it find its way into the Q and A? A Maybe just the vernacular of audits, kind of more
1 2 3 4 5 6 7 8	<pre>audit, they examine? A Yes. Q Okay. What's that? A I think that's just banking terminology. It's not an audit. It's an examination. Q Okay. Why was that distinction important? Why did it find its way into the Q and A? A Maybe just the vernacular of audits, kind of more negative, maybe. Or maybe it's because it is an examination,</pre>
1 2 3 4 5 6 7 8 9	<pre>audit, they examine? A Yes. Q Okay. What's that? A I think that's just banking terminology. It's not an audit. It's an examination. Q Okay. Why was that distinction important? Why did it find its way into the Q and A? A Maybe just the vernacular of audits, kind of more negative, maybe. Or maybe it's because it is an examination, what they call it.</pre>
1 2 3 4 5 6 7 8 9 10	<pre>audit, they examine? A Yes. Q Okay. What's that? A I think that's just banking terminology. It's not an audit. It's an examination. Q Okay. Why was that distinction important? Why did it find its way into the Q and A? A Maybe just the vernacular of audits, kind of more negative, maybe. Or maybe it's because it is an examination, what they call it. BY MR. EDMUNDSON:</pre>
1 2 3 4 5 6 7 8 9 10 11 12	<pre>audit, they examine? A Yes. Q Okay. What's that? A I think that's just banking terminology. It's not an audit. It's an examination. Q Okay. Why was that distinction important? Why did it find its way into the Q and A? A Maybe just the vernacular of audits, kind of more negative, maybe. Or maybe it's because it is an examination, what they call it. BY MR. EDMUNDSON: Q What was the bank's relationship with FSRC?</pre>

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1	(SEC Exhibit No. 18 was marked for
Z	identification.)
3	MR. KELTNER: Another FSRC outside exam related
4	document, I'm handing you a document that I marked as Exhibit
5	18, and it says, "Financial Services Regulatory Commission
6	On-site Examination," and it appears to be an outline, roman
7	numerals on the left-hand side.
8	(The witness examined the document.)
9	BY MR. KELTNER:
10	Q Do you recognize Exhibit 18?
11	A This would be from the on-site examination. This
12	is what they'd be requesting in advance. I think I probably
13	took a summary from the questionnaire and put it into an
14	outline.
15	Q Okay, so this is maybe something you compiled as a
16	summary of what you needed to go get for the FSRC about it?
17	A Yes.
18	Q And would this be in connection with the '06 audit
19	or exam?
20	A I think it was '07. '06, excuse me, '06.
21	Q Year-end '06 taking place in early '07?

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Zarich\_Michael\_20090204.txt

positions, did FSRC ever ask for or receive those?

To your knowledge did they?

To my knowledge I don't know.

A I don't know.

0 But what? 25 MR. CRAINE: That was no.

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Q Currency, country, as far as actual securities

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#### Page 6 of 10 Zarich\_Michael\_20090204.txt Q On the FRSC side? 15 16 A Yes. We talked earlier. I believe Jim Davis met 17 with them separate, outside the bank on the investment side. 18 I mean maybe, maybe not. Q Were these quarterly reports at the FSRC viewed by 19 20 bank employees as a formality? 21 A Yes. 22 0 I suppose at some level it is a formality, but was 23 it viewed as a rigorous exercise? 24 A I would say yes. The times I worked on the asset 25 side it was tough going through, getting the positions, going

1 through all the statements. I think they wanted it by 2 country and currency. So, yeah, it took a good like eight of 3 us a solid week to put that together. 0 Do you recall whether or not the ESRC ever had any 4 5 follow-up questions to a quarterly report? A I don't know of any. 6 BY MR. KELTNER: 7 8 Q And, excuse me. I think we talked about this a 9 little before, but just to be sure I'm clear on it, did the 10 FSRC ever receive or ask to receive the actual securities 11 positions?

12 A Yeah, I don't know. They never asked me, and I'm 13 not sure if they asked.

0 Okav. And as you told us, the tier III data that 14 15 you provided was the high level allocations from your datas. 16 Correct?

17 A No, he would have to submit something in this

format, because that's what they requested. Page 142 18

Zarich\_Michael\_20090204.txt A Yes. 77 23 MR. KELTNER: I'm handing you one more document 24 related to this that I'm marking as Exhibit 19; and, I think 25 it may be the document request that you referred to a minute 1 ago that you may have summarized. (SEC Exhibit No. 19 was marked for 2 identification.) 3 4 THE WITNESS: Correct. This is a letter to the 5 president, Juan Rodriguez, announcing the examination and 6 what they were looking for. Juan would have given me my 7 areas, and then I would have probably sent this to Laura and 8 Jim in outline form. ٩ BY MR. KELTNER: 10 Okay. The handwriting on the second page, the list 0 11 of requested documentation and information. Is that your 12 notation, or whose is that? A That is not. I don't know if that's a priority, 13 14 or, well I guess they're just numbered. That is not mine. 15 0 But you think this Exhibit 19 is likely what you 16 were given by the bank president, and then you take it, 17 summarize it, figure out what you needed, and forwarded those requests onto the team in Memphis? 18 19 A Yes, Laura, I would assume, this is Laura and Jim. 20 BY MR. EDMUNDSON: Q I don't know that we've covered this, but was Laura 21 22 a bank employee? 23 A NO. 24 Q Was Jim Davis a bank employee? A I mean, board of director, but I guess not. Page 144 25

Page 7 of 10

		Zarich_Michael_20090204.txt		1	Zarich_Michael_20090204.txt of money was put into the bank, I should see it flowing
				2	through tier I, if I gained access to tier I?
				3	A Oh, yes, fair to say.
				4	MR. KELTNER: Real quickly, I'm going to hand you a
1	Q	How about Allen Stanford?		5	document that I'm marking as Exhibit 20.
2	A	Chairman, chairman of the board.		6	(SEC Exhibit No. 20 was marked for
3	Q	You're sending the FSRCs, requests for information		7	identification.)
4		e bank, to Laura, who is not a bank employee. Why?		8	BY MR. KELTNER:
5	A	Because she was on the investment committee.		9	Q Can you tell me what Exhibit 20 is?
6	Q	Okay.		10	A It's the Stanford International Bank Annual Report,
7	A	Yes, so I'm sending asset-related information from		11	although it's from 2006. By the way, that's Seth Hair. You
8		nination requests to her because she's a member of the		12	haven't met him yet.
9	investme	ent committee.		13	Q That's a picture of Seth on the inside cover?
10		BY MR. KING:		14	A We talked about him Friday.
11	Q	while he's looking for the next document, does each		15	Q Okay. I think we saw a picture of you in '05? Is
	12 time an investor purchase a CD, does that money travel			16	that correct?
13	through			17	A This one?
14	A	Yes.		18	Q Yeah.
15	Q	No exceptions?		19	A Yeah, I was in there.
16	A	I don't think so. I'm almost certain, because the		20	Q Yeah, I don't think we've got a lot of time to get
17	wire wou	Id go to one of those banks.		21	through this in detail, but if you go to page 36?
18	Q	Okay, and that's known as the treasury of tier I,		22	A Yeah.
19	right?			23	Q This note 12 on page 36, "Financial Assets at Fair
20	Α	Yes.		24	Value," I take it that represents the investment portfolio
21	Q	So it wouldn't matter how large the investment was?		25	for Stanford International Bank?
22	Α	Correct.	0		
23	Q	The protocol was it would all flow through tier I.			
24	А	Correct.			
25	Q	So for example, if earlier this year a large amount		1	A Correct.

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	Zarich_Michael_20090204.txt
5	A Yes.
6	Q Okay. What was equity? I just want to make sure
7	we're all on the same page.
8	A Stocks.
9	Q Okay.
10	A So securities and equities securities in the
11	company.
12	Q Okay. And so there's not going to be, you know,
13	marketable, trading securities like securities in a public
14	company?
15	A Yes.
16	Q Okay. So if you've got hedge funds or private
17	equity funds, is that going to fall in the alternative
18	category?
19	A Yes.
20	Q Okay. So you see alternative of what, 317 million,
21	roughly?
22	A Yes.
23	Q At year-end '06. And that's where you would find
24	all the hedge fund and private equity investments?

25 A Correct.

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1 Q Okay, so equities are what they say they are, 2 right? I mean it's the common use of the term, "stock," in a public company? 3 4 A Yes. Yes. 5  ${\tt Q} \qquad {\tt Okay.} \ \ \, {\tt One of the things we were a little confused}$ 

6 by is in the pie chart below or in this case a circle chart. 7

Do you see the equity at 57.4 percent?

Zarich\_Michael\_20090204.txt Hm-hmm 8 А Q In the income chart that's very similar to this, a 9 10 few pages ahead, they call it equities versus equity, and we 11 just want to make sure there wasn't any distinction. It 12 didn't seem like there should be, but I don't know if there 13 was any significance. A No. I don't think so. 14 15 MR. CRAINE: Hey, Tom, I can't let you go further. I'm going to have to object. Do you think you can lay a 16 17 foundation to this document? 18 MR. KELTNER: Okay. Obviously, you told us this is a copy of the Stanford International Bank 2006 annual report. 19 20 correct? 21 THE WITNESS: Yes. 22 BY MR, KELTNER: 23 0 Okay. And I think we found a copy of perhaps this 24 year or maybe some other years in the stuff you produced to 25 us?

Q So the break-out here: equity, fixed-income, 3 fiduciary alternatives, precious metals; so these are the asset classes that the bank was at at year-end 2006? Page 146

- 1 Ah-hah. Α 2 Q How would you receive a copy of the annual report? Well, bound copy; that would probably be the first 3 А 4 one. And then I think it's on the bank's site. 5 Q Okay. Who prepares the annual report? Who internally does? 6 A Prepares the financials? 7 8 Q Yes. 9 A I mean it's the same kind as the FSRC with the 10 investment side, Jim, Laura, probably in conjunction with Gil
- 11 Lopez from Stanford Financial Group accounting. Page 148

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Zarich Michael 20090204.txt

		2arich_Michael_20090204.txt
12	Q	Where is Gil Lopez out of?
13	A	He is in Houston.
14	Q	He's in Houston?
15	А	Yes.
16	Q	And is he an employee of Stanford Financial Group?
17	А	Yes.
18	Q	Okay, and as far as you know, is he still at
19	Stanford?	
20	А	Yes.
21		MR. KING: what was your role in preparing annual
22	reports?	
23		THE WITNESS: None.
24		BY MR. KELTNER:
25	Q	Okay. How do you know what the process was? Was

#### 1 there, you know, was there a working group? Were there

2 e-mails that went out? It's time to prepare the annual

- 3 report, things like that?
- A I vaguely remember. It's a topic, but I don't 4
- 5 remember specifics.

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6 Q But is it fair to say the only people with access

- 7 to the information necessarily to compile the annual report,
- 8 and particularly on the asset side or the team in Memphis,
- 9 Jim Davis and Mr. Stanford?
- 10 A Right, and you would probably get treasury in there
- 11 and then accounting, because when you get into the management
- 12 fees, Tracy and all those, would be done out of Houston. And
- 13 I also worked with Gil Lopez's Mark Khurdt. I know he worked
- 14 in -- K-h-u-r-d-t, I think -- he worked under, or still does Page 149

	Zarich_Michael_20090204.txt
19	are those the pie charts that end up in the quarterly reports
20	and the annual report?
21	A Yes.
22	Q Okay, so the information that was given to
23	prospective CD purchasers and CD clients, that would have
24	come from the quarterly and annual reports, most likely?
25	A Yes.
1	BY MR. EDMUNDSON:
2	Q what is real estate holdings in that pie chart?
3	A Some would say alternatives. You mean as in those
4	REITs and stuff? Probably alternatives. I think it should
5	be its own asset class. You mean hard real estate, like a
6	piece of property?
7	Q Yeah, hard real estate, not a securities
8	investment; hard real estate that would fit within that
9	criteria.
10	A Are you asking where I think it should be? Because
11	I don't think they own any hard real estate, but if they did
12	own actual real estate, I would guess they'd have it in as
13	alternatives.
14	Q Your understanding is the bank's portfolio and
15	assets did not include purchasing?
16	A That's correct.
17	Q Can you tell me what kind of real estate holdings
18	Mr. Stanford had on the island of Antigua while you were down
19	there?
20	A I believe he owns all his buildings, the bank.

21 He's got a publishing, printing, newspaper. He owns cricket Page 151

- Zarich\_Michael\_20090204.txt maybe, under Gil Lopez. I don't know why I know that they're 15 16 involved as they were, but I think it makes sense, because 17 they were the accountants for the whole firm. 18 Q Okay. For Stanford Financial Group globally? 19 А Yeah. 20 Who did they work for? 0 21 Jim. Α 22 Q Okay. Was there an entity they worked for? Do you 23 know? 24 A Stanford Financial Group. Is that what you mean?
  - 25 0 Yeah.

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1	А	Yeah.
2		BY MR. KING:
3	Q	So how do you know, looking at page 36 of Exhibit
4	20 that	equity there means stock?
5	Α	I mean I don't know, because I don't know for sure.
6	Q	That's what it means to
7	А	That's what it means to be in
8	Q	Say that again for Terry. So that on what basis
9	are you	testifying that equity means stock on page 36 of
10	Exhibit	207
11	А	My knowledge of the business.
12		MR. KELTNER: So common sense to a degree?
13		THE WITNESS: Yes.
14		BY MR. KELTNER:
15	Q	Were references in the Q and A documents to pie
16	charts?	Yeah, I think there was one saying, you know, I'm
17	having t	rouble reconciling the pie chart to something or

- 18 other. The pie charts that were referenced in the Q and A,  $${\rm Page}$~150$
- Zarich\_Michael\_20090204.txt 22 grounds, bleachers, two restaurants, an athletic club. I 23 know he owns an island called Maiden Island off of Antigua, 24 and he might have some other raw land holdings on the island. Q So is the personal residence there? 25 1 Yes. Α 2 Does Mr. Davis have a personal residence there? Q 3 ۵ He did. ves.

2	A he did, yes.
4	Q Does Ms. Pendergest have a personal residence
5	there?
6	A No. Jim's maybe Allen's. I know he had a house.
7	${\tt I}$ don't know if he actually owned it. It could be. I mean ${\tt I}$
8	lived in one of probably two dozen houses he owns.
9	Q He being Allen?
10	A Yeah. Or is company.
11	Q My question related to Allen. My question now
12	relates to the bank. Do you know of the bank's real estate
13	holdings in Antigua?
14	A I don't know.
15	Q Do you know who owns the bank building. You think
16	that's Mr. Stanford?
17	A Yes.
18	Q Do you know that with certainty?
19	A NO.
20	Q Do you know whether or not the bank owns any other
21	real estate holdings outside of Antigua?
22	A I don't know.
23	Q Did tier II perform while you were a senior
24	investment officer?
25	A Low teens, low to mid-teens. I don't remember. I Page 152

APP 0067

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	Zarich_Michael_20090204.txt	Zarich_Michael_20090204.txt 1 A Yes.
		2 (SEC Exhibit No. 22 was marked for
		3 identification.)
	·	4 BY MR. KELTNER:
1	don't recollect.	5 Q Can you tell me what Exhibit 22 is?
2	Q How did that compare to the overall return on	6 A It looks like my bio.
3	investment for the bank's portfolio?	7 Q Okay, and what's the purpose of this document?
4	A I think stated returns '06 were slightly under 11	8 A It might have been for a website maybe, would be my
5	percent of the annual return, and I don't know about '07.	9 guess.
6	Q So at least your time in Antigua, tier II out	10 Q It's speaking in the present tense about you being
7	performs tier III?	11 the senior investment level?
8	A Yes, I believe so; well, only because of the final	12 A Yes, it may be the SIBL website.
9	number. It's only a weighted average of a small sliver of	13 Q Okay, and this is the bio. You would have written
10	the while thing. And it wasn't an unbelievable return. I	14 this bio?
11	guess it was 10-1/2 or something, and a decent market. It	15 A Yes.
12	wasn't 15.71.	16 BY MR. KING:
13	MR. CRAINE: You've got about 20 more minutes.	17 Q Do you know Ken Weedon?
14	Let's stick to the questions.	18 A Yes.
15	MR. KELTNER: I just want to identify a couple of	19 0 who was he?
16	things that were in your production.	20 A He's in charge of the analysts in Memphis. He's
17	(SEC Exhibit No. 21 was marked for	21 their direct report.
18	identification.)	22 Q Does he participate in the preparation of reports
19	BY MR. KELTNER:	23 for Laura, do you know?
20	Q Can you tell me what Exhibit 21 is?	24 A Yes.
21	A That's my resume.	25 Q Did he from time to time send you periodic reports
22	Q Okay. Did you prepare Exhibit 21?	
23	A Yes.	
24	Q Okay. And you produced it to us as part of your	
25	production?	1 of tier II assets while you were in Antigua?
		2 · A I don't think so. I mean, because they got mostly
		3 Fred Palmilden was in charge of that. I mean it's possible
		4 in Fred's absence. I might have gotten a report from someone
	Page 153	Page 154

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	Zarich_Michael_20090204.txt		Zarich_Michael_20090204.txt
5	else.	8	Q I understand that maybe a number of the analysts
6	Q Do you have an understanding as to how Ken joined	9	have that connection. Is that true? Are you familiar with
7	the company?	10	other analysts that have that same relationship through the
8	A I don't understand. I mean	11	Baldwin church?
9	Q Did he have a supplier relationship with Mr. Davis	12	A Yes, there's some others. I don't know, maybe
10	before joining the staff?	13	Angie, Jimmy Haley. Maybe not so much church, but it's a
11	A Yes, he's Laura's brother-in-law. I mean, I don t'	14	small town.
12	know. I think he was an attorney, if I remember correctly.	15	Q Okay. Quite a few folks from Baldwin or Tupelo?
13	You know, then joined, I don't know, seven, eight years ago,	16	A Tupelo, Baldwin, Northern Mississippi.
14	maybe.	17	Q Where did Laura go to school. Do you know?
15	MR. KELTNER: Let's go off the record. We'll take	18	A Mississippi State.
16	a break for two minutes. Then we'll come back and get you	19	Q Okay, and did she get her masters from there as
17	out of here.	20	well?
18	(A brief recess was taken.)	21	A I'm sorry. Her masters from Mississippi State; her
19	MR. KELTNER: We'll go back on the record for just	22	undergrad from some private college in Mississippi, a
20	a few minutes.	23	women's-only college, I think.
20	BY MR. KELTNER:	24	MR. KELTNER: Kevin, what's the name of that?
22	Q Just a kind of general question we haven't talked	25	MR. EDMUNDSON: Mississippi Women's College, or
23	about today. What is Laura's history. What's her background	LI	
24	pre-Stanford? Do you know what her qualifications are?		
29	A Professionally, I think it might be her first job.		
23	A Professionarry, i think it might be her first job.	1	something like that.
		2	THE WITNESS: Yes, the 'W,' they call it the 'W'.
		3	MR. KELTNER: Okay.
1	I know she has a master's in mathematics. I'm not sure about	4	MR. EDMUNDSON: Did the FAs at Stanford Group
2		5	Company sell CDs in the United States?
2	her undergrad. She's known Jim Davis for quite some time. Q Okay.	6	THE WITNESS: Yes.
4		7	BY MR. KELTNER:
	A Through their church.	8	Q And those are the FAs employed by Stanford Group
5	Q So she's a friend of Jim's through his church in	9	Company?
6 -	Baldwin, Mississippi?	10	A Yes.
7	A Yes.	11	Q Okay. And was that the primary or only conduit for
	Page 155		Page 156

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# Case 3:09-cv-00298-N Document 12-7

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selling CDs in the U.S.? 12 13 A Yes, as far as I know. 14 MR. KELTNER: I think that's all we've got for 15 and hopefully we won't need to talk to you again. You kno 16 it's always possible we will need to follow-up on some 17 things. If we do, we'll contact Patrick. We do always wa 18 to give you the opportunity. If there's anything you want 19 correct, any additional information to provide, we'll give 20 you an opportunity to do so now on the record; and, if 21 there's anything else that comes to mind later, let us know 22 THE WITNESS: I think I've said enough. 23 MR. KELTNER: We're off the record. 24 (Whereupon, at 2:53 p.m., the examination was

PROOFREADER'S CERTIFICATE

25 concluded.)

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 3
 In the Matter of:
 STANFORD GROUP COMPANY

 4
 Witness:
 Michael Zarich

 5
 File Number:
 FW-2973

 6
 Date:
 Wednesday, February 4, 2009

 7
 Location:
 Fort Worth, Texas 76102

 8

 9

- 10 This is to certify that I, Donna Raya, (the
- 11 undersigned), do hereby swear and affirm that the attached
- 12 proceedings before the U.S. Securities and Exchange
- 13 Commission were held according to the record and that this is
- 14 the original, complete, true and accurate transcript that has

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Filed 02/17/2009	Page 10 of 10
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	15	Zarich_Michae	1_20090204.txt orting or recording accomplished at
	16	the hearing.	
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### Page 2 of 10



1	UNITED STATES SECURITIES AND EXCHANGE COMMISSION
2	ONTIED STATES SECONTITES AND EXCHANGE COMMISSION
3	In the Matter of: )
4	) File No. FW-02973-A
5	STANFORD GROUP COMPANY )
6	
7	WITNESS: Laura Pendergest-Holt
8	PAGES: 1 through 168
9	PLACE: Securities and Exchange Commission
10	801 Cherry Street, 19th Floor
11	Fort Worth, Texas
12	DATE: Tuesday, February 10, 2009
13	
14	The above-entitled matter came on for hearing, pursuant
15	to notice, at 1:10 p.m.
16	
17	
18	
19	•
20	
21	
22	
23	
24	Diversified Reporting Services, Inc.
25	(202) 467-9200

Page 1

#### Pendergest-Holt\_Laura\_20090210.txt

5			
6	EXHIBITS:	DESCRIPTION	IDENTIFIED
7	23	SEC Form 1662	8
8	24	Subpoena	8
9	25	Stanford International Bank limite	d
10		investment committee document	26
11	26	Stanford International private	
12		banking document	70
13	27	Monthly report	86
14	28	Stanford International Bank	
15		quarterly report	134
16			
17			
18			
19			
20			

- PROCEEDINGS MR. KING: We are on the record at 1:10.
- 3 Today is February, 10th, 2009. I am Michael King, and
- 4 with me are Tom Keltner, Kevin Edmundson and David
- 5 Reece.

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23 24 25

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- 6 For the purposes of today's proceeding, 7
  - we are officers of the United States Securities and

- Pendergest-Holt\_Laura\_20090210.txt APPEARANCES: 1 2 On behalf of the Securities and Exchange Commission: 3 4 MICHAEL KING, ESQ. 5 D. THOMAS KELTNER, ESO. KEVIN EDMUNDSON, ESO. 6 7 DAVID REECE, ESQ. 8 STEVE KOROTASH, ESQ. 9 Division of Enforcement 10 Securities and Exchange Commission 11 801 Cherry Street, 19th Floor 12 Fort Worth, TX 76102 13 14 On Behalf of the Witness and Stanford Financial Group: 15 THOMAS V. SJOBLOM 16 Proskauer, Rose, L.L.P. 17 1001 Pennsylvania Ave., N.W., Suite 400 washington, D.C. 20004 18 19 20 21 22 23 24 25
  - 1 CONTENTS 2 WITNESS: 3 Laura Pendergest-Holt Page 2 4

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EXAMINATION 4

- Pendergest-Holt\_Laura\_20090210.txt 8 Exchange Commission. This is an investigation by the 9 United States Securities and Exchange Commission in the Matter of Stanford Group Company, Matter No. 10 FW-2973, to determine whether there have been certain 11 12 violations of certain provision of the federal securities law. 13 However, the facts developed in this 14 15 investigation might constitute violations of other U.S., federal or state, civil or criminal laws. Your 16 17 testimony today has been subpoenaed as part of the 18 formal investigation. Ms. Holt, if you would, please raise 19 20 your right hand. 21 whereupon, 22 LAURA HOLT 23 was called as a witness and, having been first duly sworn, 24 was examined and testified as follows: 25 EXAMINATION
- BY MR. KING: 1 2 Q And if you would, please, state and spell your name 3 for the record? Laura Holt, L-a-u-r-a. Last name Holt, H-o-l-t. 4 А 5 0 And, Ms. Holt, are you represented by counsel 6 today? 7 I am. А 8 MR. KING: If counsel would make an appearance for
- 9 the record, please. 10 MR. SJOBLOM: Sure. My name is Thomas Sjoblom with the law firm Proskauer, Rose, representing the company. Page 4 11

Pendergest-Holt\_Laura\_20090210.txt

years, there's certainly an issue here whether or not the

objection to the purported jurisdiction of the SEC over this

that's Stanford International Bank -- is located outside the

jurisdiction by the SEC over that bank and its product lines

and, hence, over the information that, I'm sure, you're going

Secondly, it's my view that the bank is located --

certificates of deposit are securities. So I have an

jurisdiction of the United States and there is no

Page 5

Page 3 of 10

Pendergest-Holt\_Laura\_20090210.txt to seek to elicit today. 15 12 Mr. King, before we start, may I make a few 16 Finally, I would just say that, together with Mr. 13 statements? First of all, has there been a criminal referral 17 Edmundson, we have agreed this morning that in as much as 14 in this matter? 18 Mrs. Holt's testimony undoubtedly will refer to banking 15 MR. KING: Mr. Sjoblom, I think your client -- you 19 information, account information, portfolio information and, 16 and your client were provided with SEC Form 1662. SEC Form 20 therefore, implicate the documents of the bank, which are 17 1662. which your client has in front of her, lays out routine 21 subject to bank secrecy under Antigua law, we have agreed uses of information provided to the Commission. 18 22 there will not be a waiver of that issue and that 19 I am not at liberty as an officer of the United 23 confidentiality, even though Mrs. Holt is going to testify to 20 States Securities and Exchange Commission from discussing 24 those questions. So I'd reserve all of those objections as 21 other than what -- the information included in SEC Form 1662. 25 we move forward and have them on the record. Thank you. 22 MR. SJOBLOM: Currently, are you working together Б 23 with the United States Attorneys Office in the Northern 24 District of Texas or any other United States Attorneys 25 office? MR. EDMUNDSON: Just so we're clear, Mr. Sjoblom, 1 2 do you represent the witness here today? MR. SJOBLOM: I represent the company Stanford 3 Financial Group and affiliated companies. 4 1 MR. KING: Mr. Sjoblom, I just referred you to SEC MR. KING: And do you represent anybody else in 5 Form 1662. 2 6 connection with this matter? 3 MR. SJOBLOM: Okay. Next, before you start asking 7 4 questions, as we've discussed with Mr. Edmundson previously 8 renresent 5 and with many of your predecessors going back four or five

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MR. SJOBLOM: I represent the companies is who I 9 MR. KELTNER: Does that include the bank? 10 MR. SJOBLOM: Not that I -- Not my understanding. 11 My understanding, I represent Stanford Financial Group and 12 affiliated entities inside the United States. That's what my 13 understanding is. 14 MR. EDMUNDSON: Just so we're clear. As I 15 understand your statement, you do not, as far as you're 16 concerned, represent the witness here today?

17 MR. SJOBLOM: I represent her insofar as she is an officer or director of one of the Stanford affiliated Page 6 18

22	Pendergest-Holt_Laura_20090210.txt Exhibit 23?
23	A I have received it.
24	(SEC Exhibit No. 24 was marked for
25	identification.)

1		BY MR. KING:
2	Q	Ms. Holt, I'm also going to hand you now what's
3	been mark	ed as Exhibit 24. I'll represent to you that it is
4	a copy of	a subpoena
5	А	Yes.
6	Q	issued by the SEC to you. Is that the Is
7	Exhibit 2	4 the subpoena that you are appearing here pursuant
8	to today?	
9	А	Yes.
10	Q	Exhibit 24 asks that you not only appear today, but
11	also prod	uce certain documents to the SEC, correct?
12	А	That's correct.
13	Q	what, if any, search did you engage in in response
14	to receiv	ing Exhibit 24?
15	А	I have reviewed documents and but under the
16	regulatio	ns of Antigua law have not made those available
17	Q	Did you bring any documents with you today?
18	А	No .
19	Q	To your knowledge, are any of the documents
20	reviewed,	have they been produced to the SEC?
21	А	To my knowledge, no.
22		MR. SJOBLOM: Well, let me just interject, Mr.
23	King. Pe	rhaps insofar as through other regulators
24	documents	have been obtained, ceased, produced that may be
25	available	to the Commission currently or through some future Page 8

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instrument.

Pendergest-Holt\_Laura\_20090210.txt 19 companies. 20 BY MR. EDMUNDSON: 21 0 Ms. Holt, are you ready to proceed? 22 А Yes. 23 Okay. Would you like to have personal 0 24 representation of counsel before proceeding? 25 A NO.

1 Q Thànk you. 2 BY MR. KING: 3 Ms. Holt, as we discussed before we began, you were Q provided with a copy of the formal order of investigation in 4 5 this case, and I think that document is sitting in front of your counsel right now. 6 A Okay. 7 8 Q It will be available to you throughout the day. If at any point you need to refer to it, please feel free to do 9 10 so. The same goes for SEC Form 1662, which is sitting in front of you now. I think it was previously marked as 11 12 Exhibit 1, if I'm not mistaken. 13 Okay. Let's go ahead and mark it as an exhibit 14 then 15 MR. SJOBLOM: What is this? 16 MR. KING: This is SEC Form 1662 17 (SEC Exhibit No. 23 was marked for 18 identification.)

BY MR. KING: Q I'm going to mark it Exhibit 23. For purpose of 21 the record, Ms. Holt, will you acknowledge your receipt of

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	Pendergest-Holt_Laura_20090210.txt	1	Pendergest-Holt_Laura_20090210.txt right now that you, as counsel to the Stanford Financial
		2	Group corporate entities, have no objection to the FSRC
		3	producing information to the SEC?
1		4	MR. SJOBLOM: I think we've already so stated. I
1	process.	5	mean, I gave Mr. Edmundson a copy of the letter. He has it
2	For example, we know that there's that FINRA has	6	in his hands. That should be known to you, Mr. King.
3	most of, if not all, these documents that can be accessed by	7	MR. KING: Okay.
4	the Commission. We also know that	8	BY MR. EDMUNDSON:
5	MR. KING: No. Mr. Sjoblom, I'm just asking for	9	Q One follow-up. The document that you reviewed for
6	this witness's knowledge. I don't want to I don't want to	10	purposes of your testimony today, did you review some
7	I mean, this witness can testify whether she knows whether	11	 documents that were available to you in your office in
8	the documents that she were produced to the Commission.	12	Memphis?
9	That's all I'm asking.	13	MR. SJOBLOM: Other than banking documents.
10	MR. SJOBLOM: Mr. King, I'm going to state my	14	MR. REECE: That was not the question.
11	position on the record so it's clear, and I'd appreciate if	15	THE WITNESS: Could you please
12	you don't interrupt me.	16	MR. EDMUNDSON: Yeah.
13	Now, with respect to the FSRC, the Commission has	17	THE WITNESS: restate the question?
14	the ability to deal with the Financial Service Regulatory	. 18	BY MR. EDMUNDSON:
15	Commission in Antigua, and there's a statutory provision	19	Q You testified that you reviewed certain documents
16	available to the SEC to do that, and the Antigua regulators	20	in advance of your testimony; is that right?
17	have indicated that they would do that. So there are means	21	A Yes.
18	of following through with the procedure you're asking about.	22	Q Were some of those documents made available to you
19	MR. KING: what have the Antigua regulators	23	in Memphis?
20	indicated they're willing to do to you?	24	A Some documents are available in Memphis.
21	MR. SJOBLOM: As far as I know, if you make an	25	Q And you reviewed certain documents in Memphis?
22	appropriate access request or have a memo of understanding or		
23	whatever protocol you deem appropriate, that that's the		
24	procedure that's required and they will follow it.		
25	MR. KING: Okay. Will you state for the record	1	A Yes. Well, in Tupelo
		2	THE REPORTER: Well, I'm sorry. What?
		3	THE WITNESS: In Tupelo. Tupelo, Mississippi,
		4	T-u-p-e-l-o.
	Page 9		Page 10

		Pendergest-Holt_Laura_20090210.txt		8	Pendergest-Holt_Laura_20090210.txt reviewed the statements of SIBL in Antigua.
5		BY MR. EDMUNDSON:		9	BY MR. EDMUNDSON:
6	Q	How about in Boca Raton?		10	Q I am confused. I thought I understood your
7	А	No.			testimony just a few minutes ago that you reviewed some
8	Q	Were there other documents in the United States		11	
9	that wer	e made available to you that you reviewed in advance		12	some documents.
10	of your	testimony?		13	Did you review any documents in preparation for
11		MR. SJOBLOM: Can you be more specific as to the		14	your testimony here today in Tupelo?
12	type of	documents?		15	A I'm sorry. I'm thinking. In preparation of today
13		BY MR. EDMUNDSON:		16	in Tupelo? No.
14	Q	Anything. Anything.		17	BY MR. KING:
15	А	I'm sure there have been some documents in the		18	Q Okay. Who did Without telling me the substance
16	United S	tates that are available, yes.		19	of the conversation, who did you meet with in preparation for
17	Q	All right. But you did review some documents in		20	your testimony today?
18	-	prior to your testimony here today, right? You looked		21	A Mr. Sjoblom.
19		documents in Tupelo?		22	Q Anybody else?
20	ac some	MR. SJOBLOM: She's shaking her head no.		23	A In preparation of my part, no.
21		THE WITNESS: I'm sorry, There are a lot of		24	Q Okay. You said this morning that you spoke with
21		-		25	Mr. Davis on the telephone, correct?
		s. Could we please be more specific as to what	0		
23	you're -				
24		BY MR. KING:			
25	Q	Let's ask it this way: What did you do to prepare		1	A I did.
				2	Q And that's Jim Davis, correct?
				3	A That is correct.
				4	Q What did you talk about?
1		out telling me about any conversations with Mr.		5	A I actually just talked
2	Sjoblom			6	MR. SJOBLOM: Well, first of all, was there a

- 3 А Right.
- 4 Q -- what did you do to prepare for your testimony
- 5 today? A I have been to Antigua. I have reviewed statements
- 6 7 and looked through, gosh, other issues, but mainly I have

7 lawyer present? Can we go off the record just one second?

MR. KING: Sure. Let's go off the record.

(A discussion was held off the record.)

MR. KING: Let's go back on the record. Page 12

8 Mr. King, may we?

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# Case 3:09-cv-00298-N Document 12-8 Filed 02/17/2009 Page 5 of 10

	Pendergest-Holt_Laura_20090210.txt	1	Pendergest-Holt_Laura_20090210.txt THE WITNESS: Oh, no.
12	BY MR. KING:	10	6 BY MR. KING:
13	Q This morning you talked to Mr. Davis, correct?	17	7 Q All right. What documents did you review in
14	A I did.	18	3 Antigua?
15	Q Anybody else on the telephone?	19	A Second tier portfolio advisor statements.
16	A No.	20	) Q what do you mean by "second tier"?
17	Q What did you talk about?	2:	
18	A Actually, I just called to ask him how he was doing	22	
19	and to check in. He's my immediate supervisor.	2	advisors.
20	Q Mr. Davis know that you're testifying here today?	24	4 Q Okay. So portfolio of who? Who owns that
21	A Yes.	2!	
22	Q Did you ever have discussion outside the presence	0	
23	of an attorney to discuss with Mr. Davis your testimony?		
24	A NO.		
25	Q Outside the presence of an attorney, did you	:	L A Stanford International Bank.
			- · · · · · · · · · · · · · · · · · · ·
1	discuss your testimony with anybody else?		
2	A Not to my recollection, no. Well, do other people		5
3	know I am here today? Yes. Did I discuss my testimony? No.		
4	Q How do they know you're here today?		· · · · · · · · · · · · · · · · · · ·
5	A Well, my husband knows I'm here today. I'm		
6	traveling.	10	
7	Q Okay. Did In preparation for your testimony	1:	-
8	today with Mr. Sjoblom, was anybody else present when you		
9	were preparing?	12	
10	A If Mr. Sjoblom were present, is that		
11	MR. SJOBLOM: No. He's asking when we were	14	
12	talking, was there a third person present. For example, when	15	
13	we were preparing last night, was there a third person	10	
14	present?	17	
	Page 13	18	8 Financial Group? Page 14
	Pendergest-Holt_Laura_20090210.txt	23	Pendergest-Holt_Laura_20090210.txt 2 A Approximately 23. I'm trying to think if that was
19	A I came into Stanford from a master's study in		
20	mathematics.	23	
21	Q So it was your first job?		
22	A Yes.		S A I UTU NUL KNOW MIT. SLANTOLU, NO.
23	Q Okay. What background do you have in investments,		
24	securities?		
25	A when I first came into Stanford, I trained under		L Q I mean Excuse me. Mr. Davis since you were 13?
		:	
			3 probably since I was 16 15, 16.
1	Mr. Davis on markets, market research and oversaw a commodity		
2	portfolio.		-
3	Q Okay. Prior to joining Stanford, what was your		6 Q Okay. I want to just define a few terms before we
4	experience with investments?		
5	A There was no experience prior to joining Stanford.	8	3 A Okay.

24 Group, L.L.C.?

25

If I say "Stanford Financial Group," you understand

A That is Stanford Financial, the group that I am

Q Does your paycheck say "Stanford Financial Group"

Q You know what the legal name is? Is it Financial

A I do not know. Sorry. I believe it's Stanford Page 16

5	А	There was no experience prior to joining Stanford.	8	A	okay.
			9	Q	cloud up the record. Okay?
6	Q	When were you hired at Stanford?	10		If I say "Stanford Financial Gro
7	А	June 2nd, 1997.			•
8	Q	What were you hired to do?	11	what ent	ity it is that I'm talking about?
9	A	Research.	12	А	Yes.
			13	Q	And what entity is that?
10	Q	What does that mean?	14	А	That is Stanford Financial, the
11	Α	I was hired to research various financial markets,	15		
12	really s	tudy charts from a technical or statistical study.		employed	
13	Q	How did you come to work at Stanford?	16	Q	Does your paycheck say "Stanford
14	-	I knew Mr. Davis.	17	on it?	
	Α		18	А	Yes, it does.
15	Q	How did you know him?	19	Q	And if I say
16	Α	I knew him from my hometown, from Baldwin,		ų	
17	Mississi	. iaa	20		BY MR. KELTNER:
18	Q	For how long?	21	Q	Is that a specific entity?
		-	22	А	Yes, it is.
19	A	Ten years, maybe.	23	Q	You know what the legal name is
20	~		~ 5	۳.	Tou know what one regar make to

- 20 Q Okay. How old were you when you started at
- 21 Stanford?

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APP 0073

### Case 3:09-cv-00298-N Document 12-8 Filed 02/17/2009 Page 6 of 10

	Pendergest-Holt_Laura_20090210.txt	1	A	Pendergest-Holt_Laura_20090210.txt Yes, he is.
		2	Q	What does Mr. Davis do?
		3	А	He is chief financial officer.
		4	Q	Okay. Since we're doing definitions, if I say
1	Financial Group Company, and I don't know the initials after	5	"Stanfor	d International Bank," do you know what entity I'm
2	it.	6	referrin	g to?
3	BY MR. KING:	7	А	Yes, I do.
4	Q Okay. Who are Who are the principals at	8	Q	That's the international bank that lives in
5	Stanford Financial Group?	9	Antigua,	right?
6	A Mr. Stanford is the sole shareholder.	10	A	It's an international bank that is domiciled in
7	Q Who runs Stanford Financial Group's day-to-day	11	Antigua,	yes.
8	business?	12	Q	Okay. And what business is Stanford International
9	A I'm sorry.	13	Bank in?	
10	Q What is Okay. Let's start here. What is	14	A	Banking.
11	Stanford Financial Group's business?	15	Q	what does it do?
12	A We provide services to our other affiliated	16	A	It is an international bank.
13	companies.	17	Q	What products does it have?
14	Q Okay. And does Mr. Stanford run the day-to-day	18	A	It has certificates of deposit and credit cards.
15	operations at Stanford Financial Group?	19	0	Okay. What What is Tell me about the credit
16	A I wouldn't say he runs the day-to-day, no. There	20	card bus	•
17	are a lot of day-to-day, and that would be micromanaged from	21	A	I'm sorry. I don't know.
18	his point.	22	Q	Okay. Does Stanford International Bank do any
19	Q Okay. What does Mr. Stanford do on behalf of	23	loans?	onay. Does seamered incernational bank to any
20	Stanford Financial Group?	24	A	Yes.
21	A I do not know.	25	Q	Tell me about that.
22	Q Okay. Who do you work for?	0	ų	feri me about that.
23	A I work for Mr. Davis.			
24	Q IS Mr. Davis an employee of Stanford Financial			
25	Group?	1	А	I'm sorry. I don't know the details of loans.
		2	Q	How do you know they do loans then?
		. 3	А	It's listed in the annual report.
		4	~	BY MR. KOROTASH:
	Page 17	4		Page 18

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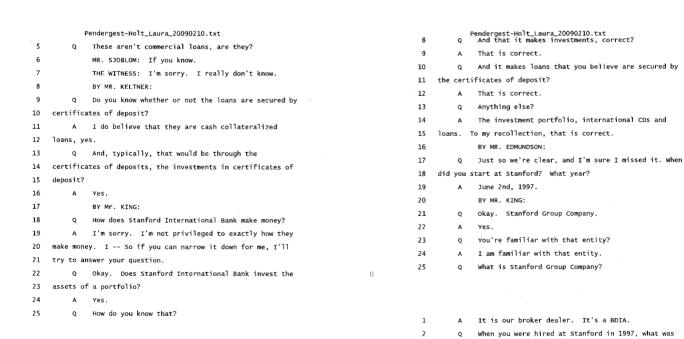
7

A That is correct.

Page 19

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n



3 your title? 4 A I believe I was research analyst. A Because I -- or I oversee tier two of the 1 5 O Okav. What's your current title? 2 investment portfolio. 6 A Chief investment officer. 3 Q Okay. So let's go back over what we talked about 7 Q Have you held any other titles besides the two you 4 that you know that the bank does. Okay? 8 just named? 5 A Okay. 9 A Yes. 6 Q You know that the bank has a CD product, correct? 10 Q Tell me what those were.

11 Manager -- Vice president, I believe, of research Page 20 А

APP 0074

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	Case 3.09-cv-00290-IN Document 12-0		
	Pendergest-Holt_Laura_20090210.txt	15	Pendergest-Holt_Laura_20090210.txt
12	at one point, managing director of research and investments	15	A I was actually there working with the policy
13	and then chief investment officer. There may have been	16	research group.
14	another one in there. I'm not certain. It's been awhile.	17 18	Q what do they go? A Policy research, working on
15	Q You ever work for any other entity besides Stanford	18	A Policy research, working on Q It's a good name for them.
16	Financial Group?	20	A Yeah. It's pretty straightforward. How policy
17	A No. I mean, ever?	20	impacts the economy or various sectors.
18	Q Since you joined Stanford in 1997.	21	Q Let's talk about your job duties as chief
19	A No.	22	investment officer.
20	Q When did you become chief investment officer?	24	A Okay.
21	A Around four years ago four or five years ago,	25	Q If you will, list for me your job duties.
22	maybe. 0	25	
23	Q Okay. Where is your office?		
24	A I am in Tupelo, Mississippi.		
25	Q You have an office anywhere else?	1	A I oversee our proprietary research group. In that
		- 2	oversight I help produce the Stanford investment model. I
		3	will occasionally review new products that are being offered
		4	by affiliated companies and I oversee the second tier of the
1	A Presently, no.	5	portfolio.
2	Q Since becoming chief investment officer, have you	5	portfollo. I also oversee the production of newsletters that
3	had an office anywhere else besides Tupelo?	ים <sub>-</sub> יס 7	are published by my team, not by other affiliated. That's
4	A Yes. Memphis, Tennessee.		
5	Q During what time period, please?	8	pretty much the gist of it. Q You serve on any committees?
6	A 1999 or early the end of 1999 through 2007, I		
7	believe, is when I officially gave up that office. I have	10	, , ,
8	also I'm sorry. I have also had an office in Washington,	11	Q Tell me about that.
9	D.C. I was there for one year.	12	A We We have gone to a regional breakdown versus
10	Q What year was that?	13	an international breakdown. So we are broke down by regions.
11	A I believe I moved there in October of 2006 and	14	I'm not on some of the regional committees. I'm not on any
12	moved back to the Tupelo office, actually, in November of	15	of the regional committees. So as a result, some of the
13	2007.	16	committees that may have been global in the past, are no
14	Q What were you doing in Washington?	17	longer I'm part of the Stanford investment committee.
	Page 21	18	Q Okay. Let's go through all the committees that Page 22
	Pendergest-Holt_Laura_20090210.txt		Pendergest-Holt_Laura_20090210.txt
19	Pendergest-Holt_Laura_20090210.txt you've served on as chief investment officer since	22	it's a mistake, but that's from memory. I'm sorry.
19 20		23	it's a mistake, but that's from memory. I'm sorry. Q Did you ever serve on any of the bank committees?
	you've served on as chief investment officer since	23 24	it's a mistake, but that's from memory. I'm sorry. Q Did you ever serve on any of the bank committees? A No.
20	you've served on as chief investment officer since becoming chief investment officer.	23	it's a mistake, but that's from memory. I'm sorry. Q Did you ever serve on any of the bank committees?
20 21	you've served on as chief investment officer since becoming chief investment officer. A Okay.	23 24	it's a mistake, but that's from memory. I'm sorry. Q Did you ever serve on any of the bank committees? A No.
20 21 22	you've served on as chief investment officer since becoming chief investment officer. A Okay. Q List them for me, if you would.	23 24	it's a mistake, but that's from memory. I'm sorry. Q Did you ever serve on any of the bank committees? A No.
20 21 22 23	you've served on as chief investment officer since becoming chief investment officer. A Okay. Q List them for me, if you would. A The Stanford investment committee	23 24 25	it's a mistake, but that's from memory. I'm sorry. Q Did you ever serve on any of the bank committees? A No. (SEC Exhibit No. 25 was marked for
20 21 22 23 24	you've served on as chief investment officer since becoming chief investment officer. A Okay. Q List them for me, if you would. D A The Stanford investment committee BY MR. KELTNER:	23 24 25	it's a mistake, but that's from memory. I'm sorry. Q Did you ever serve on any of the bank committees? A No. (SEC Exhibit No. 25 was marked for identification.)
20 21 22 23 24	you've served on as chief investment officer since becoming chief investment officer. A Okay. Q List them for me, if you would. D A The Stanford investment committee BY MR. KELTNER:	23 24 25 1 2	it's a mistake, but that's from memory. I'm sorry. Q Did you ever serve on any of the bank committees? A No. (SEC Exhibit No. 25 was marked for identification.) BY MR. KING:
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	Pendergest-Holt_Laura_20090210.txt	Pendergest-Holt_Laura_20090210.txt 1 R. Allen Stanford?
		2 A Yes, I do.
		3 Q Who's that?
		4 A In terms of his interaction with Stanford or I'm
1	were on or I tried to see whether or not I were personally	5 sorry? General or
2	on the investment committee. To my knowledge, I was not.	6 Q Do you know who that is?
3	BY MR. KING:	7 A Yes. Of course.
4	Q Okay. Next to your name there it says	8 Q Then who is it?
5	"subcommittee." You have any idea what that means?	9 A It's Allen Stanford. It's Mr. Stanford. It's the
6	A No. I'm sorry.	10 sole shareholder of Stanford.
7	Q Next to your name it says "chief investment	11 Q Okay. who is James A. Stanford?
8	officer." That's your current title, correct?	12 A He is Mr. Stanford's father, chairman emeritus.
9	A That is correct.	13 Q I think we've already talked about Mr. Davis,
10	Q And I believe you told me when you took over as	14 correct?
11	chief investment officer, you said four or five years ago or	15 A Yes.
12	something like that?	16 Q Who is O. I. Goswick?
13	A That's correct.	17 A He was one of the board members.
14	Q Do you recognize the other people's names here on	18 BY MR. EDMUNDSON:
15	the investment committee for Stanford International Bank?	19 Q Have you ever met James A. Stanford, the father of
16	A Ido.	20 Allen Stanford?
17	Q Who's Allen Stanford, R. Allen Stanford?	21 A I have.
18	A He's the	22 Q When was the last time that you have met with him?
19	MR. SJOBLOM: Are you talking generally now or are	23 A Either 2006 or 2007.
20	you talking about the context of this document?	24 Q Approximately how many times do you think you've
21	MR. KING: Well, I'm just reading the names off of	25 met with him?
22	Exhibit 25.	
23	THE WITNESS: Okay.	
24	BY MR. KING:	
25	Q On Exhibit 25, do you see where it says the name,	1 A I'm sorry. In terms of meeting, do you mean seeing
		2 him or actually sat down and met with him on a subject?
		3 Q Have you ever met with Mr. Stanford to discuss
	Page 25	4 business relating to Stanford International Bank? Page 26

	Ρ	endergest-Holt_Laura_20090210.txt			Pendergest-Holt_Laura_20090210.txt
5		THE REPORTER: I didn't hear what you said.		8	MR. KING: All right. Let's go back on the recor
6		MR. EDMUNDSON:		9	at 1:51.
7	Q	James A. Stanford.		10	BY MR. KING:
8	A	Just to clarify which Mr. Stanford. I have made		11	Q Ms. Holt, when we were when we took our
9	reports o	n global economies in which he was present with the		12	before we took our break, I think, we were talking about
10	board a h	andful of times. Probably more than five, less than		13	Exhibit 25.
11	ten.			14	A Yes, we were.
12	Q	And have you ever met O. Y. Goswick?		15	Q Lists your name there under investment committee.
13	А	I have.		16	Were you ever on the Stanford International Bank limited
14	Q	When was that?		17	investment committee?
15	A	Several years ago. I'm sorry. Maybe a year and a		18	A To my knowledge, no.
16	half. two	years ago minimum. He hasn't been in good health		19	Q And, I think, you said earlier that you actually
17	recently.			20	asked someone if you were on the investment committee,
18		BY MR. KING:		21	correct?
19	Q	Okay. So you're responsible for the oversight of		22	A Yes.
20		two portfolio, correct?		23	Q Tell me about that.
20	A	Yes. That is correct.		24	MR. SJOBLOM: Well, foundation again, please.
22	Q			25	THE WITNESS: When and with whom?
	ب two portf	Have you ever discussed with Mr. Goswick the tier	C		
23					
24	A	Individually or in a board setting?			
25	Q	Ever discuss it with him individually?		1	MR. KING: I think she understood me.
				2	MR. SJOBLOM: We need to have it clarified becaus
				3	there are conversations with lawyers. So
				4	THE WITNESS: That's correct.
1	А	No, not individually.		5	MR. SJOBLOM: When, where, who was present.
2	Q	Have you made a presentation to him as a member of		6	BY MR. KING:
3	the board	l regarding the tier two portfolio?		7	Q Who did you discuss whether or not you were on th
4	А	Yes. I'm so sorry. I really need a rest room		8	investment committee with?
5	break.			9	A Stanford counsel.
6		MR. KING: Let's go off the record.		10	Q Okay. Mr. Sjoblom?
7		(A brief recess was taken.)			

No. In-house counsel. Page 28

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$p_{1}$ $p_{1}$ with different set of the mean ratio of the set				15	Pendergest-Holt_Laura_20090210.txt MR. SJOBLOM: Yes.
$ \frac{1}{2} = \frac{1}{2} + 1$	12	BY MR. KELTNER:			
<ul> <li>A settle Alvand.</li> <li>A settle Alvand.</li></ul>	13	Q Who was that?			
1314171416161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616161616 <td>14</td> <td>A Mauricio Alvarado.</td> <td></td> <td></td> <td></td>	14	A Mauricio Alvarado.			
BSAccordinately with and due converting the first give you aPPPPacketPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPPP <t< td=""><td></td><td></td><td></td><td></td><td></td></t<>					
jp plot         A fact they, not bug app. 1 GeV prove a large provide proveter provide provide provetap provide provide provid	16	Q Approximately when did that conversation take			
<ul> <li>A Levely, we here you is a grant of the second of</li></ul>	17	place?			Q What made you think you were on the committee or
a set for a list weet         ////////////////////////////////////	18	A Recently. Not long ago. I can't give you a			
0         1         Last seed         2         Last seed         2         Description         Description         2         Description         D	19	specific time or specífic date.			-
11         A         Model and the Unity.         1         Image dependencies of the Unity.         1	20	Q Last week?			
<ul> <li>21 • • • • • • • • • • • • • • • • • • •</li></ul>	21	A No. Longer ago than that, actually. Probably two			
<ul> <li>9 We were you having a convertion with Mod</li> <li>9 A text trying to find out data consisters 1 as a on</li> <li>1 as it rying to find out data consisters 1 as a on</li> <li>1 as it related to teached text consisters 1 as a on</li> <li>1 as it related to teached text consisters 1 as a on</li> <li>1 as it related to teached text consisters 1 as a on</li> <li>1 as it related to teached text consisters 1 as a on</li> <li>2 O key, Matz do tes 201 yau</li> <li>3 O key, Matz do tes 201 yau</li> <li>4 O key, Matz do tes 201 yau</li> <li>6 Not, GetSham, Step.</li> <li>7 Not, GetSham, Step.</li> <li>8 Not, GetSham, Step.</li> <li>9 Not, GetSham, Step.</li> <li>10 Not, GetSham, Step.</li> <li>11 Not, GetSham, Step.</li> <li>12 Not, GetSham, Step.</li> <li>13 Not GetSham, Step.</li> <li>14 O'Arding and the stating for light abrics.</li> <li>14 O'Arding and the stating of light abrics.</li> <li>14 O'Arding and the stating of light abrics.</li> <li>14 O'Arding and the stating for light abrics.</li> <li>15 Not for stating you raise.</li> <li>16 Not for stating you raise.</li> <li>17 Not GetSham, Step.</li> <li>18 Not for stating you raise.</li> <li>19 Not for stating you raise.</li> <li>10 Not for stating you raise.</li> <li>10 Not for stating you raise.</li> <li>11 Not for stating you raise.</li> <li>12 Not for stating you raise.</li> <li>13 Not for stating you raise.</li> <li>14 O'A Not.</li> <li>15 Not for stating you raise.</li> <li>14 O'A Not.</li> <li>15 Not for stating you raise.</li> <li>14 O'A Not.</li> <li>15 No</li></ul>	22	two weeks, a month ago, in that vicinity.	٥		······································
<ul> <li>A Lease trying to find out what committees Lease on</li> <li>a if if related to scanford international sub.</li> <li>b if you can fifth out what committees if if</li></ul>	23	BY MR. KOROTASH:			
<ul> <li>a for entire space of the formation of the second of the se</li></ul>	24	Q Why were you having a conversation with him?			
<ul> <li>k a it related to stanfard International Bank.</li> <li>a day. Next (if the tell yes?)</li> <li>a day. Next (if the tell yes?)</li> <li>a day. Next (if the tell yes?)</li> <li>b Mach (if the tell yes?)</li> <li>c Mach (if the tell yes?)</li> <li>b Mach (if the tell yes?)</li> <li>c Mach (if the tell yes?)</li> <li>mach (if t</li></ul>	25	A I was trying to find out what committees I was on		1	or not I was the invited quest or whether I were in fact on
<ul> <li>a si traffed to staffed to staf</li></ul>					
<ul> <li>a bit related to standard intervational and.</li> <li>G may, what did hu till you?</li> <li>M. Soudon: Ho. Stay. Stop.</li> <li>M. Soudon: Ho. Stop.<td></td><td></td><td></td><td></td><td></td></li></ul>					
1       2       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1       1					
<ul> <li>a dot, which die will you?</li> <li>b dots, which we have store the set of you?</li> <li>c dots, the contrast, the contrast, the set of you have the contrast.</li> <li>c dots, the contrast, the contrast, the set of you have the contrast.</li> <li>c dots, the contrast, the contrast, the contrast of you review?</li> <li>c dots, the contrast, do you have the contrast.</li> <li>c dots, the contrast, the contrast, the contrast.</li> <li>c dots, the contrast, the contrast.</li> <li>c dots, the contrast, the contrast.</li> <li>c dots, the contrast of you have the contrast.</li> <li>c dots, the contrast.</li> <li>c dots, the contrast.</li> <li>c dots, the contrast.</li> <li>c dots, the contrast.</li> <li>c dots.</li> <li>c dot</li></ul>	1	as it related to Stanford International Bank.			
<ul> <li>M. SCHLOR: No. Stop. Stop.</li> <li>W. KANNER, KANNER</li></ul>	2	Q Okay. What did he tell you?		-	
<ul> <li>a for dy as were represent your controls of the set of th</li></ul>	3	MR. SJOBLOM: No. Stop. Stop.			
<ul> <li>9 Met did he all you?</li> <li>9 Met did he all you?&lt;</li></ul>	4	BY MR. KOROTASH:			
<ul> <li>B. SOBLOW. No. Object. Thus's privileged of a second sec</li></ul>	5	Q What did he tell you?		-	
<ul> <li>question.</li> <li>ques</li></ul>	6	MR. SJOBLOM: No. Object. That's a privileged		-	
<ul> <li>M. KONTAGE: Hy is that?</li> <li>M. KONTAGE: Hy is that?</li> <li>M. KONTAGE: Hy is that?</li> <li>M. KONTAGE: Hy is that for legal advice, Are you</li> <li>M. KONTAGE: It has legal</li> <li>M. KONTAGE: It has legal<td>7</td><td>question.</td><td></td><td></td><td></td></li></ul>	7	question.			
<ul> <li>9 MK. SOUGHAIN: Seiver for Laura 2009010.txt</li> <li>13 Show by paper shaft can be produced, though, there could be particly amething as that no be produced, though, there could be particly amething as that no be produced, though, there could be particly amething as that no be produced, though, there could be particly amething as that no be produced, though, there could be particly amething as that no be produced, though, there could be particly amething as that no be produced, though, there could be particly amething as that no be produced, though, there could be particly amething as that no be produced, though, there could be particly amething as that no be produced, though, there could be particly amething as that no be produced, though, there could be particly amething as that no be produced, though, there could be particly amething as that no be produced, though, there could be particly amething as that no be produced, though, there could be particly amething as that no be produced.</li> <li>9 A okay.</li> <l< td=""><td>8</td><td>MR. KOROTASH: Why is that?</td><td></td><td></td><td></td></l<></ul>	8	MR. KOROTASH: Why is that?			
10       MR. KONCTANE: 11: So not legal advice.       14       possibly possible goat that recalls us to say differently.         12       MR. SORCTANE: 12: So not legal advice. Are you       15       but, to my recollection, no.         14       Orecting her not to answer my question?       16       more that coaction.       17       9         14       Orecting her not to answer my question?       16       more that coaction.       17       9       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0       1.0	9	MR. SJOBLOM: Because he's counsel to the company.			
<ul> <li>11 Tor, what committee gives on.</li> <li>12 M. Notorasti, it's not legal advice. Are you</li> <li>13 M. KORTAST, it's not legal advice. Are you</li> <li>14 directing her not to asser my quistion?</li> <li>14 recting her not to assert my quistion?</li> <li>15 Pendergest-holt_Laura_2000/20.txt</li> <li>16 A Oday.</li> <li>17 A Oday.</li> <li>18 To a count to be part of the count of th</li></ul>	1.0	MR. KOROTASH: She's not asking for legal advice,			
12       MR. 500005: It has legal with solution: It has legal intervention of the most to answer my question?       15       9 Mr. 4.15: 9 Q Lat's talk about your other job duties as chief         14       directing her not to answer my question?       20       Q       Lat's talk about your other job duties as chief         15       Page 29       20       Page 30         16       Page 20       20       Page 30         17       A key.       20       A most box to answer my question?         18       A key.       20       A most box to answer my question?         19       A key.       20       A most box to answer my question?         20       A it as contry, it as a portfolio statement?       21       A most box to and thing including transaction         21       A wis soluton: And the question is?       0       You know, doing your job as       1       on a monthly basis. They can be quarterly.         2       A it review rescarch fragorts progared by my team,       1       0       what documents of you look at it noting your job as         2       chief investment office?       3       A treview rescarch fragorts progared by my team,       2         1       0       what documents what is a portfolio statements?       3       A treview rescarch fragorts prograde by my team,       2	11	Tom, what committee she's on.			
<ul> <li>Me. ROBITABLY It's not legal abrics. Are you</li> <li>directing her not to answer y duestion?</li> <li>Page 29</li> <li>Pendergest-Holt_Laura_20090210.txt</li> <li>A clay.</li> <li>In that capacity, what documents do you review?</li> <li>A if's sorry. I gave you a long list in relation to take</li> <li>I tak.</li> <li>I vak know, doing your job.</li> <li>Met documents do you look at in doing your job as</li> <li>I didependent research from 81 combers, independent research</li> <li>Met documents do you look at in doing your job as</li> <li>I didependent research from 81 combers, independent research</li> <li>I didependent research from 81 combers, independent research</li> <li>A Tier is no nearching warlows global control in the transition</li> <li>I didependent research from 81 combers, independent research</li> <li>A Tier is presented to be byny team.</li> <li>I didependent research from 81 combers, independent research</li> <li>A Tier is no independent research</li> <li>A Tier is no independent research</li> <li>I didependent research from 81 combers, independent research</li> <li>I didependent research from 81 combers, independent research</li> <li>I didependent research from 81 combers, independent research</li> <li>A Tier is no independent research</li> <li>I didependent research from 81 combers, independent research</li> <li>I didependent research is and weekly reports</li> <li>I didependent research is for the bank?</li> <li>I treview varains global contoris forces sent by the</li> <li>I revie</li></ul>	12	MR. SJOBLOM: It has legal			
14       directing her not to answer my question?         Page 29       Pendergest-Well_Laura_20090210.txt         9       A 0kay.         1       A 1m sorry. I gow you a long list in relation to         2       that.         2       A 1m sorry. I gow you a long list in relation to         2       that.         3       A 1m sorry. I gow you a long list in relation to?         2       that.         2       O You know, doing your job.         3       M 1m sorry. I gow you a long list in relation to?         3       B YMM. KING:         1       O Wuk took, doing your job as         2       Chief investment officer?         3       A 1mey are generally - They are generally a hard         4       congentator fragerity prepared by my team,         4       independent research fragerity prepared by my team,         4       independent research fragerity prepared my my team,         4       independent research indoing your job as         2       A They are generally a hard         4       independent research regorthy prepared by my team, <tr< td=""><td>13</td><td>MR. KOROTASH: It's not legal advice. Are you</td><td></td><td></td><td></td></tr<>	13	MR. KOROTASH: It's not legal advice. Are you			
Page 29         Page 30           Pendergest-Holt_Laura_20090210.txt         Pendergest-Holt_Laura_20000011.txt         Pendergest-Holt_Laura_20000021	14	directing her not to answer my question?			
<ul> <li>A okay.</li> <li>A okay.</li> <li>G In that capacity, what documents do you review?</li> <li>A I'm sorry. I gave you a long list in relation to</li> <li>that.</li> <li>G You know, doing your job.</li> <li>M K. SOBLOW: And the question is?</li> <li>BY MR. KING:</li> <li>G what documents do you look at in doing your job as</li> <li>chief investment officer?</li> <li>A I review research from bloomberg, independent research</li> <li>from other areas, such as, bon McCarthy, S&amp;P, and other such</li> <li>G what documents and wedly reports</li> <li>G what documents and wedly reports</li> <li>A I review research from bloomberg, independent research</li> <li>G officer?</li> <li>G what documents and wedly reports</li> <li>G documents - what Stanford International Bank</li> <li>G A Tier two portfolio, statements and wedly reports</li> <li>A Tier two portfolio, statements and wedly reports</li> <li>A Tier two portfolio, statements and wedly reports</li> <li>G What delse?</li> <li>G What cles?</li> <li>A No. That would come from the actual tier two</li> <li>A No. That would come from the bank. So it's</li> <li>G That comes from the bank. So it's</li> <li>G What else?</li> <li>A No. That would come from the bank. So it's</li> <li>G What else?</li> </ul>		Page 29		19	Page 30
19       A       Okay.       22       A       That's prety much it.         20       Q       In that capacity, what documents do you review?       23       Q       Iwow do you get to what is a portfolio statement?         21       A       I'm sorry. I gave you a long list in relation to       24       A       It's a statement of holdings including transaction         22       that.       C       You know, doing your job.       24       A       It's a statement of holdings including transaction         23       Q       Vau know, doing your job.       24       A       It's a statement of holdings including transaction         24       Mat SoBLOW: And the question is?       25       BY MR. KING:       2       Q       And how do you get the portfolio statements?         3       A       I review in Adding your job as       a       They are generally - They are generally a hard       4       Copy to Stanford International Bank in Antigua.         1       Q       What documents on you look at in doing your job as       5       Q       New do you get them?       The's a restare enable of from directly from the Bank.         1       Q       What documents on you look at in doing your job as chief investment       6       A       I either go to the bank and get them. There are are acass.         6       areas. <th></th> <th></th> <th></th> <th></th> <th></th>					
Q       In that capacity, what documents do you review?       23       Q       How do you get to what is a portfolio statement?         21       A       I'm sorry. I gave you a long list in relation to       24       A       It's a statement of holdings including transaction         22       that.       U       Va tris a statement of holdings including transaction       25         23       Q       You know, doing your job.       U       0       a mothly basis. They can be quarterly.         24       M. SJOELON: And the question is?       0       a mothly basis. They can be quarterly.       2       Q       And how do you get the portfolio statement?         25       BY MR. KING:       1       on a monthly basis. They can be quarterly.       2       Q       And how do you get the portfolio statements?         3       A       I review research reports prepared by my team,       1       0       A and how do you get them?       6       A       1 either go to the bank and get them. There are         4       independent research?       0       0       Away ou get reaccals from directly from the         5       from other areas, such as, bon McCarthy, S&P, and other such       9       0       Away ou get reaccals from directly from the         6       a Teview research reports presented to me by my team.       10 <t< th=""><th>19</th><th></th><th></th><th>22</th><th>A That's pretty much it.</th></t<>	19			22	A That's pretty much it.
1       A I'm sorry. I gave you a long list in relation to       24       A It's a statement of holdings including transaction         22       that.       0       34       A It's a statement of holdings including transaction         23       Q You know, doing your job.       35308LOM: And the question is?       35308LOM: And the question is?         24       MR. SJOBLOM: And the question is?       2       0       and how do you get the portfolio statements?         25       BY MR. KING:       1       on a monthly basis. They can be quarterly.       2       Q       And how do you get the portfolio statements?         26       chief investment officer?       3       A I review research reports prepared by my team,       4       coy to Stanford International Bank in Antigua.         27       Q What documents what Stanford International Bank       6       A I either go to the bank and get them. There are         28       frier       C assis in which they are e-mailed from directly from the       5         29       Q What documents what Stanford International Bank       10       to you in Tupelo?         20       A I review various global economic pieces sent by the       1       A Yes.         30       A Treive warious global economic pieces sent by the       15       Q What else?       17       A Generally not.         31<		-		23	Q How do you get to What is a portfolio statement?
2       that.       25       statements and listings of deposits and withdrawals generally         23       Q       You know, doing your job.       a         24       MR. SJOBLOM: And the question is?       a         25       BY MR. KING:       1       on a monthly basis. They can be quarterly.         2       Q       And how do you get the portfolio statements?         3       A       They are generally They are generally a hard         2       chief investment officer?       3       A         3       A       They are generally They are generally a hard         4       copy to stanford International Bank in Antigua.         5       from other areas, such as, Don McCarthy, S&P, and other such       9       Q       Nat documents what stanford International Bank         6       areas.       7       Q       What documents what stanford International Bank       10       to you in Tugelo?         11       A       Tier two portfolio, statements and weekly reports       13       A       Via e-mail?         12       Q       What else?       13       A       Via e-mail?         12       de wine see?       13       A       Via e-mail?         13       A       Tier two portfolio, statements and weekly report				24	A It's a statement of holdings including transaction
23       Q       You know, doing your job.         24       MR. SJOELOW: And the question is?         25       BY MR. KING:       1       on a monthly basis. They can be quarterly.         2       Q       And how do you get the portfolio statements?       3         3       A       They are generally They are generally a hard         2       Chief investment officer?       3         3       A       I review research reports prepared by my team,       6         4       independent research from Bloonberg, independent research       6         5       from other areas, such as, Don Mccarthy, S&P, and other such       9       Q       Okay. So there are occasions when they send them         6       areas.       9       Q       Okay. So there are occasions when they send them         6       officer?       13       A       Tie two portfolio, statements and weekly reports         11       A       Tie two portfolio, statements and weekly reports       13       A       Via e-mail?         12       Q       What else?       15       Q       You got Do you bring a copy of the portfolio         13       A       I review various global economic pieces sent by the       16       statements back to Tupelo?         14       to Antigue to			n	25	statements and listings of deposits and withdrawals generally
MR. SJOBLOM: And the question is?         25       BY MR. KING:         1       on a monthly basis. They can be quarterly.         2       Q         1       Q         4       Mat documents do you look at in doing your job as         2       chief investment officer?         3       A         4       Independent research room Bloomberg, independent research         6       A         7       Q         7       Q         8       A review research room Bloomberg, independent research         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q         9       Q       Okay. So there are occasions when th			0		
BY MR. KING:       1       on a monthly basis. They can be quarterly.         1       Q       And how do you get the portfolio statements?         3       A       They are generally They are generally a hard         1       Q       What documents do you look at in doing your job as       6         2       chief investment officer?       5       Q       How do you get the portfolio statements?         3       A       I review research roots prepared by my team,       7       C ass in which they are e-mailed from directly from the independent research         6       independent research from Bloomberg, independent research       7       c ases in which they are e-mailed from directly from the portfolio advisor, not from the bank.         9       Q       What documents what stanford International Bank       1       A       yes.         9       officer?       13       A       Tieview presented to me by my team.       14       Yes.         10       A       Tier two portfolio, statements and weekly reports       14       A       Yes.         11       A       Tier two portfolio, statements and weekly reports       15       Q       You got Do you bring a copy of the portfolio         12       Q       What else?       15       Q       You got Do you bring a copy of the portfolio					
2QAnd how do you get the portfolio statements?3AThey are generally They are generally a hard1Cheif investment officer?6AI either go to the bank in Antigua.5for other areas, such as, Don McCarthy, S&P, and other such7OO (Aay. So there are occasions when they send them6areas.10to you in Tupelo?10ATier two portfolio, statements and weekly reports116areas.11AYes.7QWhat documents presented to me by my team. "My15QYou got Do you bring a copy of the portfolio11and the compiled reports presented.16statements back to Tupelo?1612Qwhat else?17AGenerally not. <td></td> <td></td> <td></td> <td></td> <td></td>					
1       Q       What documents do you look at in doing your job as       3       A       They are generally They are generally a hard         2       chief investment office?       5       Q       How do you get then?         3       A       I review research reports prepared by my team,       6       A       I either go to the bank and get them. There area         4       independent research from 810omberg, independent research       7       C ases in which they are e-mailed from directly from the         6       areas.       9       Q       okay. So there are occasions when they send them         7       Q       What documents what stanford International Bank       10       to you in Tupelo?         8       documents do you review in doing your job as chief investment       11       A       Yes.         9       officer?       13       A       Via e-mail?       11         9       officer?       13       A       Via e-mail?       12       Q       Via e-mail?         11       and the compiled reports presented to me by my team. "My       14       to Antigua to see them. I'm sorry.         12       team' being proprietary research.       15       Q       You got Do you bring a copy of the portfolio         13       Q       what else? <t< td=""><td></td><td></td><td></td><td>1</td><td>on a monthly basis. They can be quarterly.</td></t<>				1	on a monthly basis. They can be quarterly.
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13       Q       What else?       17       A       Generally not.         14       A       I review various global economic pieces sent by the       18       Q       Have you from time to time?         15       portfolio advisors; what their global outlook is, for       18       Q       Have you from time to time?         16       example.       19       A       Yes.         17       Q       That comes from the bank?       20       BY MR. KING:         18       A       No. That would come from the actual tier two       21       Q       What's the weekly report?         19       advisors the portfolio advisors for the bank. So it's       22       A       The weekly report is a faxed copy. It's generally         21       Q       what else?       23       faxed. It can be e-mail from the portfolio advisor just         22       Q       what else?       24       stating the value of the portfolio tier two for that given         22       Q       what else?       25       week.	12	team" being proprietary research.			
14       A       I review various global economic pieces sent by the         15       portfolio advisors; what their global outlook is, for       18       Q       Have you from time to time?         15       portfolio advisors; what their global outlook is, for       19       A       Yes.         16       example.       20       BY MR. KING:         17       Q       That comes from the bank?       21       Q       What's the weekly report?         18       A       No. That would come from the actual tier two       21       Q       What's the weekly report?         19       advisors the portfolio advisors for the bank. So it's       21       A       The weekly report is a faxed copy. It's generally         20       through those accounts that I receive that information.       22       A       The weekly report is a faxed copy. It's generally         21       Q       what else?       23       faxed. It can be e-mail from the portfolio advisor just         21       Q       what else?       24       stating the value of the portfolio tier two for that given         22       Q       week.       25       week.	13	Q What else?			
15       portfolio advisors; what their global outlook is, for       19       A       Yes.         16       example.       20       BY MR. KING:         17       Q       That comes from the bank?       20       BY MR. KING:         18       A       No. That would come from the actual tier two       21       Q       What's the weekly report?         19       advisors the portfolio advisors for the bank. So it's       22       A       The weekly report is a faxed copy. It's generally         20       through those accounts that I receive that information.       21       faxed. It can be e-mail from the portfolio advisor just         21       Q       what else?       23       faxed. It can be eortfolio tier two for that given         25       week.	14	A I review various global economic pieces sent by the			-
16       example.       20       BY MR. KING:         17       Q       That comes from the bank?       20       BY MR. KING:         18       A       No. That would come from the actual tier two       21       Q       What's the weekly report?         19       advisors the portfolio advisors for the bank. So it's       22       A       The weekly report is a faxed copy. It's generally         20       through those accounts that I receive that information.       23       faxed. It can be e-mail from the portfolio advisor just         21       Q       what else?       25       week.	15				
17       Q       That comes from the bank?       21       Q       what's the weekly report?         18       A       No. That would come from the actual tier two       22       A       The weekly report?         19       advisors the portfolio advisors for the bank. So it's       22       A       The weekly report is a faxed copy. It's generally         20       through those accounts that I receive that information.       23       faxed. It can be e-mail from the portfolio advisor just         21       Q       what else?       24       stating the value of the portfolio tier two for that given         25       week.	16	example.			
18       A       No. That would come from the actual tier two       22       A       The weekly report is a faxed copy. It's generally         19       advisors the portfolio advisors for the bank. So it's       23       faxed. It can be e-mail from the portfolio advisor just         20       through those accounts that I receive that information.       24       stating the value of the portfolio tier two for that given         21       Q       what else?       25       week.	17	Q That comes from the bank?			
19       advisors the portfolio advisors for the bank. So it's       23       faxed. It can be e-mail from the portfolio advisor just         20       through those accounts that I receive that information.       23       faxed. It can be e-mail from the portfolio advisor just         21       Q       what else?       24       stating the value of the portfolio tier two for that given         25       weeK.	18	A No. That would come from the actual tier two			
20 through those accounts that I receive that information. 21 Q what else? 25 week.	19	advisors the portfolio advisors for the bank. So it's			
21 Q whatelse? 25 week.	20	through those accounts that I receive that information.			
	21	Q What else?			
		Page 31		25	

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Pendergest-Holt_Laura_20090210.txt       Pendergest-Holt_Laura_20090210.txt         oversees that report on a weekly basis. I would         compiled report that has been put together by on         analyst.         we generally receive weekly reports from all         advisors. Some we receive only monthly or quarterly reports.         MR. KELTNER:         Q       And the weekly reports are all delivered to you at         Pendergest-Holt_Laura_20090210.txt         Pendergest-Holt_Laura_2001         Pendergest-Holt_Laura_2001         Pendergest-Holt_Laura_2001         Pendergest-Holt_Baura_2001         Pendergest-Holt_Baura_2001         Pendergest-Holt_Baura_2001         Pendergest-Holt_Baura_2001         Pendergest-Holt_Baura_2001	det a
1       We generally receive weekly reports from all       3       analyst.         1       We generally receive weekly reports from all       4       Q       Which analyst?         2       advisors. Some we receive only monthly or quarterly reports.       5       A       Fred Palmliden.         3       MR. KELTNER:       6       MR. SJOBLOM: P-a-1-m-1-i-d-e-n. P-a-1         4       Q       And the weekly reports are all delivered to you at       7       BY MR. KING:	
1       We generally receive weekly reports from all       4       Q       Which analyst?         2       advisors. Some we receive only monthly or quarterly reports.       5       A       Fred Palmliden.         3       MR. KELTNER:       6       MR. SJOBLOM: P-a-1-m-1-i-d-e-n. P-a-1         4       Q       And the weekly reports are all delivered to you at       7       BY MR. KING:	_ 01 my
1       We generally receive weekly reports from all       5       A       Fred Palmliden.         2       advisors. Some we receive only monthly or quarterly reports.       5       A       Fred Palmliden.         3       MR. KELTNER:       6       MR. SJOBLOM: P-a-l-m-l-i-d-e-n. P-a-l         4       Q       And the weekly reports are all delivered to you at       7       BY MR. KING:         4       Q       Okav. And does Mr. Palmliden make any	
2       advisors. Some we receive only monthly or quarterly reports.       6       MR. SJOBLOM: P-a-1-m-1-i-d-e-n. P-a-1         3       MR. KELTNER:       6       7       BY MR. KING:         4       Q       And the weekly reports are all delivered to you at       7       BY MR. KING:         8       Q       Okav. And does Mr. Palmliden make any	
<ol> <li>MR. KELTNER:</li> <li>And the weekly reports are all delivered to you at</li> <li>Q And the weekly reports are all delivered to you at</li> <li>8 O Okay. And does Mr. Palmliden make any</li> </ol>	
4 Q And the weekly reports are all delivered to you at 8 O Okav. And does Mr. Palmliden make any	-m-1-1-d-e-n.
8 Q Okay. And does Mr. Palmiiden make any	
5 your office and	changes to
6 A They are faxed or e-mailed. Not always to me 9 or these weekly reports or monthly reports?	
7 specifically. Sometimes to members of my research team.	
8 Q Okay. But to someone in Tupelo or Memohis?	then send
9 A OF St. Croix, yes. Just so we can have it straight 12 them to you or does he add content to the docume	nt?
10 for the record, I have analyst in different locations.	
11 MR. SJOBLOW: what was the guestion? 14 BY MR. KELTNER:	
12 MR. KELTNER: I think it's been answered. 15 Q what does that mean?	
13 BY MR. KING: 16 A He is going to How does he compile	them? I'm
14 Q How many portfolio advisors does Stanford 17 sorry.	
15 International Bank have? 18 Q what does "compile" mean?	
16 A In tier two, Stanford International Bank has 16 A In tier two, Stanford International Bank has	eive a
20 portfolio report. They are going to put what th 17 approximately 20. I think the exact number is 17.	air report
18 Q So 17 portfolio advisors fax a weekly report to 21 contains into various categories. They are goin	g to send
19 you? 22 their reports to Fred. Fred is then going to co	mpile all of
20 A No, not all 17. As I just mentioned, most of them 23 those reports and send them to me.	•
21 are weekly. Some are monthly or guarterly.	you mean puts
22 Q How do they actually come to your desk? Do you []	
23 actually see each individual weekly report?	

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1	А	Yes.
2	Q	That's what I wanted to know. Compile could
3	mean	
4	А	I'm sorry. Page 34

8	F	Pendergest-Holt_Laura_20090210.txt BY MR. KELTNER:
9	Q	Do you get copied on Fred Palmliden's e-mails?
10	А	Yes. I get copied on the e-mail. And I don't know
11	every nam	e on there.
12	Q	Does Robert Allen Stanford get it?
13	А	Is his first name Robert?
14	Q	I think so.
15	А	I thought it was Randy. It doesn't matter. I'm
16	sorry.	
17	Q	Sir Allen Stanford?
18	А	Sir Allen Stanford. I honestly do not recall.
19		(The witness conferred with counsel.)
20		BY MR. KING:
21	Q	Okay. Ms. Holt, you're we've gone over this
22	several t	imes now. You're not an employee of the bank,
23	correct?	
24	А	Correct.
25	Q	But you review portfolio statements relating to the

ne?			
	1	bank's hol	dings?
	2	А	That's correct.
	3	Q	Have you ever signed any kind of confidentiality
	4	agreement	with the bank?
	5	А	To my knowledge, no.
rt	6	Q	Who is your supervisor at Stanford Financial Group?
	7	А	Mr. Davis.
	8	Q	Jim Davis?
	9	А	Yes. That's correct.
	10	Q	I believe you told me earlier that he's the chief
	11	financial	officer? Page 36



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A No. No. No. He puts them in a spreadsheet and 6 7 gives the spreadsheet to me. I do not physically touch the 8 weekly reports. 9 0 So --10 BY MR. KING: 11 Q What do you -- What do you do with the compiled 12 report? 13 A I look at it. I review it. 14 Q For what? 15 A I look to see the performance, week to date, of the 16 portfolio, including and excluding cash. I'll look at the 17 diversification of the overall portfolio by product, by privacy breakdown and then I'll look at the individual 18

- 19 advisors for the same information.
- 20 Q Who else gets a copy of the compiled report?
- 21 A It's actually sent out by Fred Palmliden. I could

A No, I do not. They are generally given to the 25 research advisor or the research analyst on my team who

Page 33

Pendergest-Holt\_Laura\_20090210.txt

Q --- put them all in a stack and --

- 22  $\,$  go back and look at the two lines, but to state them all -- I  $\,$
- 23 don't send it to anybody. It's sent out by Fred.
- Q So you don't forward the compiled report to anyone 24 25 A No, I do not.
- 1 You don't know who gets it? Q 2 Not without looking. I would be guessing to star А 3 quoting names right now.
- 4 Q Does Jim Davis get it?
- 5 Yes. Α
- 6 Q How do you know that?
- 7 A I do recall his name being on the tier list.
  - Page 35

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Pendergest-Holt\_Laura\_20090210.txt Pendergest-Holt\_Laura\_20090210.txt Q And how do you know that treasury would have -- the 15 12 Δ That is correct 16 treasury group in Houston would have some interaction with 13 0 What does be do for Stanford Financial Group? 17 the bank? He's the chief financial officer. 14 Α A I have requested wire transfer instructions from 18 15 0 What does the chief financial officer do? 19 them in the past. 16 He oversees the investments, investment committee 20 BY MR. KELTNER: 17 -- or the investment area of research, accounting, treasury, 21 Is that Patricia Maldanado? о 18 risk. I believe that's all. 22 Α Ves Q Okay. The first thing you said there was he 19 23 0 The person you interacted with? 20 oversees the investment portfolio? BY MR. KING: 24 21 A No. I'm sorry. The investment and research 25 Q What were those wire transfers? 22 division. That's my division. Currently known as global п 23 research division 24 0 Okay. I think you said he oversees treasury 25 right?

1 A That's correct 2 Q What is -- What is treasury for Stanford Financial 3 Group? 4 A It's other treasury functions. 5 Q It's not the same treasury function for Stanford 6 International Bank, though, correct? 7 A I do not know. I believe -- I know -- I don't know. I'd be speculating. 8 9 Q Does he oversee treasury for Stanford International Bank? 10 11 A I don't know. I'm sorry. I do want to clarify 12 treasury. Houston has access to tier -- or have some 13 interaction with tier one. As to whether or not that is the 14 only treasury of Stanford International Bank, I do not know.

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Pendergest-Holt\_Laura\_20090210.txt

and research function of Stanford Financial Group?

24 I give to him our research. I present to him all of our

reports. If I need permission to bring somebody on, of

A I'm sorry. Could not even begin to name what all

Q Okay. How does Mr. Davis oversee the investment

A If I understand your question, I do report to him.

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20 our insurance policies are.

1	course, would run that hiring process through him.
2	Any salary increases that would be overseen by my
3	group or would be given to my group, I would request those to
4	be approved by him. Expenses are approved through him. But
5	in terms of, like, day-to-day research calls, he doesn't go
6	that far into the micromanagement.
7	Q Okay. Let's talk about who you supervise. I don't
8	want to talk about names. I want
9	A Okay.
10	Q to talk about just general positions at this
11	point.
12	A Okay.
13	Q Who do you supervise?
14	A I oversee a team of research analysts. They
15	research global economies, global markets, noncorrelated
16	products and global asset allocation.
17	Q Okay. Do you supervise anyone other than the
18	analysts?

- 20 those, we hope in the future that they will oversee product.
- 21 Currently, neither has been assigned or put to market.

A Recently when we were redeeming or liquidating 1 2 portions of second tier, I would send the cash to tier one and I would request the wiring instructions from Patricia. 3 0 Okav. So if you -- When your oversight function 4 5 for tier two had liquidated a position and you needed to send cash to someone, you're sending it to the treasury -- your 6 7 group in Houston? 8 A No. I'm actually sending that to the correspondent bank, but I would receive the wire transfer instructions from 9

the treasury group. 10 11 Q Okay. Does anybody else at Stanford Financial

12 Group supervise you?

A NO 13

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14 0 You said that Mr. Davis was responsible for the 15 risk function. What does that mean?

16 A That's our insurance area, various insurance 17 policies.

18 Q And what policies are those? Page 38

Pendergest-Holt\_Laura\_20090210.txt MR, SJOBLOM: Can you say those again? 77 THE WITNESS: Sure. Franchesca McClain and Nil 23 24 Willard. And Franchesca is a water analyst. Nil Willard is a 25 fixed income analyst. 1 BY MR. KING: O Anybody else besides the analysts. Ms. McClain and 2 Mr. Willard? 3 A That I directly supervise? 5 0 (Nodding.) 6 Α NO. Has Stanford International Bank -- Does Stanford 7 0 8 International Bank have a senior investment officer? A NO. 9 10 0 Does Stanford Financial Group have a senior investment officer? 11 12 A NO. 13 Q Has Stanford International Bank ever had a senior 14 investment officer? 15 A Yes. Q Tell me about that. 16 Michael Zarich was Stanford's -- Stanford 17 А 18 International Bank's senior investment officer, I believe, starting in 2005, maybe. Possibly 2004. I know 2005 19 20 through, I believe, 2007.

21 O Okay. So let me make sure I got the list right and 22 then I want to drill down on some of these. 23 A Okay.

- 24 Q Basically, you supervise the analysts and then Ms.
- McClain and Mr. Willard, but you don't supervise the senior Page 40 25

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		Pendergest-Holt_Laura_20090210.txt		1	Pendergest-Holt_Laura_20090210.txt Q    Just generally, how does it sell the CDs in the
				2	United States?
				3	A They are a BDIA.
	-	investment officer?		4	Q Stanford Group Company?
	1			5	A Yes.
	2	A I did not supervise the senior investment officer,		6	Q And how many offices does Stanford Group Company
	3	no.		7	have in the United States?
	4	Q You didn't supervise Mr. Zarich?		8	A Oh, dear God. I don't know the exact number. And I
	5	A No.		9	could start naming cities, if you would like.
	6	Q Just generally, as the analyst roles and		10	Q Okay. More than a dozen?
	7	responsibilities what do the analysts do?		11	A Yes. Absolutely.
	8	A As I've already mentioned, they research the		12	Q And
	9	various areas I mentioned; global economies, markets, asset		13	MR. SJOBLOM: More than a dozen cities or more than
	10	allocation, technical analysis, fundamental analysis. So		14	a dozen entities?
	11	that's their general research functions. Again, very general.		15	THE WITNESS: Both.
	12	Q Where do the analysts office?	,	16	BY MR. KELTNER:
	13	A They have offices Some are officed in Memphis,		17	Q Stanford Group Company?
	14	some in Tupelo, the remainder in St. Croix.		18	A Yes. I believe it's more than a dozen. Let's see.
	15	Q Okay. I believe you said earlier that the bank		19	What it is? Bigger than a breadbox, smaller than a cart.
	16	makes investments, offers CDs, does a few loans that are		20	Somewhere in that vicinity.
	17	backed by the CDs, correct?		21	BY MR. KING:
	18	MR. SJOBLOM: No. She didn't say that.		22	Q Okay. Your office is in Tupelo?
÷	19	BY MR. KING:		23	A That's correct.
	20	Q Makes loans backed by the CDs, correct?		24	Q Was formerly in Memphis?
	21	A Yes.		25	A Yes. That is correct.
	22	Q Okay. How does Let's talk about the	D		
	23	A And I said that was to my knowledge what they did?			
	24	It certainly not necessarily all inclusive of what they			
	25	do .		1	Q Mr. Davis' office is where?

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4 Financial Group --

Page 41

	1	Pendergest-Holt_Laura_20090210.txt	8	Pendergest-Holt_Laura_20090210.txt management of Stanford International Bank, at least to the
5	Α	That's correct.	9	extent that you know about it, happens in Memphis?
6	Q	correct? And the analysts all office in	10	A No. That is not correct.
7	Memphis,	correct?	10	Q I'm going to show you
8	A	No. That is not correct. They are in Memphis, St.	11	MR. SJOBLOM: Can you please repeat that last
9	Croix and	d Tupelo. Not in all three. Some are in Tupelo.		
10	Some are	in Memphis. Some are in St. Croix.	13	question?
11	Q	Okay. How many analysts are in Memphis?	14	(The reporter read back the record.)
12	А	Approximately 12.	15	BY MR. KING:
13	Q	How many analysts are in Tupelo?	16	Q And your answer was no, correct?
14	А	Five.	17	A That is correct.
15	Q	How many analysts are in St. Croix?	18	Q Where is the portfolio management function of the
16	А	Three. I hope that comes up to number. It's	19	bank performed?
17	thereabou	ut. It's approximate.	20	A To my knowledge, it's performed where the portfolio
18	Q	Are there any analysts in Antigua?	21	advisor is. So some of our portfolios would be advised or
19	А	No, not that I directly supervise.	22	managed out of Switzerland. Some would be managed out of
20		BY MR. KELTNER:	23	Toronto. Some would be managed out of London. Some would be
21	Q	How long have the analysts been in St. Croix?	24	managed in Memphis by SSM. It's going to be dependent upon
22	А	Going on two years, I believe. Over a year.	25 U	where the portfolio advisor is.
23	Q	So the analysts A large percentage of the		
24	analysts	are in Memphis, correct?		
25	А	That's correct. Yes.		
			1	BY MR. KELTNER:
			2	Q Who oversees the management from the Stanford
			3	Financial Group?
1	Q	And you, as the chief investment officer, are in	4	A The board of directors officially oversees them.
2	Tupelo?	-	5	As I stated earlier
3	A	That's correct.	6	MR. SJOBLOM: That's it.
-			7	THE WITNESS: Okay.

- 4 Q And Mr. Davis, the chief financial officer, a 5 member of the investment committee, is in Memphis, correct? 6 A Mr. Davis in Memphis and in Tupelo.
- Q So is it fair to say then that the portfolio 7
  - Page 43

Q All right. Now, I want to show you what's been

He has offices in both Tupelo and Memphis.

Page 42

Q And he's the chief financial officer of Stanford

- marked previously as Exhibit 13. I'll represent to you that 10
  - 11 it's a presentation by Stanford International Bank. Page 44

BY MR. KING:

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17 similar presentations? Yes.

A Uh-huh.

A I do see that.

BY MR. KING:

-- Exhibit 13?

22 management" --A Uh-huh.

2 finish his question.

A Yes.

11 manage the portfolio.

15 "Portion" being tier two.

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Q.

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18 do you?

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Pendergest-Holt\_Laura\_20090210.txt 15 presentation like this used with investors in the CD?

"management support" at the top. Do you see that?

Q -- CFO's office in Memphis, Tennessee?

A This exact one, I cannot recall. Have I seen

0 Okav. Let's look at the slide there that savs

Q And you see there at the bottom is says "portfolio

THE REPORTER: I'm sorry. I need you to let him

THE WITNESS: I'm sorry. I do see it.

A To the best of my recollection, no.

14 and my group, we oversee portions of the portfolio.

Page 46

Q Did you -- Have you ever seen this slide before?

Q Is there anything inaccurate about that slide --

A Absolutely. We oversee the portfolio. We do not

A My team. So as much as it is up to my knowledge

Q But you don't know that the management support 17 slide in Exhibit 13 is inaccurate as to tiers one or three,

Q When you say "we," who are you referring to?

	P	endergest-Holt_Laura_20090210.txt
12	А	Okay.
13	Q	Have you ever ⊤ake a look at the front page
14	there, if	you want to. I just handed you a page that's not
15	numbered.	
16		Have you ever seen that before ever seen Exhibit
17	13 before	?
18	А	The entire presentation at one time, no. I have
19	seen bits	and pieces of it on separate occasions.
20	Q	When was that?
21	А	Gosh, over the years. It could have been in FA
22	presentat	ions or trips to Antigua.
23		BY MR. KELTNER:
24	Q	When you say "FA presentations," do you mean

25 training meetings for --

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U

1	Α	Yes.
2	Q	financial advisors
3	А	Yes.
4	Q	Not just financial advisors but broker dealers?
5	Α	Yes.
6		THE REPORTER: Can I get you to keep your voice up?
7		BY MR. KELTNER:
8	Q	Training presentations to employees of the broker
9	dealer wh	o sell the CDs?
10	А	Correct.
11		BY MR. KING:
12	Q	Okay. If you'll turn to page that
13	А	Yeah.
14	Q	Oh, before we do that. Have you seen a
		Da 45

#### Page 45

		Pendergest-Holt_Laura_20090210.txt		22	F A	endergest-Holt_Laura_20090210.txt I did. I met with Juan Rodriquez.
19	А	I do not know.		23	.0	what did you and Juan Rodriguez discuss?
20	Q	You don't know whether exhibit You don't know.		24	A	We actually discussed global economies.
21	where ti	er one and tier three are managed?		25	Q	Anything else?
22	Α	No .	U	25	. <b>v</b>	Allytitting erse:
23	Q	You have any reason to believe that Exhibit 13 is				
24	inaccura	te?				
25	А	As much as it pertains to my group, it is		1	А	That I met with Mr. Rodriguez about or meetings in
				2	general?	I'm sorry.
				3	Q	Anything else you discussed with Mr. Rodriguez?
1	inaccura	te.		4		MR. SJOBLOM: Was there a lawyer present?
2	Q	As to the bank's portfolio		5		THE WITNESS: No.
3	A	I cannot speak to the bank's portfolio in its		6		BY MR. KOROTASH:
4	entirety			7	Q	Doctor?
5	0	I think you When we were talking earlier today		8	А	No .
6		made your presentation, I think you said that you'd		9		(The witness conferred with counsel.)
7		ten back from Antiqua, correct?		10		BY MR. KING:
8	A	That is correct.		11	Q	So the only thing you discussed with Mr. Rodriguez
9	Q	who did you meet with in Antiqua?		12	was globa	l economies?
10	A	I was actually there with my team or with		13	А	Yes and no. When I actually met with him, yes.
11	specific	members of my team.		14	There wer	e other meetings. There was a teleconference that I
12	Q	Which ones?		15	was part	of.
13	A	Fred Palmliden, Ken Weeden, Tao Yu T-a-o. Her		16	Q	Let's talk first just about Mr. Rodriguez.
14	last nam	e is Y-u David Bishop and Wade McGee, M-c-G-e-e,		17	А	Okay. He was on the teleconference. So
15		lf. I believe that's it.		18	Q	Oh. And was there was there any lawyers on this
16	Q	Okay. Who did Who did you and your team meet		19	teleconfe	rence?
17	with fro	m the bank?		20	А	I don't know.
18	A	We were actually there for our own purpose, not for		21	Q	Who was on the teleconference?
19	other me			22	А	I don't know everybody who was on the
		5		22	toloconfo	The source

- 23 teleconference. I'm sorry.
- 24 Q Who do you know was on the teleconference?
- A I know it was Mr. Rodriguez, Mr. Davis and myself Page 48 25

21 trip?

20 Q Did you meet with any bank employees during your

APP 0081

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	Pendergest-Holt_Laura_20090210.txt		Pendergest-Holt_Laura_20090210.txt 1 BY MR. KING:			
				2	Q	How do you spell his last name?
				3	А	I have no idea. I'm sorry. I'm assuming like it
1	hactura	we were in a room together. I do not recall who was		4	sounds.	
2	on the ot	-		5		MR. SJOBLOM: Can we go off the record a minute?
3		what was the purpose purpose		6		MR. KING: Sure. Let's go off the record.
4	Q			7		(A discussion was held off the record.)
	6	MR. SJOBLOM: Can we get a when, when this		8		MR. KING: Let's go back on the record.
5	happened,			9		BY MR. KING:
6 7		THE WITNESS: Trying to think when I was in		10	Q	Ms. Holt, I think we were talking about a
	Antigua.	Second, third week of January, I suppose.		11	teleconf	erence with a
8		BY MR. KING:		12	А	Yes.
9 10	Q	What was the purpose of the teleconference?		13	Q	with an existing city client, correct?
10	A	It was a teleconference with one of our financial		14	А	Yes.
11	advisors.			15	Q	what was the purpose of the teleconference?
12	Q	Which one?		16	А	I was brought in to discuss global economies. The
13	A	Tom Espy.		17	FA had r	equested a meeting for a client and
14	Q	Who does he work for?		18	Q	Which FA?
15	A	Stanford Group Company.		19	А	Tom Espy.
16	Q	what was on the agenda on the teleconference?		20	Q	Oh, I'm sorry. Were you on the entire call or just
17	A	It was for a client.		21	a portio	n of the call?
18	Q	what does that mean?		22	А	I was on the entire call.
19	A	It was a teleconference for a client or a client		23	Q	What I'm trying to get out here, is was there a
20		CD. I came in to get the global economic piece.		24	particul	ar íssue
21	Q	A potential client?		25	A	oh.
22	A	Existing client.	٥			
23	Q	Okay. Who's the existing client?				
24		MR. SJOBLOM: If you know.				
25		THE WITNESS: I do. Gary Magness.		1	Q	with this

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Pendergest-Holt\_Laura\_20090210.txt 5 banking information, you may have a privacy issue. So you 6 can treat it the way you want to treat it. 7 BY MR. KING: 8 Q I'll just ask it this way: Why did this customer 9 request a call with you, Mr. Davis and --10 MR. SJOBLOM: I don't think she said that. 11 THE WIINESS: They didn't request a call with me and Mr. Davis. 12 13 BY MR. KING: 14 Q How did the call come to being? 15 A The financial advisor, Tom Espy, had said that the client would like to have a conference call with the bank. T 16 17 was there as was Mr. Davis, but the client did not request to 18 speak -- to my knowledge, the client had not requested to 19 speak to me personally. 20 Q Okay. What was the issue that was -- Just list for 21 me all the issues that were discussed during this call. 22 MR. SJOBLOM: Well, I'm going to object. I mean, 0 23 Obviously, you have a person here that is an officer or 24 director of an affiliated entity of a bank and you're talking 25 about bank information. We need to be careful about the 1 privacy act issue. I can't expose a bank officer to that type information. 2 3 BY MR. KOROTASH: 4 Q Let me try it this way. Did Mr. Davis --5 А He spoke, but it wasn't a presentation. 6 THE REPORTER: I can't hear you? 7 THE WITNESS: I said, he spoke, but it wasn't a

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8	Pendergest-Holt_Laura_20090210.txt presentation.
9	BY MR. KOROTASH:
10	Q Okay. And what did he speak about? He talked
11	about the assets of bank, did he not?
12	A I'm thinking. Trying to recall how the
13	conversation went.
14	MR. SJOBLOM: If you know. If you can recall.
15	THE WITNESS: I'm sorry. I cannot recall exactly
16	what Mr. Davis spoke about.
17	BY MR. KOROTASH:
18	Q Okay.
19	A Sorry.
20	BY MR. KING:
21	Q What did Mr. Rodriguez speak about on the call?
22	A He spoke about CD redemptions. He spoke about the
23	bank, and that was about it.
24	Q At any time in this teleconference, did anyone
25	express concerns about the bank's portfolio?

MR. SJOBLOM: Well, okay. I'm just going to state

3 the objection, then you can do what you feel appropriate. To 4 the extent you start inquiring into the customers personal Page 50

A There were questions raised about the bank's 1 2 portfolio, yes. Q What questions? 3 4 A What the numbers were for year end, what the 5 returns were for year end for the investment portfolio. I'm 6 sure there were other questions about the bank portfolio.

7 Q All right. We talked about your conversation with 8 Mr. Rodriguez about the global economics. One question I 9 didn't ask you about that, how long did the conversation

10 about global economics last?

11

A Ten, 15 minutes. It was a short meeting. Page 52



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				-
	Pendergest-Holt_Laura_20090210.txt		15	Pendergest-Holt_Laura_20090210.txt Q You have never discussed tier three with Mr.
12	Q And how long did the teleconference last?			
13	A Well less than an hour.		16	Rodriguez?
14	Q Did you have any other meetings with Mr. Rodriguez		17	A Only in presence of counsel.
15	during your visit to Antigua?		18	Q Mr. Sjoblom?
16	A No, I did not.		19	A Uh-huh.
17	Q During your tenure as chief investment officer,		20	MR. KING: I know you're going to make your
18	have you ever discussed with Mr. Rodriguez the bank's		21	objection, but I'm going to ask her what she said and tell
19	portfolio?		22	him who you represent.
20	A I have discussed with him tier two, yes.		23	BY MR. KING:
21	Q Have you ever discussed with him anything other		24	Q So what was talked about in your meeting with Mr.
22	than tier two?	0	25	Rodriguez and Mr. Sjoblom?
23	A No. In specifics, no.	_		
24	Q How about generally?			
25	A We have discussed the overall investment			
			1	MR. SJOBLOM: Okay. Objection. Actually, I will
			2	clarify, because you asked me something earlier on who I
			3	represent. I went back and called my secretary to go back
1	philosophies, but that's about it.		4	and pull the engagement letter to be clear who I represent.
-			5	I'm engaged by Stanford Financial Group and all of
2	Q Does Mr. Rodriguez know what assets are held in tier three?		6	its affiliated companies. So any conversation that regards
-			7	any bank officer of any Stanford affiliated entity, which I
4	MR. SJOBLOM: If you know.		8	am present, I'm going to view as attorney/client privilege.
5	THE WITNESS: I do not know.	-	9	I will instruct the witness not to answer.
6	BY MR. KING:		10	MR. KELTNER: And that includes Stanford
7	Q Okay. From now on every question I ask you is if		11	International Bank?
8	you know. Okay?			

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	Pendergest-Holt_Laura_20090210.txt	
19	MR. SJOBLOM: Yes, I do.	
20	MR. KELTNER: Okay.	
21	MR. SJOBLOM: Affiliated company, therefore, I	
22	represent the bank.	
23	MR. KING: Okay.	
24	BY MR. KOROTASH:	
25	Q I want to get back to the conversation just for a	

Q If you don't know, just tell me you don't know.

Q So I want to make sure we're clear on that. Does

13 Mr. Rodriguez know what assets are held in tier three?

Page 53

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12

14

A Right.

A Okav.

A I do not know.

1		4
1	second. Did that conversation happen recently?	5
2	A I'm sorry. What conversation?	6
3	Q The conversation I'm sorry. The conversation we	7
4	were just talking about. The one with	8
5	MR. SJOBLOM: The one which I was present?	9
6	MR. KOROTASH: Yeah.	
7	BY MR. KOROTASH:	10
8	Q Mr. Sjoblom was there and	11
9	A Yes.	12
10	THE REPORTER: I can't hear. You guys are making	13
11	side comments and I can't	. 14
12	(Speaking simultaneously,)	15
		16
13	BY MR. KOROTASH:	17
14	Q So we had a conversation with the president of the	18
15	bank where, apparently, tier three assets were discussed, but	19
16	Mr. Sjoblom was there?	20
17	A That is correct.	
18	Q And when did that conversation take place?	21
19	A Last week.	22
20	Q Okay. Now, did I trust that I want to ask	23
21	you one simple question. When you heard what Mr. Rodriguez	24
	jen ene energie geberent. Anen yee neard what mat mit kouriguez	25

Pendergest-Holt\_Laura\_20090210.txt 22 had to say, were you surprised? 23 MR. SJOBLOM: First of all, she never said Mr. 24 Rodriguez said anything. You asked her, was there a 25 conversation which I was present regarding tier three to which she said it was last week. 1 2 There's been no establishment that Mr. Rodriguez 3 said anything. 4 MR. KOROTASH: Great, great point. Let me --5 You're really good at this foundation stuff. Let me try it 6 again. 7 BY MR. KOROTASH: 8 When you -- When this conversation took place, did Q 9 Mr. Rodriguez make any remarks? 10 A Does that fall under --11 MR. SJOBLOM: Yeah. Did he make a remark? Yes or 12 no? THE WITNESS: Yes. 13 14 BY MR. KOROTASH: 15 O Huh? 16 Α Yes. 17 Q Okay. When you heard what he had to say, were you 18 surprised? 19 Was I personally surprised? А 20 Q Yes. 21 А No. 22 0kay. Q

Okay. Before we move onto new issues --

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BY MR. KING:

Q

A Okay.

MR. SJOBLOM: That's specifically why I said that,

MR. KELTNER: So do you interpret that to mean --

MR. KELTNER: -- Stanford International Bank? Page 54

13 because Mr. King asked me with capacity. I called back to

14 clarify. What the engagement letter says is Stanford

15 Financial Group and all affiliated companies, plural.

MR. SJOBLOM: Yes, I do.

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Pendergest-Holt\_Laura\_20090210.txt any further meetings, no. Pendergest-Holt Laura 20090210.txt 1 2 Q Do you know if anyone from your team had any meetings with anyone from the bank? 3 4 A To my knowledge, no. 1 Q -- you and your team went to Antigua the second or 5 Q Okay. So as far as your trip to Antigua goes, it 2 three week in January, right? was -- you and your team didn't need any guidance from anyone 6 That's correct. 3 А 7 at the bank for what to do, right? 0 The people you identified earlier? A That's correct. 8 5 А Yes. Q Okay. What were -- And what were you and your team 9 6 And we've gone through a couple of meetings with 0 10 doing in Antigua again? 7 Mr. Rodriguez, one brief conversation --A We were reconciling year end statements and year 11 Uh-huh. 8 Α end balances for second tier of the portfolio and classifying 12 -- about global economics, the teleconference --0 13 those holdinas. 10 Yes. Q Okay. So just to be clear. As to tier two, you 14 11 0 -- and then also a meeting with counsel, correct? 15 did not need to meet with Mr. Rodriguez? 12 А No, I did not have any meeting --A No. I just needed the statements. 16 13 0kay. 0 Q I think during your presentation this morning you 17 14 -- with counsel at Antigua. А 18 said that your research function that -- for the SIM piece of 15 0 Okay. Did you and your team meet with anyone else this, right? What does SIM stand for? 19 16 from the bank during your trip to Antigua? 20 A Stanford investment model. 17 MR. SJOBLOM: Sav it again. Mr. King. 21 0 Okav. So Stanford investment model, you do 18 THE WITNESS: I'm sorry. I -research and then you provide that research to Stanford 22 19 BY MR. KING: 23 affiliated companies. correct? 20 Q Did you or anybody else on your team meet A That's correct. 74 21 substantively -- about any substantive issue with anyone else O Does that include Stanford International Bank? 25 22 from the bank besides Mr. Rodriguez? П 23 On the bank, no. А 24 Q I'm sorry. What was your answer? 25 I said, on Stanford International Bank did I have Δ 1 А Yes. it does. 2 o So in providing research to Stanford International 3 Bank, do you need to have at least a general understanding of what the bank's investment philosophy is? 4 Page 57 Page Pendergest-Holt\_Laura\_20090210.txt 8 it's up to them to execute. So my research is unbiased by Pendergest-Holt\_Laura\_20090210.txt 5 A No. T do not need to g 6 You have no need to know what the person your 0 10 7 providing research to, what their investment philosophy is? 11 well, let's go back. MR. SJOBLOM: I think she testified no. 8 12 q THE WITNESS: No. 13 10 BY MR. KING: 14 11 Okay. Why not? 0 15 12 Because -16 13 MR. SJOBLOM: Calls for speculation. If she says 17 hank? 14 she doesn't have any reason to know anything, why would --18 А 15 BY MR. KING:

- 16 Q Why not? 17 MR. SJOBLOM: Calls for speculation. 18 BY MR. KING: 19 0 why not? 20 Why not what? Why does it not impact my research. Α
- 21 0 Yeah. I'm just interested to know. You're in the
- 22 business of providing research to various Stanford affiliated
- 23 companies, correct?
- 24 A I'm providing them parameters that are wholly
- independent from anything that they may need. So I'm looking 25
- 1 at global economies, global markets, global products, and 2 based on research, providing an analysis of investment. 3 It is up to each company, whether it be Stanford
- 4 International Bank or anybody else, to see how that coincides
- 5 with their investment philosophy. They don't have to take it
- 6 as written.

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It is -- as I stated when I first presented it.

APP 0084

- what an affiliate may or may not have need of. Q Do you know whether it's important to the bank --Do you review any of the banks -- You said you went to Antiqua with your team to review year end statements? A Uh-huh. That's correct. Q Did you review any of the -- of the bank documents, the annual report -- Did you get an annual report from the
- I receive it. Do I read it from cover to cover? 19 NO. 20 O Do you review it before it's published? 21 А
  - I have in the past, yes.
- 22 Q All right. And why do you review it?
- 23 Really, just to edit, just to spell check, if you Α
- 24 will, review, look through it.
- 25 0 What about other documents put out by the bank.
- 1 it's monthly reports and quarterly reports, do you review 2 those?
- 3 А Yes.

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- 4 0 You review those in advance of them being
- published? 5

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- А Yes,
- Q And why do you do that?
- 8 А My team is actually given the information and then
- my team writes around the information given. So in that 9
- capacity. I am editing it. It is then sent to Ron Rodriguez 10
- for final review before it is sent out. Page 60 11

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Pendergest-Holt\_Laura\_20090210.txt Pendergest-Holt\_Laura\_20090210.txt 15 Mr. Rodriguez. It's come from the board of directors. 12 Q So your team actually does the drafts of the Sometimes I've received information from the accounting 16 13 monthly and quarterly reports put out by the bank? 17 managers. So it's just really the printed --14 A The research reports put out by the bank, not the 18 Q What about Mr. Davis? financials that are put out by the bank. 15 19 A As a board member, yes, in the past I've received 16 0 What information do the reports that you review 20 information from him. 17 include? 21 Q So when you say the board member, the board -- you 18 A They're going to include just a quick global get information from the board. Who do you mean? 22 19 economic snapshot. There's, I believe, a section called --23 A well, it's varied in the past. Sometimes various 20 or in the past there has been a section called portfolio 24 board members, but, certainly, in the past it has also 21 adjustments, which would have discussed why certain 25 referred to Mr. Davis directly. 22 allocation shifts were made. п 23 There is a table in there that discuss certain 24 numbers of the bank, which I've already stated are provided 25 by the bank. 1 BY MR. KING: Q Okay. Is liquidity important to the bank's 2 investment strategy? 3 Yes. А 1 BY MR. KELTNER: 5 How do you know that? 0 2 Q What's in the table, profit, loss, assets? From a past -- and I -- I don't know if it's still 6 А 3 MR. SJOBLOM: If you recall. current or not, but from a past investment philosophy of the 7 THE WITNESS: I don't recall. If you have one, I 4

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BY MR. KING:

bank it states that they're -- they try to maintain at least 8 5 could confirm it, but --10 percent in cash and maintain liquid investments. 9 BY MR. KELTNER: 6 10 Q Okay. Why do they do that? 7 Q When you say the information comes from the bank. 11 Δ T don't know. That's a bank directive. 8 who do you get it from, information that goes into those 12 (SEC Exhibit No. 26 was marked for 9 reports we've been discussing. 13 identification.) 10 MR. SJOBLOM: And you're talking about the 14 BY MR. KING: 11 quarterly reports now? 15 0 Let me show you what's been marked as Exhibit 26. 12 BY MR. KELTNER 16 Okav. Α 13 0 And monthly. 17 Take a look at that for me --Q 14 A It has come from various people. It's come from Thank you. Page 62 18 А Page 61

Pendergest-Holt\_Laura\_20090210.txt Pendergest-Holt\_Laura\_20090210.txt A I have seen this picture before. 77 -- if you would. 19 0 23 Q Routinely used in Stanford marketing materials? 20 May I ask what I'm looking at? 24 A Not routinely, no. Q Well, I'll ask you. Just take a look at it first. 21 25 Q Okay. And this -- On the front cover it says 22 A (Examining) п 23 MR. SJOBLOM: Do you have a copy --24 MR. KING: I do.

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"Stanford International private banking," correct?

A Yes. That's correct. 2 3 Q All right. And then if you flip to the previous page, page three --4 1 Q You recognize Exhibit 26? A Yes. 5 2 A Yes. I do. 6 0 -- you see where it says liquidity? Q What is it? 3 7 ∪h-huh. Α 4 A I don't know exactly what it is, but I recognize Q It says, We focus on maintaining a highest degree 8 it. I'm assuming -- Well, I would be assuming. 5 of liquidity as a protective factor for our depositors? 9 6 Does this appear to be an internal or an external Q 10 A Yes. 7 document? 11 Q Have you ever heard -- You ever heard that before? 8 A It appears to be internal. You mean produced 12 I have seen it written in the past, yes. А 9 internally? 0 Is that consistent with your understanding of the 13 10 Q No. I mean -- I mean -bank's investment philosophy? 14 11 A I'm sorry. 15 A Yes. -- can you tell how this document is used? Is it 12 Q 16 Q Second sentence says, The bank's assets are 13 used with potential CD purchasers or is it used to -- is it 17 invested in a well diversified portfolio of highly marketable 14 used internally among the Stanford affiliated companies? securities issued by stable governments, strong 18 15 А By the looks of it. I would assume external. multi-national companies and major international banks. 19 16 0 Did you say external? 20 Do you see where it says that? 17 Yes. From the disclaimer, I would say external. А 21 A Yes, I do. 18 0 Okay. Let's flip over to page four. I believe 22 Q Is that also consistent with your understanding of 19 that's your picture there on page four, correct? 23 the bank's investment philosophy? A Uh-huh. That's --20 24 A Yes. 21 Q So you've seen this picture before? Have you seen that statement before? Page 64 25 Page 63

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	Pendergest-Holt_Laura_20090210.txt	Pendergest-Holt_Laura_20090210.txt 1 A Uh-huh.
		2 Q that doesn't include private equity?
		3 A I said in other markets that could have a strong
		4 secondary market, and in that case it could absolutely
1	A Yes.	5 correspond to private equity as we've already discussed
2	Q What does highly marketable securities mean?	6 earlier.
3	A It means they have a market.	7 Q How much luck did you have liquidating the privat
4	Q Give me an example of some highly marketable	8 equity in tier two?
5	securities.	9 A Actually, I had luck in liquidating the private
6	A It can certainly include fixed income, equity. It	10 equity. Well, I have not liquidated SSM yet. Mainly I have
7	can include shorter redemption notice alternatives and it can	11 not had to go to that level.
8	really include any product in which there is a strong	12 THE REPORTER: I'm sorry. Can you start over?
9	secondary market.	13 BY MR, KELTNER:
10	Q What is a shorter redemption alternative?	14 Q The 400,000 that's left, how much of that is
11	A It would mean any alternative that you can put in a	15 private equity?
12	redemption request within a quarter.	16 A Minimal. Less than 5 percent.
13	Q Whether or not that redemption request will be	17 BY MR, KOROTASH:
14	granted?	
15	A Well, you're assuming that if that is the contract,	
16	that it will, in fact, be granted.	19 A It was less than 5 percent in tier two.
17	BY MR. KELTNER:	20 BY MR. KING:
18	Q Just for clarity, when you say "alternative," what	21 Q Now, one of the people we talked about earlier
19	do you mean?	22 that, I think, you said you did not supervise was the senio
20	A Alternative there I'm referring to any	23 investment officer, correct?
21	noncorrelated asset,	24 A That's correct.
22	Q Noncorrelated to what?	25 Q But did you have occasion to train a former senio
23	A To the markets. To an equity market in particular.	
24	Q When you say "equity" When you said "equity" in	
25	the list of things earlier	
		1 investment officer by the name of Michael Zarich?
		2 A I did.
		3 MR. SJOBLOM: Tell you about how she trained him?

Page 65

A I don't know exactly what his job description was.

Page 67

	Pendergest-Holt_Laura_20090210.txt	8	Pendergest-Holt_Laura_20090210.txt Q well, I'm sorry. How can you train someone if you
5	THE WITNESS: I met with him on the second tier of	9	don't know what they're supposed to do?
6	the portfolio and went through tier two, the list of the	10	A I'm training him on the second tier of the
7	portfolio advisors. Actually, a very similar type training,	11	portfolio.
8	but in much more detail than I went through with y'all this	12	Q Okay. That was your understanding?
9	morning.	13	BY MR. KELTNER:
10	He sat and met with, at the time, each of my	14	O And that's all you trained him on was the tier two?
11	research analysts, who's on the team, went through with them	14	A That's all I have knowledge of is tier two.
12	the specific portfolio that they analyzed. I did discuss with	15	Q The question you or the statement you made a
13	him and that's when I said I had in the past seen a copy	10	minute ago, I'm trying to clarify that.
14	of Stanford International Bank's investment philosophy.	17	A Okay.
15	I did We read through that together, and he went		A UKay. Q Was the question more specifically: How do you
16	on a trip to meet a number of our second tier portfolio	19 20	answer when people ask you how the money is invested? How do
17	advisors. We discussed various presentations, various		
18	presentation questions.	21	you answer a client?
19	BY MR. KOROTASH:	22	A No. If there is a question about, tell me what
20	Q What do you mean by that, various presentation	23	say, tell me what portfolio advisors in the list of all
21	questions?	24	holdings that you have at Stanford International Bank.
22	A For instance, if I ever presented about the second	25	Like I clearly discussed here, I can't do that.
23	tier of the portfolio, how are those presentations generally		
24	conducted in order to maintain the right of privacy or the		
25	regulatory framework of the domicile while at the same time		
		1	Neither could anybody else in that position.
		2	Q So what did you teach or how what did you tell
		3	Mr. Zurich
1	being able to give general information about the portfolio.	4	A I said
2	Q What was his What was his job?	5	Q to tell
3	A He was senior investment officer really	6	A diversified portfolio.
4	Q of the bank or	7	Q And what about
5	A Of Stanford International Bank.	8	A The portfolio advisors located predominantly in
6	Q He was in charge of the investments for them?	9	Europe and in North America.

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BY MR. KING:

Now, just let's start over. Page 68

MR. KELTNER: Uh-huh. Page 66

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Pendergest-Holt\_Laura\_20090210.txt

12	А	Okay.		10	
		•		16	ba
13	Q	Because I need to make sure I'm clear in my own		17	
14	mind.				
15	А	Okay.		18	cc
16	Q	Senior investment officer does what?		19	
				20	ba
17	Α	I do not know. I do not know in totality what his		21	
18	job descr	iption was		22	
19	Q	Now, what			
20	Α	I did not write it.		23	ba
				24	
21	Q	You had a professional relationship with Mr.		25	рс
22	Zarich, c	correct?	Đ		
23	А	Yes, I did.			
24	Q	You also had a personal relationship with			
25	А	Yes, I did.			

0 -- Mr. Zurich. correct? And you never discussed 1 2 what he was doing as senior investment officer? 3

- A We did not have a personal relationship when he was 4 at SIBL.
- 5 Q Okay. Since he's been at SIBL, you've never had
- 6 occasion to discuss with him what he did for the hank?
- 7 A I know that he made presentations to financial
- 8 advisors -- or I don't know. I was told. I know he sat in
- 9 on client meetings.
- Q By "clients," what do you mean? 10
- A By clients of Stanford International Bank. 11
- 12 Q Do you know if they were potential clients or
- 13 current clients?

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A I do not know. 14

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Pendergest-Holt Laura 20090210.txt

19 0 Who? 23 Juan Rodriguez as well as the board of directors. 20 А 21 Q Who on the board of the directors did you speak to 25 liquidated in T plus two? 22 about Mr. Zarich? п 23 A Mr. Stanford. Mr. Davis. Among two. 24 0 Anybody else? 25 That I recall, no. А A Yes, it is possible that I did. 1 2 3 4 Q During your training sessions, was it multiple 1 5 no. 2 training sessions with Mr. Zarich or just one? 6 A Multiple. 3 7 4 Q How many? 8 liquidated in five days? 5 with me personally, probably five to six, and they Α 9 6 would have been long training sessions. 10 7 Q Okay. Did you take notes at the training sessions? 11 I did not. no. 8 Α 12 9 Q Did he take notes at the training session? 13 A It is possible. 10 Yes. he did. А 11

- How did he take notes? 0
- 12 Gosh. А
- 13 Q Did he do it on a --
- 14 MR. SJOBLOM: You mean by --
- 15 BY MR. KING:
- 16 -- computer -- Did he do it on a computer or did he 0
- 17 do it with a pen?
- A I believe with a pen. 18
- 19 Q Okay. Now, during the training sessions, did you
- 20 discuss with Mr. Zarich the liquidity of the bank's
- 21 portfolio?

Pendergest-Holt\_Laura\_20090210.txt Q Did you and Mr. Zarich discuss the liquidity of the

- bank's portfolio? A During training, it is possible that it could have come up. Did you ever tell Mr. Zarich that 50 percent of the o oank's portfolio could be liquidated in two days? A It is possible, yes. O Did you ever tell Mr. Zarich that 75 percent of the bank's portfolio could be liquidated in five days? A I do not recall saying five days, no. It's ossible. MR. SJOBLOM: Can we have some -- When are we 1 2 talking about here? Are you talking about 2005 or are you talking about now? I mean, there's a lot of difference here 3 of what could be done in 2004, 2005, 2006. 4 5 BY MR. KING: Q In training --6 MR. SJOBLOM: -- as opposed to right now. 7 8 BY MR. KING: q 0 When did you train Mr. Zarich to be senior --2004. 10 Α 11 0 Let's do this again. Because we need to do 12 question and answer. 13 A I'm sorry. 14 0 When did you train Mr. Zurich to be senior investment officer? 15 16 A 2004 or early, early 2005. 17 Q Who asked you to train him? A The bank asked me to train him. Page 70 18
- Pendergest-Holt\_Laura\_20090210.txt A Yes, I did. 22 Q During the training sessions, did you tell Mr. 24 Zarich that 50 percent of the bank's portfolio could be O During the training sessions, did you tell Mr. Zarich that the bank's portfolio was extremely liquid? A I do not recall using the words "extremely liquid," Q Did you tell Mr. Zurich during these training sessions that 75 percent of the bank's portfolio could be A I do not recall saying in five days. It's possible that I did. I just don't recall the exact days. 0 Did you tell Mr. Zarich that 100 percent of the portfolio could be liquidated in 60 to 90 days? 14 Q Do you remember telling him that? 1.5 A I do not recall my exact words --MR. SJOBLOM: Again, we are talking 2004, Mr. King? 16 Statements made in 2004 --17 18 THE WITNESS: I'm sorry. It's been a while. I 19 don't recall my exact --20 BY MR. KING: 21 0 When did you train Mr. Zarich? A 2004, 2005. Either the end of the 2004 or the 22 23 beginning of 2005. Q Could it have been October 2005? 24 BY MR. KELTNER: Page 72 25

APP 0087

#### Case 3:09-cv-00298-N Document 12-

Pendergest-Holt Laura 20090210.txt

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Pendergest-Holt\_Laura\_20090210.txt mean one kind of thing. If it's 2005, it means something

THE REPORTER: I'm sorry.

MR. SJOBLOM: That's not what the witness has Page 74

2 else. If you're talking about today, they mean something 3 else. I just want the record clear that this was training of Mr. Zarich at some point in time before he went to Antigua 4 1 Q Are you certain about that date, because we think 5 possibly in 2004. Is that --2 he went to Antiqua in early 2006? THE WITNESS Yes 6 3 Δ Τ--BY MR. KELTNER: 7 4 MR. SJOBLOM: Training versus when he went there --8 Q And if you told us it was late 2005, do you know if 5 THE WITNESS: Yeah. 9 that's inaccurate? 6 MR. SJOBLOM: --- we're talking about two different 10 A I mean, without looking at my calendar, I couldn't 7 things. 11 tell you for a fact whether or not it's inaccurate. I 8 THE WITNESS: I did not train Mr. Zarich in Aptiqua believe it was earlier than that. 12 9 at all. 13 BY MR. KING: 10 BY MR. KELTNER: 14 Q Okay. I think you said that it was possible that 11 Q Now, did you train him for his move to Antigua? 15 you told Mr. Zarich that the bank's portfolio could be 12 I trained him before he left for Antigua, yes. ۸ 16 liquidated in T plus two, correct? 13 MR. SJOBLOM: Listen to the question. He said MR. SJOBLOM: What could be liquidated in T plus 17 14 "for." Did you train him for Antigua. You answered you 18 two? 15 trained him before he went to Antigua. THE WITNESS: How much? I'm sorry. 19 16 THE WITNESS: No. I did not train him --20 BY MR. KING: 17 BY MR. KELTNER: 21 0 The bank's portfolio could be liquidated in T plus 18 0 Immediately before his move to Antiqua, did you 22 two? 19 have these training sessions? 23 No --Α 20 A How immediate before it was before he left ---24 MR. SJOBLOM: The entirety? 21 Q Was it a couple of months? 25 THE WITNESS: - not the entire portfolio. I -- I do not recall. It could have been as early as 22 Α п 23 May. I don't recall. I'm sorry. 24 MR. SJOBLOM: Well, here's the problem. Her's the 25 problem. As to when these statements were made in 2004, they 1 believe --2 MR. SJOBLOM: That's not --

#### Page 73

Pendergest-Holt\_Laura\_20090210.txt 8 in nothing but equities and straight equities to liquidate a Pendergest-Holt\_Laura\_20090210.txt 5 testified to. There's been no statement by the witness that portfolio in two days. 9 6 the bank's portfolio -o okav. 10 7 MR. KING: That's what she was asked, but we'll 11 А It's just not possible. 8 clarify. We'll clarify. 12 Q So when you were talking -- when you were giving me 9 MR. SJOBLOM: -- in T plus two. 13 the percentages earlier, you were speaking only as to tier 10 MR. KING: We'll give her a chance. 14 two? 11 MR. SJOBLOM: You've already gone through 50, 75 15 A I did not give you the percentages earlier. 12 and 100. Q Okay. When I said 50 percent, 75 percent, 100 16 13 MR. KING: Okay. Well, let's make it clear. If 17 percent, you were talking about tier two? 14 you didn't hear it. that's --18 A If I were speaking of my own knowledge, it would 15 MR. SJOBLOM: I did hear it, but you're 19 have been tier two only. 16 mischaracterizing what the witness said. 20 What were you speaking about? 0 17 MR. KING: Let's clarify it. 21 А I'm trying to recall the exact text. I mean, you 18 MR. SJOBLOM: For the third time? can take anything out of text. And even in the bible it says 22 MR. KING: Yeah. For the third time, you're the 19 23 they were maked and a few chapters later it was good. If you only one that didn't hear it the way I heard it. 20 put them together, it's out of text, though. So if you can 24 21 MR. SJOBLOM: Ask her if she said whether or not please tell me the exact text, I'd gladly tell you. 25 22 the entire bank portfolio could be liquidated in T plus two. п 23 Did you ever say such a thing? 24 THE WITNESS: No, absolutely not. 25 BY MR. KING: MR. SJOBLOM: Mr. King, can we take a break? 1 2 MR. KING: Sure. Let's go off the record. (A brief recess was taken )

				01 27 102 100000 1100 1000000
1	Q	Okay. And why why do you say that?	4	(Mr. Edmundson and Mr. Korotash not present.)
1			5	MR. KING: Back on the record at 3:12.
2	А	Because	6	THE WITNESS: This is Exhibit 26.
		MR. SJOBLOM: Why do you say what? Why	7	MR. KING: Okay. Tom was good enough to find for
4		BY MR. KING:	8 usa	document while we were off the record.
5	Q	Why did you say that the bank's portfolio couldn't	. 9	MR. SJOBLOM: You talking about Tom
6	be liqu	idated in two days?	10	MR. KING: Tom Keltner. Correct.
7	А	It would be impossible if the entire portfolio were	11	BY MR. KING:
		Page 75		Page 76

### APP 0088

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Pendergest-Holt Laura 20090210.txt 12 Q Let's go back and clean this -- One of the issues 13 we talked about earlier was your group's draft and review or 14 edit of the monthly reports, correct? 15 A Well, they're quarterly reports, but, yes. 16 Q Now, are those monthly reports for the bank? A Yes. Stanford International Bank client. 18 (SEC Exhibit No. 27 was marked for 19 identification. 20 BY MR. KING: Q Okay. And take a look at Exhibit 27. Is that an 21 22 example of a monthly report from the bank? П 23 A This one is -- My team did not do this one. MR. SJOBLOM: What was the question you asked her? 24 25 MR. KING: I just asked her if it was a an example

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1	of what v	ve've just been talking about, a monthly report from
2	the bank.	
3		(Mr. Edmundson and Mr. Korotash entered the room.)
4		BY MR. KING:
5	-Q	Why do you say your team didn't do that one?
6	А	Because my team did not write this one.
7	Q	Okay.
8	А	It says, Welcome to the first edition. That was
9	different	ŕ. ,
10		(Speaking simultaneously.)
11		BY MR. KELTNER:
12	Q	Report?
13	А	Yes.
14	Q	Before they were quarterly and now they're monthly
		Page 77

	F	Pendergest-Holt_Laura_20090210.txt	
19	*	BY MR. KELTNER:	
20	Q	Is it fairly obvious?	
21	А	Yeah.	
22	Q	Fairly obvious?	D
23		MR. KELTNER: She said yes.	
24		MR. SJOBLOM: What's fairly obvious?	
25		THE WITNESS: I wouldn't say it's fairly obvious.	
1	I would s	say, like you, I would assume it was referring to	
2	Madoff ir	westments.	
3		BY MR. KING:	
4	Q	Now, you managed tier two for the bank, correct?	
5	А	That is correct. I oversee tier two	
6	Q	Oversee tier two?	
7	А	do not manage. Oversee. Do not manage.	
8		MR. KING: Sorry about that. That was	
9	unintenti	ional.	
10		BY MR. KING:	
11	Q	The In overseeing tier two of the bank, you	
12	review tł	ne compiled report from Mr. Palmliden, correct?	
13	Α	That is correct.	
14	Q	Okay. And is there any direct or indirect exposure	
15	to Madoff	f investments in tier two of the bank's portfolio?	
16	А	To my knowledge, there is no direct exposure. As of	
17	when this	s report went out, we believed there was no indirect	
18	exposure.	. We did find out after this report was written,	
19		s, like, less than two million dollars, I believe,	
20	indirect	No. Yeah would have been less than actually	
21	one milli	ion of indirect exposure to Madoff. To my knowledge,	
		Dr 70	

	Р	endergest-Holt_Laura_20090210.txt
15	reports?	<b>. . . .</b>
16	А	That's correct.
17		BY MR. KING:
18	Q	Okay. Who wrote it?
19	А	I don't know.
20		BY MR. KELTNER:
21	Q	Did you receive a copy before today? Have you seen
22	Exhibit 2	7 before today?
23	Α	Have I read it? No. Is there possibly a copy on
24	my e-mail	or otherwise? Yes, it's possible.

25 BY MR. KING:

Q All right. Let's take a look at Exhibit 27 a 2 little --

A Okav.

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4 Q -- closer. Second paragraph there says, We want our depositors to know that SIBL has no direct or indirect 5 6 exposure to any of Madoff's investors. 7

Do you see where it says that?

A I do see where it says that.

Q Now, the Madoff investments, I take it that's a 9 10 referral -- I take it that refers to the fraud by Mr. Bernard 11 Madoff that's been in the news?

12 A Okav.

Is that correct? Is that your understanding? Is 13 0 that your reading of the document? Is that your reading of 14 15 Exhibit 27?

16 A I don't know what I'm reading.

MR.	SJOBLOM:	Do you	know to	what	that	refers?
THE	WITNESS: Pag	I would ge 78	l assume	, like	you	do

22	pi that would	endergest-Holt_Laura_20090210.txt d have been the only exposure.
23	Q	what is the source of that?
24	А	Probably less than 500,000 indirect exposure
25	Q	What is In direct exposure?

Indirect. No. No direct exposure. Indirect only. А

And what is the source of this indirect exposure? Q

3 It was through Meridian. Meridian is a fund of А 4 funds. Within their fund of funds, one of their fund 5 managers held -- I believe the name of that fund was Tremont, 6 which had invested in Madoff. So it was a very indirect, but we found that out after this report had been published. 7

8 Actually, it still has not been confirmed. We 9 believe there could potentially had been a very small amount of indirect exposure. 10

Q To your knowledge, has Stanford International Bank 11 taken any steps to correct the indirect exposure statement in 12 13 Exhibit 27?

A We're still trying -- We're confirming it in 14 15 process. So --

16 Q How do you go about confirming it?

17 A We're checking with the manager of Meridian to see

18 how much exposure, if any, was in our class of that

19 alternative.

25

20 MR. KELTNER:

21 Q When did this indirect exposure first come to your 22 attention?

23 A Probably the end of January.

Okav. So before year end 2008? 24 0

No. The end of January --Page 80 А



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	I	Pendergest-Holt_Laura_20090210.txt	1	Q	≥endergest-Holt_Laura_20090210.txt You said who who You said someone did an
			2	introduct	tion. Who was that?
			3	А	Oh, Bobby Ellison.
			4		BY MR. KELTNER:
1		MR. SJOBLOM: 2009.	5	Q	Is he the one that sent you the e-mail?
2		THE WITNESS: 2009. I didn't know	6	А	Yes.
3		BY MR. KELTNER:	7	Q	You think that was around mid January '09?
4	Q	That's the first	8	А	I think so. I'm sorry. I've been traveling since
5		MR. SJOBLOM: Let's be very clear. She's talking	9	December	26th, so I'm guessing on dates.
6		anuary 2009. That report was issued in December	10		BY MR. KOROTASH:
7	2008.		11	Q	Did you bring this to Mr. Davis's attention?
8		BY MR. KELTNER:	12	A	Yes, I did.
9	Q	And I want to be very clear on that point.	13	Q	And what did he say?
10	А	Yes.	14	A	He tried to confirm whether or not that we did.
11	Q	You first learned about Madoff's exposure at the	15	in fact.	have indirect. Again, though, if we did, it would
12	end of Ja	anuary 2009?	16		1 maybe \$500,000.
13	A	Middle to end of January.	17	0	was there any discussion about the advisability or
14	Q	Okay. You had no knowledge of Madoff's exposure	. 18	the desir	rability of retracting the press release on the
15	prior to	January 2009?	19		website that there was no indirect exposure?
16	Α	That's correct.	20	A Company	I do not know if there were any.
17		BY MR. KOROTASH:	20	0	You weren't party to any
18	Q	How did you learn of it?	21	A	I was did not party to any of that discussion.
19	А	Actually, somebody who had introduced us to	22	A	THE REPORTER: I cannot get a clear record.
20	Meridian	had sent an e-mail saying that there was a	23	E	's talking at the same time.
21	possibil	ity that Meridian did have exposure indirect	25	Everybody	-
22	exposure	to Madoff.	0		MR. KOROTASH: Do your best.
23		BY MR. KING:			
24	Q	Who was that?			
25	А	Who sent me the e-mail or who was Meridian?	1		THE WITNESS: I said, I did not participate in any

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Pendergest~Holt\_Laura\_20090210.txt 5 that retract statements from the company's website. Is that

MR. SJOBLOM: Was she a participant in any

The WITNESS: I was not part of any of those

Q Okay. If you would flip the page on Exhibit 27 for

Q Says there in the second column, first paragraph 22 there, The bank's board of directors made a decision to

Q -- on November 28th, 2008. See where it says that?

Q Concerning the desirability or necessity of 12 retracting a press release from the company's website.

MR. SJOBLOM: Your answer was?

MR. KOROTASH: Uh-huh.

conversation to retract a statement from --

BY MR. KOROTASH:

BY MR. KING:

23 increase the bank's capital by 541,000,000 --

6 what you said, Steve?

A No.

A Yes.

A Okay.

16 discussions.

7

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17

18

19 me. 20

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8	to?	endergest-Holt_Laura_20090210.txt
9	А	It would mean new capital put into the bank.
10	Q	where did that \$541,000,000 come from?
11	А	I would have to use an assumed word. I would
12	assume by	the shareholder.
13	Q	who is?
14	А	R. Allen Stanford.
15	Q	what's the basis for your assumption?
16	А	Shareholder infusion or shareholder capital
17	infusion.	It's not there, but that would be my assumpt
18	Q	Why was this 541,000,000 in capital infused?
19	А	That I do not know.
20		BY MR. KELTNER:
21	Q	Sorry. I may have missed it. Did you say yo
22	hađ	
23	А	I don't know.
24	Q	You don't know where the money came from?
25	А	Substantive, no. An assumption, yes. I woul

1 assume shareholder contribution.

2 direct conversation as to whether or not a reprint should be

MR. SJOBLOM: Not a reprint. Mr. Korotash asked Page 82

3 done.

4

			2		Q	And there's only one shareholder?
			3		А	Yes.
1	А	I do.	4		Q	Robert Allen Stanford?
2	0	what does that mean?	5		A	Robert Allen It's not Robert, by the way. I
2			6	beli	ever	it's Randall. His first daughter is named after
3	А	I don't know. It's I don't know.	7	him.	Нег	<sup>•</sup> name is Randy, not Roberta. So
4	Q	Okay.	8			BY MR. KING:
5	A	If you can tell me what you believe it to mean,	9		0	How was that capital being used?
6	maybe I	can clarify it.	-			
7	Q	Where does the What does this \$\$41,000,000 refer	10		А	I don't know.
		Page 83	11		Q	Any of it in tier two? Page 84

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Pendergest-Holt Laura 20090210.txt Pendergest-Holt\_Laura\_20090210.txt touch with the advisors, to call the portfolio advisors. 15 12 A Based on the date here November 28th 2008 no First, I asked them to scan their portfolios. If there were 16 13 But you haven't seen an injection of any capital? 0 17 any questions about the holdings in the portfolios, to then 14 A No. There have been no deposits in tier two. call the portfolio advisor to see if, in fact, we did have 18 15 BY MR. KELTNER: exposure there, direct or indirect. 19 16 Q Before we entirely leave that subject, just to 20 Q Okay. And when did you do that? 17 close the loop --A Right after the whole Madoff issue came out on the 21 A Yeah. 18 news, and I do not remember that date. I do remember I was 22 19 Q -- was there any other exposure to Madoff that 23 traveling and I was not in the office when it took place. 20 you're aware of, aside --Q So sometime ago, not recently? 24 21 A That I am aware of, no -- Oh, for Stanford 25 A Yeah. It was sometime ago. 22 International Bank, I'm assuming? п 23 0 Correct. 24 À To my knowledge, no. 25 0 Okay. Were you ever asked to research whether that 1 BY MR. KING: 2 Q Okay. Before we broke, I think we were talking 3 about your -- T think you said five or six training sessions 4 with Mr. Zarich. correct? 1 might be additional exposure to Madoff? A Uh-huh. That's correct. 5 2 A I was not asked. Q And you did recall having certain conversations 6 3 Q Did you do --7 with Mr. Zarich about liquidity, correct? 4 A I researched tier two, yes. 8 A Yes. That is correct. 5 Q What did you do? q 0 But it was your testimony that your conversations 6 А I asked my analysts to do a scan of their 10 about liquidity were confined only to tier two liquidity? individual portfolios to see if there were any exposure. 7 A I do not recall whether or not they were based on 11 8 0 Okay. And exposure to what? 17 the overall portfolio or whether there's specific 9 A To Madoff, alternative funds. 13 conversations about tier two. 10 Q Direct or ~~ Including indirect exposure? Q What do you know about the bank's overall 14 11 A Direct or indirect. 15 liquidity? 12 Q How did you do that? Did you have them look at the A Only what I would have been told by the bank or by 16 13 list of Madoff investors? 17 the board of directors. 14 A I had them get -- Well. I had them actually get in 0 What have you been told about the bank's overall

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Pendergest-Holt\_Laura\_20090210.txt Pendergest-Holt\_Laura\_20090210.txt MR. SJOBLOM: Is impossible? 22 19 liquidity? 23 The WITNESS: Is impossible. 20 MR. SJOBLOM: When? 24 BY MR. KELTNER: 21 THE WITNESS: When? Exactly. 25 Can you give us a more reasonable number? 0 22 BY MR. KING: П 23 Date and time. When's first time you ever 0 24 discussed the bank's liquidity with someone on the board of 25 directors or --A Fifty percent of a portfolio being liquidated in T

18

1

2 plus two would have been possible in 2004. That would not be

3 possible today. 4 BY MR. KING: A Probably -- 2001, probably. 1 5 o Okav. Would it have been possible in 2004 to 2 Q Okay. What did you talk about? liquidate 75 percent of the portfolio, the bank's entire 6 3 A Eight years ago. I -- I don't recall. Probably 7 portfolio, in T plus five? how a --- what the liquidity of the overall portfolio was. As 4 A I do not know the entire portfolio ever of the 8 5 to the exact percentages. I do not recall. 9 bank. Logically, could a portfolio be liquidated 75 percent 6 BY MR. KOROTASH: in T plus five? Yes, it would have been possible. 10 7 Q Let's go most recently. Q Did you tell Mr. Zarich in 2004 that it was -- that 11 8 BY MR. KING: 12 the bank could liquidate 75 percent of its portfolio in T 9 Q We'll do it the other way. plus five? 13 10 A Well, 2000 -- We can start with 2004. The numbers 14 A It is possible I would have said that. 11 that Michael set could have very easily been for the overall Q Okay. Did you tell Mr. Zarich in 2004 that the 15 12 portfolio or the numbers that I would have been given for the bank could liquidate 100 percent of its portfolio in 60 to 90 16 13 overall portfolio. And given the time of the market in 2004, 17 days? 14 those are logical numbers. 18 A It was possible that could have been said. I'm 15 Q Now, I want to make sure we're clear on this sorry. In what davs? In --19 16 because --20 MR. SJOBLOM: 60 to 90 days. 17 A Yeah. 21 THE WITNESS: 60 to 90, yes. That is possible I 18 Q -- before you said for the overall portfolio that 22 could have said that. 19 that would have been impossible --23 BY MR. KING: 20 A No. What I said is for the entire portfolio to be 24 0 When I showed you the brochure that has your 21 liquidated at T plus two is impossible. 25 picture in it earlier --Page 88 Page 87

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				1	purchaser?	
				2	MR. SJOBLOM: If you know. If you don't.	
				3	THE WITNESS: I don't know. I Could be	
1	А	Yes.		4	speculating, but I apologize. I'm not a banker.	
2	Q	I think it's Exhibit 26.		5	BY MR. KELTNER:	
3	A	Yes, it is.		6	Q Why might that be important to an investor?	
4	Q	we looked at the sentence that says, Maintain		7	A An investor, in general, it just means how quickly	
5	-	st degree of liquidity as a protective factor.		8	I can get cash out, if needed.	
5		Is that page three?		9	BY MR. KING:	
7	A			10	Q During your 2004 training sessions with Mr.	
8	Q	It's page three. Correct.		11	Zarich	
0 9	A	okay.		12	A Yes.	
	Q	You see where it says that?		13	Q did you tell him that the bank's money or	
10	A	I do.		14	that the bank's investment portfolio was managed in three	
11	Q	How is liquidity a protective factor?		15	tiers?	
12	A	Are you asking for my definition or my personal		16	A Yes.	
13	opinion?			17	Q Is that accurate?	
14	Q	Do you understand liquidity to be a protective		18	A Yes.	
15		the bank?		19	MR. SJOBLOM: Is what accurate, that she said it o	r
16	A	I can understand how that could be a protective		20	that	
17	factor.			21	BY MR. KING:	
18	Q	Explain that to me.		22	Q Is it accurate that there are three tiers?	
19	A	If you have liquidity, that means you can		23	A Yes.	
20		- Liquidity doesn't necessarily mean cash. It means		24	Q What is tier one?	
21		ly assets could be converted to cash. And so if		25	A Cash. Cash and cash in kind investments.	
22		a bank-type situation, liquidity would certainly be	۵			
23		because that's how quickly you can translate				
24	-	into cash.				
25	Q	Okay. So why might that be important to a CD		1	Q What are the functions of tier one?	
				2	A It's cash management.	
				3	Q What does that mean?	
				4	A It just means you're managing liquid cash and cash	
		Page 89			Page 90	

Pendergest-Holt\_Laura\_20090210.txt Pendergest-Holt\_Laura\_20090210.txt A I do not recall saying that it would always have to 8 5 in kind investments. 9 go through tier one. 6 Q Okay. I think you just said earlier executing 10 Q Okay. When money is placed with a portfolio 7 wires. Is that one of the roles that --11 advisor, does it always have to go through tier one? 8 А Yes. 12 It does not have to. А 9 -- that tier one performs? Q 13 0 How do you know that? 10 MR. SJOBLOM: I don't think she said that. It's a 14 А I don't. I don't know that it does not have to. 11 mischaracterization. 15 I've never seen anything written. Let's put it that way. 12 THE WITNESS: Yeah. No --16 I've never seen anything written that said it would have to. 13 MR. SJOBLOM: Tier one does not execute wires. Q Does it typically go through --17 14 THE WITNESS: Tier one would not execute wires. 18 A Yes. 15 BY MR. KING: 19 Q -- tier one? Q Okay. Does -- Does tier one give wire transfer 16 20 MR. SJOBLOM: Are you talking about new incoming 17 instructions? 21 money? Are you talking about liquidating portfolios and 18 A Tier one itself does not, no. Tier one is an moving money around? What -- What point are you talking 22 19 investment portfolio. 23 about? 20 Q Okay. 24 It seems by your question that maybe a tier one is 21 A An investment portfolio would be a cash and cash in unclear to you what it is and how it arises. 25 22 kind investment. It does nothing outside of that. п 23 Q Okay. 24 A So that would have been a mischaracterization. Q When -- Does money ever move between the various 25

1 tiers? 2 A Yes Q Okay. And when it moves between the various tiers, 3 does it always have to go through tier one? 5 A I do not know. 6 Q Did you tell Mr. Zarich that when money moves 7 between tiers, it always has to go through tier one?

BY MR. KING:

1

2

- Q Yeah. I don't think so. I mean, as I understand 3 her testimony, money, when it goes tier -- goes to a
- particular portfolio advisor, it typically goes through tier 4 one, correct? 5
- A It typically goes through one of our correspondent 6 7 institutions, and, generally, those institutions do have tier 8 one cash.
- 9 Q Okay. And who are the correspondent institutions?
  - A I don't know that this is an all inclusive list,
- 11 but Toronto Dominion --Page 92

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road --

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12		BY MR. KOROTASH:		15	
13	Q	I'm sorry?		16	
14	А	Toronto Dominion, Bank of Houston and Trust Mark		17	
15	are thre	e of them.		18	
16		BY MR. KELTNER:		19	
17	Q	And where is Trust Mark based out of?		20	
18	А	I don't know. I'm sorry.		21	
19		BY MR, KING:		22	
20	Q	What about National Republic?		23	
21	А	I do not know that they are currently a		24	
22	correspo	ndent bank, but I've heard the name in the past as to	۵	25	
23	whether	or not they are now. I don't know.			
24	Q	What about HSBC?			
25	А	We have relationships with HSBC as a firm. As to			
				1	
				2	
				3	
1	whether	or not those are Stanford International Bank accounts		4	
2	or other	accounts, I don't know.		5	
3	Q	Do you have access to balances of cash being		6	
4	managed	in tier one?		7	
5	А	No, I do not.		8	
6	Q	Do you know how much money is in is with tier		9	
7	one mana	ged institutions right now?		10	

- A I do not. 8
- 0 Do you know if management and referral fees paid to 9
- 10 Stanford Group Company are paid from tier one?
- 11 A I'm sorry. I do not.
- 12 Q If tier two needs cash from tier one, how do you go 13 about getting it?
- 14 A I would request the cash through the board of Page 93

		Pendergest-Holt_Laura_20090210.txt			1
19	٨	Patricia Maldanado.		22	Q
20	c			23	А
		•		24	Q
21	А	Not the exact institution where to send the cash,		25	point
22	no.		Π		
23	q	All right. Let's talk about tier two for a second.			
24	٨	Okay.			
25	q	What is tier two?			
				1	presenta
				2	А
				3	Q

1 A It's a globally diversified portfolio managed by 2 external portfolio advisors. Q Who sets the -- I think you told us -- the 3 4 investment parameters for tier two? 5 A The board of directors. Q Okay. And so are those investment parameters then 6 communicated to the various portfolio advisors? 7 8 A Yes. g Q How are they communicated to the various portfolio 10 advisors? 11 A Generally, in terms of -- here's how we see the 12 state of the economy, but as I've mentioned, all the 13 portfolio advisors have discretion, have 100 percent 14 discretion of their portfolios. They do not have to take 15 directives 16 0 How do you know that? 17 A I have been told that's how the accounts were set 18 up, that they have 100 percent discretion. 19 Q Who told you that? 20 A Either the portfolio advisor through a copy of the 21 agreement or from a board member.

0 Specifically who? I would send mine to Mr. Davis. I would send my А request to Mr. Davis. What he does with it, I don't know. I don't know if he speaks to the entire board or --0 Okay, When you say send a request to Mr. Davis. Mr. Davis's office is in Tupelo, right? A Not always. o okav. A Sometimes he's in Memphis. Sometimes he's on the

q okay. -- or I might be on the road. So, typically, I Α would e-mail a request. Q Okay. In what situations might you request cash from tier one? A I don't know that I have ever requested cash from tier one. Q Okay. We talked earlier about the liquidations in tier two, correct? А Yes. That's correct. Q And when tier two liquidates an asset, where does 11 12 it send the cash? A I send cash to one of the institutions I just 13 mentioned; Toronto Dominion, Bank of Houston, several of 14 them -- Bank of Houston, I believe, or Trust Mark. 15 16 Q And how do you know where to send it? A I request that information from our treasurer. 17 18 0 Who is?

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22	Pendergest-Holt_Laura_20090210.txt Q Has any specific board member ever told you that?
23	A Mr. Davis.
24	Q Now, if it's okay with you guys, I think at this
25	point you provided the Commission with a copy of a

ation that you gave this morning, correct? Yes. That's correct. Rather than go through the entire list of portfolio 4 advisors, can we just say that the list of -- will you agree 5 that the list of portfolio advisors that you gave to the SEC 6 this morning is a comprehensive list of the portfolio 7 advisors in tier two? 8 A Yes. Yes. 9 MR. SJOBLOM: You mind if we go off the record for 10 a second? THE WITNESS: Yes. 11 MR. KING: Let's go off the record. 12 13 (A discussion was held off the record.) 14 MR. KING: Let's go back on the record at 3:40. MR. SJOBLOM: With respect to what Mr. King asked 15 16 about the powerpoint presentation this morning by Mrs. Holt, it is certainly a comprehensive list. we'll double check to 17 18 make sure that it's 100 percent complete. Also, having mentioned that now. I did agree to 19 20 provide that to you, but we do have to do that under FOIA, 21 confidential request. I think the way I'll handle it is to 22 make a Bates stamped hard copy, Bates stamped pages, send it 23 to you under a FOIA letter and then maybe return that other 24 one to -- would be the same thing. Agreed? MR. EDMUNDSON: Let me -- You would like to produce Page 96 25

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	Pendergest-Holt_Laura_20090210.txt		1	Pendergest-Holt_Laura_20090210.txt BY MR, KING:
			2	Q All right. One of the other entities there on that
			3	list is an entity called SSM Venture. You familiar with that
1	the slide presentation to the Commission pursuant to FOIA, a		4	entity? A Yes. I am.
2	FOIA		5	A Yes, I am. Q Tell me about that.
3	MR. KOROTASH: Limited use.		7	A It is a private equity firm. They offer private
4	MR. EDMUNDSON: limited use of a legend?		8	equity and holdings through I believe it's an L.L.P.
5	MR. SJOBLOM: Yes.		9	structure or an L.P. structure, and it is a collection of
6	MR. EDMUNDSON: When will you produce that to us?		10	investors investing in private equity.
7	MR. SJOBLOM: Next couple of days. When I go back		11	Q What's the balance of the SSM Venture portfolio
8 9	to Washington, I'll print it off and get it Bates stamped, submit you a letter.		12	today?
10	MR. EDMUNDSON: Don't have a problem. End of the		13	A I'm sorry. I'd have to look at the numbers.
11	week?		14	Q Roughly.
12	MR. SJOBLOM: Okay.		15	BY MR. KELTNER:
13	BY MR. KING:		16	Q How's it done?
14	Q Okay. I want to talk about a few of the people on		17	A Actually, I do recall they're up for the year, I
15	the list that		18	believe, by, like, a percent, maybe.
16	A Okay.		19	MR. SJOBLOM: What did you ask?
17	Q we've been talking about. I think you mentioned		20	The WITNESS: The number that I had in the presentation was accurate as of 12/31.
18	Meridian earlier. That's the group that we discussed with		21 22	BY MR. KING:
19	the indirect Madoff exposure, correct?		23	Q SSM Venture is located in the same building as
20	A That's correct.		24	Stanford in Memphis, correct?
21	Q And the money was invested in Meridian through what		25	A That's correct.
22	entity?			
23	A There was an SIBL There was an SIBL investment			
24	direct into Meridian.			
25	(Mr. Keltner entered the room.)		1	Q Is there any affiliation between SSM Venture and
			2	Stanford?
			3	A To my knowledge, no.
	Page 97		4	Q Does Stanford have Other than the entities, Page 98
	Pendergest-Holt_Laura_20090210.txt		8	Pendergest-Holt_Laura_20090210.txt A I don't know the most recent
5	Stanford Coins and Bullion, Stanford Asset Capital		89	Pendergest-Holt_Laura_20090210.txt A I don't know the most recent Q Ballpark.
6	Stanford Coins and Bullion, Stanford Asset Capital Management, that have Stanford in the name, is Stanford			A I don't know the most recent
6 7	Stanford Coins and Bullion, Stanford Asset Capital Management, that have Stanford in the name, is Stanford affiliated with any of the other portfolio advisors on the		9	A I don't know the most recent Q Ballpark.
6	Stanford Coins and Bullion, Stanford Asset Capital Management, that have Stanford in the name, is Stanford affiliated with any of the other portfolio advisors on the list?		9 10	<ul> <li>A I don't know the most recent</li> <li>Q Ballpark.</li> <li>A I don't know. It was probably down 25, 30 percent.</li> </ul>
6 7 8 9	Stanford Coins and Bullion, Stanford Asset Capital Management, that have Stanford in the name, is Stanford affiliated with any of the other portfolio advisors on the list? A No. Unless they have Stanford in their name, no.		9 10 11	<ul> <li>A I don't know the most recent</li> <li>Q Ballpark.</li> <li>A I don't know. It was probably down 25, 30 percent.</li> <li>Q For the year or total?</li> </ul>
6 7 8 9 10	Stanford Coins and Bullion, Stanford Asset Capital Management, that have Stanford in the name, is Stanford affiliated with any of the other portfolio advisors on the list? A No. Unless they have Stanford in their name, no. Q Okay. I think you said you were recently married,		9 10 11 12	<ul> <li>A I don't know the most recent</li> <li>Q Ballpark.</li> <li>A I don't know. It was probably down 25, 30 percent.</li> <li>Q For the year or total?</li> <li>A I believe for 2008, probably, by percent. Believe</li> </ul>
6 7 8 9	Stanford Coins and Bullion, Stanford Asset Capital Management, that have Stanford in the name, is Stanford affiliated with any of the other portfolio advisors on the list? A No. Unless they have Stanford in their name, no. Q Okay. I think you said you were recently married, correct?		9 10 11 12 13	<ul> <li>A I don't know the most recent</li> <li>Q Ballpark.</li> <li>A I don't know. It was probably down 25, 30 percent.</li> <li>Q For the year or total?</li> <li>A I believe for 2008, probably, by percent. Believe</li> <li>it or not, we really don't discuss work at home. We have</li> </ul>
6 7 8 9 10 11	Stanford Coins and Bullion, Stanford Asset Capital Management, that have Stanford in the name, is Stanford affiliated with any of the other portfolio advisors on the list? A No. Unless they have Stanford in their name, no. Q Okay. I think you said you were recently married, correct?		9 10 11 12 13 14 15 16	<ul> <li>A I don't know the most recent</li> <li>Q Ballpark.</li> <li>A I don't know. It was probably down 25, 30 percent.</li> <li>Q For the year or total?</li> <li>A I believe for 2008, probably, by percent. Believe</li> <li>it or not, we really don't discuss work at home. We have</li> <li>enough finance during the day.</li> <li>BY MR. KING:</li> <li>Q What's the name of it?</li> </ul>
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Q Okay. And you receive the weekly report? Page 100

Case 3:09-cv-00298-N Document 12-10 Filed 02/17/2009 Page 7 of 10 Pendergest-Holt Laura 20090210.txt Pendergest-Holt\_Laura\_20090210.txt wanted it to be stated that I did not personally make 15 12 A T do. 16 requests as it related to that fund. 13 BY MR. EDMUNDSON: 17 Q Again, was there any discussion about placing it 14 Q How much money was your husband given to match? 18 with Mr. Davis --15 I believe the original figure was 20,000,000, or, I A I don't recall ever -- I don't recall having that 19 16 believe, it got up to 20,000,000. I'm not sure the actual 20 conversations. 17 tranches of cash that were put in. I was not in those 21 MR. SJOBLOM: Stop. guvs. 18 conversations. 22 BY MR. KELTNER: 19 BY MR. KELTNER: 23 Q Do you understand that to mean the top performing 20 o How long has CMSU been in existence? 24 funds or the worst performing funds? 21 A I believe eight years. A It was among the worst at the end of 2008, and it 25 22 ٥ How long has your husband been employed with CMSU? п 23 He's an original partner of the firm. ۵ 24 BY MR. KOROTASH: 25 0 Was there any discussion about putting that fund 1 was also -- it was also in process of being liquidated. BY MR. KING: 2 з 0 Who made the decision to liquidate it? Actually, there was a combined effort. I don't 4 ۸ 1 over into tier three to try to take away any of the conflict 5 have anything to do with it. And given the performance, I 2 that might have existed? 6 made the -- I made the recommendation -- or I brought it up 3 A Not necessarily to put it in tier three, no. It was 7 that it should be liquidated due to its performance. more of a discussion. I did not mind it being placed in tier 4 8 It's a long/short equity fund. Long/short equity 5 two. I just thought it was a conflict of interest for me to funds generally do not -- especially when they're more long 9 6 personally monitor it. 10 than short, generally, do not fair well in market 7 Q You oversee the people that monitor it? 11 environments like 2008. 8 Yes. But I do not oversee or request any funds to Δ 12 0 And to whom did you make that recommendation? ٩ be placed in any given portfolio advisor 13 To Mr. Davis. Α 10 Q Did you have any discussions at all with Mr. Davis 14 And he followed it? 0 11 concerning the possibility of putting the funds in tier 15 He is liquidating the positions currently. 12 three? Q Let's talk about tier two's overall performance. 16 13 A I asked that he sign the documents and that he 17 How did tier two do in 2008? 14 oversee it. I didn't care where the placement was. I just A It was down approximately 30 percent. Page 102 18 Page 101 Pendergest-Holt Laura 20090210.txt. Pendergest-Holt\_Laura\_20090210.txt 22 raising liquidity, it's to do one of two things. Either to 19 Q Okay. What's the balance on tier two currently? 23 bolster your liquidity to a certain level or to pay out 20 It's around 350. Probably 350,000,000. Α 24 redemptions. All I need to know is where it goes. 21 BY MR. KELTNER: 25 BY MR. KING: 22 How does that compare to the end of '07? Q П 23 It was over -- close to or just over a billion. А 24 BY MR. KING: 25 0 So I take it that the -- it wasn't -- I mean. it's 0 What percentage of the bank's portfolio is in tier 1 2 two? 3 MR. SJOBLOM: when? 4 The WITNESS: Yeah. When? Today or --1 down 30 -- roughly 30 percent, right? 5 BY MR. KELTNER: A (Nodding.) 2 6 Let's start with today. 0 3 Q And the rest of that percentage would then be 7 I really don't know. Certainly today, less than 10 А covered by liquidations; is that right? 4 8 percent. 5 A Majority of it was a result of cash being withdrawn 9 Q I think earlier today you looked at an exhibit that 6 from the portfolio. had around eight billion dollars investment portfolio around 10 7 Q Okay. Why was cash withdrawn from the portfolio? 11 vear end? 8 A To send to cash and liquidity, and then, I'm 12 A That were around year end and at year end we had 9 assuming, to meet redemptions. approximately four to 500,000,000, then that would be less 13 10 Q How do you know that? 14 than 10 percent. 11 A I don't know it for certain. Q In the neighborhood of 5 percent, assuming those 15 12 BY MR. KELTNER: numbers are right? 16 13 I assume if you're the investment manager and 17 MR. SJOBLOM: Currently? they're liquidating -- or since you're overseeing the 14 18 BY MR. KING: 15 investments and they're liquidating a large portion of what 19 Q What is -- What's the highest percentage of assets you're overseeing -- overseeing, you never had occasion to 16 20 or -- Strike that. 17 ask? What is the highest percentage tier two has ever 21 18 A I asked and I was told that they are raising 22 been with regard to the bank's entire portfolio? 19 liquidity. 23 A I know this question (sic) is going to sound like a

- 20 Q And that was --
- 21 A And that's to both bolster -- I mean, when you're Page 103

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smart remark, but if you have a calculator, I can give you a

percentage, but, otherwise, I couldn't --Page 104

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	Pendergest-Holt_Laura_20090210.txt		1	Pendergest-Holt_Laura_20090210.txt Q You said both of them. Which two investments are
			2	you talking about?
			3	A I'm sorry. When did I say both of them?
1			4	Q When he asked you about redemption penalties, I
1	BY MR. KOROTASH:		5	think you said in both instances.
2	Q Well, give us the numbers. Tell us what your		6	A Oh, we were talking earlier. He had asked I'm
3	number was and what the bank's number was.		7	sorry. He had asked earlier if there were any redemption
4	A When the bank was under eight billion, we had	:	8	penalties and I had said, yes, that there were. And then he
5	I'm sorry. When the bank was under eight billion, we		9	asked again, and I said, yes, that there were. And in both
6	probably had close to a billion, and so it would be the	10	0	instances I don't know how much they are.
7	calculation. So it's greater than 10 percent, but	1	1	MR. SJOBLOM: Mr. Korotash asked his question this
8	Q Okay. We talked this morning for a few minutes	1	2	morning
9	about having to pay penalties during the liquidation phase?	1	3	THE WITNESS: Right.
10	A That's correct.	1.	4	MR. SJOBLOM: and the question today
11	Q And why was that? I mean, who was charging	1	5.	THE WITNESS: Right.
12	penalties?	- 1	6	MR. SJOBLOM: in both of those instances
13	A We were brokering investments that had lock-ups on	1		THE WITNESS: Yes. Yes. So in both instances of
14 .	. them. And when you break an investment that has a lock-up in	1		the question I still don't know.
15	the contract, you're going to pay a penalty if your	. 1		BY MR. KELTNER:
16	redemption exceeds a certain percentage or if there is any	. 20		Q Which advisors do you know charged you liquidation
17	redemption at all. In both cases we have now broken that.	2		fees?
18	So as a result, we had to pay penalties.	2	-	A The advisors themselves would not have charges
19	Q Was it your sense these were significant penalties?	2:	-	liquidation fees. The holdings that those advisors owned
20	A It's not my sense that they are significant	2.		would have charged liquidation
21	penalties, no.	2.		Q Sort of like a fund of funds
22	Q Do you have a ballpark idea sitting here what the	G	5	Q Sort of fike a fund of funds
23	penalties the total?			
24	A In total, no, I don't.			
25	BY MR. KELTNER:			
			1	A Yeah.
			Z	Q type structure?
			3	A Yeah.
	Page 105		4	Q So an underlying fund Page 106

	Pendergest-Holt_Laura_20090210.txt		_	Pendergest-Holt_Laura_20090210.txt that's tier three rather than incur penalties?
5	A So an underlying manager or a a fund that would		8	
6	have been within a portfolio would have charged fees, not the		9	A Not necessarily. I don't know, and it doesn't
7	portfolio advisor. So it's not a double set of fees to		10	necessarily make sense.
8	liquidate.		11	Q Okay.
9	BY MR. KOROTASH:		12	BY MR. KING:
10			13	Q Did you participate in a meeting with analysts in
			14	mid November last year in St. Thomas could have the island
11	not you had any discussions with Mr. Davis regarding the		15	wrong St. Croix?
12	desirability of, perhaps, getting funds from tier three to		16	A Actually
13	use for the needed purpose rather than incurring these		17	MR. SJOBLOM: What was the question?
14	penalties.		18	THE WITNESS: Actually, he's right. It is St.
15	Did you have any discussions along those lines?		19	Thomas, and, no, I was not in that meeting. He asked there
16	A No, I did not have those discussions with Mr.		20	were did I participate or were I in a meeting in St.
17	Davis.		20	Thomas in November.
18	BY MR. KELTNER:		22	I was not in that meeting. I was elsewhere. I
19	Q Did you tell Mr. Davis that liquidating these			
20	assets would result in penalties?		23	don't recall now where I was.
21	A I honestly do not recall if I told him. I do		24	BY MR. KING:
22	recall telling him that it could take time to liquidate	Π	25	Q Did you participate in the meeting remotely?
23	Q Do you know			
24	A these holdings.			
25	Q Do you know if Mr. Davis was aware that the		1	A I dialed in for a quick conference call with the
			2	team. I did not stay on the line the entire time during that

3 meeting. 4 Q Okay. 1 penalties would be incurred? 5 MR. SJOBLOM: When? November 2008? 2 A I do not know if he were. 6 MR. KING: Yes. Mid November 2008. 3 BY MR. KOROTASH: 7 BY MR. KING: 4 Q And sitting here now --8 There was a trip to St. Thomas, right? Q 5 A Uh-huh. 9 There was a trip to St. Thomas. А 6 Q -- do you think it might have made some sense from 10 what was the purpose of the trip to St. Thomas? Q 7 an economic standpoint to get money from the large tranche It was our mid quarter investment meeting. Page 108 11 А

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	Pendergest-Holt_Laura_20090210.txt	15	Pendergest-Holt_Laura_20090210.txt Q okay. Without knowing the assets that are in tier
12	Q Okay. Who went to the meeting?	15	three, how do you know that tier two is more liquid than tier
13	A My A large quorum of my team. As to exactly who	10	three?
14	was there, I would have to go back and check travel vouchers.	17	
15	Q Okay. Was it mid November?	18	A Because I had asked at a point in time I don't remember the exact date what tier three assets were.
16	A Yes. You're correct. It was mid November. It was	20	
17	around November 15th.		
18	Q Okay. And you dialed in for some portion of the	21	
19	meeting?	22	Q what did he say?
20	A Yes, I did.		A He told me private equity and real estate.
21	Q Did this question that Mr. Korotash posed a moment	24	BY MR. KELTNER:
22	ago come up in the meeting, why not liquidate tier three	. 0	Q And when was that?
23	rather than tier two?		
24	A That question has come up. whether or not it was		
25	at that precise time, I don't know.	1	· · · · · · · · · · · · · · · · · · ·
		1	A I just said I don't remember. Q Five years aqo? Six months aqo?
		3	A It would have been probably within the last three
1	Q How has it come up?		to six months.
2	A No. That was a question that was asked. The	5	BY MR. KING:
3	question is Well, what is your question? Did the question	6	Q Were you surprised to learn that tier three was in
4	come up during that meeting or has that question ever been	7	private equity and real estate?
5	asked?	8	A I wouldn't say surprised.
6	Q Well, I think you said you didn't remember whether	9	MR. KELTNER:
7	it happened at that meeting?	10	Q Why do you laugh?
8	A Right. Has the question been asked? Yes.	11	A Surprised is just a humorous term. I'm sorry.
9	Q By whom?	12	BY MR. KING:
10	A One of my analysts. I don't remember which one.	13	Q What was your reaction?
11	Q What was your response?	14	MR. SJOBLOM: There's been a lot of laughter in
12	A My response was tier two is the more liquid	15	here today, Tom. So
13	portfolio, and that while there may be cash in tier three, it	16	BY MR. KING:
14	was, most likely, already called for.	17	Q What was your reaction
	Page 109	18	A I can quit if you would like. Page 110

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Pendergest-Holt\_Laura\_20090210.txt Pendergest-Holt\_Laura\_20090210.txt BY MR. KING: 22 19 BY MR. KING: 23 Q I want to -- I want to ask the question again 20 Q Let me do the question, then you'll do the answer, 24 because I want to --21 okay, so we can be clear. 25 A Okay. 22 What was your reaction to Mr. Davis's statement П 23 that tier three was private equity and real estate? 24 A I don't think I had a reaction. I had asked a 25 question and been given an answer. Q -- make sure we're on the same page. 1 2 What percentage of tier three was invested in private equity in the fourth quarter of 2008? 3 4 A I do not know. 1 BY MR. KOROTASH: 5 0 Did you ever have occasion to ask Mr. Davis what 2 Q I'm sorry. What was the remark Mr. Davis made in percentage of tier three was private equity in the fourth 6 terms of -- you said -- was there a primarily here or what 3 7 guarter of 2008? 4 percentage are we talking about? A My recollection is no. I mean, it's -- My 8 5 A I did not ask percentages. I just asked what some 9 recollection, as it is just a tier three or just in the 6 of the holdings of tier three were. I don't think it's all 10 portfolio, how much is in private equity, I do not recall. 7 -- I don't know that it's all inclusive, but the answer that Q What percentage of the total portfolio was in 11 8 was given to me was that there were private equities and real 12 private equity during the fourth quarter of 2008? 9 estate holdings in tier three. 13 A I don't know. 10 BY MR. KING: Q Were you ever asked by a financial advisor to 14 Q What percentage of tier three at year end -- or in, 11 15 determine how much private equity was in tier three? 12 let's say -- let's say in fourth quarter 2008 was in private 16 A Not that I recall. 13 equity? 17 BY MR. EDMUNDSON: 14 A I don't know. 18 Do you know who manages the assets in tier three? Q 15 BY MR. KOROTASH T know it's overseen by the board of directors. 19 Δ 16 0 But you have the sense, obviously, there was a 20 Q Including Jim Davis? 17 significant percentage to the extent that you couldn't ask Yes. 21 А 18 him for -- to -- you told the analysts that that wasn't a 22 BY MR. KOROTASH: 19 feasible idea to get money from tier three. 23 Q Jim is on the board of directors or managing the 20 A I -- I was responding only to cash in the portfolio 24 assets? 21 of tier three. I was responding only to cash. 25 BY MR. EDMUNDSON: Page 112 Page 111

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Pendergest~Holt\_Laura\_20090210.txt 1 moment? Pendergest-Holt Laura 20090210 tyt 2 MR. SJOBLOM: No. That's not -- It's a 3 mischaracterization again. You're talking about percentages or allocations. She said she's -- private equity and real 4 1 Q My question was "managed." 5 estate. 2 Oh, I'm sorry. I do not know that Mr. Davis is Α 6 BY MR. EDMUNDSON: 3 actually managing tier three. 0 Let me take each one of those. 7 Q All right. Do you have an understanding of who 8 A Okay. 5 oversees the assets in tier three? 9 Q I was -- I thought I could generalize it for 6 A It's overseen by the board of directors. 10 specificity. You don't know what the allocations are in tier 7 Q And your testimony here today is you don't know 11 three, do you? what the assets of tier three are? 8 12 A I do not know what the allocations are in tier 9 A That's correct. 13 three 10 MR. SJOBLOM: That's not what she said. 14 9 You don't know who the portfolio advisors are in 11 THE WITNESS: Well --15 tier three, if any, are used at all? 12 MR. KELTNER: New question. 16 A I do not know. 13 MR. SJOBLOM: Wait a minute. That's a 17 Q You don't even know that there are any assets in mischaracterization. 14 18 tier three, do you? MR. EDMUNDSON: Let me rephrase. 15 A I do know they are assets in tier three. 19 16 MR. SJOBLOM: She said she knew or was told there's 20 Q How do you know that? 17 private equity and real estate. 21 A I have been copied on some e-mails as it relates to 18 MR. EDMUNDSON: Fair enough, I appreciate that. 22 holdings in tier three. 19 That was a bad question. 23 0 What did those e-mails sav? 20 The WITNESS: Thank you. 74 A There's several e-mails. Some are talking about 21 BY MR. EDMUNDSON: 25 drawdowns on cash for private equity investments. Actually, 22 Q You don't oversee the assets in tier three? п 23 A I do not oversee the assets in tier three. 24 Q And your testimony here today is with specificity 25 you don't know what the assets are in tier three at the 1 all of them are discussing drawdowns or investments into 2 private equity. з In no case is it -- that I recall is it an initial 4 investment, so, generally, as agreed upon in a previous Page 114

Page 113

Pendergest-Holt\_Laura\_20090210.txt 5 report or in a previous agreement. 6 BY MR. KELTNER: 7 0 A private equity fund identified by name? 8 А Yes. BY MR. EDMUNDSON: 9 10 Q If you wanted to have information regarding the 11 assets of tier three as the chief investment officer of 12 Stanford Financial Group, who would you go to? 13 A I would go to the board of directors. 14 Q And within the board of directors who would you go to? 15 16 A Actually, if I wanted to know about tier three. I'd 17 probably go to all of them or I would, at minimum, go to the 18 investment committee. 19 Q Okay. And who would you ask on the investment committee? 20 21 A I would ask Mr. Stanford and Mr. Davis. 22 Q Who would you ask on the board by name? 6 23 A I would ask Mr. Stanford and Mr. Davis. 24 BY MR. KING 25 Q Okay. I hate to ask this question since it's a 1 good segue. We were talking about the investment committee 2 earlier. 3 You are aware that the bank has an investment Δ committee, correct? S A I am aware of that --

- 6 Q Who constitutes the bank's investment committee?
- I believe it to -- Without referring back to that 7 А
  - Page 115

10 Q what's your basis for that belief? 11 A Gosh, years with Stanford. I mean, it's -- I don't 12 -- I don't recall where I was when I first got that 13 information, whether it was through a phone call, a question, 14 a meeting. I don't recall, but that is who I believe it to 15 be. 16 Q Who is O. Y. Goswick? 17 He's a board member of Stanford International Bank. Α 18 What's his background? 0 19 А I do not know his background. 20 where's he live? 0 21 I think, Texas. Α 22 Q Have you ever made presentations to him as a member 23 of the investment committee? 24 MR. SJOBLOM: She's already testified she has. 25 MR. KOROTASH: That's off the record. 1 MR. SJOBLOM: No. No earlier today. 2 MR. KING: Okay, I forgot. 3 MR. SJOBLOM: As long as it's consistent. Δ The WITNESS: I have not made a presentation solely

Pendergest-Holt\_Laura\_20090210.txt 8 list that you gave me earlier, I believe it to be Mr.

9 Stanford or Allen Stanford, Mr. Davis and O. Y. Goswick.

5 to the investment committee. I have made presentations to 6 the board of directors. 7 BY MR. KOROTASH: Q Did Mr. Davis ever advise you in 2008 what the 8 9 percentage of -- of the bank's assets were comprised of real

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A It is possible that we could have had that Page 116

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17	Pendergest-Holt_Laura_20090210.txt	Pendergest-Holt_Laura_20090210.txt 15 tier two.
12	conversation. As to percentages or even ballparks, I don't	16 A That's correct.
13	really remember the conversation much less what the	17 BY MR. KOROTASH:
14	percentages would have been.	18 Q So as you sit here now, do you have a do you
15	MR SJOBLOM: Just for clarification, you are	19 have sense during 2008 of what the overall overall
16	talking about tier three only or tier two put together	20 percentage was of real estate and private equity?
17	private equity and real estate?	21 A I'm sorry.
18	BY MR. KOROTASH:	22 Q Don't be sorry. I hate that.
19	Q Either one.	23 A I would have to look.
20	A Tier three, no. No conversation has been known to	24 Q A ballpark.
21	allocations.	25 A I can't even give you a ballpark. I'm afraid if I
22	Q Did he ever advise you in writing of the	
23	percentage?	
24	A Not that I recall.	
25	Q Did you ever advise anyone else in the company what	1 have you a ballpark, I would simply be misleading you.
		2 BY MR. KELTNER:
		3 Q Where would you look?
		4 A I would have to look through my archive e-mails to
1	the percentage of real estate and private equity amounted to?	5 see if I ever sent out an e-mail that discussed parameters of
2	MR. SJOBLOM: In tier three?	6 a portfolio or the investment can't think of the word I'm
3	THE WITNESS: Tier three or overall?	7 looking for.
4	BY MR. KOROTASH:	8 BY MR. KELTNER:
5	Q Either one.	9 Q I think Steve's question may have been, sitting
6	A In the entire year of 2008 it is possible, but I	10 here today, do you know what it was at year end.
7	would assume out over all portfolio allocations.	11 MR. KOROTASH: Uh-huh.
8	MR. SJOBLOM: As a matter of fact, I think there	12 BY MR. KELTNER:
9	was a slide this morning that talked about overall. No?	13 Q Do you know what it was now? And so I was asking,
10	THE WITNESS: No.	14 where would you have to look to get that answer?
11	MR. SJOBLOM: SBIL allocations combined?	15 A I would have to look at my e-mail or past meeting
12	THE WITNESS: That would have been tier two only	16 notes to see if I had ever received it or written it down.
13	BY MR. EDMUNDSON:	17 MR. SJOBLOM: You're asking about private equity
14	Q That spreadsheet that we saw this morning was only	18 and real estate allocations in either $\intercal$ three stand alone or
	Page 117	Page 118

Pendergest-Holt\_Laura\_20090210.txt Pendergest-Holt\_Laura\_20090210.txt Q what is it? 22 19 T plus two to today? 23 A It's the Stanford International Bank quarterly 20 MR. KELTNER: Right. 24 report. 21 THE WITNESS: Tier three I can unequivocally say I 25 (Interruption to proceedings.) 22 do not know. ۵ 23 BY MR. KELTNER: 24 Q Okay. You don't know tier three and you don't know 25 the total either, correct? BY MR. KING: 1 2 Q What was your role in preparing Exhibit 28? 3 A I edited it. 4 Q Okay. Would that include the pie charts on page A It's possible that I could have been given total 1 5 four? 2 numbers. I didn't -- The only thing I would have done as it 6 А 3 Q Okay. 7 relates to the pie charts on page four is to add the numbers 4 So it's very possible I could have had said, Okay. Α to make sure they equal 100. 8 5 Total cash for the portfolio is this. In fact, there's an 9 Q Okay. Who provided the data that makes up the pie 6 SIBG quarterly report if you look at the breakdown of the 10 charts on page four? 7 pie. So, yes, obviously, at some time received overall A I received the pie charts from Mr. Davis. I am 11 8 portfolio allocations. 12 assuming he received it from the board of directors. 9 As to how it was classified, for example, private 13 Q You received it from Mr. Davis? 10 equity, is it classified as alternative? Is it classified as A I received it -- Actually. I believe it was 14 11 equity? It could be classified either way. 15 actually sent directly to my analyst. It did not go directly 12 So do I know exactly how much is in private equity? 16 to me, that I recall. 13 No. To my knowledge, I do not know and I would have to go 17 Q How does -- The pie charts here are --14 back to past correspondence just to try to find it. 18 A Uh-huh. 15 (SEC Exhibit No. 28 was marked for Q -- are aggregated tier one -- I mean -- excuse me 19 16 identification.) 20 -- for all tiers, right? 17 BY MR. KING: 21 A That's correct. 18 Q Ms. Holt, let's look at Exhibit 28. 22 Q Tier one, tier two and tier three? 19 A Yeah. Okay. 23 A Yes. That is correct. 20 Q You recognize Exhibit 28? Q Okay. So you have knowledge of tier two --24 21 A Ido. 25 A Uh-huh. Page 119 Page 120

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		Pendergest-Holt_Laura_20090210.txt		1	Pendergest-Holt_Laura_20090210.txt sovereign debt, could be convertibles.
				2	Q How do you know that?
				3	A That's just the definition of fixed income.
				4	Q It's a commonly used definition
1	Q	before you drafted this, correct?		5	A Yes.
2	A	Uh-huh. That's correct.		6	Q of fix income?
3	Q	And to do an aggregated report, you need knowledge		7	A Uh-huh.
4		one and three, right?		8	Q Okay. What about alternative investments?
6	A	That's correct.		9	A It would be noncorrelated instruments. It would
7	Q You cond	But Mr. Davis doesn't send that information to you.		10	include some private equity funds possibly in tier two. They
8	You send	tier two to him, correct?		11	could include some real estate. Generally, it's referring to
° 9				12	alternative funds; long, short, global, macro, et cetera
9 10	Q A	And how do you do that?		13	MR. SJOBLOM: Global, macro.
10		There's a compiled weekly report. So at the end of ter, Fred Palmliden would send to Mr. Davis the		14	THE WITNESS: And it can also include futures
12	-	this case the September 30th weekly report that		15	options forwards.
12		ve all these breakdowns in it.		16	BY MR. KING:
14	Q	You send it directly to Mr. Davis?		17	Q Okay. Now, how do you know that Mr. Davis's
15	A	Yes. He sends it directly to Mr. Davis. Fred		18	definition for alternative investments in tier three is the
16		directly to Mr. Davis.		19	same as your definition of alternative investments in tier
10	Q Q	Okay. Looking here at page four		20	two?
18	A	Uh-huh.		21	A I don't know.
19	q	of Exhibit 28. let's look at the pie chart on		22	Q So that's dependent on Mr. Davis?
20	-	left-hand corner, if you would.		23	A That's correct.
21	A	Okay.		24	Q Because he is the one pulling together the
22	Q	And just do some definitions for me.	U	25	aggregated numbers?
23	Ā	Okay.	L L		
24	Q	What is fixed income?			
25	A	Fixed income investments, bonds, corporate bonds,			
				1	A That's correct.
				2	Q What about cash equivalents? Is that tier one?
				3	A It would also certainly include tier two. I know
		Page 121		4	we had we had cash in tier two. So it could include any Page 122
		-			-

	Pendergest-Holt_Laura_20090210.txt		Pendergest-Holt_Laura_20090210.txt A that's the general definition.
5	liquidity any through tiers one, two or three.	8	
6	Q And equity, what's that?	g	Q When you say When you say individual private
7	A It's any security listed or nonlisted.	10	equity, do you mean private placements? You mean investments
8	BY MR. EDMUNDSON:	11	in individual companies?
9	Q Common definition?	12	A Yes. I mean investments in individual companies as
10	A Common definition is any security listed or	13	listed or nonlisted. In our case, obviously, nonlisted.
11	nonlisted.	14	BY MR. KING:
12	BY MR. KING:	15	Q Are you aware of anywhere that the bank
12		16	discloses that the term "equity" includes these investments
13	Q Okay. What's an example of the nonlisted securities?	17	in individual companies?
14		18	A I do not know.
-	A It would be private equity. An individual p	rivate 19	Q Now, are these So these are These investments
16	equity holding not a private equity fund, generally.	20	Help me out here. I don't do private equity world.
17	Q Okay. So I thought you said that tier two i	s 21	A Okay.
18	private equity was under alternative investments.	22	Q These individual investments in private companies,
19	A That's because tier two's private equity are	in 23	it's it's nothing fancier than Stanford taking it's money,
20	private equity funds.	24	investing it in a company?
21	Q Okay. And	25	A To my knowledge, that would be correct.
22	A And not individual holdings.	Ū	
23	Q Okay. How do you know that the private equi	ties in	
24	the equity piece of this pie chart is different?		
25	A I don't. I said that's a general definition	. 1	Q Okay. Are you aware of whether or not Stanford
		. 2	Now, what are the terms of those agreements?
		3	
		4	-
1	Q All right. So how do you know that private	equity 5	
2	is included within equity?		MR. SJOBLOM: Are you asking whether there's
3	A I don't. I said it was a general definition	. The	
		1	difference between a PPM or private placement memo?

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9 any of these agreements where --

BY MR. KING: Page 124

4 general definition of equity is any security listed or

5 nonlisted, any corporate security listed or nonlisted. So ---6 BY MR. KELTNER:

7 Q When you say --

Page 123

MR. KING: Yeah. I'm asking her if she's ever seen

THE WITNESS: For Stanford International --

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Was it something like only a small percentage of Page 128

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Pendergest-Holt\_Laura\_20090210.txt Pendergest-Holt\_Laura\_20090210.txt 15 Davis -- I do not know if that's something he did on his own 17 Q Yes. 16 or if that were information given to him by the board of 13 Δ -- Bank? 17 directors 14 0 Yes. 18 Q Would -- How would you characterize the liquidity 15 A To my knowledge. I have not. Like I said earlier. 19 of these investments in individual companies? 16 I have been copied on e-mails. I cannot say that they did 20 A I don't know. I'd have to know the individual 17 not include anywhere in there had I dug through the e-mail 21 companies. any of those agreements, but they didn't relate to my 18 22 MR. SJOBLOM: At what point in time? 19 portfolio. I didn't bother going through them. 23 THE WITNESS: Yes, Absolutely, The point in time MR. SJOBLOM: "By agreements," are you talking 20 24 would make a huge difference. about the offering memorandums, the private placements? Is 21 BY MR. KING: 25 22 that what you're asking about? П MR. KING: Yeah. I mean, if that's what she's --23 24 BY MR. KING: 25 Q Are there -- Are there offering memorandums for Q Okay. What's your understanding of when private 1 2 equity became part of the tier three asset allocation? A You know, I honestly do not know when private 3 equity became part. 4 1 these investments? 0 Do you recall telling Mr. Palmliden that tier three 5 A T don't know 2 6 had moved to private equity and real estate in recent years? Q You've never seen one? 3 A I don't recall saying that it had moved. I know I 7 A To my knowledge, no. That's why I was saying, they 8 possibly said that it has held private equity and real estate may be buried into one of these e-mails that I haven't 5 q in recent years. 6 uncovered. So --10 MR. SJOBLOM: May I interject? Since I sat in on 7 Q So how do you know that these are individual 11 the interview with Mr. Palmliden, that's not what he said. investments in private companies rather than private equity 8 12 He said that in recent years it may have been more or an 9 would better fit under alternative investments? 13 increase, not that it moved from one to the other. That's A I don't know. I stated that already. 10 not what he told the SEC examination person if that's where 14 Q That was Mr. Davis's decision to include it there, 11 15 you're getting that information. That was like four or five 12 correct? 16 days ado. 13 A It would have been the board of directors. I 17 MR. KELTNER: Do you have notes to that effect? 14 received the information from Jim, but I do not know -- Jim MR. SJOBLOM: I will find out. Page 126 18 Page 125 Pendergest-Holt\_Laura\_20090210.txt Pendergest-Holt\_Laura\_20090210.txt
BY MR. KELTNER: 22 MR. KING: This is what happens. Let's talk to the 19 23 O Anything like that? 20 witness and we'll talk offline. 24 A I would have said that there were funds allocated 21 BY MR. KING: 25 toward private equity and real estate. 22 Q The -- Do you recall in your -- having a meeting п 73 with the analysts in mid December? 24 A I have numerous meetings with my analysts. 25 MR. SJOBLOM: Sorry? 1 MR. SJOBLOM: When was this meeting? 2 THE WITNESS: In mid December. 3 MR. SJOBLOM: December of 2008? THE WITNESS: Yes. 4 1 THE WITNESS: I have numerous meetings with my 5 BY MR. KING: 2 analysts. So --6 Q Do you recall saying at that meeting that only a 3 BY MR. KING: 7 small percentage of the tier three assets were invested in 4 o okav. equities? 8 5 But, yeah, I'm sure I had a meeting with them in А 9 A It is possible that I could have said that, yes. 6 mid December. 10 How did you know that? 0 7 Q Okay. And remember back to Mr. Korotash's question 11 А It was really more of an assumption from a 8 about why not liquidate --12 conversation with Mr. Davis. 9 A Uh-huh. 13 BY MR. KOROTASH: Q -- why not liquidate tier two. You said that --10 Q When was that conversation? 14 11 that came up at some point. You weren't sure when --15 Mid December. 12 A Yes. 16 0 And where did that conversation take place? 13 0 -- correct? 17 А I believe in Tupelo. 14 Α Yes. That is correct. 18 Okay, Was it just you and Mr. Davis? 0 15 Q Do you recall telling the analysts that a big 19 Actually, it was more of a passing meeting. А 16 portion of the bank's portfolio is invested in private equity 20 Q Okay. Hallway meeting? 17 and real estate? 21 А Yeah 18 A I don't know that I've ever uttered the words "a What was it that he said that caused you to infer 22 0 19 big portion." I could have said, a portion of the assets are 23 that only a small percentage of assets were in equities? 20 allocated. I could have -- I don't know what I said. I do 24 A I don't recall exactly.

21 not recall saying "a big portion." Page 127

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А when?

Today

Today? Probably not.

Q During the fourth quarter of 2008, would you have

considered private equity to be a marketable security?

Page 131

A Let me rephrase. It's always a marketable

security. Is it a highly liquid security? So is it highly

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Pendergest-Holt\_Laura\_20090210.txt Pendergest-Holt\_Laura\_20090210.txt anything about the relative size of the private equity and 1 2 real estate? 3 A I do not recall. I mean. I don't mean to -- I'm 4 not trying to mislead you, but do you-all understand how many 1 the assets are in equities? 5 meetings I hold and how many words are spoken to ask me to No, I do not believe that is the case. 2 А 6 remember exactly what I said on a specific date is almost ٦ well, you drew that conclusion. What did he say? 0 7 humanly impossible to remember my exact words. I'm sorry. I 4 А T really -cannot recall 8 5 ο Think hard on this one because, obviously, you draw 9 MR. KOROTASH: Let's go off the record for a 6 that conclusion from a conversation with Mr. Davis. 10 second. 7 MR. SJOBLOM: Well, let me just interject. 11 (A discussion was held off the record.) 8 MR. KOROTASH: That's okay. She's okay. She's 12 MR. KING: We're back on the record. It's 4:25. 9 thinking. BY MR KING 13 10 MR. SJOBLOM: Is that your word "small" or --14 9 You had a meeting with analysts in mid December 11 THE WITNESS: I do not --15 2008. correct? 12 MR. SJOBLOM: -- is that Mr. Korotash's word? 16 А Yes 13 THE WITNESS: I don't recall --17 Do you recall saying at that meeting that only a 0 14 MR, KOROTASH: Those were her words just a minute small percentage of ther three was in equities? 18 15 ado. A I do not recall saying that only a small percentage 19 16 THE WITNESS: I don't recall saying a small 20 were in equities, publicly-traded equities. 17 allocation to equity. I said I possibly could have said it. Q The question that Mr. Korotash asked earlier 21 18 I do not recall saying it. I do recall saying that a portion 22 about -- and that was ultimately posed by the -- your 19 of tier three was in private equity and real estate. analysts as well was: Why not liquidate tier three rather 23 20 BY MR. KELTNER: 24 than tier two because it's a bigger portion of the assets, 21 He gave no sense as to what the -- allocation was? 25 correct? 22 MR. SJOBLOM: Sorry? 23 THE WITNESS: I do not recall giving --24 BY MR. KELTNER: 25 Q When she talked to the analysts, did she convey That was not the question that --1 Α 2 0 What was the question? 3 А -- my analysts asked me. What was the question your analysts asked you? л 0 Page 129 Pendergest-Holt\_Laura\_20090210.txt Pendergest-Holt\_Laura\_20090210.txt 8 -- Is that your question? Is it highly liquid or is it 5 A To the best of my recollection, it was: Why are marketable? Those are very different questions. 9 6 we -- is there no cash in tier three to pull rather than 10 Q What's the difference between being highly liquid 7 liquidating tier two. The question was not whether or not to 11 and marketable? liquidate tier three. A "Marketable" means there exists a market on which I 12 9 And my response is: There may be cash in tier 13 could liquidate it. "Liquid" means how difficult is it to 10 three, but if they are private equity holdings, you would 14 convert the holdings into cash. 11 have to assume the cash there is already spoken for, that you Q Okay. Now, we've talked about highly liquid and 15 12 would be breaking commitments if you moved that cash. 16 marketable. 13 Q And how did you know that? 17 A Correct. 14 A It was an assumption on the fact that there is Q Now, what about highly marketable? 18 15 private equity in tier three. 19 A That's also an issue. Highly marketable is going 16 Q But you don't know how much? 20 to depend on how large the market is that would purchase 17 I do not know how much. Α the -- that would purchase the holding regardless of how much 21 18 So how do you make that assumption without knowing 22 they were willing to pay for it. 19 how much private equity is in tier three? 23 Q Okay. Highly marketable. Is private equity highly 20 A It's just a valid -- just a valid assumption that 24 marketable today? 21 if I'm liquidating assets over here -- if I had cash over A Today? I would say is not highly marketable today. 25 22 here that could be committed to liquidity, I would have 23 already moved it. 24 Q Would you consider private equity a marketable 25 security?

1 0 In the fourth quarter of 2008, was private equity highly marketable? 2 I think it could have been. 3 А 4 Q How so? Private equity was getting cheap. Cash balances on 5 Δ 6 corporate balance sheets was very high. Tobin's O ratio is currently at a negative, meaning that it's currently cheaper 7 8 to go out and buy a company than to buy its assets and 9 replicate its business model. 10 So, actually, given Tobin's Q ratio for the fourth quarter of 2008 Tobin's Q ratio thus far, the first quarter Page 132 11

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	Pendergest-Holt_Laura_20090210.txt		15	Pendergest-Holt_Laura_20090210.txt A I mean, that's not necessarily what I'm saying, but
12	of 2009, and given the amount of cash, there's what, an 86		16	your your answer to the question is also accurate.
13	percent jump of cash to market cap. So given the high levels		17	Q Okay. And so, again, to clarify this discussion
14	of cash, the Tobin's Q ratio, I would say, it is potentially		18	that you had just with Mr. King about private equity. Are
15	highly marketable so I'm going to change my answer for		19	you talking about individual companies or private equity
16	fourth quarter and first quarter just based on research.		20	funds?
17	Q Okay. Was it highly liquid in the first or just		21	A I'm talking about individual companies at this
18	say today?		22	price. Private equity funds are
19	A It is only as liquid as corporations are to release		23	(Interruption in proceedings.)
20 21	the cash on their balance sheets. So given the amount of		24	THE WITNESS: Sorry. That was not intentional.
22	cash on balance sheets, it could be liquid. Q But not highly liquid?	D	25	Private equity funds
23	A But not highly liquid, but it depends on how much	U		
24	they're willing to pay for it.			
25	Q Okay. Would private equity have been highly liquid			
			1	MR. KING: Let's go off the record for a minute.
			2	(A brief recess was taken.)
			3	BY MR. KELTNER:
1	in the fourth quarter of 2008?		4	Q Okay. We had a brief recess to clean up a spill.
2	A I would assume again that it would have been liquid		5	Before we took the recess, we were talking about the
3	because, again, it depends on how much people are willing to		6	different the conversation you just had with Mr. King
4	pay for it. And, keep in mind, liquidity is converting it to		7	A Uh-huh.
5	cash. So when you're converting it to cash, then it's		8	Q and I think we, you know, cleared up that you
6	dependent on how much people are willing to pay for it, not		9	were talking about private equity in individual companies?
7	whether or not it's marketable.		10	A Yes.
8	BY MR. KELTNER:		11	Q Okay.
9	Q Trying to see if I understand you. Are you saying		12	A That is correct.
10	that if you reach the right price, it's liquid? In other		13	Q Okay. And you were starting to draw a distinction
11	words, if they're willing to take a big enough hair cut it		14	between that and private equity funds.
12	becomes liquid?		15	A A private equity fund is going to be a number of
13	A Absolutely.		16	investors who have made commitments to a select group of
14	Q Okay. So it's not		17 18	individual private equity. Given to how funds are structured, depends on whether or not they could open that to
	Page 133			Page 134
				Pendergest-Holt_Laura_20090210.txt
19	Pendergest-Holt_Laura_20090210.txt new investors.		22	Pendergest-Holt_Laura_20090210.txt need the consent of a general partner?
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20 21 22 23 24 25 1 2 3 4 5 6 7 8 9 10	Pendergest-Holt_Laura_20090210.txt new investors. Going to also depend on whether they had incorporated a secondary market in which one a current investor could sell to an investor in a secondary market for that fund. So it's going to certainly be different for a private equity fund versus an individual investment that required regardless of either you're going to have capital commitments on the table. MR. SJOBLOM: Can we go off the record for a second, please? MR. KOROTASH: Yes. (A discussion was held off the record.) MR. KING: Let's go back on the record. It's 4:40. BY MR. KELTNER: Q Just real quickly to tie up A Yeah.	ß	23 24 25 1 2 3 4 5 6 7 8 9 10 11 12	Pendergest-Holt_Laura_20090210.txt need the consent of a general partner? A Typically. That is correct. Q Okay. And earlier we were talking about selling your SIB's interest in private companies? A Yes. Q What's involved What do you need to do to sell your interest in private companies A As I just mentioned, you would go to the market in private equities. You would put your holdings out and see if a corporation is willing to pay for it Q How do you A or how much. Q How do you put your holdings out? A I'm not a private equity specialist. Q Have you had occasion to liquid under the private company tier two?
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20 21 22 23 24 25 1 2 3 4 5 6 7 8 9 10 11 12	Pendergest-Holt_Laura_20090210.txt new investors. Going to also depend on whether they had incorporated a secondary market in which one a current investor could sell to an investor in a secondary market for that fund. So it's going to certainly be different for a private equity fund versus an individual investment that required regardless of either you're going to have capital commitments on the table. MR. SJOBLOM: Can we go off the record for a second, please? MR. KOROTASH: Yes. (A discussion was held off the record.) MR. KING: Let's go back on the record. It's 4:40. BY MR. KELTNER: Q Just real quickly to tie up A Yeah. Q what we've been talking about before this. To liquid a private equity fund interest, what do you need?	1	23 24 25 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17	Pendergest-Holt_Laura_20090210.txt need the consent of a general partner? A Typically. That is correct. Q Okay. And earlier we were talking about selling your SIB's interest in private companies? A Yes. Q What's involved What do you need to do to sell your interest in private companies A As I just mentioned, you would go to the market in private equities. You would put your holdings out and see if a corporation is willing to pay for it Q How do you A or how much. Q How do you put your holdings out? A I'm not a private equity specialist. Q Have you had occasion to liquid under the private company tier two? A Have I? I don't have any individual holdings in private equity or tier two. Q It's all private equity funds? A Yes. That is correct. BY MR. KING:
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20 21 22 23 24 25 3 4 5 6 7 8 9 10 11 12 2 13 14	Pendergest-Holt_Laura_20090210.txt new investors. Going to also depend on whether they had incorporated a secondary market in which one a current investor could sell to an investor in a secondary market for that fund. So it's going to certainly be different for a private equity fund versus an individual investment that required regardless of either you're going to have capital commitments on the table. MR. SJOBLOM: Can we go off the record for a second, please? MR. KOROTASH: Yes. (A discussion was held off the record.) MR. KING: Let's go back on the record. It's 4:40. BY MR. KELTNER: Q Just real quickly to tie up A Yeah. Q what we've been talking about before this. To liquid a private equity fund interest, what do you need? A I need a secondary market. Q Okay. Do you also need the consent of the general	a	23 24 25 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17	Pendergest-Holt_Laura_20090210.txt need the consent of a general partner? A Typically. That is correct. Q Okay. And earlier we were talking about selling your SIB's interest in private companies? A Yes. Q What's involved What do you need to do to sell your interest in private companies A As I just mentioned, you would go to the market in private equities. You would put your holdings out and see if a corporation is willing to pay for it Q How do you A or how much. Q How do you put your holdings out? A I'm not a private equity specialist. Q Have you had occasion to liquid under the private company tier two? A Have I? I don't have any individual holdings in private equity or tier two. Q It's all private equity funds? A Yes. That is correct. BY MR. KING:

17 Q Because the private equity fund agreement typically

18 doesn't provide for redemptions actually, correct? 19

A I don't know. I think that's dependent on the

20 private equity fund.

D

D

21 Q But, typically, it's been your experience that you Page 135

25 some in the United States --Page 136

21 ask you: You've got about 15 to 20 hours --

Q -- one of the responsibilities is to sort of

24 monitor the folks that manage the money, mostly overseas, but

A Yes.

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my team was never increased because of tier two.

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BY MR. KOROTASH:

Q That wasn't my implication.

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	Case 3:09-cv-00298-N Document 12-11	Fil	ed 02/17/2009 Page 6 of 10
	Pendergest-Holt_Laura_20090210.txt	1	Pendergest-Holt_Laura_20090210.txt Q But then they started to grow?
		2	A But not to oversee tier two.
		3	Q What's that?
		4	A But not to oversee tier two.
1	A Oftiertwo. Correct.	5	Q But tier three is how much bigger? We established
2	Q Of tier two. They sort of keep track of things;	6	that already, haven't we?
3	they compile monthly reports, that type of thing?	7	A Let's separate the question. Did I grow my team to
4	A Yes.	8	oversee tier two?
5	Q How many people does Mr. Davis have working for him	9	Q Not to grow your team. You grew tier two?
6	doing that same thing, defining that analyst oversight	10	A Those things were completely separate occasions.
7	function?	11	In fact, my team didn't start even looking at tier two until
8	A I have no idea.	12	probably 2004.
9	Q Do you know of any?	13	Q You have any idea Do you have any idea at all if
10	A Anybody who is named specifically to do that? No.	14	anyone helps Mr. Davis with tier three?
11	Q For tier three?	15	A I do not, no. I have no idea.
12	A I don't know.	16	Q You guys office, basically, next to each other for
13	Q Does that strike you a little strange?	17	the most part and you've never said to him, Hey, who manages
14	A NO.	18	this monster over here, tier three?
15	MR. SJOBLOM: Strike what as strange?	19	A No. In all sincerity
16	The WITNESS: Does it strike me as strange that he	20	Q Yeah.
17	does not have individual analysts overseeing tier three?	21	A my job doesn't really have anything to do with
18	BY MR. KOROTASH:	22	the bank except for what it is for tier two.
19	Q Uh-huh.	23	Q Yeah. You're managing ~~ You're managing a good
20	A Is that your question?	24	portion of its money
21	Q Yeah. You've got 20 for tier two, don't you?	25	A I'm not managing. I'm
22	A That's not all they do.		
23	Q That's right. But they do do that. They do have		
24	an oversight function.		
25	A But when I first started, I did it all myself.	1	MR. SJOBLOM: So the answer to his question is no.
		2	THE WITNESS: That is right.
		3	BY MR. KOROTASH:
		4	Q You've never bothered to ask?
	Page 137		Page 138
-	Pendergest-Holt_Laura_20090210.txt	8	Pendergest-Holt_Laura_20090210.txt A It was increased to carry out research functions.
5	A I never bothered to ask.	9	BY MR. EDMUNDSON:
6	Q You're not even interested in what's in tier three;	10	Q We looked at, I believe it was, Exhibit 28 earlier,
	is that right?	11	and there was a snapshot in time for the bank products. The
8	A I have asked and I think that shows interest.	12	total assets of the bank as of 9-30-08 were basically 8.5
9	Q And what did he say?	13	billion dollars.
10	A At the last meeting was there were private equity	14	A 9-30-08?
11	and real estate holdings.	15	Q 9-30-08?
12	BY MR. KELTNER:	16	A Okay.
13	Q Did you ever ask if you could help oversee tier	17	Q What is the last report that you've received about
14	three?	18	the current total assets of the bank?
15	A No. My hands are It may not sound like it by	19	A It would have been the December 30th report
16	the list I gave you, but my hands are really full in other	20	December 31st report that I received from
17	areas. I don't need to oversee tier three just to have	21	Q I didn't know if it was on that spreadsheet earlier
18	something else to do.	22	today
19	Q So you and your team have your hands full with tier	23	A Oh, I'm sorry.
20	two?	24	Q but do you know what the total assets of the
21	A We do so much more than monitor tier two. The	25	bank are at the last report that you've seen internally?
22	powerpoint that I showed you today, SIM, takes hours and		
23	hours and weeks and days of research. I could double my		
24	staff and we would still be overworked in terms of research.		

This is something that takes a portion of a day to A The last report that I've seen internally is the 1 2 monthly report that I was given a copy of. Q And that is for December or January? 3 4 А I believe that is as of December. 1 compile reports. That is a minor, minor portion of what my MR. SJOBLOM: Also, are you asking about --5 2  $% \left( {{{\left( {{{\left( {1 \right)}} \right)}_{T}}}_{T}}} \right)$  analysts' time is spent doing. The last thing I need to do 6 MR. EDMUNDSON: Yeah. Let me be clear. I want to 3 is increase their workload by incorporating tier three. 7 know what the total assets of bank are now. My team -- Just to finish answering the question, MR. SJOBLOM: No. I got you, but are you talking 8 9 about a consolidated basis or are you talking about ---10 MR. EDMUNDSON: well, let me --THE WITNESS: Total assets? Page 140 11

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		Pendergest-Holt_Laura_20090210.txt		15	А	Pendergest-Holt_Laura_20090210.txt It was Mr. Hewlett.
12		MR. EDMUNDSON: Yeah. Total assets of SIB				
13		BY MR. KELTNER:		16	Q	Why do you say "was"?
14	Q	A minute ago when you said the last monthly report		17	A	Because he recently passed away.
15	you had			18	Q	Who is it now?
				19	А	I don't know.
16	А	This is the last monthly report that I have seen		20	Q	What was your interaction with Mr. Hewlett?
17		MR. SJOBLOM: Hold it, guys. One at a time.		21	А	I had no interaction with Mr. Hewlett.
18		THE WITNESS: Exhibit 27.		22		BY MR. EDMUNDSON:
19		BY MR. EDMUNDSON:				
20	Q	All right. And what's the date on that?		23	Q	Did you ever meet him?
21		MR. SJOBLOM: Now, he's got a quarterly report.		24	Α	I had met him once.
22		THE WITNESS: This is December 2008.	8	25	Q	When?
			C			
23		BY MR. EDMUNDSON:				
24	Q	Got it.				
25		BY MR. KING:				
				1	A	Two, three years ago in Antigua.
				2		BY MR. KING:

з

Q What role do you play in external audit?

2 managers around the world. A net -- What is that crazy -- a

Q You don't know if there's a global network of

Q Would it be accurate or inaccurate to say your team

THE WITNESS: Inaccurate. My team sees only tier

A global network of financial advisors managed the

network of what.

0

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А Yes.

BY MR. KING:

portfolio. Is that true or false?

As to tier two?

17 of analysts in Memphis oversees all the bank assets?

A That is a horrible inaccurate statement.

MR. SJOBLOM: Horribly inaccurate?

Q And you're crystal clear on that, right?

Page 144

A I am absolutely 100 percent crystal clear on that

13 financial advisors that manage tier three?

BY MR. KELTNER:

BY MR. KELTNER:

A That's correct.

A That's correct.

A I do not know.

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21 two.

25 one statement.

		4 A I do not play any role in external audit, other
1	Q What safeguards are there with respect to the	5 than I do, as I said earlier. I reconcile at the end. I
2	assets in tier three?	6 make a listing from December 31st all of our holdings by
3	A I don't know. I can state it as many ways as you	
4	would like me to. I don't know about tier three, other than	7 country, by currency, by advisor and by type of holding in a
5	what I've already shared with you in about 20 different ways.	8 spreadsheet and then I make sure that that spreadsheet
6		9 reconciles back to 12/31 numbers, and then I turn in that
0	Q Have you ever participated in any kind of audit for	10 information to accounting. And whether or not that's used in
7	the bank's portfolio of assets?	11 audit, I'm not sure, but it is certainly provided.
8	A No. Any audit for SIBL would have been done at the	12 Q Who in accounting do you give it to you?
9	bank .	
10	Q And that would have been done by whom?	13 A I gave it to SIBL's accountant. I'm sorry. His
11	A Internal as well as external audit.	14 name has completely slipped my mind.
		15 BY MR. KOROTASH:
12	Q Okay. Who is external audit?	16 Q Who's the new auditor?
13	A CAS Hewlett & Company.	17 A I don't know his name. I don't know who It's
14	Q Who is the principal at CAS Hewlett?	
	Page 141	18 still CAS Hewlett & Company. As to who Page 142

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		Pendergest-Holt_Laura_20090210.txt		22	Pendergest-Holt_Laura_20090210.txt to your knowledge? Is it accurate or is it not accurate?
19	Q	If there's anybody really there?		23	A I don't know. I just see one tier of the
20	А	No. Good God. Of course, there's people there.		-	-
21	0	Good.		24	portfolio. So if somebody told me that, to my knowledge of
22	A	I hope you're being sarcastic	0	25	SIBL's portfolio, that is accurate.
23		MR. SJOBLOM: Of course he is,			
24		THE WITNESS: there's a chartered and certified			
25	accounti	ng firm out of the London and approved by the ETC		1	MR. SJOBLOM: You're referring to the portfolio

1 group. 2 BY MR. EDMUNDSON: 3 Q Have you ever met anybody else other than Hewlett from this firm? 4 5 A Yes, I have, 6 Q How many people have you met? 7 A I have met three people from --8 Q And was that within the last couple of years? 9 Α Yes. 10 9 But that was not in connection with audit work that 11 they were doing? 12 A I don't know. They were at the bank when I met 13 them on one of my visits. It was a, Oh, hi, Laura. This is 14 so and so and so and so from CAS Hewlett. I'm horrible with 15 names, so, please, don't ask me to remember those. 16 BY MR. KING: 17 Q If Stanford International Bank told investors that 18 the bank's portfolio of assets were overseen by a network of 19 financial advisors, would that be accurate? 20 A To my knowledge, yes, that would be accurate. 21 Q Now, when you say "to my knowledge," why do you say Page 143

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	Pendergest-Holt_Laura_20090210.txt	1	А	Pendergest-Holt_Laura_20090210.txt Okay.
		2	Q	I'm just going
		3	А	Okay.
		4		MR. SJOBLOM: I got to go.
1	BY MR. KING:	5		BY MR. KING:
2	Q Okay. I want to hit a couple of issues since we're	6	Q	All right. Let's look at Exhibit 8 real quick.
3	short on time. What was your involvement with the Stanford	7	А	Okay.
4	allocations strategies program?	8	Q	Do you recognize Exhibit 8?
5	A They were given They were given the SIM	9	А	Yes.
6	parameters just like everybody else. Outside of that, I	10	Q	what is it?
7	really didn't have any dealing with them.	11	А	It is a ten-year investment portfolio performance.
8	Q Okay. Did you supervise Mr. Parish?	12	So it's	the portfolio performance of the overall Stanford
9	A NO.	13	Interna	tional Bank portfolio.
10	Q So if Mr. Parish says there was a dotted line to	14	Q	Does Exhibit 8 have a disclaimer at the bottom?
11	you as far as his supervisor, that would be inaccurate in	15	А	Yes. I
12	your view?	16	Q	And would the disclaimer be something that would
13	A That is not accurate.	17	typical	ly be included on an internal or external document?
14	Q Did you ever become aware that there were certain	18	А	Generally, external.
15	reporting problems with regard to SAS, historical reporting	19	Q	Okay. Now, I'd like to direct your attention to
16	of its results?	20	two yea	rs here.
17	A I don't have dealings with SAS, no. My only	21	А	Okay.
18	dealing with SCM would be to provide them research.	22	Q	1995 and 1996.
19	Q You said SAS?	23	А	Yes.
20	A Any of Stanford capital management, which SAS is a	24	Q	You see those two years?
21	product. My only interaction is to provide research.	25	А	I do.
22	Q So you were never notified of any performance	0		
23	reporting or problems with regard to SAS?			
24	A To the best of my recollection, no.			
25	Q Okay. I want to show you one other thing here.	1	Q	It looks like Stanford International Bank
		2	А	Uh-huh.
		3	Q	managed those years to the 100th of a place,
		4	15.71.	Do you see that?
	Page 145			Page 146

Pendergest-Holt Laura 20090210.txt Pendergest-Holt\_Laura\_20090210.txt Improbable? 8 Q 5 А I do see that. (Nodding.) 9 А 6 Q How is that possible? 10 BY MR. KELTNER: 7 A Well, two things. First of all, as I stated, my Were you ever asked to explain that anomaly to 11 Q 8 start date with Stanford was June 2nd of '97. So I have no 12 anvone? 9 idea how the portfolio was managed during those two years. 13 А NO. 10 From a mathematic standpoint, just looking at it, 14 Q Did you ever hear an explanation? 11 the only way I can see it would have been possible -- there 15 А NO. 12 are several ways. Certainly, set returns. So when I say if MR. SJOBLOM: Okay. Mr. King, I got to go. 16 13 had this return, regardless, I'm taking my profit or if you 17 MR. KOROTASH: Okay. We're leaving the record were doing -- or if you were clipping coupons off of fixed 14 18 open. 15 income. 19 MR, KING: Let's go off the record. 16 And in '95 and '96 it would have been possible to (Whereupon, at 4:55 p.m., the examination was 20 17 have clipped pretty high coupons, and that's only way it 21 adjourned.) 18 would have been possible. \* \* \* \* \* \* 22 19 Q Do you see that as a likely outcome to manage down 23 20 to the 100th of a decimal place as a mathematician? 24 21 A As a mathematician --25 22 MR. SJOBLOM: I think she already answered the П 23 question. She just said from a mathematician standpoint. 24 She answered it. 25 THE WITNESS: Yeah. It is possible. 1 PROGEREADER'S CERTIFICATE 2 In the Matter of: STANFORD GROUP COMPANY 3 4 witness: Laura Pendergest-Holt 1 BY MR. KING: File Number: FW-02973-A 5 2 Q The question was: Is it likely? 6 Date: Tuesday, February 10, 2009 Likely? No. Possible? Yes. 3 А 7 Location: Fort Worth, Texas Q Okay. As a mathematician, how would you 4 8 5 characterize the odds roughly of managing a portfolio out to 9 the 100th of a decimal place? 6 This is to certify that I, Donna Raya, (the 10 7 A I would say improbable. 11 undersigned), do hereby swear and affirm that the attached  $$\mathsf{Page}$$  148 Page 147

# Case 3:09-cv-00298-N

12 13 14 15 16 17 18 19 20	Pendergest-Holt_Laura_20090210.txt proceedings before the U.S. Securities and Exchange Commission were held according to the record and that this is the original, complete, true and accurate transcript that has been compared to the reporting or recording accomplished at the hearing.		15 16 17 18 19 20 21 22 23	Pendergest-Holt_Laura_20090210.txt Diversified Reporting Services
21 22 23 24	(Proofreader's Name) (Date)	D	24 25	

U.S. SECURITIES AND EXCHANGE COMMISSION
REPORTER'S CERTIFICATE
I, Jacci Walker, reporter, hereby certify that the
foregoing transcript consisting of 166 pages is a complete,
true, and accurate transcript of the testimony indicated,
held on February 10, 2009, Securities and Exchange
Commission, 801 Cherry Street, 11th Floor, Room A, Fort
Worth, Texas. In the Matter of: STANFORD GROUP COMPANY.
I further certify that this proceeding was recorded
by me, and that the foregoing transcript has been prepared
under my direction.
Date:
Official Reporter

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Testimony

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	Riordan_Steve_20090211.txt	1	Riordan_Steve_20090211.txt APPEARANCES:
		2	
		3	On behalf of the Securities and Exchange Commission:
		4	D. THOMAS KELTNER, ESQ.
1	UNITED STATES SECURITIES AND EXCHANGE COMMISSION	5	Division of Enforcement
2		6	Securities and Exchange Commission
3 4	In the Matter of: ) ) File No. FW-02973-A	7	801 Cherry Street, 19th Floor
5	-	8	Fort Worth, TX 76102
6	STANFORD GROUP COMPANY )	9	
7	WITNESS: Steve Riordan	. 10	On Behalf of the Witness and Stanford Financial Group:
8	PAGES: 1 through 218	11	STEVE RIORDAN, PRO SE
9	PLACE: Securities and Exchange Commission	12	
10	801 Cherry Street, 19th Floor	13	
11	Fort Worth, Texas	14	
12	DATE: Wednesday, February 11, 2009	15	
13		16	
14	The above-entitled matter came on for hearing, pursuant	17	
15	to notice, at 10:00 a.m.	18	
16	· · · · · · · · · · · · · · · · · · ·	19	
17		20	
18		21	
19		22	
20		23	•
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24	Diversified Reporting Services, Inc.		
25	(202) 467-9200		
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Riordan\_Steve 20090211.txt

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6	EXHIBITS:	DESCRIPTION	IDENTIFIED
7	29	Subpoena	6
8	30	E-mail	57
9	31	3/20/07 e-mail	109
10	32	Spreadsheet	109
11	33	Final spreadsheet	111
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14	37	SAS Replacement Journal	172
15	38	Zephyr Style Adviser	177
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17			

 PROCEEDINGS

 MR. KELTNER: Let's go ahead and go on the

 record at approximately 10:00 a.m. My name is Tom

 Keltner and other members of the staff may join us later,

 including Michael King a branch chief. We're members of

 the enforcement staff of the Securities and Exchange

7 Commission. We are both officers of the SEC for the

Riordam\_Steve\_20090211.txt purposes of this proceeding. 9 This is an investigation by the United 10 States Securities and Exchange Commission In The Matter 11 of Stanford Group Company to determine whether there have 12 been violations of certain provisions of the Federal 13 Securities Laws: however, the facts developed in the

3 WITNESS:

4 Steve Riordan

investigation might constitute violations of other
federal or state, civil or criminal laws.
Before going on the record, I gave you a
copy of Commission's Supplemental Information Form 62,
which has been previously marked as Exhibit 23.

Page 2

19Mr. Riordan, do you have any questions concerning20Exhibit 23?

THE WITNESS: No.

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22 MR. KELTNER: Prior to opening the record,

23 I also gave you copy of the Formal Order of Investigation

24 including a few amendments thereto that the amendments

25  $\,$  essentially add additional staff including myself to the

investigation. The Formal Order will be available for
 your examination during the course of this proceeding.
 Do you have any questions regarding the
 Formal Order?
 THE WITNESS: No.

THE WITNESS: NO.

6 MR. KELTNER: Since you're not represented 7 by counsel today, there are certain things that I need to 8 highlight for you, some of which are identified in 9 Exhibit 23. You have the right to be accompanied and 10 represented and advised counsel. This means that you may

11 have an attorney present and that your attorney can Page 4

EXAMINATION

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10	Riordan_Steve_20090211.txt		15	Riordan_Steve_20090211.txt (A brief recess was taken.)
12	advise you before, during, and after your examination		16	(SEC Exhibit No. 29 was marked for
13	here today. Do you understand this right?		17	identification.)
14	THE WITNESS: Yes,		18	MR. KELTNER: Let's go back on the record
15	MR. KELTNER: Since you're not represented		19	at 10:03. Sorry for the brief interruption.
16	by counsel, again, there are matters discussed in Exhibit		20	So I was saying I'm going to mark a copy
17	23 that I want to highlight for you. Do you understand			
18	that upon your request these proceedings will be		21	of the subpoena that we have given as an exhibit. Let me
19	adjourned so that you may obtain counsel?		22	go ahead and mark that as Exhibit 29. Okay. If you
20	THE WITNESS: Yes,		23	could look at Exhibit 29 briefly, and identify for me.
21	MR. KELTNER: Do you understand that the		24	And we'll do that several times today. I may hand you a
22	statute set forth in Exhibit Number 1 provide criminal	C	25	document and ask you what it is.
23	penalties for knowingly providing false testimony or			
24	knowingly using false documents in connection with an SEC			
25	investigation?			
			1	THE WITNESS: Exhibit 29 is my subpoena to
			2	appear here today.
			3	MR. KELTNER: Okay. And so that's a copy
1	THE WITNESS: Yes.		4	of the subpoena pursuant to which you are here today?
2	MR. KELTNER: Do you understand that you		5	THE WITNESS: Yes.

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18 that correct?

-	The Resident bo you understand that you
3	may assert your rights under the Fifth Amendment of the
4	Constitution and refuse to answer any question which may
S	tend to incriminate you?
6	THE WITNESS: Yes.
7	MR. KELTNER: And again, typical
8	formalities that we have to go through.
9	Before we went on the record, I also gave

- 10 you for your review a copy of the cover letter and what I
- is you for your review a copy of the cover retter and what
- 11 believe to be a subpoena that was sent to you. I am
- 12 marking that document now.
- 13 MR. KELTNER: Let's go off the record for
- 14 two seconds.

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Riordan Steve 20090211.txt

- 19 THE WITNESS: I provided the hard drive
- 20 that was correct so -- that had all Stanford files on it
- 21 and then I went back to my home office and I pulled every
- 22 hard copy of every Stanford document that T had on file
- 23 in my home office and came back the next day or a few
- 24 days later and provided that.
- 25 MR. KELTNER: Okay. So between the

1 computer files that we have from your two computers and 2 the hard document production, do we have everything 3 responsive to the subpoena that you're aware of? THE WITNESS: Yes. 4 5 MR. KELTNER: Just briefly can you 6 describe the search that you did? 7 THE WITNESS: The home office search. I 8 have about four places where I store documents, one file 9 cabinet with two drawers and then two boxes. And I went 10 through all four places and pulled every file folder with 11 Stanford marked on the folder. I'm relatively organized, 12 so I'm pretty confident that you have everything. 13 MR. KELTNER: Okay. Were there any 14 documents that you intentionally withheld for any reason? 15 THE WITNESS: No. 16 MR. KELTNER: Do you know of any documents 17 called for by our subpoena that were in your possession 18 at a prior time that were lost, destroyed or otherwise

THE WITNESS: No.

19 disposed of?

20

21 MR. KELTNER: And again, just to formalize Page 7 Riordan\_Steve\_20090211.txt 22 some of our discussions in Boston, I think the -- was it 23 the day that you came in you discovered that one of your

MR. KELTNER: Okay. Let's talk a little

I believe you have tendered all relevant

7 bit about document production. We met informally for an 8 interview in Boston a few weeks ago. And at that

interview I think you voluntarily produced some

11 that day, but then the Exhibit 29 also sets forth

14 documents to the staff, but I want to go ahead and

15 establish that just for the -- just for the record. So

16 when we met in Boston we gave us, I think, an image of a

17 hard drive and then files off of another computer; is

Page 6

specific documents requests.

24 hard drives had crashed?

- 25 THE WITNESS: Yes.
- .5 III. WIINESS. 165.

1	MR. KELTNER: Okay. So that was which
2	laptop was that?
3	THE WITNESS: The Gateway.
4	MR. KELTNER: Okay. So the laptop hard
5	drive had crashed, what did you first discover that
6	the day of testimony?
7	THE WITNESS: Yes.
8	MR. KELTNER: Okay. Okay. We obviously
9	took took that hard drive. Have you received a copy
10	of it back yet?
11	THE WITNESS: Not yet.
12	MR. KELTNER: Okay. Just a few more
13	background questions.
14	Have you ever had occasion to testify
15	before the SEC before?
16	THE WITNESS: Never.
17	MR. KELTNER: Okay. Any informal
18	interviews besides ours?
19	THE WITNESS: Never.
20	MR. KELTNER: Okay. Any other regulators?
21	THE WITNESS: No.
22	MR. KELTNER: Like FENRA anyone like that?
23	THE WITNESS: No.
24	MR. KELTNER: Okay. Just for the record,
25	we have to ask these questions. Page 8

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Riordan\_Steve\_20090211.txt Riordan\_Steve\_20090211.txt Yes. 1 А 2 0 And are you still doing, I guess, audit work on 3 their quarterly performance numbers? A Yes 4 1 Do you have any criminal history, any 5 2 arrests, convictions, anything like that? 6 ongoing communications? THE WITNESS: No. 3 7 A Yes. 4 Whereupon. 8 5 STEVE RTORDAN 9 was called as a witness and was examined and testified as 6 been in contact with? 10 7 follows: 11 A Noone. 8 EXAMINATION 12 9 BY MR. KELTNER: 13 A NO. 10 0 Let's talk a little bit -- I think before we 14 11 went on the record you mentioned a friend of yours 15 А Yes. 12 Mr. Stys? 16 13 A Yes. 14 Q Okay. I want to kind of go through and talk 18 15 about other witnesses you've had contact with recently. Let's -- Are there others? Other potential folks 16 20 17 involved with Stanford Capital Management? 18 A I don't know who -- who is considered a witness 10 versus not a witness. 23 20 Q Yeah. I maybe misspoke in saving witness. 24 21 Let's say just people connected with 25 22 Stanford Capital Management. 23 A Yes.

Q Okay. And are you still doing work on a 24 25 contract basis for them?

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Page 9

Riordan Steve 20090211.txt 5 extent there was an attorney involved in any 6 communications, please let me know whether it's on the 7 Stanford side or with respect to any individuals. Are you -- Are you aware of any 8 9 communications you've had recently that would have 10 involved an attornev? 11 A Not unless there was attorney on the line 12 unbeknownst to me. Q Okav. But no one who represented you? 13 14 A Right. 15 Q Okay. 16 A I inquired if Stanford wanted to provide me 17 with an attorney. 18 Q Uh-huh. 19 A And they never got back to me with a definitive 20 answer, and as you can see here they decided not to. And 21 I certainly wasn't going to reach into my pocket for an 22 attorney. 23 Q Sure. They're costly. 24 Who did you ask at Stanford about 25 potentially hiring counsel?

1 Rhonda Davis and Shenna George. А

Q Okay. And I understand -- Are they both in the 2 3 compliance group?

A Correct. 4

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- 5 Q Okay. Do you know what their titles are?
- A I think Rhonda Davis is the -- is the head of
  - compliance for -- for Stanford Capital Management or

Q Okay. So in that context you obviously have 0 Let's start then to narrow it down with former Stanford employees. Aside from Mr. Stys. who have you Q Okay. No contact with Mr. Parrish? Q Okay. And is Stys S-t-y-s? Q Okay. Just tell me about a little bit about 17 your recent discussions with Mr. Stys. A well, we -- you know, obviously, are trying to 19 speculate as to what's going on. You know, just natural I think curiosity as to, you know, what's happening. And 21 so he tells me a little bit about his contact with the 22 SEC, and I tell him a little bit about, you know, what types of questions that I'm being asked and, you know, my answers, and that type of thing. Q Okay. I assume there was not an attorney

1 present at any of these communications? 2 A No. Purely friendly. 3 Q Okay. Since you're not here with counsel today 4 I may ask that question from time to time, but to the Page 10

Riordan\_Steve\_20090211.txt 8 Stanford Group Company. I'm not really sure. Q Okay. And Shenna George is one of her 9 10 subordinates? 11 A Exactly. 12 Q Okay. Look, I know this is a little bit 13 uncomfortable to ask these questions, but it's part of 14 what we do. 15 So what have you and Mr. Stys talked about in terms of your speculation about what this might be 16 17 about? A Well, I think we speculated about the -- the 18 19 bank CD. Neither one of us were ever really permitted 20 much transparency --21 0 Uh-huh. 22 A -- to that CD, so we -- we speculate, we kid 23 about what it might or not might not be. Neither one of us ever made it down to Antigua. I certainly wanted a 24 25 free trip down there, it never happened. We talk about

1 the performance track record, especially, you know, some 2 of the -- or primarily the numbers that were reported prior to both of our arrivals. I came on the scene only 3 a handful of months, if that, after Mark Stys was hired 4 by Stanford. He -- He hired me pretty much right away, 5 6 and we started work on, you know, fair and accurate 7 representation of performance.

so, you know, we talk about what happened 8 9 prior to our arrival and how -- you know, had there been 10 more hours in the day, maybe we would have done more to 11 go back further in time and look at those numbers too. Page 12  $\,$ 

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		Riordan_Steve_20090211.txt	
12	But we n	ever did that.	
13	Q	Okay. We'll obviously go through the timeline	
14	in a lit	tle bit more detail, but since you talked about	
15	Mr. Stys	coming in, was that in, what, mid 2006?	
16	А	Correct.	
17	Q	Okay. And you were hired fall	
18	Α	November of '06.	
19	Q	Okay. I think I may have seen some preliminary	
20	conversa	tions in October of '06. You may have started	
21	talking	to him?	
22	А	Absolutely.	ß
23	Q	Okay.	
24	А	My contract started November 3rd, 2006.	
25	Q	Okay. Okay. And did you-all have any	

- 1 what -- what specific conversations have you had about
- 2 the -- with Mr. Stys about the pre-2006 track record. Is
- 3 that -- when you say before your time, do you mean
- 4 pre-2006 track record?

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- 5 A Right. And actually we did end up going back
- 6 to 2005 and -- and creating a track record back to the
- 7 start of '05 so that they would have a three-year track
- 8 record as of the end of '07.
- a Q Okay. So when you're talking about speculating
- 10 about times prior to your involvement, do you mean 2004
- 11 and prior years?
- 12 A Those are -- I would consider 2004 and
- 13 historically to the -- the '04 year would be numbers
- 14 that, you know, I haven't touched, I haven't looked at, Page 13

Riordan\_Steve\_20090211.txt

- 19 go-forward basis, or do you mean model performance with
- 20 the benefit of hindsight? In other words, model
- 21 performance sitting here today and then calculating what
- 22 your returns would have been in prior periods?
- 23 A I think it could be interpreted as either one 24 of those.

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- 25 Q Okay. Do you know -- when you say Stanford was
- 1 using model performance in prior periods whether that was
- 2 a model calculated today and then the results were -- the
- 3 historical results were generated based on the model
- 4 today? Is that your understanding of their model
- performance? 5
- 6 A I can't say. I don't know.
- 0 Okav. 7
- A I don't know how they did it. And -- And that 8
- 9 again going back to my conversations with Mark that's
- 10 what we speculated about, one of the things that we
- 11 speculated about.
- 12 Q Okay. Is how they generated the numbers they 13 generated?
- 14 A Exactly.

15 0 Okay. And I think we talked in Boston a little 16 bit about the fact that, for example, I think in the 17 growth model in some of the early years the claimed track 18 record was, you know, 18 percent in one year where the 19 market was down 9 percent. Is that the kind of thing 20 that would cause you to at least want to look into the 21 results to see how they had, you know, managed to beat

Riordan\_Steve\_20090211.txt 15 haven't analyzed. So, yeah, those are the numbers that 16 we -- we discussed. O Okay. Did you and Mr. Stys come to any

- 17 conclusions regarding problems with the pre-2005 track 18 19 record?
- 20 A Well, I think we both agreed that we don't
- 21 really know, you know, what was being represented. I
- 22 think -- you know, our -- our -- our understanding is
- 23 that it's model performance. We don't know really any of 24 the details.
- 25 Well, I mean, I can't speak for Mark, but

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- 1 basically what he is telling me and, you know, speaking
- for myself is that we don't really know how they were
- calculated, what they represented and if -- and if a guy 3
- 4 like me were to come in, you know, and recalculate what
- 5 T -- you know, would T get the same number.
- Q Okay. To lay the groundwork for our later 6
- 7 conversation, this might be a good time to talk about
- 8 types of performance. You referenced model performance.
- So in your own words, when you say "model performance," 9 10 you know, what do you mean?
- 11
- A Model performance to me is a theoretical model. 12 Something you can put up on a white board or in an Excel 13 spreadsheet and calculate returns based upon what the 14 model holds, you know, over a period of time.
- 15
- Q Okay. And just to clarify, because I know the
- 16 industry reports these things in a lot of different ways,
- 17 or has historically. When you say "model performance,"
- 18 do you mean an actual model that you track on a Page 14
- Riordan\_Steve\_20090211.txt 22 the market by 27 percent? A Yes. 23 24 Q Okay. And I -- And I think when we talked in 25 Boston that you said, you know, with the benefit of 1 hindsight you would see that kind of thing as a red flag 2
  - now? A Yes.
  - Q Okay. And why is that?
  - A well. now that I have had three years to see
- 6 how they do perform relative to the market, you know, that would be significant out performance, so as a 7
- 8 practitioner and just as someone that has a genuine
- 9 intellectual curiosity for, you know, investment results,
- 10 I would -- I would definitely want to examine it further. 11 You know, especially having now the benefit of hindsight.
- That said, Stanford pays me at a per 12
- 13 hourly rate, so trying -- in the interest of being
- 14 efficient and accomplishing what they hired me to do, 15 never -- never oulled the covers back on those numbers.
- Q Okay. Again, we'll kind of go though the 16
- 17 timeline in a little more detail here in a minute.
- 18 But I know when you first got on the scene
- you did some kind of preliminary, you know, 19
- 20 back-of-envelope-type analysis of the model numbers; is 21 that correct?
- 22 A Yes.
- 23 Q Okay. Did you ever do anything like that
- 24 preliminary back-of-the-envelope review for pre-2005
- 25 periods? Page 16

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1	A NO.
2	Q Okay. Did you ever ask for data so that you
3	could do so?
4	A No.
5	Q Okay. Okay. Let's go through other possible
6	communications you've had with other witnesses. Have you
7	spoken with Mr. D'Amto since we talked in Boston?
8	Α ΝΟ.
9	Q Okay. Have you spoken with Mr. Comeaux since
10	we talked in Boston?
11	A No.
12	Q Any other senior individuals with Stanford
13	Management Company or Stanford
14	A I don't know if Rob Baker qualifies as senior,
15	but I was just at his wedding last weekend.
16	Q Okay. And Rob Baker is the gentleman that you
17	recruited to help run the internal performance reporting
18	at Stanford Group or Stanford Capital Management.
19	A Originally Rob subcontracted under under my
20	consulting firm to help me with the Stanford projects,
21	and then he flipped as a full-time Stanford employee and
22	is now managing directing of performance and reporting.
23	Q Okay. Have you had any conversations with
24	Mr. Baker about the SEC investigation?

Page 17

A Yes. You know, not that dissimilar from ---

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- 5 performance measurement.
- 6 Q Okay. Who -- What body provides those
- certifications? 7
- 8 A Both the CFA and CIPM are designations from the 9 CFA Institute.
- 10 Q Okay. And how long have you had those
- 11 designations?
- 12 A I received the CFA charter in 2000 and the CIPM 13 in 2008. The CIPM has only been around about two years.
- 14 Q Okav. What year did you get your bachelor's
- 15 degree?
- 16 Α '94.
- 17 Do you have any other licenses? Q
- 18 А NO
- 19 Q Okay. You're not a CPA?
- 20 A NO.
- 21 Q Okay. So just quickly walk me through your
- 22 work history post college?
- 23 A Sure, I started in 1994 with State Street Bank
- 24 and Trust and I was there for ten years, several
- 25 different departments; mutual funds, master trust, public
- 1 funds. Eight out of those ten years. I was in a
- 2 performance measurement role either as an analyst or as a
- 3 manager of analysts.
- 4 Then I went on to Investors Bank and
- 5 Trust, IBT, and I was their director of performance
- 6 measurement for three years, and then I started my own
- performance measurement consulting firm so -- after about

Riordan\_Steve\_20090211.txt 1 from Mark. You know. in that we -- well -- but I think with Rob the conversation is a little bit more focused 2 on, you know, he and I making sure that we both feel good 3 about what we did when we arrived on the scene. And I 4 5 know that Rob is very confident in everything from our arrival forward. 6 And we kind of laugh about the past 8 because we really just had nothing to do with it. So those are -- that's -- that's the gist of my 9 10 conversations with Rob is past versus present or from our 11 arrival forward versus our arrival, you know, pre -- or 12 predated our arrival. 13 Q Okay. So does he have any concerns about 14 personal exposure? A NO. 15 Q Okay. I think we'll come back to some of that 16 17 a little bit later. 18

Any other, you know, senior folks at either of the broker/dealer advisory firms that you have

- 20 talked to recently?
- 21 A I haven't spoken to anyone.
  - 0 Okay. What about e-mail correspondence?
  - А None.
- 23 24

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Q Okay. Okay. Let's go ahead and go through 25 just a few brief background facts just to establish your

1 credentials. Can you tell me about your education?

- 2 A Sure. I have a bachelors in finance from U Mass Amherst, I have the CFA designation and the CIPM 3
- 4
- designation, which is a certification in investment Page 18

Riordan\_Steve\_20090211.txt 8 13 years in the business, 11 years in performance 9 measurement I saw a need for performance measurement 10 expertise in the consulting world. So that's why I started the firm. 11

12 Q Okay. What kind of work did you at IBT more 13 specifically?

A Well, I had a team of about 16 people that 14 15 provided custody bank performance reporting for all types of custody bank clients and all types of assets and full 16 17 service reporting, meaning we did expos risk, we did 18 attribution, performance measurement, GIPS compliance. 19

So basically, you know, a very

- 20 comprehensive performance measurement reporting group 21 with, again, all different types of clients. Any client 22 of the bank could be a client of the performance group. 23 And these clients invested in all asset types, and we 24 provided every type of reporting that, you know, is
- 25 pretty much imaginable under, you know, performance

1 management reporting umbrella.

Q Okay. Let's talk about how you -- what prompted you to leave IBT. That was your most recent 3 4 employer before your consulting?

5 A Correct. I was working, you know, ridiculous amounts of hours, really did not like my boss. And, you 6 know, I just -- I had wanted to start my own businesses 7 8 for many years.

Q Okay. Again, we have to ask these kinds of 9

10 questions just to, you know, get background. You know, if we were to get your HR file, would there be any Page 20 11



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#### Riordan Steve 20090211 tyt

12	issues, anything like that, any performance issues or
13	any, you know, claims of misconduct, anything like that?
14	A No, absolutely not. I think my record my
15	my corporate work record is stellar. When I left IBT, I
16	gave them five weeks notice, which I thought was very
17	generous. I would never do that again.
18	And, you know, there are several senior
19	folks above my boss's level who I think I had an
20	appreciation for my relationship with my boss, and all
21	those individuals pretty much begged me to stay.
22	Q Good. Okay. So how did the consulting
23	business come to be? How did that get started?
24	A Well, you know, it really fell into place.
25	I Ironically enough I guess I guess it's

- 1 coincidentally as my hard drive crashing on the day of my
- 2 SEC testimony. I got a call from Mark Stys' wife.

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- 3 Carolyn Stys exactly three days after I had submitted my
- 4 resignation, so I was prepared to bartend, wait tables,
- do whatever it took, you know, until I figured out what 5 6
- my next move was. So the performance consulting business
- 7 wasn't, you know, at the top of my list the day I quit.
- It was -- It was floating around in the background, but 8
- it wasn't like this is, you know, real or feasible. a
- 10 So when Carolyn Stys, who I worked with at
- 11 IBT, we were involved in several client presentations
- 12 together, prospect presentations trying to recruit
- 13 business at IBT, we got a little bit of familiarity with
- each other. She knew that I knew my stuff when it came 14

Page 21

#### Riordan Steve 20090211.txt

- 19 a contract for an initial three-month engagement.
- 20 And, you know, come the end of my five
- 21 weeks notice at IBT. I took a week off and then pretty
- 22 much started working for Stanford on a consulting
- 23 contract basis almost immediately.
- 24 Q Okay. A minute ago you made a reference to
- 25 getting the train back on the track. What had Mr. Stys
- 1 told you at the outset about, you know, what the issues were? What you needed to come in help with? 2
- 3
- A well, Mark didn't have, you know, the real 4 detailed understanding that I was able to gain after
- about a month on the ground. His sense was that they 5
- were using several different performance reporting 6
- platforms both at, you know, headquarters in Houston and 7
- 8 then also at some of the other offices around the
- 9 country.
- 10 And so his -- his, you know, elevator
- 11 speech to everyone in my first early days, is we brought
- 12 Steve in because we have seven different performance
- 13 reporting platforms. They really had three, but he
- 14 thought there was seven. Because he would hear things
- 15 from different -- and maybe different -- different shops
- in the Stanford network were maybe using something that 16
- we didn't know about or never really, you know, did due 17
- 18 diligence on. We knew people were, you know, dabbling
- 19 with spreadsheets and. 20
- You know, the -- the short story is they 21 were producing numbers from a variety of different

- Riordan\_Steve\_20090211.txt
- 16 So when her husband went to Stanford and
- 17 started recruiting, he was recruiting for a performance
- 18 measurement manager he asked his wife to reach out to her
- network and see if she knew anyone. So she called me. 19
- 20 And so she set up a meeting between Mark and myself, and
- 21 we talked about what you know -- what he was trying to
- 22 accomplish at Stanford.

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- 23 We talked about whether I knew anyone that
- 24 would be a good fit. And, you know, the conversation
- 25 came -- kept coming back around -- pardon me -- to that I

1 would be a great fit, but the snag was there was no way I was going to move to Houston. And so we -- I can't 2 3 remember exactly whether it was his idea or my idea -- I 4 think it was my idea -- that said, well, why don't you 5 let me help you as -- on a consulting basis, and in the 6 meantime I will search -- or I will help you with your 7 search to find a full-time person. 8 And, you know, his sense was pretty urgent

9 that they weren't feeling too good about the performance 10 numbers that were being reported at the time and they really needed somebody that knew operations like I did 11 12 that could get in and make some guick fixes and get the 13 train back on the track.

So it worked out great. And, you know --14 15 so Stanford became my first client. So like I had said

- 16 before, I had -- I had given five week's notice, and
- 17 during that time I started to do little things to get my

18 business set up, you know, talked with Mark about getting Page 22

- Riordan\_Steve\_20090211.txt 22 applications, and the two guys that they had in the
- 23 operation at the time were not performance savvy, you
- 24 know, they didn't have the performance background, and

25 they were struggling with why the numbers didn't match,

1 how they could get, you know, the numbers to match, or 2 which system should be the, you know, book of record as 3 far as the performance number goes.

4 So that was one of my first orders of 5 business was to figure out what's the best system, what system is going to satisfy the largest percentage of, you 6 7 know. Stanford clients that -- that need performance 8 reporting. And then, you know, get everybody going in the same direction on that system. 9

10 o okay. A couple of things you mentioned, you 11 say they were three platforms to your knowledge. What --12 Describe each of those.

A There was the Advent platform, which was --13 14 ended up being my recommendation as the best platform, 15 Advent AXYS. And then they were using two systems

- provided by their -- their new clearinghouse and custody 16
- 17 bank Pershing. And -- And that was part of the problem,
- too, they were -- they had just converted. Literally 18
- 19 when I -- when I landed on the ground, they were wrapping
- 20 up a conversion from Bear Stearns to Pershing.
- And so Pershing offered two -- you know, 21
- 22 Pershing based systems for performance reporting. One is
- 23 called Lockwood, and I can't recall the other name of the
- 24 other Pershing performance system. But essentially, you
- got the Lockwood system if you were signed up for Page 24 25

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- Pershing managed accounts and everybody at the custody
   bank got the other Pershing, you know, performance
   system, or could report performance results from this
- 4 other Pershing system.
- 5 Q Okay. And which products are -- were being run
- 6 through these performance systems? In other words, what 7 were you looking at?
- 8 A That's a good question. At the time I still
- 9 was -- was trying to get my arms around what all the
- 10 different investment programs were at Stanford, but
- 11 essentially it's everybody that had custody at Pershing
- 12 could receive performance from one of the three. There
- 13 was definitely a much smaller subset of accounts that
- 14 were on Advent, because Advent incurred an additional 15 cost.
- 16 Q Okay. So Advent is the third-party service 17 provider?
- 18 A Correct.
- 19 Q Okay. And so how was -- was the additional
- 20 charge on a per client basis?
- 21 A Per account.
- 22 Q Okay. So for every account they ran through --
- 23 Stanford ran through Advent they incurred additional
- 24 fees?
- 25 A That's correct.

Page 25

- Riordan\_Steve\_20090211.txt 5 Q Okay. we'll talk about the timeline on when 6 you did what later A Right 7 8 Q But what -- what to your knowledge were they 9 doing in terms of performance reporting, you know, in --10 in terms of pitch books or, you know, what they were 11 providing in terms of -- composite may not be the right 12 term, but in terms of, you know, figuring out the global 13 performance as opposed to individual performance. 14 A I knew very little, if anything. My sense was 15 that they were using the model returns that were calculated in the investment advisory group by Ken 16 Johnson. I never saw any pitch books or marketing 17 18 materials, but my understanding -- that could be the only 19 source that would have been for the marketing, because
- 20 Jose was running around trying to get account level
- 21 performance right. So any type of compilation coming out
- 22 of his -- you know, off of his desk was highly unlikely.
- 23 Q Okay. So before you came in, to your
- 24 knowledge, there was no composite performance?
- 25 A Correct.

п

1 Q Okay. And now be a good time to stop and

- 2 define composite performance.
- 3 A Sure. Composite performance is, you know -- is 4 sort of the fundamental basis for the CFA Institute GFPS
- sort of the fundamental basis for the CFA Institute, GIPS
   performance presentation standards, which is GIPS is
- 6 Global Investment Performance Standards. So in order -
- 7 as one of the many components for a firm to claim GIPS

Riordan\_Steve\_20090211.txt Q Okay. So when they first got there -- when you 2 first got there, were they trying to steer accounts -- or 3 leave accounts on Pershing if they could to avoid the 4 cost? 5 A well, that's a good guestion. You know, the

6 way it -- they were doing things when I got there didn't 7 make a whole lot of sense to me, it didn't appear that 8 there had been a very good plan as to which accounts were

- 9 on Advent versus which accounts were not.
- 10 I mean, I literally spent probably a week
- 11 with the guy that was in charge at that time, Jose
- 12 Flores, trying to figure out his -- the method to his
- 13 madness as to -- because he had the power, essentially,
- 14 to add accounts to Advent. So typically Advent had a
- 15 little bit more robust reporting than Pershing.
- 16 So if an adviser from anyone of the
- 17 Stanford offices called up Jose and said, I want my 18 account to get Advent reporting, he would call up Advent 19 and have the account added.
- 20 0 Just so we're clear, when you refer to
- 21. performance, are you referring essentially to account
- 22 statements that were going to clients?
- 23 A Correct.

4

- 24 Q Okay. What about the tracking of performance
- 25 for the purposes of, you know, marketing, advertising, I?
- 1 Know that eventually you went to composites, and that was
- 2 part of your role was to compile composites for '06.
- 3 Well, eventually '05 forward, correct?
  - A Correct. Page 26
- 9 essentially you construct a composite of account level or
  10 account level portfolios that all subscribe to the same
  11 or similar investment strategy and you compile a
  12 composite calculation based upon an aggregation of those
  13 underlying accounts at an either equal weighted or asset
  14 weighted calculation methodology.
  15 Q Okay. And when you compile the composites for
  16 stanford, did you do it on a weighted average basis?

Riordan\_Steve\_20090211.txt 8 compliance there is a composite construction element, and

- A Yes.
   Q Okay. So for a simple attorney essentially,
   did you take the calculated returns for each account,
   multiple those times the balance at, what, end of the
- 21 period?

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- A Beginning of a period.
- 23 Q Beginning of the period. And then just took a
  24 weighted average and that would be the return for each
  25 asset class?

1 A Each strategy, each -- each composite that I 2 constructed. correct.

- Q Okay. And would an example be, you know, SAS
   growth or SAS growth income, when you say each strategy?
   A Yes. Yes. We built six -- initially, there
   were six main strategies that we built composites for
   that had the bulk of the assets in the SAS program, and
- 8 those were SAS growth, SAS EFT -- I'm sorry. SAS
- 9 alternative, SAS income, SAS balance growth, SAS balanced
   10 income, and SAS income. Was that six? Did I repeat
  - income, and SAS income. Was that six? Did I repeat
    myself?

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12	Q It's okay. We can hopefully we'll I've
13	got a couple of exhibits that we can kind of go through
14	that may that we can nail those all down.
15	Since we started down the GIPS compliance
16	path, I think one of the things we talked about a lot in
17	Boston with the process for selecting accounts for a
18	given strategy and how accounts might be included or
19	excluded from the final calculation of the composite.
20	From a GIPS compliance standpoint, one of the rules on
21 .	that, I think I have read something about you've got to
22	be able to say that you include what is the threshold
23	of of accounts managed? I think I have read somewhere
24	that you have to at some at some point you have to

25 include all the accounts; is that correct?

1 A In order to claim GIPS compliance, every 2 account -- every discretionary account must be included

3 in a composite. Every account in the firm as you define

- 4 it, so the firm has, you know, some leeway in how they
- 5 define themselves as a firm, but every discretionary
- б account within that firm needs to be in at least one
- 7 composite.
- Q Okay. So if Stanford were to move toward GIPS 8
- q compliance would all the SAS accounts that are
- designated as such have fall into composite? 10
- 11 A Yes.
- 12 o okav.
- 13 A Unless they're client imposed restrictions
- 14 of -- for an example, you know, a client might come to

Page 29

#### Riordan Steve 20090211.txt

- 19 And the reason is you have transactions
- 20 potentially posting on different days potentially even
- in -- in different amounts, you -- you run the risk of 21
- 22 having two different pricing -- two or three different
- 23 pricing sources, so at the end of a period when you go to
- 24 measure performance you actually will have a different
- 25 valuation, which is going to produce a different number.
- 1 So, you know, every reason -- every -- you 2 know, every reason that there is in the book is the 3 reason why his numbers weren't tying out, and not being a 4 performance guy, you know -- I had experienced that firsthand in my career, so I was able to on the first, 5 6 you know, hour of talking to Jose, I mean, here is why your numbers don't match. 7 0 Okav. 8 9
  - A They had a very logical explanation.
- 10 Q Because they're using different platforms that 11 include different assumptions?
- A Different pricing, you know, so you had 12
- 13 different valuations. Advent is using, you know, their
- 14 own pricing source, Pershing is pricing assets according
- 15 to their pricing sources, so differences in valuations.
- 16 Advent was providing a back office, you know,
- 17 reconciliation service for Stanford, but that's not to
- 18 say that all transactions posted to both systems on the 19 same day, so you had some variance there as well.
- Q Okay. 20
- 21 A I guess to elaborate the point to the fullest Page 31

- Riordan\_Steve\_20090211.txt 15 the table with a million dollars and say, okay -- or let 16 me make this really simply. 17 They come to the table with a million dollars worth of IBM stock, and they, okay, I want to be 18 19 in the SAS growth program, but I want you to keep half of 20 my portfolio in that IBM stock and the other half of my portfolio can go into SAS growth, that by definition 21 22 would be nondiscretionary and excluded
  - 23 Q Okay. But any discretionary account that is
  - 24 supposed to track the strategy would be included under
- 25 GIPS in some calculation: is that correct?
  - In at least one composite, that's correct. А
    - Q Okay, Okay, That's good for now.
    - when you talked -- When you were
- 4 explaining the three platforms earlier, you said
- 5 something about Jose being confused about the numbers not matching? 6
- 7 A Yes.

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- Q What do you mean by that?
- 9 A Well. you know, it's just the nature of the
- 10 game in performance is that everything if isn't precisely
- 11 the same you will get a different number. It's just a
- fact of -- it's a mathematical fact that a lot of people 12
- 13 don't understand There are a lot of firms out there
- 14 over the years, and I think there is less and less, that
- 15 may run two or more platforms for good reason and, you
- 16 know, try and throw a lot of man hours in trying to keep
- 17 those two systems in sync. It's -- it's very, very
- 18 difficult to do. Page 30
- Riordan\_Steve\_20090211.txt 22 extent is another number that would jump into the mix, I 23 think, would be the -- the model numbers calculated by 24 Ken Johnson in the investment advisory group, which, you
- 25 know. I think would reach Jose's desk in a similar
- 1 fashion to it reaching my desk when I got on board, you 2 know, probably a hard copy, PDF report, that showed what the model held as of the month end and the return number. 3
- 4 So it would show the model, name, the securities within
- 5 the model, the weights of each security. I think the
- return of each security, and then a total return at the 6 7 bottom.
  - And so I think that -- and this is
- speculation, but it's -- I think it's pretty educated 9
- 10 speculation, that if there were marketing materials that
- were sourcing Ken Johnson's work and those pitch books 11 12 marketing materials made their way to the investment
- 13 advisors, those advisors would call Jose and say, Jose,
- 14 why doesn't my account match the marketing materials.
- 15 And Jose didn't know.

8

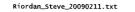
- So that I think is again sort of when Mark 16
- 17 Stys says we have got seven different, you know, numbers
- for the same -- that should be the same number, that's 18
- kind of where I think, you know, he was getting his info, 19 20 one of those -- one of the places.
- Q Okay. 21
- A Is advisors coming to Mark and Jose going, what 22 23 the heck is going on with these numbers?
- 24 Q Right. And we'll get into it in a little bit,
- 25 but, in fact, some of those issues came to a head later Page 32



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- 1 where a financial advisors had complained about that
- 2 specific issue their clients not getting a track record
- 3 that may have been represented to other investors?
- 4 A Exactly.

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- 5 Q Okay. I want to go through a couple of things
- 6 real quickly on the terms of your engagement and then
- 7 we'll come back to, kind of, what you found when you
- 8 first got there and then walk forward.
- 9 So I think we established in Boston, I
- 10 will just walk through this pretty quickly, you worked on
- 11 a contract basis for Stanford at initially \$125 an hour?
- 12 A Three month contract at 125.
- 13 Q Okay. And eventually -- And eventually your 14 rate increased to?
- 15 A We renewed for another six months after the 16 three months was up at 150.
- 17 Q Okay. And -- And now I think -- I think you
- 18 told me more recently you charge on a per audit basis as
- 19 opposed to an hourly fee: is that right?
- 20 A The stent -- The work I do for Stanford is, you
- 21 know, scaled back significantly since March of '08, and
- 22 since March of '08, I pretty much have only been brought
- 23 in on a quarterly basis to review their composite numbers
- 24 or to perform what we call in the business a composite

25 examination, which is a pretty thorough look at each

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Riordan\_Steve\_20090211.txt

5 little bit about when you got started at Stanford. Day one what is your understanding of your marching orders? 6 7 A Day one marching orders were to get performance 8 reporting on track, meaning, you know, producing numbers to the clients that we thought were accurate and 9 10 meaningful, and to make a recommendation on the best system to do that out of all the competing systems. 11 12 They also were in the process of contract 13 negotiation with a firm called Odessy and a product 14 called AAA, and they also wanted me to kick the tires on 15 that product because that was their -- their platform for 16 portfolio management and client reporting of the future. 17 Q Okay. So when you say "performance reporting," 18 you know, getting it on track or -- can you give me a 19 sense of the scope? I mean, what -- what assets are you 20 talking about? What -- I mean, were you looking at 21 everything? Were you trying to look at, you know, SAS, SIM, you know, coins and bullion, CDs? What was your 22

23 initial scope?

- 24 A They asked me to look at everything. In --25 In -- That reminds of one of the other original marching
- 1 orders which was to be able to report accurately the
- 2 client's entire wealth picture with Stanford, so to
- 3 incorporate all asset types into the performance report
- 4 so that would include the -- the gold and bullion and
- 5 precious coins, the Stanford International Bank CD and 6 any other Stanford managed account program.
- 6 any other Stanford managed account program.
  - So at the time, they had built a

Riordan\_Steve\_20090211.txt 1 composite, and I do charge them now on a per composite 2 basis at \$750 per composite. 3 And the going rate, just to put it into perspective I have by the verifiers, the GIPS compliance 4 verifiers such as the big four accounting firms, they 5 6 charge as much as 3,000 per composite to do a composite examination. So I get -- because Stanford is a near and 7 dear client to me T give them -- bless you -- T give 8 them a substantial discount. 9 10 The other -- The other point. I quess. I

11 would have to make there in the interest of full

- 11 Novid have to make there in the interest of fair
- 12 disclosures mostly composite examinations are performed 13 on an annual basis at -- at the tune of 3 000 whereas T
- 14 come in guarterly at 750.
- 15 Q which works out to 3,000?
  - A Right.
  - Q Okay.

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- A Tough economy out there.
- O Sure. You got to get by.
- Okay. So when you first started work I
- 21 think you told me you were working 40-, 50-hour weeks in 22 terms of billables?
- 23 A Correct.
- 24 0 Okay. I think you said you worked -- you
- 25 had -- had an agreement, some sort of form consulting

1 agreement that you entered into with Stanford and it was 2 renewed several times; is that correct?

- 3 A That's correct.
- 4 Q Okay. So what's -- you know, we have talked a Page 34
- Riordan\_Steve\_20090211.txt 8 home-grown system that was able to at least report that 9 to the client on a valuation basis so as of a month end 10 or quarter end or year end they could value all of those 11 assets classes that I just mentioned and give the client 12 a total wealth picture from a valuation perspective, but 13 it's a whole other ballgame to bring that to the next 14 level and actually calculate a rate of return, which was 15 a lofty goal that they had when they brought me in, and 16 one that was I was not able to deliver. 17 Q Okay. So in general to simplify was it to --18 to combine all the assets for a given client and 19 calculate a vield or internal rate of return for their 20 entire portfolio? 21 А Correct.
- 22 Q Okay. So that was the end goal?
- 23 A Correct.

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24 Q Okay. Since you mentioned it. Why weren't you 25 able to get to that end goal?

1 A Well, in order to do that -- in order to report performance on all those other assets classes, you need 2 to bring all the data into one place so that you can do 3 the calculation, and so, you know, to give an analogy it would almost be like, you know, trying to pull together 5 6 three different firms and calculate an apprepated performance, because the -- the rare coins and precious 7 8 metals were on one system and the -- the bank CD was on 9 another system and the other sort of more traditional 10 retail assets were is on, you know, a third system. So I was never able to successfully, you Page 36 11

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Riordan\_Steve\_20090211.txt Riordan\_Steve\_20090211.txt with the guys at the international bank. You know, I 15 12 know, get all the data to come into one place in an 16 consulted with Advent, you know, to see what they needed automated, reconcilable fashion to calculate an accurate 13 in order to make this happen for me. 17 14 return. My understanding is they're a lot closer to that And, you know -- and it wasn't a clear 18 goal today with that new Odessy platform. 15 19 direction even one way or the other. I mean, the senior 16 There is also reluctance. I think, to do 20 folks that I was reporting into. Mark and Zack 17 it within Advent, which was my recommendation, because 21 specifically 18 the powers that be, the senior management folks, felt 22 Q Mark Stys and Zack Parrish? 19 that that would be throwaway development. Because, A Exactly. Would not -- Would waiver back and 23 20 again, Odessy was the platform of the future. Advent is 24 forth as to whether they wanted to do the work and do it 21 the legacy platform. 25 on Advent and make it happen or wait it out and do it 22 Q What type of data would you have needed with п 23 respect to the CD program in order to calculate a yield? 24 A Well, we needed really just in the simplest 25 forms you could take beginning and ending valuation and that road. And, you know, produced some -- some 1 then any client, you know, contributions or withdrawals 5 2 out of the CD. If you have those data points, you can done. 6 3 calculate a return. 7 0 Q Okay. So you weren't asking for any underlying 4 talking to folks from the international bank that's 8 5 bank investment information, simply cash flows? 9 Stanford International Bank? A Cash flow and valuation that's -- that's all a 6 10 A Correct. 7 performance guy needs.

Q Okay. What steps did you take to try to get 8 9 that information? 10 A Well, you know. I tried to learn as much about.

11 you know, the -- the different assets and platforms they

12 were -- they were on today as I could to see how I could

13 plug into it, so I had meetings with the guys that ran.

you know, precious metals and rare coins. I had meetings Page 37

#### Riordan\_Steve 20090211.txt

- Q Okay. And was the purpose of your
- 20 conversations to get information regarding the CD cash
- 21

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22 A The purpose was -- was to specifically figure

23 out how I could get a data feed from the bank's platform.

- 24 which is -- which was another complication, because they
- were in the midst of a conversion as well going from, you 25
- 1 know -- I can't remember the name of the two platform off

2 the top of my head. It's in probably in a lot of my

notes. But one was called data something and the other 3

was called -- began with a T. 4

5 Q Tamemos or something?

A Teminos. And, you know -- so that was another 6

7 resistance, I guess, or another challenge, as we like to

8 say with a positive spin in the consulting world, is

q that, again, are we going to do throwaway development to

10 build a feed off of the bank's legacy platform that's 11

going to be throwaway when they go to Teminos. 12

So that was probably one of my most vivid 13

memories of my dealings with the bank is I was in San 14 Francisco at Advent headquarters T had all of their

15 bigshots around the table, including their TT folks, T

16 had set up a call with the head of IT at the bank and the

17 president of the bank, and we were going to talk about

- 18 how we could make this happen.
- 19 And, you know, the guys -- the senior guys
- 20 at the Advent -- on the Advent side of table were there
- 21 to let the guys in Antigua know that, hey, we do this all

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# 1 Odessy, so, you know, Mark's kind of general approach 2 was, well, see if it can be done. See how long it would 3 take. See how much it would cost. And so I started down

documents that pretty much road mapped what needed to be

Okay. A moment ago you said something about

- The issuer of the certificates of deposit? 0
- I don't know what -- what they do exactly. I 12 ۸
- talked to the president, I believe, of --- of SIB as they 13
- 14 call it. S-I-B.

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- 15 Q Uh-huh.
  - A I forget his name Juan or Jose.
  - Okay. The president of the Antiqua Bank? 0
    - Correct. Page 38
- Riordan\_Steve\_20090211.txt 22 the time. This is what we do. You know, the president

23 of the bank in Antigua always, always -- could never have

a conversation with him that didn't talk about client 24

confidentiality and confidentiality of the data and how 25

1 it was his number one priority to preserve that 2 confidentiality.

So Advent having done a lot of work with з 4 Swiss banks and the like had experience, they knew about 5 masking, you know, account I.D.s, so they were there to, 6 you know. talk about their experience with it and provide a level of comfort that said, hey, we can do this.

8 I mean, from Advent's perspective, they're trying to get keep the business, they're aware of this 9 10 Odessy player coming into the game and they want to keep 11 the business. So, you know, I said vivid memory because 12 Juan or the president of the bank, whatever his name is, 13 he blew up the meeting, made me look like a jackass -- I 14 don't know if I can say that on the record.

o Sure. 15

16 Yeah. But he basically made me a look like an 17 idiot because -- he stonewalled the whole thing and 18 practical hund up on us

- o okay. What prompted the blow up?
- 20 A Well, you know, I think we were -- we were
- 21 still in the brainstorming mode as to where the data was

22 going to live after it got exported from the bank, and in

- 23 the current -- the current infrastructure or architecture
- 24 of -- of the way Advent worked with Stanford on their

retail data, Advent had the data on their servers and Page 40 25

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they sent Stanford a copy of that data via FTP every - every morning.
 Q Uh-huh.

A So essentially the flow would go like this, you
know, Pershing custody account data would go to Advent,
they would do all the reconciliation of share positions
and market values, send that data -- a copy of that data

- 8 back to Stanford. I mean, it was an outsource.
- 9 So when I think Juan got the sense that

10 the bank data would be the same, you know, sort of fall

- 11 in line with the same scenario, and he was very reluctant 12 to have any of that bank data leave the stanford world.
- And so we were like, hey, we're -- we're brainstorming.
   There are -- There are options. It doesn't have to live
- 14 Inere are -- Inere are options. It doesn't have to live 15 at Advent.
- And so that's -- that was pretty much the
  primary reason the call blew up was he was concerned that
  the data was going to leave the Stanford world.
  Q And -- And what did he say when got off the

20 line?

- 21 A He just said that was a deal breaker and, you 22 know --
- 23 Q So providing the CD cash flows to Advent was a 24 deal breaker.

A Having data leave Stanford's world is -- was

Page 41

- Riordan\_Steve\_20090211.txt
- one guy at the company determining the price?
- 6 A Yes. Joe -- Joe Freeze or Freedman the head of
- 7 the division, he -- he and his wife -- my understand was
- 8 he and his wife priced everything on a spreadsheet on a

9 quarterly basis. And from a performance guy's

10 perspective that just never sits well.

11 Q What are the problems with that?

- A well, you know, it can really -- you know, it
  can really affect your performance, especially if I'm
  trying to bring that number into, you know, a bunch of
  numbers that are market priced, so I'm mixing apples and
- 16 oranges in the same bag.

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- Q okay.
   A And actually, my recommendation to Zack Parrish
   and Mark Stys after I learned more about the rare coins
   was to absolutely not even attempt to include that in a
   client total return number. You know, put it on the on the page as a value or an estimated value, but don't
   include it in your rate of return, because it's going to
- 24 skew it up or down based upon an arbitrary valuation.
  25 Q Okay. what came of those recommendations?

A I'm not sure. I really don't have a lot of visibility into where they are with the Odessy platform today. Rob Baker would be able to speak to that in detail. I know -- All I can say is that I know Rob has had more success in this integration with the other assets into the Odessy platform than I did with Advent. Riordan\_Steve\_20090211.txt 1 the deal breaker.

Page 1 of 10

z Q Okay. And specifically the data regarding the certificates of deposit? 3 4 A Correct. 5 0 Just to wrap all this up. Is it fair to say that all your efforts to get cash flow information 6 relating to the CDs were fruitless? 7 A Yes. Q Okay. And I think you used the word 9 10 stonewalled when we were in Boston and just a minute ago? 11 A Yes. 17 0 Okay. So again, I'm trying to narrow the scope 13 of what you were doing when you first got there. You said you had those challenges with the CDs, so 14 15 essentially you had no data so you couldn't do anything 16 with the CDs. correct? A I ended up doing absolutely nothing with the 17 18 CD. Q Okay. And then I think -- I don't want to 19 20 belabor the issue, but when we talked in Boston, I think 21 you talked about gold and bullion and there were 22 challenges regarding the pricing? 23 A Correct. 24 0 Okay. Was it generally that some of those assets it's hard to get publicly available price data? 25

1 A Yes. They are very subjectively priced 2 especially the rare coins. 3 0 0kav. And -- And in Stanford's context when

 4 say subjectively priced, I think you made a reference to Page 42

Riordan\_Steve\_20090211.txt the -- Are some of the problems with the subjective 9 nature of the gold and bullion valuations just that you 10 don't have an objective, kind of, third-party valuation 11 that you can rely on? 12 A well, that's really out of my comfort zone,

13 that asset class. I know they had a system called 14 Inteleguote, and I'm not sure how accurate that system is 15 and how -- how much that system is used in the actual 16 final valuations. So for -- you know, and I only met with -- with the gold and coin guys for probably two 17 18 hours total in my engagement there, and my sense of the matter -- of -- of the sense I got from the head of the 19 division was that he knew more than anyone else in the 20 21 business and what he thought a coin was worth was what it 22 was worth.

23 Q okay. And what gave you that -- how did
24 you reach the conclusion that they were doing their own
25 kind of, you know, discretionary pricing for lack of a

1 better term?

2

- A He told me.
- Q Okay. He told you that's he how he did it?
- 4 A I think he used -- he had -- you know, there
- 5 was a method to his madness, but at the end of the day I 6 think the final number was he maybe looked at this
- 7 source, this source, and this source and said here is the 8 number.
- 9 Q Okay. And in the performance world it seems to
- 10 me, and this is one of the problems there that you're
- 11 grading your own cooking to a degree? Page 44

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12	A Absolutely.	
13	Q I mean, so I mean, he's putting someone in	
14	that asset and then he is telling them that that asset	
15	has increased in value presumably?	
16	A Exactly. And then, you know, he pretty much	
17	justified it at the end of the day just I guess as you	
18	would in the real estate market and a rare coin is what	
19	somebody is willing to pay for at the end of the day, so,	
20	you know, there's a number of different ways they sold	
21	these coins.	
22	You know, they had all these different	П
23	types of, you know I don't know coin geek conventions	
24	or auctions and, you know, several different ways to sell	
25	a coin and until you bring that to bear, what is it	
	13 14 15 16 17 18 19 20 21 22 23 24	<ul> <li>12 A Absolutely.</li> <li>13 Q I mean, so I mean, he's putting someone in</li> <li>14 that asset and then he is telling them that that asset</li> <li>15 has increased in value presumably?</li> <li>16 A Exactly. And then, you know, he pretty much</li> <li>17 justified it at the end of the day just I guess as you</li> <li>18 would in the real estate market and a rare coin is what</li> <li>19 somebody is willing to pay for at the end of the day, so,</li> <li>20 you know, there's a number of different ways they sold</li> <li>21 these coins.</li> <li>22 You know, they had all these different</li> <li>23 types of, you know I don't know coin geek conventions</li> <li>24 or auctions and, you know, several different ways to sell</li> </ul>

1 worth?

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- 2 Q So in other words, until you actually have a
- 3 sale, it's worth what you say its worth?
- 4 A Exactly.
- 5 Q Okay. Okay. So you weren't able to do
- 6 anything with the CDs, you weren't able to do anything
- 7 with gold -- the gold coin operations, correct?
- 8 A Correct.
  - Q Okay. So what does that leave?
- 10 A We're back to just really the assets in
- 11 Pershing, you know, the -- the more traditional assets.
- 12 And so, you know, I felt like there was enough work to be
- 13 done there to clean up that process and to put in a tight
- 14 operational process, get good, clean and accurate results

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- 19 onto bigger and better things, as we like to call it, and
- 20 I recruited some people I knew in performance reporting
- 21 and we put in an operation and we basically plugged in an
- 22 operation.

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- 23 At that same time, you know, Rob Baker
- 24 was -- was working on a lot of that stuff, too, but he --
- 25 he slowly started to get pulled into more of the Odessy
- 1 type of stuff, so that's how he and I as consultants
- 2 started to the divide and conquer a lot of work.
- 3 I mean, that's why we were easily billing,
- 4 you know, 40 plus hours a week. We were buried. We were 5 like full-time employees.
- 6 Q Okay. And so these Pershing accounts were
- 7 these largely the managed accounts like we have talked
- 8 about earlier. the SAS models?
- 9 A The bulk were probably retail. So just, you
  10 know, managed by the -- the adviser.
- 11 Q Okay. So they didn't necessarily fall into a 12 specific strategy?
- 13 A Correct. I mean, even to this today I think
- 14 SAS has only about 7,000 accounts, so these were -- and
- 15 you know, there's a handful of other Stanford programs.
- 16 They had PA, which was called portfolio advisers they had
- 17 PP, which was portfolio partners, they had SAM, which was
- 18 Stanford asset management, which was a global fixed
- 19 income strategy.
- 20 But even after naming all those strategies
- 21 I think that still only may be gets you up to 8 or 9,000

- Riordan\_Steve\_20090211.txt 15 out of Advent, take it a step further along and build 16 these composites for marketing purposes that I attacked 17 that. 18 That was something that, you know, suited
- 19 my background and there was plenty of -- of work to be
- ty my background and there was prenty of the work to be
- 20 had, so, you know, just to give you an appreciation some 21 kind of scope. is at this time there was probably about 4
- 22 to 5,000 accounts on the Advent platform.
- 23 Q And this time is early '06 or late '06?
- 24 A Late '06.
- 25 Q Okay.

1 A Early '07. So come spring of '07, February 2 march, I'm actively helping executive level management at 3 stanford, Jason Green specifically, negotiate a new 4 Advent contract. And I convinced all the powers that be, 5 Jason Green, Mark Stys, Zack Parrish, that until this 6 odessy thing is up and running, which was at least

- 7 everyone agreed that that was a year or two year -- a
- 8 year to two years away, that we were going to make the 9 best out of Advent.
- 10 So we signed a new Advent contract that I
- 11 helped negotiate, and come March of '07 we went from
- 12 5,000 to 22,000 accounts on Advent. And so there was
- 13 plenty of work there to make that happen, and then put a
- 14 process in place, you know, we recruited a team of people
- 15 to support it, so that's when all of those things were
- 16 going on.

17 The -- The legacy performance people were

- 18 moved out of the scene by that point. They had moved Page 46
- Riordan\_Steve\_20090211.txt 22 accounts, and so the rest were just, you know, your
- 23 typical retail financial adviser type accounts.
- 24 0 Right. In terms of assets, though, SAS was
- 25 pretty big piece, I understand?
  - A Yeah, absolutely.
- 2 Q Okay.

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- A Absolutely.
- 4 Q And we'll go through these in a little bit, but 5 I think of got you -- kind of your three-year audit --
- 5 I think of got you -- kind of your three-year audit --6 A Okav.
- 7 Q -- numbers and we'll go through those. But, 8 for example, in '07, you got percent firm assets SAS
- 9 growth 38 percent?
- 10 A Well, that's -- that's misleading. That's a 11 misleading report. That's because we didn't have a
- number for firm assets, in order to make that report run
   you need to plug a number, so the number I plugged was
- 14 actually SAS assets. So each composite is -- is
- 15 expressed as a percentage of SAS assets not firm.
- 16 Q Okay. But the end of year assets in each
- 17 strategy should be accurate?
  - A Yes.
  - q okay.
- 20 A At the strategy level that should absolutely be
- 21 accurate, the firm numbers are bogus.
- 22 Q Okay. But in theory you should able to get
- 23 pretty close by taking the end of year SAS number from
- 24 your reports and then just dividing it by the total
- 25 managed by Stanford Capital Management? Page 48

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1 A If you were to sum those up the entire SAS program and then divide it by total Stanford assets, if 2 R you were able to got that number then you would be able to get the percentage of SAS Yeah 4 Q Okay. 5 6

A I never saw a number like that, but in order to claim GIPS compliance, that is a number they would have 8 to get to on at least a monthly basis is what our firm asset as the firm is defined. And they weren't there, so

- 10 I pluaged the number in. 11 Q Okay. So let's focus a little bit on, you
- 12 know, the SAS or MFP, when you got there had it already
- 13 changed names from Mutual Fund Partners to SAS?
- A It had. 14

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- 15 0 Okay. And just for the record what does SAS 16 stand for?
- 17 A That is a good question. I think it's Stanford 18 Allocation Strategy.
- 19 Q That's correct, Okay,
- So -- So when you first got in, what were 20
- 21 your responsibilities or what did you do relative to SAS 22 and --

23 A Well, you know, another good question. There

were pulling me in a lot of different directions when I 74

25 first arrived. It was almost like, you know, a relief I

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Riordan Steve 20090211.txt

- BY MR. KELTNER:
- 6 Q Okay. I'm going to go ahead and hand you a
- 7 document that I'm marking as Exhibit 30, and I'll
- represent to you that this came from your electronic 8
- 9 production and based on some e-mail correspondence that I
- 10 have seen, I think this may represent the analysis you
- 11 were just discussing.
- 12 But can you take a look and tell me what
- 13 Exhibit 30 is?

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A Yes. This Exhibit 30 looks exactly to be what 14 15 I was just speaking about.

Q Okav. So just in -- let's start at a high 16

17 level and explain to me what Exhibit 30 is and then let's 18 walk through it a little bit.

19 A Okay. Well, it looks like I took the model

- 20 returns as they were calculated by the folks in lason 21 D'Amto's group in IAG, and then I believe at this time.
- 22 you know, this was still very early and -- and Jose was
- 23 still in the picture, so I asked Jose to give me a dump
- 24 out of AXYS, because at this point in time I still didn't
- 25 even have access to AXYS, which is the Advent product.
- 1 And so he had -- in Advent there is -- you can label an account with a strategy or an objective. 2
  - o Uh-huh.

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- A And so Jose gave me a dump of account level
- 5 returns for each month end from October, '05 through
- 6 September, '06 that were labeled as such. Now, he had no
  - faith or confidence that those labels were correct or

- Riordan\_Steve\_20090211.txt 1 think to a lot of folks that someone was finally there 2 that knew performance measurement, because they had so 3 many, you know, different performance measurement issues that, you know, Jose was unable to address. So, you 4 5 know. I think I went through pretty explicitly my 6 original marching orders, but then I would get pulled 7 into other things And one of the other things that came up 8 9 pretty quickly was this whole concept of account level 10 performance differing from market level performance, so I 11 started to look at what the guys in investment advisory 12 group were -- were doing for returns, and I was 13 essentially trying to prove their numbers. 14 And at that point in time we were focusing 15 on a 12-month period that went from October of '05 through -- through September of '06, I believe, so 16 17 because I was doing this in November, so that was all the -- you know. I started at least looking at it maybe 18 in November or December. But I wanted to do a 12 month 19
- or at least four -- I think I was doing a four-quarter 20 21 analysis.
- 22 And, you know, so that's -- that's when I
- 73 first started looking at SAS at the model level.
- 24 Q Okay. So you -- your initial look at SAS you
- looked at basically a 12-month period ending with third 25
- 1 guarter 2006?

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- 2 A I believe so.
  - (SEC Exhibit No. 30 was marked for identification.) Page 50
- Riordan\_Steve\_20090211.txt 8 incorrect, but our working assumption was for the most 9 part we say we made the assumption that -- that these 10 accounts were correctly labeled as growth or balance 11 growth and so on. 12 So what I did was I did a very quick and

13 dirty composite equal weighted calculation, because I 14 didn't take market values into consideration. I just took 15 the return. I took all the accounts that were tagged as growth and, et cetera, I threw out the really high 16 17 returns. I threw out the really low returns, and came out with this -- what I would call a preliminary quick and 18 19 dirty composite return. 20 And what I was trying to do get at is how 21 big and bad is this problem. You know, and I think what

22 this Exhibit 30 showed Mark Stys, who most likely was the 23 first recipient of this is that some of the models

24 weren't that bad and some of them were.

o okay.

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1 A So some were obviously worse than others, and 2 you know, from a consultant's perspective, you know, day 3 one you try justify your existence?

- Q Right.
- А So I'm looking at this saying there is -- there 6 is some definitely good work for me to do here. These 7 numbers are probably inaccurate, and I can -- I can get 8 these numbers tighter and I can solve their problem.
- 9 Q Okay. When you say these numbers are probably

Page 52

- 10 inaccurate, were you referring to the model return
- 11 numbers?

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Riordan\_Steve\_20090211.txt So when we did go back and recalculate.

Case 3:09-cv-00298-N Document 12-13 Riordan Steve 20090211 txt 15 12 A Correctly. 16 you know, good composite returns, when we did go back and 13 Q Okay. So and the model return numbers were the 17 calculate more accurate model returns, we came up with 14 numbers that you got from Ken Johnson? similar composite model numbers -- or model and composite 18 A Correct. 15 19 numbers that were very, very close. 16 0 Okay. And these are the numbers that we talked 0 Okav. So your preliminary review in Exhibit 20 17 about earlier today that you think were model performance 21 30, and I'm not tying you to any specific number, but 18 numbers that was likely used in the marketing materials? 22 just in general, you think these composite return numbers 19 A Correct. 23 were fairly accurate and later proved to be when you did 20 Q Okay. And we talked about the complaints from 24 your more specific analysis? 21 certain financial advisers that their actual clients were 25 A That's correct. not receiving the model returns, right? 22 23 A That's correct. And -- And let me just 24 elaborate on one point. At the time I produced this document, I still did not have the knowledge as to 25 ß 1 Q Okay. So with all the -- the benefit of all 2 the time you've had at Stanford, you think these 3 composite return numbers were fairly reliable give or 4 take a little hit? 1 whether I could rely on the account level performance 5 A Correct. 2 coming out Advent -- the account level performance coming Q Okay. So this -- just walking through the 6 3 out of Advent, so that was just -- you know, in my mind 7 chart. let's start with SAS balance growth and use that 4 as I was doing this analysis is there is a possibility as an example, since it's at the top of page one of 8 5 that the account level returns could be wrong, because I Exhibit 30. So there is a first -- there appear to be q 6 didn't feel confident in their process for producing 10 return periods down the left-hand side, and as we talked account level returns. 7 about it includes Q4, 2005, Q1 '06, Q2 2006, and Q3 2006; 11 8 Now I can say, you know, in hindsight that 12 is that correct? 9 it was a rare exception that we actually ever revised an 13 A Correct. 10 account level return. So in summary what that meant was Q Okay. And then you also it appears calculated 14 11 contrary to Jose's opinion at the time. Advent was doing 15 a 12-month return as well? 12 their job. Advent was reconciling these accounts. 16 A Yes. 13 Advent was in fact producing inaccurate account level Q Okay. And then the first column is composite 17 14 return. return, and for simplicity that represents actual client Page 54 18 Page 53 Riordan\_Steve\_20090211.txt Riordan\_Steve\_20090211.txt Q Okay. And the Q1 '06 110 basis points higher 22 19 performance?

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23 than the composite? A Correct. 24 A Correct. Q Okay. And the model return in the second 25 And Q2 '06, it's 26 basis points higher than 0 column that's the number that was given to you by Ken П Johnson? A Correct. Q Okay. And who did Ken Johnson report to? the model? 1 2 A That's right. Q And then Q3 2006 is 64 basis points higher than 3 4 the model? A Jason D'Amto. 5 A That's right. Q Okay. And then difference column that -- that Q Okay. And so the total for the year you found 6 is essentially composite return minus model return; is 7 that the model return was 332 basis points higher than that correct? the composite return? 8 A Correct. 9 A That's right. I just had to look at the number to see Q Okay. And then it looks like you did the exact 10 which --11 same analysis for SAS growth, SAS income, these other --Q Which was --12 model these other models? A It was simple addition, subtraction, I just A That's right. 13 wanted to see which column I was taking away from. Q Okay. Each of them -- I guess strategy is the 14 Q Okay. 15 right term. Each of the strategies identified Exhibit And it looks like I subtracted model return 30, are these the strategies that you preformed your 16 from composite return. audit work on? 17 Q Okay. So a negative number in the difference 18 A That's correct. I'm admiring my work. This is column reflects a return where the composite return was 19 nood work less than the model return? Q Good. 20 A Correct. 21 A This -- This paints the picture exactly as it Q Okay. So just going through the numbers, just 22 was at this point in time. for an illustration, Q4 2005, you found that the model 23 Q Okay. So you come in, you do this preliminary, was 111 basis points higher than the composite? 24 turns out, good work on -- represented on Exhibit 30. so A That's right. 25 generally you said you were trying to justify your Page 56 Page 55

## Case 3:09-cv-00298-N Document 12-13

Riordan\_Steve\_20090211.txt 1 they call me up in previous roles as an analyst and say,

Riordan\_Steve\_20090211.txt

- 1 existence. So what -- what are you telling them in terms 2 of what the problems are?
- 3 A Well, you know, I'm -- I'm starting, I think.
- 4 to make the preliminary case for composites and
- justifying the -- the work required to get a composite 5
- 6 return and, you know, essentially educating these folks
- 7 on what a composite is and the benefits of composite.
- You know, the -- the most obvious being 8
- 9 that, you know, if you create a composite return that's
- made up of account level returns, you're going to 10
- 11 eliminate this problem of having differences between a
- strategy level return and an account level return. It's 12
- 13 just, you know, a mathematical fact, if you construct the 14 composite, you know, well.
- 15 I'm also starting to develop an opinion
- 16 that the folks that were calculating -- calculating the
- 17 model return had performance as is a second language.
- 18 You know, it wasn't their -- you know, these guys are
- 19 trading, managing portfolios, and, you know, my
- experience throughout my career it's very rare to find a 20
- 21 guy that also has the performance skills set along with
- sort of the portfolio management and the trading skills 22
- 23 set.
- 24 I have been educating portfolio managers
- 25 on performance my whole career, you know, when they --
  - Page 57

  - Riordan\_Steve\_20090211.txt
- mutual fund on the -- the last day of the month. What I 5
- think Ken Johnson was doing is -- is taking a snapshot of
- 7 the model at month end and assuming that that was the
- 8 model for the whole month and calculating the return that 9 wav.
- 10 Now that I have had some time to think
- 11 about this, that -- that is what I think he did.
- potentially. I don't know for a fact. But you can't do 12
- that. If you're in and out of mutual funds during the 13
- 14 period then your performance is going to, you know, be
- dictated by which mutual funds you held during the 15
- 16 period.
- 17 And the account level, the account level
- 18 is capturing all the rebalances and you have to pretty
- 19 much mimic the account level with the model. And I don't 20 think they did that.
- 21
- Q Okay. The failure to account for the 27
- rebalances, would that always skew the results high? 23 A NO.
- 24 0 Okay. So the obvious question I've got for you 25 looking at Exhibit 30 is SAS balanced growth according to
- 1 your good analysis appears to show that the model was 332
- 2 basis points high, SAS growth was 334 basis points high,
- 3 and then some of the other strategies were a little
- 4 lower, also SAS balance appeared to be 281 basis points 5 hiah.
- 6 In looking through Exhibit 30 on an
- 7 annualized basis were there any models that you found
  - Page 59

there is no way I underperformed a benchmark by that much, or over-performed. Hardly get that call. But it -- it still -- it's an educational process, so this 5 didn't surprise me that much that, you know, these ours were not able to produce an accurate number. 6 Q And just to step back, these guys were not able 8 to produce an accurate number. Who were those guys? A Ken Johnson specifically or anyone else in IAG that had anything to do with these model calculations. 10 Okay. And IAG is the Investment Advisory 0 Group? Correct. А Okay. Is that D'Amto's group? Q A · Correct okay. 0 A I don't know where they're getting their data 18 to -- to come up with their returns, because I very 19 simply went to Bloomberg and Yahoo and their -- all the

20 holdings within these strategies are very liquid mutual

- 21 funds, so very easy -- easy to get a price. So you take 22 a price return and your weight and there is your model
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- 24 And T think we talked about this in
- Boston, my speculation was -- is that they didn't keep 25
- 1 very good records about when and what was rebalanced
- 2 intra-period, so if you don't capture those intra-period
- rebalances, you will get bad numbers, it's -- it's a 3
- mathematical fact, because let's say you bought a new Page 58
- Riordan\_Steve\_20090211.txt 8 that under-preformed the composite? In other words, are there any instances where actual client performance was q 10 higher than the model on an annualized basis? 11 A Not as group. 12 0 Okav. Remember everything in the composite return 13 Α 14 column was in our -- relatively arbitrary group based on some assumptions that I made from the account level data. 15 You know, assumption one that the account was tagged 16 17 properly as growth. Assumption two was that I only took 18 really the sweet spot of the returns, I didn't take the 19 outliers, so given those two assumptions that produced my 20 composite return --21
- o okay. -- column 77
- Δ 23
  - But you did throw out outliers in an effort 0
- 24 to --High and low. 25 А
- 1 Q High and low. Okay.
- 2 А Yes.

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- 0 And eventually you did do more thorough
- composites, correct? 4
- 5 A Correct.
- Q Okay. And those more thorough composites, did they generally confirm or did they disprove your analysis 7 8 in Exhibit 30?
- My further analysis confirmed Exhibit 30. a А
  - 0 Okay. So generally once you did the more
- detailed analysis and confirmed that the accounts were Page 60 11

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Riordan\_Steve\_20090211.txt Riordan\_Steve\_20090211.txt I'm sorry. Could you repeat that question? 15 Δ 12 classified correctly, you did those things as part of Sure. We talked at possible explanations for 16 Q your composite analysis later? 13 why the model would be wrong, and one of the things that 17 14 A Well, we really started from, you know, the you offered was rebalancing? 18 ground floor scratch when we constructed the actual 15 19 A Yes composites that we have today, we didn't take any of the 16 Q If rebalancing was the sole cause, would you 20 17 tags into account or -- or any of that recordkeeping we 21 expect the model to always be high -- higher --18 went right after the account level holdings and account 22 A NO. 19 level returns in order to construct the composite. 23 -- than composite performance? 0 20 Q Okay. So you made sure that the accounts were 74 A No. I would not. classified correctly? 21 25 0 Okay. All things being equal, would you expect 22 A Correct n 23 Q Okay. And after you did that, again, your conclusions really didn't change much from Exhibit 30? 24 You may have had more precision, but generally speaking 25 1 to roughly see the same amount on the high and low side 2 depending on how the timing issues worked out? A Yes З Q Okay. So did it strike you as unusual that the 4 1 your conclusions didn't change? 5 model was consistently higher than the composite returns 7 A That is true, my conclusions remained the same 6 and many cases more than 300 basis points? 3 that I did not think that this model performance prior to A It did strike me as a little bit off. 7 my arrival was accurate. 4 Okay. And explain why. 8 0 5 Q Okay. And is it also fair to say that the 9 А Well, I mean, just, you know, from a model performance was higher than the composite 6 10 mathematical, statistical perspective it -- it would be 7 performance before your arrival? difficult to error in the favor consistently as 11 8 A Yes. 17 consistent as you I think can visibly see here in Exhibit 9 Q Okay. Was it consistently higher with the 13 30. 10 exception of a few quarters?

A For the most part, yes. 11

12 Q Okay. You know, we talked about rebalancing as

13 one possible explanation, and you said rebalancing would

not necessarily result in always being on the high side?

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Riordan\_Steve 20090211.txt

- You may have pointed fingers at Ken Johnson? 19 0 20 А
- I think I was just -- my gist of it to Mark 21 was, you know, these guys don't know what they're doing.
- And I did probably, I would say knowing me, point out to 22
- 23 Mark it did also seem a little bit fishy that they were
- 24 always higher.

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- 25 o okav.

A Or higher most of the time, I should say. 1 2 Q Okay. And just so we put all this in a timeframe, this analysis was early 2007? 3 A Late '06 Δ 5 Q Early 2007? 6 А Yes. 7 q okay. 8 A If you found this file in my -- in my electronic folders, then the date of it I would guess it 9 would be December of '06. 10 11 Q Okay. 12 А So after I was on the ground for a month or 13 two 14 Q Okay, I think I may have seen a preliminary version of this that just had SAS balanced growth maybe.

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maybe you did one account and then later you did this 16

- 17 complete analysis?
- 18 A I think I did. I mean, I think, you know, I

recall correctly, Mark -- Mark was getting a lot of calls 19

20 from the advisers in the field, and with specific

21 examples, and I think Mark asked me to look at one of

#### Riordan\_Steve\_20090211.txt 22 these in depth and after I showed him one, he was like, 23 Jesus, okay. Might as well run them all.

24 So then I eventually ran them all.

15 standpoint that it's just happenstance?

you know, I might have. Page 62

Q Okay. So you told Stys something to the effect

Q Okay. It's unlikely from a mathematical

don't want to point any fingers, although at the time,

A It's -- I would say it's unlikely. I mean. I

1 of "this seems fishy"?

A well, basically, you know, I'm not able to 2

- prove out this -- this return is what I told him. 3
- 4 0 And was the fishy part was that it was always
- 5 on the high side?

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- 6 A Yep.
  - 0 Okay. What was Mark's reaction?
- 8 well. I think Mark, you know, genuinely wanted Δ

9 to get this issue resolved. He had a lot on his plate,

- 10 and he -- this was a nuisance to him, because this was --
- 11 this all predated him. So he was trying to look forward
- 12 and he is got the advisers calling him, you know, on a 13 daily basis trying to pull him back into the history and
- what was done before he got there. 14
- 15 So, you know, I think that could best
- 16 describe it as this was a nuisance to him on some level
- he wanted me to take care of it. Mark was relatively big 17
- 18 picture guy, so he wanted, you know -- that's why I tried
- 19 to keep my analysis relatively high level. I'm sure I
- 20 did a lot behind the scenes of this three-page document.
- 21 I know I highlighted the months on Exhibit 30 where I
- 22 was, like -- I highlighted months that in my estimation 23 there was no way in hell that that return is correct.
- 24 o okay.

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Those -- Those are the highlighted ones. Page 64 А

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Riordan Steve 20090211.txt

1 Q So for example October, 2005, on SAS balanced growth where the model return is about 97 basis points 2 3 better than the composite? 4 A Right.

5 Q Okay. So these are examples -- the highlighted 6 ones are months you identified were clearly the model was 7 wrong?

8 A Right. And if you notice the double star and 9 revised column.

10 Q Uh-huh

11 A If you read what it says on Exhibit 30, revised model is an estimate that assumes the recalculated model 12 matches the composite return exactly. The actual 13 14 calculation will vary approximately plus or minus the 15 annualized tracking -- I don't even know what that means. 16 Q Well, I was trying to guess. I mean, does that 17 mean -- is this what you're proposing revising the model 18 to, or is this a revised model number that perhaps you got from IAG after you had given them some results or --19

20 A Well, yeah. And then I have that model impact. 21 so I think what I'm saying is if you revise the model --

- 22 okav. I get it. I remember now.
- 23 If you revise the model -- for example, on

24 SAS balance growth, if you revise October, 2005 and

25 February, 2006, you would get a new return of 9.99, which

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Riordan\_Steve\_20090211.txt

- Α I think so. I think so. That's good a
- question. I honestly don't remember. It would probably 6
- 7 be in my E-mail communications. If I did. I would have
- fired it over to him via e-mail. 8

9 Q Okay, what about D'Amto, did you discuss Exhibit 30 or more generally the problems identified in 10 11 Exhibit 30?

12 A well, I did. I mean, we definitely had

- 13 dialogue about it. You know, we -- we definitely -- you
- 14 know, I definitely wanted to get Jason on board, and
- 15 essentially I was trying to build his confidence in my
- abilities as a performance person to calculate an 16
- 17 accurate number. And so I'm trying -- I was trying to
- demonstrate a level of -- of expertise above and beyond 18
- 19 his team and the ability to calculate a good number here.
- 20 And so it was definitely communicated --
- 21 you know, I think Mark Stys was pretty much my buffer as
- 22 opposed to any finger pointing as to did you guys
- 23 blatantly do -- overstate your numbers. You know, I let
- Mark -- if that message was carried, that would have been 24 25 carried by Mark not by me.
  - 0 Okay. But what the numbers actually were you conveyed that message, in terms of accusing people that wouldn't have been your role?
- A Well, I pointed out inaccuracies. Δ
- 5 0 Okav.

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- 6 A I left -- I stopped at the point where the
  - inaccuracies were in the favor of the investment manager.

Riordan\_Steve\_20090211.txt would at least be to closer to my 8.91. 1

2 0 Okav.

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- Did you follow me on that? А
- I think so. Okay.

5 So just by restating those two months you would Α shave off 224 -- you would be 224 basis points lower, and 6 in my estimation more accurate. 7

- o okav.
- A And they did, in fact, just for the record, go 10 back and -- and revise some of these months that I

11 pointed out to Ken Johnson.

- Q Yeah. I mean, just generally without getting 12 13 into a lot of detail, it looks like over time some of the
- performance numbers that were presented to marketing were 14
- 15 walked down, like, perhaps -- I mean, perhaps as you were doing your work maybe some of this preliminary work, the
- 16 17 models were adjusted downward. Does that sound
- 18 consistent with your recollection? 19
- A well, again, I never had much visibility, if 20 any, into marketing materials.
  - 0 But in terms of the models that you saw?
  - I think, you know. I was communicating this Δ
- 23 back to both Mark and in some instances Ken Johnson and
- 24 Jason D'Amto, and I think in some instances they went
- 25 back to their math and fixed it.
- 1 Q Okay. Did you show Exhibit 30 to Ken Johnson? 2 T can't say for sure. ۸ Did you convey the message from Exhibit 30 to 0 З

Ken Johnson? Page 66

Riordan\_Steve\_20090211.txt Q Okay.

Mark would have carried that message. Δ

So you present these results in Exhibit 30 to 0 10

- 11 Mr. Stys and likely others, so based on that, what 12 happens next?
- A Well, just to -- just to correct your -- your 13 14 statement. Most likely this document would -- would not 15 have been seen by anyone other than anyone Mark and
- whoever he would have chosen to share it with. 16
- 17 o okav.
- 18 A Because I don't think we wanted to blast this out -- Exhibit 30 around the firm, which was, you know, 19 20 preliminary analysis that was proving the financial

21 advisers that they had a legitimate gripe.

22 0 Okay. And ultimately you conclude -- you 23 concluded that they did have a legitimate reason to be --24 I think you used the word pissed in Boston?

25 A Yeah. They -- They definitely, you know --

well, let me rephrase that. In some instances they had a 1 legitimate gripe. In other instances, their accounts were not entirely discretionary, so they were -- if you 3 were recall our conversation in Boston, they were two 4 5 sources of tracking them. One was the fact that the 6 model returns were inaccurate. Once you took that error 7 out of the equation, then it was did the model exactly ---8 I'm sorry. Did the account exactly follow the model. 9 And that was your other source tracking error.

0 Right. And as I understand it from talking to 10 11 you and some FAs the failure to track the model can be Page 68

APP 0124



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	Case 3:09-cv-00298-N Document 12-13	Fil	ed 02/17/2009 Page 8 of 10
	Riordan_Steve_20090211.txt		Riordan_Steve_20090211.txt
12	caused by either the failure of the IAG group to track	15	A Well, Baker was working for me.
13	their own model or the FAs having an account that's	16	Q Sorry. Johnson?
14	has some discretionary elements as well?	17	A Ken Johnson, yeah. They They did try, you
15	A That's exactly right.	18	know, there was a few defenses and they actually did make
16	Q Okay.	19	one good point, which was which was valid and that was
17	A Both of those scenarios would cause an account	20	that, you know, in addition to the analysis I did in
18	not to follow in line.	21	Exhibit 30 I also did some other analysis that you may
19	Q Okay. So IAG failed to follow their own model.	22	have as other exhibits, I don't know, or they're in my
20	you might that might result in deviation from model	23	files, where ${\tt I}$ just did pure model performance. Where ${\tt I}$
21	performance in a given customer's account?	24	took their their weights at at given months end
22	A Absolutely. Trading errors, lag time in	25	month end and calculated a model return, and I remember
23	trades, you know, if if you rebalance 90 percent of		
24	the accounts on, you know, the 5th of the month and then		
24			
23	the other ten percent on the 20th of month, they will	1	being frustrated at the time because their recordkeeping
		2	for rebalances was horrendous. I mean, just to put it in
		3	perspective when I when I recreated what the
		4	rebalances should have been for a given year, I had, you
1	have different returns.	5	know, a five-page document, where they have literally
2	Q Okay. And again, failing to track the model,	6	years of rebalancing on one page, which kind of just all
3	would that tend to skew the results higher or lower?	7	right, you know, if you get the gist of what I'm saying
4	A It could. Again, mathematical fall equally on	8	is they weren't keeping a record of rebalance on those
5	either side.	9	things.
6	Q Okay.	10	So it was almost impossible for me to
7	A Roughly.	11	calculate a good model return. So I forget what my
8	Q But there is no reason that it should always	12	point was.
9	skew things to the high side?	13	So when started coming up with with my
10	A Correct.	13	version of a pure model return and we started to compare
11	Q Okay. So I know you say, you know, let Mark	14	notes, their one accurate defense was that my returns
12	carry the water in terms of, you know, delivering any bad		,
13	news, but did you get any pushback from Baker or D'Amto,	16	didn't account for dividend reinvestment in the mutual
14	did they try to defend their model?	17	fund price, so I had to go back and redo my numbers to
	Page 69	18	take dividend reinvestment different mutual funds that Page 70
10	Riordan_Steve_20090211.txt	22	Riordan_steve_20090211.txt Q And when you did that, generally what did you
19	paid a dividend into account, but for the most part	23	find?
20	that that bumped the returns a handful of basis points	24	A Well, we differed because of the dividend issue
21	here and there.	25	that I just explained, so we got that out of the way and
22	Q Handful is, what less than five?	20	
23	A Five basis points here, may be a worse case on		
24	SAS income that has some pretty high yielding mutual		
25	funds in it that paid a big, you know, dividend and had a		we still differed. And the reason we differed, I'm
		1	
		2	guessing, is because of this whole notion of rebalancing.
		3	We would have to rebal the models exactly
1	larger impact on return. In a given month it could have	4	the same in order to come up with the same number, and
2	been as high as 25 basis points.	5	because of their recordkeeping that was virtually
3	Q Okay. But it was was your net conclusion	6	impossible. I believe they did go back and take another
4	that the dividend reinvestment was only a very small	7	stab yes. And I know Ken Johnson did do this and you
4 5	fraction of the difference between your composites and	8	probably find this in my e-mail correspondence with Ken,
		9	is that when I couldn't prove out of his model numbers,
6	the model?	10	I I said that it has to be because you're not giving
7	A well, it was actually a difference between my model and their model, because the accounts have all the	11	me accurate rebalancing data to create an accurate model.
8			

8 model and their model, because the accounts have all the 9 dividends reinvested, so again the account returns they 10 go back to be your benchmark of what the right number is, 11 what's the real number.

12 I was creating a, you know, theoretical

13 model on paper in my Excel spreadsheet, and so when we

compared models, we had differences there. So it's a 14

totally different analysis then this. 15

16 Q Okay.

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17 A This is account to model. We were doing

18 theoretical model to theoretical model.

19 Q Okay. So you try to reconstruct the models

20 that were being used IAG?

21 A Correct. 24 average? 25

12 So he did go back and give me another

14 rebalancing.

they had on hand?

A Correct.

A Correct.

15

16

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18

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13 document that had more details as to dates and details of

Q Okay. So -- But initially it was impossible

for you to reconstruct their model with the records that

Q Okay. And so the horrendous recordkeeping

played a role in the inaccuracy of their model returns?

Q Okay. Again, the rebalances, those would not

A It -- It should go either way. Right. Page 72

23 result necessarily in skewing performance higher on

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	Case 3:09-cv-00298-N Document 12-13	FI	led 02/17/2009 Page 9 of 10
	Riordan_Steve_20090211.txt	1 2	Riordan_steve_20090211.txt BY MR. KELTNER: Q So we talked a little we've talked quite a
		3	bit about your preliminary conclusions regarding the
1	Q Okay.	4	model versus composite returns. And we talked about the
2	-	5	fact that you generally concluded that the model returns
-		6	were high?
3	speculation here, but just to get my arms around, I	7	A Yes.
4	think, what you're saying is that unless you decide on	8	Q Okay. And then we talked about the fact that
5	the last day of the month to see which mutual fund	9	you later compared a reconstructed model to a model that
6	performed the best during that month added to the add	10	was generated by IAG, correct?
7	it to the model at month end and then assume that that	11	A Correct.
8	was in there the whole period and then calculate your	12	Q And when you did that analysis you concluded
9	return. If you did that, then you would have a higher	13	that the IAG model was high?
10	return every time.	14	A Correct.
11	Q And if you did that you would be intentionally	14	
12	skewing the model higher?		Q Okay. And then when you later did your
13	A Exactly.	16	composite returns of actual client data, did that confirm
14	Q Okay. That would be one way to intentionally	17	your prior analysis that the IAG models were generally
15	skew the model high?	18	speaking high?
16	A Exactly.	19	A Correct.
17	Q Okay. So just going with the benefit of	20	Q Okay. So, you know, we talked about
18	hindsight, picking the best performing fund and assuming	21	rebalancing issues and how those might impact the model
19	it had been in there for entire period that you're	22	performance numbers. Were you ever able to discern any
20	analyzing?	23	reason as to why the models were always high?
21	A Correct. Yeah. That would not be cool.	24	A NO.
22	MR. KELTNER: Let's go off the record,	25	Q Okay. Did you try to?
	-		
23	(A brief recess was taken.)		
24	MR. KELTNER: We're back on the record at		
25	11:50.	1	A No. My primary goal was to get it right.
		2	Q Okay.
		з	A And to me getting it right meant being able to
		4	construct a model return that matched a composite a
	Page 73		Page 74
	Riordan_Steve_20090211.txt	8	Riordan_Steve_20090211.txt the documents that that they had sent me to sent to
5	true composite return. And when I did that for 2006	9	me previously, so it had definitely by that point had
6	that that was a victory for me. Was that I was	10	become a source of frustration for me of getting any
7	actually able to do an entire year of data where model		
8	returns matched composite returns and I have a document	11	right information out of them, so I started to go on
9	that proves that to within on an average 10 to 15	12	my you know, go on my own.
10	basis points for the year.	13	I had been on the ground probably for six
11	Q Okay. And when did you do that work?	14	plus months, six six or eight months, and I started to
12	A Probably in the middle part of '07, I was	15	rely on other sources for for data, so I stopped
		16	comparing my results to theirs because it was just a

- 13 probably getting to that. Probably mid -- I think in --17 waste of my time. 14 in April of '07, I finally had model returns that I felt 18 good about, and then later in '07, so I'm guessing, you 19 you had no confidence in their recordkeeping? know, definitely in the second half of '07, towards maybe 20 A I didn't have confidence in their even the end of '07, I had composites constructed for '06 21 recordkeeping, their numbers, their calculations or -- or
- 18 that the matched the models I had for '06. 19 Q Okav.
- A we had to build the tool to -- to do composite 20 21 construction.
- Q Okay. 22

15

16

17

- 23 A That took some time.
- 24 Q Okay. When you constructed these models in mid
- 25 '07 for 2007 that you were comfortable with, did that
- 1 involve lowering the returns that had been used, or were these from '06? 2
- 3 A You know, that's a good question. It's funny
- 4 at that point, Tom, I pretty much stopped relying on or
- 5 looking at anything that got out of IAG. 6
- Q And why was that?
- A Because I didn't have any confidence in any of 7 Page 75

- IJ

- 25

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23

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A Idid.

24 Mr. Stys?

Q Okay. Is that kind of on an ongoing basis, 1 2 open dialogue in terms of, you know, what you're finding? A What do you mean? 3 4 Q Well, I mean, was there one moment where you 5 went and told him. I've got these concerns, or was it 6 just over time? 7 A Oh, no. It was over time. 8 Q 0kay. 9

much of any information that they provided me.

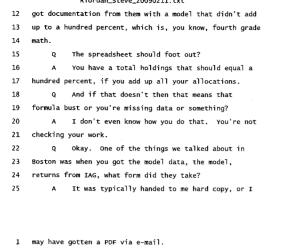
Q Okay. Did you convey that frustration to

Q Okay. And generally speaking that was because

- A It was over time. 0 10
  - 0kay.
    - And say like for an example I had a model -- I Page 76 А

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Riordan Steve 20090211 tyt



2 Q Okay.

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- 3 A So, you know, from a performance quy's
- 4 perspective, you know, you want this in Excel so you can
- 5 kick the tires on it. And I'm not sure I ever got much
- 6 of anything in Excel, which would have been much more
- useful to me. 7
- 8 o okav.
- q Which was another source of my frustration. А
- Q Okay. So these -- these PDF files who would 10
- 11 thev come from?
- A Ken Johnson. 12
- 13 Q Okay. And I just to, I think, state the
- obvious is the frustrations that you can't look inside 14

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Riordan\_Steve\_20090211.txt

- 19 my time like that? Absolutely not.
- 20 0 When you keyed the number -- when the keyed the
- 21 numbers back in manually, were you able to figure out
- 22 what calculation errors may have -- might have been in
- 23
- A You know, no, because there is just so many 24
- moving parts to getting a good number. 25

1 Q Uh-huh.

play or --

- 2 Like I said, the rebals, the pricing, the А 3 weightings, everything has got to be just right, which is -- which as I said earlier, when I was able to get 4 5 composite numbers that matched theoretically constructed model and have a match that was -- that was a huge
- 6 victory for me in that we have finally arrived at the 7
- 8 place where we wanted to be.
- 9 Q Okay.

10 A And that wasn't until the second half of '07. You know, that said, I do recall in April of '07 when I 11 12 did do Riordan Consulting calculated models for '06 at 13 that point I was engaged with compliance, and at that

- 14 point they were starting to use my numbers instead of Ken
- in the marketing materials, which was again a small 15
- victory I think for me. 16
- 17 Because I remember vividly marketing folks
- and compliance folks waiting and asking me on a daily 18
- 19 basis in April of '07 when do you think you will have '06 20
- numbers. Steve? When are the '06 numbers going to be 21 done? So I think at that time whoever. Mark Stys.
  - Page 79

- Riordan\_Steve\_20090211.txt the cells and see what the calculations are? 15 16 A Yeah. Exactly. I mean, then I would be able 17 to answer your question earlier as to why -- why did they give me a model that didn't add up to a hundred percent, 18 so I would basically have to take the hard copy or the 19 PDF and type everything into Excel so that I could check 20 21 everything. 22 O Riaht.
- A I mean, the simple stuff, like does the model 23
- add up to a hundred percent. 24

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- 25 Q Okay. So what did you do with this
- 1 frustration, did you e-mail Ken back, did you call Ken
- back, say, hey, if you would give me the stuff in Excel 2
- my job would be a whole lot easier? 3
- 4 A You know, I think I was very careful as -- if I
- 5 had been a full-time employee, like, if I was the
- managing director of performance there, I would have 6 7 blasted bim
- 0 Okay. But you're trying not to ruffle any 8 9 feathers?
- 10 A As a consultant, yeah, I don't want to rock the
- boat. I mean, these guys are paying me well, Mark was my 11
- guy, so I was able to talk to Mark off the record and 17
- 13 vent to him. So, you know, it started being just like.
- 14 hev, this is what it is and -- and T also have the
- 15 attitude as a consultant is on an hourly contract, is the
- 16 meter is ticking, and if you want to give me a hard copy
- 17 and make me type it in, that's an extra hour. Again as a
- 18 full-time employee would I allow a guy like that to waste Page 78
- Riordan\_Steve\_20090211.txt 22 compliance, whoever talked to say, hey, you know, what? 23 We've got this guy in here, he's a performance expert --24 0 Uh-huh.
  - -- let's use his numbers for -- at least for А
- '06. 1

25

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- o okav.
- A So I think they were at that point there was 3 4 recognition that what was coming out of IAG maybe less 5 than accurate and that if we've got a guy here, we're paying him, let's use his numbers for '06 even though 6 7 they're still model numbers at this point.
- Q Okay. And when you say there was recognition, 8 9 who do you attribute that to?
- A I mean. I have to attribute it to Mark and Mark 10 explaining my case that I made to him to the -- to the 11 12 other folks, the powers that be.
- Q So Mark Stys was your primary contact and then 13 you think he disseminated that up to Zack Parrish --14
- 15 А Yes.
- 16 0 -- D'Amto --
- 17 А Yeah.
- 18 -- on up the chain? 0
- Yes. He was -- He was my quy. He was my quy I 19 Α
- 20 reported pretty much everything to, talked to on a
- 21 regular basis, and -- and I expected him to communicate
- with, you know, throughout the people I needed to know. 22
- 23 Q Okay. I understand that that's generally how
- 24 it worked, were there any meetings that you can recall
- where D'Amto was present or where Parrish was present Page 80 25

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Riordan\_Steve\_20090211.txt

where you talked about, you know, these issues regarding
 the mode performance, you know, and it's lack of
 reliability?
 A There -- There may have been one or two max.
 It may have come up at a meeting that was the -- the
 primary purpose of the meeting was for something else. I

7 can't say for sure.
8 Q Okay. I mean, sitting here today, can you say

- 9 that D'Amto knew about the results of your work?
- 10 A Absolutely.

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- 11 Q Okay. And how do you know that?
- 12 A Well, you know, unless Ken Johnson didn't tell
- 13 his boss anything, because Ken and I were communicating
- 14 on a fairly regular basis until I got to the point of
- 15 frustration with Ken and started asking him for less and
- 16 less and trying to find out more and more on my own.
- 17 But, yeah, I mean, they knew I was working on this and
- 18 whenever it made sense to send an e-nail blast out to
- 19 anyone more than Mark, Jason and Ken were always on that 20 distribution list.
- 21 0 Jason D'Amto and Ken Johnson?
- 22 A Absolutely, yeah. So, like, to use my earlier
- 23 scenario from when compliance and market were waiting for
- 24 my '06 7 numbers when I finally got them done, you know,
- 25 Jason and Ken would have been cc'd on that distribution

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- Riordan\_Steve\_20090211.txt
- 5 had at least one, if not two, meetings where I really
- 6 gave them an education as to what I was -- what I did and
- 7 what I was doing.
- 8 And so, you know, I say good meeting,
- 9 because I think that I was successful in educating them.
- 10 I think they got it. And I think that they were very
- 11 happy to have me on board.
- 12 Q Okay. When roughly did these meetings take 13 place?
- A Probably right around this -- you know, this -this April, you know, '07 area and then maybe later. So
  I would say mid, you know, Q2, Q3 of '07.
- 17 Q Okay. Did you explain to them, kind of, what
- 18 you were seeing or what -- what results you had -- or 19 what conclusions you had come to?
- A Absolutely. I mean, you know, again, I think
- 21 as a consultant and not wanting to ruffle feathers I
- 22 think that I tried to keep, you know, the focus on -- you
- 23 know, numbers previously were inaccurate for whatever
- 24 reason. Let's not dwell on it. It's the past. I'm
- 25 putting in a better, tighter, more reliable process to
- 1  $\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\hfill\h$
- 2 accurate on a go forward, so that was pretty much the
- 3 message I was conveying. I think all the venting and
- frustration and potential -- this smells like a rat type
  of conversations were kept off the record between Mark
- 6 Stys and myself.
- 7 Q Okay. And that was the function of your Page 83

Riordan\_Steve\_20090211.txt 1 list for sure. 2 Q Okay. And then ultimately they would have

- 3 known if numbers were restated?
- 4 A Well, all they would have to do is look at 5 their numbers and mine and know which direction the
- 6 numbers went.
- 7 Q Okay. And you said that eventually you 8 think --
- 9 A I stopped comparing. Sorry to interrupt you.
  10 At that point I had stopped comparing, because it was a
- 11 waste of my time.
- 12QOkay. But you said that eventually you became13aware that they wanted your 2006 numbers to use in
- 14 marketing materials?
- 15 A Correct.
- Q Okay. Let's back to up to that for a minute.
   You said you engaged with compliance. Who from
- 18 compliance?
- 19 A Specifically Shenna, Shenna George and -- and 20 Rhonda, then Lear, now Davis.
- 21 Q Do you know whether Rhonda is related to Jim 22 Davis?
- 23 A I don't think so. I think she just got
- 24 married. Well, she just got married, so she might be
- 25 now. Who knows, I don't know the Davis that she
- 1 married.

в

- 2 Q Okay. And so what was your interaction with 3 Shenna and Rhonda?
- 4 A Well, we had some good meetings. You know, we Page 82

Riordan\_Steve\_20090211.txt 8 concerns about client relations?

- 9 A Absolutely. Yeah. I mean, you know, people 10 aren't going to renew your account if they don't like
- you.
   Q But you think it was made clear to the
- 13 compliance team that the previously numbers were 14 inaccurate?
- 15 A well, again, you know, previous numbers, to be 16 clear, at this point in time I had only looked at '06 and 17 the fourth quarter of '05?
- 18 Q Right.
- A so from the fourth quarter of '05 through '06,
   yeah, it was made clearly that previous numbers were not
  - good.
- 22 Q Okay.

21

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A It was made clear to compliance that those
numbers were not -- that the '06 numbers -- which again,
I think is why they were waiting for me to -- everyone

was hot for these '06 numbers, for whatever reason.
 Because I think marketing wanted to run
 with them, because everyone wants recent track record,
 you know, from marketing. And compliance was shutting
 down marketing at that point saying, no, wait until steve
 is done. Wait until I see them in and bless them and
 then you can, you know, do what you want with them,
 because everybody feels good about it.

9 That was my -- I mean, I'm speculating,
10 but based upon the calls and e-mails I was getting from
11 the marketing guy and from the compliance folks, is they Page 84

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Riordan Steve 20090211 tyt

12	wanted these '06 numbers yesterday, and they wanted my
13	numbers as opposed to whatever else they may have had.
14	Q Okay. I think I've seen some e-mail traffic on
15	some of these. Issues. Explain what you mean by
16	compliance was shutting down marking.
17	A Well, I think, you know I think there is
18	that compliance had a sense that anything marketing had
19	received prior may not be accurate based upon meetings
20	with me, and so compliance didn't feel comfortable and
21	marketing using anything other than my numbers.
22	Q Okay. So did you get the sense that compliance
23	wanted on a go-forward basis to use your numbers?

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24

- 25 Q Okay. Was there discussion with compliance
- 1 about, you know, whether they could use pre-2006 numbers? 2 A We didn't talk about it.
- 0 Okay. But you told them that the model numbers 3
- 4 that you had gotten from IAG were inaccurate?
- 5 A Yes.

A Yes,

- Q Okay. And were there discussions about wanting 6
- 7 to wait to get your numbers before compliance would sign
- off on 2006 performance data being released? 8 A I'm sorry. I didn't quite understand that
- 10 question.
- 11 Q Okay. Was the gist of your conversation with
- 12 compliance that they did not want to let -- was -- was
- 13 your understanding that compliance was of the opinion
- 14 that 2006 performance should not be released until your Page 85

#### Riordan\_Steve\_20090211.txt

- 19 guarter behind at that point, and that was a concern of
- 20 mine at the time, because I was behind and I knew that I
- had to get caught up to Q1 of '07 ASAP, but that's when 21
- 22 everyone started talking about this notion of audited
- 23 numbers. And that's when I started including everybody
- 24 each quarter end as the -- the books were closed on
- 25 previous guarter. I would blast an e-mail out to Mark
- 1 Stys, Zack Parrish, Shenna George, Rhonda Davis, Jason
- 2 D'Amto each quarter end from that point forward and say.
- okay, these numbers are blessed by me. 3
- Q Okay. Anybody else from compliance that was in 4 5 the loop?
- A No. Not to my recollection. I think my -- if
- you checked my e-mails, my distribution list would be 7
- 8 Shenna and Rhonda.
- Q Okay. Did you ever have any conversations or a
- do you have any reason to think more senior people in 10
- 11 compliance were aware of these issues?
- A It didn't make it into my world. 12
- 13 Okay. No conversation was Jane Bates? Q
- A Oh, well. Jane -- Jane was Rhonda's 14
- 15 predecessor.
- 16 Q Okay.
- 17 A And she was out of the picture before we got to 18 a much better place, I guess for lack of a better word, 19 as far as performance. So when Jane and I were talking I 20 was still figuring things out.
- 21 q okay.

- Riordan\_Steve\_20090211.txt work was done? 15
- 16 A Correct.
- 17 Q Okay. And again, you base that on discussions 18 with whom?
- A Discussions with compliance. 19
- o okav. 20

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- 21 A I mean, I think I got them on board, you know,
- 22 through an educational meeting or two as to the accuracy
- 23 of my numbers versus the numbers that they had seen
- 24 previously. So I think I had probably, at least. given
- 25 them preliminary numbers that, you know, probably varied
- 1 from what they had seen coming out of IAG to at least 2 make them say, you know, stop the presses.
- Q Okay. And then on the go-forward basis, what 3 4 is your interaction with compliance?
- 5 A well, I started to include them every time I
- put out, you know, quote, unquote, audited numbers. 6
  - Q Right.

7

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- So I think that the jargon around the firm, you 8 Α
- 9 know, with my guys that I had placed in performance, the 10 compliance folks, Mark Stys, Zack Parrish, Jason D'Amto,
- we started out speaking of this sort of concept and 11
- 12 notion now of the audited number. And audited meant that
- 13 I blessed it. You know, third-party, independent
- 14 objective person with expertise came in and blessed the
- 15 number. That was our audited number.
- 16 So from -- from pretty much that -- that
- 17 April, '07 date which -- which was, you know, had data up
- 18 through December of '06. Right. So we were about a Page 86
- Riordan\_Steve\_20090211.txt A I didn't have any -- I didn't have -- I don't 22 23 think I had come to any firm conclusions while Jane was 24 still resident.
- 25 Q Did Jane express any concerns to you?

1 A Yeah. Absolutely, I mean, I think Jane's 2 biggest concern was that Jose didn't know what he was 3 doing. That may have been a quote.

4 Q So fair to say that Jane had concerns about the accuracy of Jose's work product? 5

- 6 A Well, I think, you know, my honest opinion is
- 7 that I think when I arrived and Jane and I had -- had 8 just a short window of overlap. I think people were
- 9 confused. People that, you know, didn't -- didn't
- 10 have -- it was confusing to me, and I had 12 years of
- 11 performance under my belt.
- 12 So if you have a rudiment -- you know,
- 13 rudimentary knowledge of performance, you would be
- genuinely confused. And I think Jane was confused, 14 15 because she's seen a number from Ken, she's seen one or
- 16 more numbers from Jose. And at the end of the day all
- 17 those numbers should be relatively, and they weren't.
- And so -- yeah. T mean. T can't tell you 18 19 how many times in the early days that people like Jane
- 20 said, thank you, God, you're here.
- Q Okay. I think one story you mentioned to us in 21
- 22 Boston was something about Jane Bates blocking the
- 23 distribution of account statements for some period. 24
- A Yeah. I don't know if she -- if blocking it is 25
- the right word. I know there was concern about Page 88



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Riordan Steve 20090211 tyt

1	fulfilling the obligation in the client agreement to
2	report at least quarterly performance. And I know that
3	Jose was backlogged with, literally if you walked into
4	his office, boxes of statements that he was holding back.
5	So I don't know really who had the final authority as to
6	whether the client received a performance report or not.
7	Q Were they being held were the statements
8	being held back over concerns about whether or not they
9	were accurate?
10	A Yes.
11	Q Okay. And how do you know that?
12	A That's exactly what, you know, Mark Stys and
13	Jose Flores and Jane Bates all, you know, verbally
14	communicated to me.
15	Q Okay. And was the source of concern the fact
16	that there were essentially three different sets of
17	numbers?
18	A Three or four, depending upon who you asked.

18	A Three or four, depending upon who you asked.
19	Q Okay. And that they didn't match?
20	A Correct.
21	Q We talked a minute ago about compliance
22	shutting down marketing or limiting the distribution of
23	marketing materials.
24	A Uh-huh.

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And you said you had that specific conversation

- 5 another body to help them get to where they wanted to be.
- 6 So I recognized immediately that we needed
- 7 resources to fix the problem, so that's when Rob Baker was brought in.
- Q Okay. Was one of your concerns also that the 9 10 investments advisory group was calculating their own
- 11 performance?
- 12 A Well, I think that was Mark's concern and
- 13 probably one of the driving forces towards bringing a guy 14 like me in or -- or his initial urge to hire a senior
- 15 manager in performance, and he ended up with me. But.
- yeah, I think that was a concern of Mark's. 16
- 17 Q Okay. And is -- is part of that concern so what we talked about earlier today about grading your own 18
- 19 cooking to a degree?
- 20 A Absolutely.
- 21 Q And again, I don't want to belabor the obvious.
- 22 but why -- why is that concern as -- from a reporting
- 23 expert's perspective?

7

- 24 A Well, you know, you want that independent
- 25 objectivity. That's one of the selling points of my
- 1 firm. You know, I've -- I've got hedge funds calling me
- 2 know, the ones that are still standing that want their
- 3 track record recalculated by an independent objective 4 firm.
- 5 And so even within a firm I think, you
- 6 know, it makes sense, and in my experience, the -- the
  - performance function is always separate from the

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#### Riordan\_Steve\_20090211.txt with compliance, correct? 1

2 A Uh-huh.

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- Q Is that a yes?
  - Sorry. Yes. Α
- Okay. What about from the FAs or from the Q
- 6 investment advisory group, were you getting pressure to
- 7 get your numbers done so that they could use them?
- A Probably indirectly through Mark Stys. I 8
- 9 think, you know, the FAs would communicate with -- with
- 10 Mark Stys and Mark would -- would come to me and say when 11 can we get, you know, good latest numbers.
  - Q Okay. And did you take from your conversations 12
  - 13 with Stys that -- did you reach the same conclusion based
  - on your conversations with Mr. Stys that they were 14
  - 15 holding out marketing materials waiting for you?
  - A I think we were all of that general 16
  - 17 understanding, ves.
  - 18 0 Okay. Just to tie a few issues up before we go 19 to lunch.
    - Aside from recordkeeping issues and some
  - 21 of the, you know, rebalancing issues that we talked about
  - 22 before, what -- what was your general assessment of the
- 23 performance reporting function when you got to the
- 24 company?
- 25 A That -- That they were understaffed and didn't
- 1 have the appropriate experience and skill set to -- to
- 2 run a performance reporting operation of the size and
- 3 scope of a Stanford. I think I was on the ground for two

4 weeks maybe when I made a case to Mark that I needed Page 90

- Riordan\_Steve\_20090211.txt 8 investment management function. I think a very diligent 9 firm will calculate their own performance just to keep 10 the performance group honest. So you have a check and --11 a really diligent firm will have a check and balance 12 where you have a performance group calculating and 13 independently, and that's what is the book of record or 14 that's what's, you know, going to end up in marketing 15 and -- and what's going to end up reported to clients. And then you have the -- I'm sorry -- the 16 17 investment management group calculating it for internal 18 purposes only I think I advised Mark on that when I first 19 arrived on the scene, is that anything calculated in that 20 group should be for internal purposes only, because if 21 do it that way and you have a calculated performance group, then you have a natural check and balance and the 22 23 investment manager can challenge the performance group 24 and say, hey, you're number is wrong, and the performance 25 group can challenge the investment manager and say, hey,
- 1 no. your number is wrong, and then get to the right
- 2 number. That's what a diligent office would do.
- 3 Q Okay. Just to close few more issues out before we take a break so we'll have clean starting point after 4 5 Junch
- 6 we talked about you completing your 2006 7 analysis in roughly mid 2007?
- A It depends upon what part of the analysis, you 8 9 know, you're speaking of. I completed model returns for 10 '06 in April of '07.
- 11 o okav. Page 92

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21 procedures and your conclusions, and then hopefully we

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	Case 3.03-07-00230-11	Document 12-14		lied 02/11/2009 1 age 4 01 10
	Riordan_steve_20090211.txt			Riordan_Steve_20090211.txt
12	A I didn't complete composite returns probably		15	that was the gist of his rational.
13	until very late '07, maybe even '08, because we had to		16	Q When you say people aren't going to talk to you, are you talking about
14	build a tool to do it and that took probably three or		17 18	A Potential investors. So if, you know, you want
15	four months.		19	to get into a manager search universe of one of the
16	Q Okay. And And then when did you complete		20	larger firms like a UBS or Merrill or something like
17	2005 in terms of the composite returns?		21	that, then then you need a three-year track record.
18	A I believe I did that in March of '08.		22	And I think the fact that, you know, Mark
19	Q Okay. And is that when you sent out the		23	was adamant about composite returns to to give as a
20 21	three-year composite returns? A Exactly		24	three-year track record, when he had a three-year track
22	A Exactly. Q Okay. When did the discussions about getting	a 0	25	record of a hodge-podge of model returns, he could have
23	three-year composite begin?	a		
24	A Probably from, you; know, mid 2007 yeah,			
25	probably right around second or third quarter of '07.			
			1	rolled with that. And I think, you know, testament to
			2	him, he didn't want to. He wanted a three-year composite
			3	track record.
1	Because I remember Mark telling me he wanted it ASAP, a	nd	4 5	Q Okay. And you took it from your conversations with Mr. Stys that he didn't want to use the track record
2	I told him that it was a lot of work, which is why he		6	that he had gotten from friend IAG?
3	ended up not getting it until March of '08, because I		7	A Correct.
4	was I said I only know one way to do it and that's t	he	8	Q And he wanted a more reliable product like
5	right way, and that's how long it's going to take me.		9	yours?
6	well, I said I would probably try to get it a little		10	A That and just the fact that people are going to
7	sooner than I think I delivered later than I said I		11	ask him, hey, is this model a return or a composite
8	could, so I under-delivered a little bit.		12	return and, you know, composite return carries a lot more
9 10	Q Okay. And did he convey to you why he wanted the three-year track record?		13	weight.
11	A Yeah. I believe that, you know, they wanted	to	14	q Okay.
12	get this SAS program, you know, on more people's radars		15	A Or confidence, I should say.
13	and, you know, people aren't going to talk to you		16	Q Right. Was there every any discussion of the
14	without, you know, a three-year track record. I think		17	use of the track record as a recruiting tool?
	Page 93	x	18	A Not from me. Page 94
	Riordan_Steve_20090211.txt			Riordan_Steve_20090211.txt
19	Q 0kay.		22	won't we won't have too much more to do after that.
20	A No. But I would think they would if it was		23	A Okay.
21	good.		24	MR. KELTNER: So let's go ahead and go off
22	Q In order to recruit other financial advisers?	D	25	the record at 12:32.
23	A Yeah, yeah. I could see that being a			
24	recruiting tool, I guess, sure.			
25	Q In other words, come here, we've got good		1	(Whereupon, at 12:32 p.m., a luncheon recess was
			2	taken.)
			3	AFTERNOON SESSION
1	products for you to sell?		4	MR. KELTNER: Let go back on the record at
1	A Exactly.		5	1:08. Okay.
3	Q We've got a great track record?	· · · · ·	6	BY MR. KELTNER:
4	A We've got the bank's CD.		7	Q During the break, it came to my attention that
5	Q Right.		8	we may have inadvertently failed to swear you in as we
6	A Yeah. I mean, if your financial advisers don	't	9	were going though the outline, so let's go ahead and do
7	want easy products to sell.		10	that for the remainder of the day.
8	Q Right. So, I mean, essentially in marketing		11	Mr. Riordan, could you state and spell
9	these things, these types of programs, these types of		12 13	your full legal name for the record. THE WITNESS: Sure. Stephen Riordan,
10	strategies, I mean, is it generally all about the track		13	s-t-e-v-e-n, R-i-o-r-d-a-n.
11	record? Is that what clients are drawn to?		15	MR. KELTNER: Okay. Could you please
12	A Yeah. I would I would think so.		16	raise your right hand?
13	Q Okay. At the end of the day, that's what the		17	(Witness sworn.)
14 15	clients want to see, right, is the track record? A Yes.		18	MR. KELTNER: Thank you. The testimony
15	A Yes. Q Okay. Okay. I think when we come back after		19	that you offered this morning prior to our break, was
17	lunch we'll pick up with some issues related to the FA		20	there anything to your knowledge inaccurate about that
18	complaint.		21	statement that testimony?
18 19			21 22 23	statement that testimony? THE WITNESS: No. MR. KELTNER: Okay. Okay. And was it

24 truthful?

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THE WITNESS: Yes. Page 96

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1	BY MR. KELTNER:
Z	Q Thank you. Okay. Let's pick up with a few
3	documents, and then talk about the in a little more
4	detail about the issue relating to complaints from the
5	FAs about performance issues.
6	I understand there was a meeting in
7	March of 2007 at which you may have presented some
8	findings; is that correct?
9	A Correct.
10	Q Okay. So I just wanted to go ahead and mark a
11	few things as exhibits that kind of tie those issues down
12	with respect to date.
13	(SEC Exhibit No. 31 was marked for
14	identification.)
15	BY MR. KELTNER:
16	Q I'm marking as Exhibit 31 an e-mail from Steve
17	Riordan dated Tuesday, March 20, 2007, to Zack Parrish
18	copying Mark Stys, and the subject is FW presentation for
19	FAS. And it appears to have attachment entitled .
20	performanceassessment.zip and one entitled
21	presentationsupplement.zip.
22	(SEC Exhibit No. 32 was marked for
23	identification.)
24	BY MR. KELTNER:

25 Q I'm going to mark a separate document as

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	Riordan_Steve_20090211.txt
5	Q Okay. Did you get two copies?
6	A Yeah. And just to clarify, this was not nearly
7	entirely my work. This was a collaboration between
8	myself and Mark Stys.
9	Q Okay. One question I had was Exhibit 32
10	appears to be the the document that you e-mailed to
11	Mr. Stys, who did the initial draft of Exhibit 32?
12	A Mark did.
13	Q Okay. And then he sent it to you for your
14	input?
15	A Exactly. Yeah. I filled in some of the
16	numbers, you know, slides that have numbers on them.
17	Most of that text, if not all, was written by Mark at
18	least originally. I may have edited some of the
19	language. My most significant contribution would be the
20	slides that have numbers in them.
21	(SEC Exhibit No. 33 was marked for
22	identification.)
23	BY MR. KELTNER:
24	Q Okay. I'm going to go ahead and hand you a
25	document that I'm marking as Exhibit 33, it's another
1	version of Exhibit 32. We believe this is the final
2	version, because we got it from an attendee at the
3	meeting that took place on March 28th, 2007. So just
4	generally, have you seen Exhibit 33 before?
5	A Let's see. I would say, yes, because I was at
6	that meeting.
7	Q Okay. And just for the record, can you
	Page 99

1	Riordan_Steve_20090211.txt Exhibit 32, which appears to be a copy of the performance
2	measurements spreadsheet that was attached to Exhibit 32.
3	I'm going to ask you to confirm that. And I will just
4	represent to you that Exhibit 31 Exhibits 31 and 32
5	well, Exhibit 32 came from your production. Exhibit 31
6	came from another set of e-mail that we had.
7	On Exhibit 31, let's go ahead and remove
8	the second page, I think it was inadvertently copied
9	with the second page was inadvertently copied with
10	Exhibit 31. So you can go ahead and remove the second
11	page?
12	A Okay.
13	Q So Exhibit 31 is now just a one-page document.
14	What is Exhibit 31?
15	A Exhibit 31 looks like an e-mail from me to Zack
16	Parrish and Mike Stys on March the 20th, 2007, with two
17	attachments, performanceassessment.zip and
18	presentationsupplement.zip.
19	Q Okay. I will represent to you that Exhibit 32
20	is found in the electronic materials that you produced to
21	us entitled and it had the name performance assessment
22	attached to it. Looking at that, does that Exhibit 32
23	appear to be the presentation materials that you
24	prepared?
25	A Yes.
1 2	Q Okay. And just for the record, what are you looking at next to Exhibit 32? Is that just another
2 3	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing.
2 3	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing.
2 3 4	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98
2 3 4	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98 Riordan_Steve_20090211.txt describe for me what Exhibit 33 is.
2 3 4 8 9	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98 Riordan_Steve_20090211.txt describe for me what Exhibit 33 is. A Sure. It is the presentation from the meeting
2 3 4 8 9 10	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98
2 3 4 8 9 10 11	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98 Mescribe for me what Exhibit 33 is. A Sure. It is the presentation from the meeting with the FAs to go over, you know, differences between accounts, models, and composites, and also I think the
2 3 4 8 9 10 11 12	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98 Mescribe for me what Exhibit 33 is. A Sure. It is the presentation from the meeting with the FAs to go over, you know, differences between accounts, models, and composites, and also I think the other intent of the meeting and the other slides within
2 3 4 9 10 11 12 13	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98 Measure of the same thing. Page 98 Measure of the same thing. Page 98 Measure of the same thing. Measure of the same thing of the same o
2 3 4 8 9 10 11 12 13 14	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98
2 3 4 9 10 11 12 13 14 15	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98
2 3 4 9 10 11 12 13 14 15 16	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98
2 3 4 9 10 11 12 13 14 15 16 17	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98 A Looks like the same thing. Page 98 A Looks like the same thing. Page 98 A Sure. It is the presentation from the meeting with the FAs to go over, you know, differences between accounts, models, and composites, and also I think the other intent of the meeting and the other slides within Exhibit 33 and 32 is to, you know, communicate a message to the FAs that, you know, we're on a new and improved track for, you know, accurately reporting on a go forward. Q Okay. So an attempt to allay the concerns of
2 3 4 9 10 11 12 13 14 15 16 17 18	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98
2 3 4 9 10 11 12 13 14 15 16 17 18 19	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98
2 3 4 9 10 11 12 13 14 15 16 17 18 19 20	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98
2 3 4 9 10 11 12 13 14 15 16 17 18 19 20 21	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98
2 3 4 9 10 11 12 13 14 15 16 17 18 19 20 21 22	looking at next to Exhibit 32? Is that just another copy? A Looks like the same thing. Page 98

A For the best of my recollection, I think it was

2 probably led primarily by Zack Parrish, or at least 3 kicked off by Zack with, you know, Mark Stys being --

Q Okay. And Mr. Parrish was he the head of

Q Okay. The next person down the chain from him

 A L least one of Zack's direct reports was Mark.
 Q Okay. And where does D'Amto fit into the Page 100

4 being also a leader of the meeting.

A That's my understanding.

6 Stanford Capital Management?

9 was that Mr. Stys?

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	Case 3:09-cv-00298-N Document 12-14
	Riordan_Steve_20090211.txt
12	picture when you're doing your or work?
13	A At this point in time Jason reported Jason
14	D'Amto reported to Mark Stys.
15	Q Okay. So the chain goes D'Amto to Stys to
16	Parrish
17	A Correct.
18	Q in March of 2007?
19	A That's correct.
20	Q Okay. Did you have discussions with
21	Mr. Parrish leading up to this March 28th, 2007 meeting?
22	A I believe so. I can't remember exactly, but I
23	would imagine that Mark and Zack and I probably at least
24	talked this through prior to the meeting.
25	Q Okay. Did Mark seem sorry. Did Zack
1	
1 2	Parrish have an understanding of the performance reporting issues prior to this March 28, meeting?
2	A You know, I didn't have a lot of direct contact
4	with with Zack. Mark would be better be able to
5	answer that question as to what he he knew or didn't
6	know, because most of my communication was directly with
7	Mark.
8	Q Okay. But you think you had some kinds of
9	some kind of pre-meeting with Parrish and Stys before the
10	March 28 meeting?
11	A I think we may have.
12	Q Okay. So tell me what you can remember about
13	this meeting. How did it open up? What happened?
14	A Well, you know, it's a little fuzzy on the
	Page 101
	Riordan_Steve_20090211.txt
19	spend a lot of money and I'm going to spend a lot of
20	hours if you want me to prove out every single account
21	for a year. That's a lot of work.
22	So I personally selected accounts that I
23	thought were the most egregiously off and chose specific
24 25	months within those accounts that were egregiously off where I could prove to the FA that the account level of
23	where I could prove to the FA that the account level or
1	performance was, in fact, correct and that the tracking
2	error was a result of two things. One, was model
3	calculation error, and, two, was that the account didn't
4	exactly hold the model.
5	Q Okay.
6 7	A So that spreadsheet was key to my piece in the
/	presentation.

And then, you know, I would -- I would 1 2 imagine Mark started to walk through the slides until it 3 got to my piece, and then I presented my piece as sort of 4 an educational type of track or tact. I should say. And 5 that's essentially what I tried to do is I -- the 6 supplement to this, we -- we haven't broken out yet, 7 there's an Excel spreadsheet supplement -- it was called 8 presentationsupplement.zip. 9 Q Yeah. I don't think I've got it here, but I've 10 seen it. It appears to be a breakout of certain accounts 11 that were identified by the FAs; is that correct? 12 A Exactly. Yeah. And that was a key piece, you 13 know, that formed the entire basis really of my part in 14 the presentation was to walk the EAs through that 15 spreadsheet as part of the their education where I proved 16 to them selecting example accounts from the universe that 17 they provided that they felt were issues. I had 18 explained to Mark Stys previously that you're going to Page 102

Riordan\_Steve\_20090211.txt 15 details, but I recall Zack sorts of kicking it off. You 16 know, I remember, you know, probably most vividly what 17 related directly to me about the meeting, and so I 18 remember Zack introducing me. Because I hadn't met most

or, if any, of those folks, maybe had met one of them.

So he introduced me, talked about my background as a 21 performance person and, you know, why they had brought me 22 in and sort of letting them know that -- that Stanford 23 and Zack and Mark specifically were taking the 24 appropriate steps to get performance and reporting, you

25 know, on a -- on a better track.

24	Q D-o-n, Don as a man.
25	A No, but I think he is the big guy down in
1	Memphis, the fixed income guy. He wasn't there. If
2	that's if that's who
3	Q Okay. Roughly how many people were at the
4	meeting?
5	A Seven.
6	Q Okay. Is the room relatively about this size,
7	a bigger room?
8	A Yeah. Standard conference room.
9	Q Okay. Was there anybody from compliance
10	present?
11	A I don't believe so.
12	Q What was the reaction from the FAs to the
13	meeting?
14	A I thought it was very positive. I you know,
15	from my perspective, I thought I saw lightbulbs go on
16	around the room as I walked them through the numbers, and
17	it appeared to me that they were getting it and that they
18	were understanding. And that I felt confident that they
19	were feeling confident that we were addressing the issues
20	and that we had a good plan for our go forward.
21	Q Okay. Was the concern approached from the
22	question of whether the model was overstated or was
23	the was the question whether the client performance
24	was accurate? What was the focus?

Riordan\_Steve\_20090211.txt Q Okay.

A Dawn as a woman or Don as a man?

That's a good question. I mean, I think --Page 104 А

A Never heard of him.

Q Okay. Before we get into the details. Who

A From my recollection, I know it was Charlie

there may have been -- I think Jay Comeaux was there and

I'm not sure if he was there or not.

Rawls for sure, I think Mark Grossbeck was there, and

maybe one or two other people that I couldn't name.

Q Okay. Did you mention Mark Tidwell?

Q Okay. What about Doug Shaw?

Q Okay. How about Nancy Bramley?

Q Okay. What about Don Miller?

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else was at the meeting?

A He was there.

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A I don't recall any women in the room.

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Riordan Steve 20090211 tyt

Ŧ	well, from my perspective, I think that that the FAS
2	were concerned that their clients were receiving
3	inaccurate performance, and I think we allayed that fear.
4	You know, and that was one of the main points I wanted to
5	make, you know, because if you recall, we're in a period

wall from my according to about these which also are

6 now where -- were client reports are being suppressed or

7 not sent out, there is a lack of confidence among, you

8 know, operations and compliance about the accuracy of --

٩ of client reporting, yet at the same time they're

10 concerned about fulfilling their contractual obligation 11 to report.

12 And so one of the points I wanted to make

13 at this meeting, and -- and not to neglect mention that I

think FAs also have a say in whether the client gets the 14

15 report or they're -- they're able to -- they were a

16 component of the review process where client reports

17 would be sent to FAs, and if the FAs didn't think the 18 report was accurate they could suppress it or -- or stop

19 it from acina out.

20 So what I was trying to get was a place

21 where people felt good about the client numbers, so the

77 examples I used that day proved out client returns to be

23 accurate.

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24 And again. the tracking error was related

25 to model calculation error, and they selected accounts,

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- 5 meeting to allay the concerns of the FAs?
- 6 A Yes. 7

13

Q Okay. We talked about in this in Boston a 8 little bit, is it fair to say that the emphasis on the meeting was on the accounts failing to track the model as 9

10 opposed to the bad math or the math error?

A I believe so, veah. 11 12

Q Okay. And why was that?

A Because from my perspective I don't think

anyone was trying to call investment management out for 14

15 overstating, at least not to my knowledge. I think, you

know, from -- again just from my perspective. I think 16 that we had performance resources on board on -- on at 17

Stanford that were -- were not able to get any confidence 18

19 from the FAs, so they were talking to people that weren't

experienced with performance and couldn't explain why 20

21 things were as they were.

22 So I guess to make a long story short, I 23

was the first person that was able to come in and be able 74 to articulate and prove the numbers out and, you know,

25 show evidence, which I think raised everyone's confidence

1 level. So to make my point is I don't think that the

gist of the meeting was to call investment management out 2

- on over -- intentionally overstating. 3
- 4 I think the purpose of the meeting was,

5 you know, do we have our arms around this whole, you

6 know, process of performance reporting? Can we -- Can we 7

do it right? Have we been doing it right? And, you

Riordan\_Steve\_20090211.txt the FAs that gave me the universal accounts to look at, 1 2 they gave me accounts that didn't exactly hold the model, 3 which was the other source of tracking error. So when we found accounts that truly held the model and we had an 4

accurate model calculation the numbers were in line. 5 6 So I think from the FA's perspective they

wanted to get that confidence that the reports that their 7 8 clients were getting were accurate.

0 Okay. So when say the -- when you say found 10 accounts that were in line with the model, the numbers 11 matched is that including or excluding the bad math error

12 or the inaccuracy in the model? 13 A well, you had to take the bad math out to get a

14 match, because what I'm saying is and findings were, and 15 they're still consistent to this day, is that Advent and

AXYS were doing their job, account level returns were 16 correct and any -- any results that anyone had -- had 17

18 seen that didn't match account level returns were for the 19 two reasons of tracking error that I mentioned.

Q Okay. So when you're comparing and when you're 20 21 explaining to the FAs that, in fact, account level data did hold the model, you were referring to the corrected 22 model? 73

- 24 А Correct.
- 25 Okay. Q

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I had to remove the model error in order to tie 1 2 numbers

3 Q Okay. And we talked about from your

management's perspective was the primary goal of the Page 106 4

Riordan\_Steve\_20090211.txt 8 know, can I be confident that my clients are getting a good number? 9

10 0 Okav. But was it also made clear at the

meeting that at least some component the difference was 11 12 comprised of math error or, you know, inflammation of the 13 model7

I had to have touched upon that. I can't say 14 Α with a hundred percent certainty, but I can't imagine 15

that we would have neglected to convey that. 16 Q Okay. Were there any FAs that didn't seem to 17

18 be accepting the explanation?

19 A I didn't see anv. no. I mean. I didn't get a lot of questions. 20

21 0 Okay. Were there any questions about, you

know, just of kind of whether joking or serious about, 22 23 well, why is it that, you know, the model is always on 24 the high side? Anything like that?

A I can't say for sure. 25

> Okay. But it may have happened? Q

It may have. Α

Let's go ahead and walk through Exhibit 33 3 Q quickly again. And again, we think Exhibit 33 is the 4 version of the performance measure -- measurement and 5 6 reporting presentation that was used on March 28th of 7 2007. okay?

So we'll just go through it in order, for

9 lack of a better term.

10 A okav.

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So the strategic plan slide, is this something Page 108 0

Case 3:09-cv-00298-N Document 12-14 Filed 02/17/2009 Page 8 of 10 Riordan Steve 20090211.txt Riordan\_Steve\_20090211.txt 15 signing off and saying, you know, send -- send the client 12 you put together with Mr. Stys? 16 statements out. Let them rip. 13 A Yeah. And -- And again. I would probably that 17 Q Okay. The statement about improving timeliness 14 he -- he wrote it and then I edited it. 18 and accuracy in performance reports, was that, I quess, Q Okay. So the first bullet point says, 15 19 the ultimate goal? 16 establish an independent performance measurement group. 20 A Absolutely, Yeah, That's -- That's the goal 17 I quess that was going to be your role? 21 of any performance group. 18 A Well, it ended up being my role. I mean, I Q Okay. And the standardized auditable process, 22 19 recruited the team. 23 you're talking about something that's transparent and can 20 Q Okay. So are these improvements that -- that 24 be tested? 21 you -- these on page two of Exhibit 33, are these 25 A Yeah. I'm not exactly sure what our meaning 22 improvements that you recommended? П 23 Α Absolutely 24 Q Okay. So to summarize a lot of this, it seems 25 to be suggesting improved controls, improved accuracy 1 was here on this particular bullet. You know, I think --2 you know, some of these assets -- you know, this -- this might be speaking to the -- like, the -- the coins and з Δ bullion, but I'm not-- I'm not entire sure what we're 1 around the reporting process? 5 getting at with that bullet, to be honest. 2 A Exactly. Q Okay. 6 3 Q Okay. Like, for example, it say implement 7 A But you do want a standard source, a 4 proactive controls and audit review and approval process. 8 standardized source of data such as pricing, you know. 5 You know, kind of impractical steps. What does that 9 and I think -- I think we're getting at -- you know, are 6 mean? 10 we got good valuations on our statements. 7 well, basically it's to, you know, catch Α Q Let's go ahead and skip to the slides on your 11 mistakes earlier in the process, you know, if -- if there 8 findings that were presented to the staff, at least at 12 are accounting level mistakes at the account level, you 13 the high level. 10 know, put -- put a process in place where, you know, 14 A Okav. 11 you're -- you're catching mistakes as they occur at the Q So we're on a page entitled findings fees model 15 12 accounting level, the performance group is then -- has a 16 versus composites. So the first bullet, what does that 13 process for reviewing returns and then further an 17 sav? approval process where, you know, essentially the FA is 14 A Model performance varies from account Page 110 18 Page 109 Riordan\_Steve\_20090211.txt Riordan\_Steve\_20090211.txt 22 skew your numbers a little bit because a model never has 19 performance. 23 any cash flow, so the model is pure. You can get a pure, 20 Q Okay. So obviously that was one of your 24 you know, return, whereas, when you have cash moving in 21 preliminary findings after, you know, you had done the and out of the account and when it actually gets invested work reflected in Exhibit 30? This is Exhibit 30 from 77 n 23 earlier. A This is probably pertaining to a subsequent 24 analysis that I performed. This is probably speaking 25 1 in the model is going to concrete some noise in your 2 numbers. Relatively small unless, you know, the 3 4 cash contribution or withdrawal is -- is very 1 more to the analysis that I did specifically for this 5 significance relative to the size of the account. 2 meeting and was in that supplement presentation 6 Q Okay. And again, you know, obviously what 3 supplement. 7 seems to be left out of here is the math error or the Q Okay. So the specific 30 some-odd accounts 4 inflation in the model. Is that because your analysis 8 5 that had been identified --9 here was done with a corrected model? A Exactly. 6 A I think that was sort of the intent was to --10 7 Q Okay. And then, again, I think we have talked 11 you know, we didn't want to belabor the point that that 8 about this before, you highlighted two possible -- well, 12 model math was wrong, because you can't really even start q I guess, you have got a couple of reasons here variance 13 to perform an analysis of account versus model and which 10 in holdings and timing of addition or subtraction of cash 14 is correct until you have, you know, a right model -- or 11 into the account, so those two issues are, one, it 15 how far apart they are until you have a right model. 12 doesn't hold the model in terms of holdings, correct, in 16 So if -- if I had included that. it would 13 an account? 17 have just, I think, done more to confuse than to educate, 14 A Right 18 which was my goal. 15 0 And the second would be this timing issue with Q Okay. And we think the math error may have 19 16 respect to, you know, when money comes in and out of the 20 been discussed, and it may be highlighted by some notes 17 account? 21 on the following page. Do you see the next page, 18 A Right. 22 Findings. How are we doing? Let's start -- Can you 19 Q Okay. So what would an example of that be? 23 explain to me what this page is intended to portray? 20 A well, you know, if you have significant flows

24 A well, I think, you know, the question here

21 coming into or out of the account level, it is going to

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25 is -- and I don't remember, it may be on the next page. Page 112

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- 1 But did we use, you know, my calculated model or the
- 2 previously calculated model by IAG to get these numbers.
- So was the account level tracking error versus the 3
- 4 restated model or the original model. I'm quessing that
- 5 it was probably against the restated.
- Q Okay. 6

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- A Because, again, that was the point I was trying
- to make is -- is first of all, let's compare these 8
- 9 accounts to the actual model rather than an errored 10 model.
- 11 Q So just stepping back for a second. Generally,
- 12 this page entitled, Findings. How are we doing? It's
- 13 intended to portray, I guess, the extent of the error
- 14 in -- in the accounts that you analyzed versus the
- 15 corrected model?
- 16 A Exactly
- 17 Q Okay. And these notes at the bottom, which I
- will represent to you were taken by an FA at the meeting, 18
- 19 it says theoretical one does not include the 90 basis
- 20 points of bad math. Is -- And then -- so. I mean, given
- 21 that note, do you think you probably had some discussions
- 22 at the meeting saving this isn't the whole picture?
- A Yeah, absolutely, Someone probably chipped in 23 24 and said, well, you know, there is -- we're seeing a lot
- 25 more than what these numbers represented, you know. And
  - Page 113

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- 5 12 month average of 14,54, and then a model return of 15.55 in the middle of the page. 6 7 A Yep. 8 Q And then a restated of 14.65. 9 Right. Α Q Okav. I will tell you I think the 15.55 is the 10 11 number, the model number, that they were using in 12 advertising. 13 A Okay. 14 Q It looks like the 14.54 that would be a composite that you calculated for 2006? 15 A Right. 16 17 Q And so the restated number would that appear to 18 you to be the corrected model number? 19 A The 14.65. 20 Q Yeah. 21 A Yes. 22 Q Okay. And so the difference between 14.65 and 23 15.55 appears to be 90 basis points? 24 A Correct 25 Q Okay. If you flip to the prior page, Findings.
- 1 How are we doing? This is theoretical and does not
- include the 90 basis of bad math. 2
- 3 A Right.
- 4 Q Okay. So do you think the -- the difference
- 5 between the numbers on the following page, the 14.65 and
- 6 15.55 is that same 90 basis points of bad math? A Absolutely. 7
  - - Page 115

Riordan\_Steve\_20090211.txt 1 they're -- they're -- they're looking at the old model,

2 the -- the errored model.

3 Q Okay. And so you see on the line that says 4 greater than 100 basis points?

- A Yes. 5 6

O Okay So number out at the far right-hand side of the page the 10 percent, is that reflecting that only 7 8 10 percent of the accounts you analyzed had one than a 9 100 basis points of difference from the model?

10 A with the restated model, yeah.

11 O Okay. And then there is a note here, if bad 12 math included 25 to 30 percept per Riordan, misspelled 13 vour name, but per Riordan.

- 14 A Yeah, I will forgive them for that. Then that
- 15 is right. So that makes sense to me that, you know --
- 16 and I would have to, you know, see if I -- if I had
- spreadsheets where I -- where I ran these numbers against 17
- 18 the old models and if I'm -- if I'm making a quote like,
- 19 then I probably did. And, you know, if -- if we're
- 20 looking it the SAS growth model, you know, I would want
- 21 to go back to Exhibit 30 and see if I could get an
- understanding of -- of about how much, you know, we would 22 revise the model and --23
- 24 Q Well, I think you could -- you might be able to
- flip to the following page and we may be able to see 25
- 1 that. It's a page entitled Performance Composite Versus 2 Model.
- 3 А Okav.

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- Q And there is a composite return column with a Page 114 4
- Riordan\_Steve\_20090211.txt Q Okay. So after you make your presentation and, 8 9 you know, have obviously talked about the -- the different factors that may be driving differences between 10 the model and the actual account performance, what 11 12 discussions were there about, you know, what happens 13 going forward? 14 A Actually, can I just point out one thing --15 Q Sure. 16 A -- before I answer that question? Is looking 17 at the page that's Performance Composite Versus Model. 18 Q ∪h-huh. 19 A There are a few months where the restated model 20 did go up. 21 How many? Q 22 June of '06, it went up two basis points. А 23 August of '06, it went up two basis points. October of 24 '06, it went two basis points. November of '06, it went 25 up 14 basis points. So for this particular model for 1 this particular time period it wasn't a hundred percent 2 swing the overstated way. Q So there were a few months where it went up by 4 less than 14 basis points? A Yeah. There was just a few months where I 5 6 restated it did go up. Q Right. A I just wanted to point that out. 8 9 0 But on an annualized basis the model was high
- 10 by 90 basis points?
  - 11 A Correct. Page 116

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12	Q When I say the model, I mean the		15	that there was a discussion about what to do about the
13	pre-restatement model.		16	pre-2006 track record, would they be mistaken?
14	A Correct.		17 18	A I think so. Q Okay. Were you ever asked about how they
15	Q Okay. So getting back to my question. What		10	what what they could do to secure the pre-2006 track
16	discussions were there about what we're going to do going		20	record aside from, you know, doing your composites?
17	forward?		21	A Yeah. I mean, I don't know if it came up at
18	A I think it was all about, you know, moving		22	that meeting, but, I mean, I definitely was consulted
19	towards composites, and I think I probably did a little		23	with on, you know, how to get accurate performance
20	education piece during the meeting on composites and why they're better and how to completely eliminate this		24	historically. You know, I think one of the challenges
21 22	problem. If we're marketing composite performance versus	O	25	that we had was was being able to get at the account
23	theoretical model performance.	ц		
24	Q Were there any discussions at this meeting, or			
25	if not outside this meeting, regarding what to do about			
			1	level data especially post Bear Stearns conversion, that
			2	was a big part of it where, you know, nobody seemed to be
			3	very confident that we could get account level data to build composites back pre-Advent, so at the end of the
1	pre-2006 numbers?		4 5	day all of the composites as they stand today are from
2	A No. I mean, even if you read the the last		6	are post-Advent, you know. It's all Advent data.
3	bullet of the final page of the presentation, it says, we		7	Q Okay. Were there any discussions about, you
4	will consider restating 2006 for all model portfolios.		8	know, putting the stake in the ground from 2006 forward
5	So I think that really indicates where our focus was.		9	and, you know, using your data and not using the earlier
6	Q Okay. Are you Are you confident of that		10	track record?
7 8	sitting here today, or do you not just not have a recollection of it?		11	A There may have been.
9	A I'm fairly confident just because, you know, I		12	Q Okay. What What do you remember about that?
10	can say with surety that until I got the marching orders		13	A You know, I may tune out or glaze over if they
11	to get a three-year track record as of the end of '07 it		14	start talk about, you know, FA pitch books or whatever.
12	never came across my desk to worry about any history.		15	I mean, you know, my work was very focused. I think, you
13	Q Okay. So if if if a financial adviser		16	know, any talk about what they are going to market or not
14	who was present at the meeting had had a recollection		17 18	market or what they're going to have in a pitch book or not would be FAs and and Zack Parrish and Mark Stys
	Page 117		19	Page 118
	Riordan_Steve_20090211.txt		22	Riordan_Steve_20090211.txt a fact that that certain models in '06, if not all,
19	engaged and Riordan on the sidelines.		23	were overstated.
20	So I might have been thinking about, you		24	Q Okay. Did you say anything like the restated
21 22	know, where I was going to dinner that night or something.	D	25	models calculated by me is absolutely correct, the
23	Q Okay. Did you say anything like, I feel good	L L		
24	about 2006 forward, but all bets are off as far as			
25	accuracy goes for the prior periods and no one can even			
			1	previously stated model was not done by me and was
			2	incorrect? A Sure.
			3	Q Okay. Were you ever Were you ever consulted
1	verify it?		5	about using a disclaimer in association with the pre-2006
2	A IS IS that a quote? I don't know. I can't		6	track record?
3	honestly recall.		7	A No.
4	Q Okay. Does that sound like something you might have said?		8	Q Okay. Are you go ahead.
6	nave said? A Yeah. Probably, yeah. I I mean, I can say		9	A I think I mean, I have been consulted with
7	this with surety that I would tell Mark and probably Zack		10	in general as to what kind of disclosures and disclaimers
8	is that, you know, the only numbers I will stand behind		11	they should be putting on this stuff. And, you know, I
9	are the numbers that I calculated myself. Any number not		12	definitely would have told Mark that if if you're
10	calculated by Riordan Consulting, I have no confidence		13	showing model, you know, make sure that you say it's a
11	in, from what I had seen.		14	model.
12	Q Okay.		15 16	Q Okay. How would you do that? A What in a footnote? How would How would I
13	A That That I can say.		10	do what?
14	Q Okay. Did you say anything like the models are		18	Q How would you disclose that it's a model
15	all overstated?		19	performance?
16	A well, I mean, that ended up being a fact I		20	A Well, you would say that the date, you know,
17 18	think at least in '06. And I don't that we ever really looked hard at '05 other than Q4 of '05, which I did when		21	of of what the model or what you know, let say if
18 19	I first arrived on the scene, but, I mean, you could take		22	you have a mixture of composite and model, you would want
20	at '05 composites as they are today and compare to		23	to explicitly state which time period was model.
21	marketing materials and make that assessment. I know for		24	Q Okay. And when you say model, are we talking
	Page 119		25	about model with the benefit of hindsight or model as in Page 120

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	Riordan_Steve_20090211.txt		1	Riordan_steve_20090211.txt court, and I think that at one time or another I may have
			2	been asked to review what was going to be the list of all
			3	the disclaimers and disclosures or whatever, and I think
			4	I gave some feedback on it.
1	a trackable model?		5	- Q Okay.
2	A Well, I think you would to need disclaim that,		6	A Bus that is the that's the greatest extent I
3	too. If If it's one or the other. You know, I'm not		7	would have been involved in that.
4	an expert on on disclaimers and disclosures, but I		8	Q Okay. Are you a disclosure expert?
5	have seen a lot of them and I would think that you		9	A NO.
6	it it just makes common sense to me that you would		10	Q Did you tell SGC or SCM or any of their
7	differentiate between a model done with hindsight versus		11	employees that you were?
8	a model that actually existed, you know, without the		12	A I don't think so.
9	benefit of hindsight.		13	Q Okay. Did you convey that message in any way?
10	Q Okay. And is the net of that that you would		14	A I mean, I think it it can easily be assumed
11	want it to be clear to the client which model you were		15	that as a performance person I have should be familiar
12	presenting to the client? Is that the result?		16	with performance, you know, disclaimers and disclosures,
13	A Sorry. Could you repeat?		17	but the reality is that every body's were different. So
14	Q Sure. You know, you were talking about being		18	I don't spend I don't spend a lot of time on that. I
15	clear as to whether you were using hindsight or not.		19	mean, what their interpretation of my level of expertise
16	A Right.		20	would have been implied, not explicit.
17	Q I mean, I guess the goal of that would be to		21	Q Okay. Did you So you never affirmatively
18	make that clear to the client or the prospective client?		22	represented yourself as an expert on disclosure?
19	A Absolutely.		23	A No.
20	Q Okay. Did you advise them on whether or not		24	Q Okay. In your practice, do you read the SEC
21	they should disclose that, you know, on the same page		25	rules and regulations on that issue?
22	with the performance results or whether they could put it	0	25	Tures and regulations on that issue:
23	in a footnote?			
24	A We never really got to that level of detail I			
25	think, you know I think that ended up in compliance's		1	A NO.
			2	Q Okay. Do you keep up with the no action
			- 3	letters?
			4	A No.

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5	Q Do you follow the enforcement cases?
6	A No.
7	Q Okay. Do you know one way or the other what's
8	permissible and what's prohibited in terms of how you
9	present your track record?
10	A The only thing I know pertinent to track record
11	is the GIPS standards. As a CFA and a CIPM I need to
12	know the GIPS standards inside and out, and I keep a copy
13	on my desk as a reference. But as far as the SEC goes,
14	no.
15	Q Okay. More generally, if you were presenting
16	model performance with the benefit of hindsight, would
17	you be comfortable with putting that putting that
18	performance underneath the title that says historical
19	performance?
20	A You know, first of all, my opinion on models
21	with hindsight I think they're completely useless and
22	ridiculous and should be at best supplemental information
23	and clearly identified as such.
24	Q Okay.
25	A So I have no use for historical models with
1	hindsight.

Q Okay.

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- A Because I could -- I could create a portfolio 4 by the end of the day today that shoots lights out, you 5 know, for the last ten years.
  - Q Uh-huh. The key thing being hindsight?
    - A Exactly.
- Page 123

APP 0138

- Q Was management, Parrish or Stys, at all upset with the FAs for raising the issue?
- A Which issue? 3

A NO.

last five years and --

Q okay.

А

Q

misleading.

Yeah. А

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Page 122

Riordan\_Steve\_20090211.txt Q You just pick the top five filings over the

Pretty -- Pretty easy to do really.

14 do that and then don't tell the client that's what 15 they've done -- that's what you've done the client may 16 assume that that is your real track record?

18 then, yeah, I would think that that would be very

with the benefit of hindsight? A I do not know, no.

Right. And is the obvious danger that if you

A If it's not adequately disclosed or disclaimed,

Q Okay. Do you know whether or not the model

Q Were there any discussions about that issue?

numbers pre-'05 that were being presented were prepared

- Q The -- I should be more clear.
  - The issue regarding differences between

6 composite -- or the model performance and actual client 7 performance?

- 8 A No. I mean, I think that they were pretty
- 9 frustrated with -- with, you know, general squawking.
- 10 You know, the FAs were pretty squeaky wheel, that was the
- 11 sense that I got. They -- They wanted the world, but had Page 124

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#### Riordan\_Steve\_20090211.txt

12	no appreciation for what it took to get there, you know,
13	operationally speaking.
14	You know, if, for example, that was one of
15	my original marching orders is that is was FA
16	driven is they wanted the total wealth picture in the
17	client's statement and they wanted performance for the
18	total wealth pictures, because frankly the FAs wanted the
19	benefit of this shoot the lights out performance of the
20	bank's CD. So the bank CD is doing double digit returns
21	every year and, you know, that could buoy their accounts
22	upwards if you're able to include that positive
23	performance, especially in you know, the majority of
24	the Stanford accounts which were FA managed accounts that
25	weren't in SAS or SAM or any of the other professionally

1 managed, you know. strategies.

If it was just managed by the FA on a 2

3 consultative basis with the client and a CD is a

4 component of that and maybe in some cases as significant

component of that and you're down 10 percent and the CD 5

6 is up 10 percent, you're at least about to break even

7 So that -- you know, that was one of the

8 things that the FA were very vocal about is they wanted

9 to include everything, and that's -- that's a bullet on

10 the last page of the presentation. We have a strategy in

11 place to get to a consolidated reporting capability that

12 is inclusive of all assets classes.

13 I think Mark felt that it was important

14 enough at this meeting to continue to stress that point

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#### Riordan Steve 20090211.txt

19 like a CPA is in SAS for all of '06, he gets the '07

20 pitch book and he sees the SAS performance number of

- 21 15.55 and he looks back at his account and he sees that
- 22 he only dot 12 --

n

23 A Uh-huh.

24 Q -- is that the type of thing you're talking 25 about. or is that --

1 A Exactly, yes. That's the exact thing I'm

Q Okay. Did anything -- Did anything like that come up at the March meeting?

5 A No. I don't think anyone went to a specific

б example. You know, the examples were already given, you

7

9 dozen FAs that had issue. They picked -- each FA picked 10 a handful of accounts and they all made it, you know,

11 their way to my desk to do my analysis.

0 Okav.

A Of which I selectively chose a few to look at.

Q Okay. So looking at this from two different 14 15 angles the FAs were concerned, one, about whether or not

16 the actual clients reports are accurate? 17 A Right.

- 18 Q And is they were also concerned about whether
- 19 or not the marketing materials presented an inflated

20 track record?

A Well, I don't know what their exact concern is, 21

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## Riordan\_Steve\_20090211.txt 15 that we're addressing yet another one of their

- 16 complaints, which is the lack of all assets in the -- in
- 17 reporting and performance. So, you know, the gist of it
- 18 is this: Is I think Mark and Zack were trying to build
- 19 the business, yet they were myriad in, you know,
- 20 complaints about the past from the FAs and, you know, all
- the wants and needs of the FAs to have, you know, this 21
- 22 type of reporting, this type of access, They wanted more
- 23 online, you know. Internet based type of access to
- 24 reporting. They wanted, you know, their marketing in the
- 25 pitch books to match what the client actually got at the

1 end of the day. I mean, they had some demands.

2 Q Okay. So that thing about the marketing

matching the pitch book, was there concern raised at the 3

meeting that the marketing materials were inaccurate? 4

5 A Absolutely, yeah. I mean, I think that was --

was a general issue at the firm is that, you know, a 6

really savvy person could -- could -- if they saved their 7 8 pitch book could say, hey, this doesn't match, and call

٥ the EA out on it

Q Right. So a savvy client? 10

11 А Exactly. A savvy client could have -- could 12 have been like, hey, this doesn't -- this doesn't --

doesn't jive. 13 14

0 For --

A Like, for example, let's say they were already 15 16 in one strategy and they're being pitched another one, so 17 that type of scenario.

18 Q Okay. So let's say somebody hypothetically Page 126

Riordan\_Steve\_20090211.txt 22 it's just that, you know, I think from my perspective is 23 every one in the room wanted the numbers to jive, and how 24 are we going to get to that point where the number are in 25 line.

Q Wanted the marketing materials to align with 1 2 the actual client?

A Pitch books, marketing materials, client 3

4 reporting, everything should be in line.

Q Okay.

5

6 A I think that if we're all on the same team that's what we were all looking to do. 7

Q Okay. Were any of the FAs expressing concern 8 9 about potential liability? Like, I'm using this pitch book and the numbers are high, anything like that? 10

11 A Not to my recollection. You know, had I known 12 now how important that meeting was going to be maybe I would have paid closer attention to some of the details 13 14 that didn't concern me.

Q Okay. 15

A So that would have been a detail that I 16

- 17 wouldn't have cared much about I don't think.
- 18 Q You wouldn't have cared if the FAs were worried about potential liability? 19
- A Well, I mean, not so much as it just -- it --20
- 21 it didn't pertain to the job that I was -- that I was
- 22 working on. I mean, again, I was -- I was very focused
- 23 on my work versus anything that was done before my time,
- 24 so to put it in the proper context, I cared a heck of lot
- 25 less than anything that didn't have to do specifically Page 128

2 talking about.

3

12

13

4

know, Mark had passed along to me the 25, 30 some-odd

8 accounts, you know, handful from, you know, this half a

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		1	A	I'm sorr
		2	Q	Sure. S
		3	of milesto	one is
1	with me and my brand new consulting firm.	4	composites	; in mid
2	Q Was there any sensitivity around the materials	5	А	Well, we
2		6	I mean, I	think if
	that were presented? Were the FAs told keep this stuff	7	last bulle	et of the
4	in-house, or, you know, we prefer you didn't take this	8	restating	2006 for
5	with you, anything like that?	9	Q	Uh-huh.
6	A Not to my knowledge.	10	А	We Yo
7	Q Okay. Was there any discussion that in any way	11	composite	construc
8	implied should be careful that this doesn't fall into the	12	returns.	
9	hands of the SEC?	13	Q	So makin
10	A Not to my knowledge.	14	А	Correct,
11	Q Okay. Was there any discussion about not	15	Q	Okay. A
12	putting performance reporting related issues in e-mail?	16	down then	you move
13	A Not to my recollection.	17	А	Correct.
14	Q But you can't say that it didn't happen?	18	0	Okay. D
15	A I can't say for sure.	19	'06?	o
16	Q Making notes for Mr. Stys?	20		well, yo
17	A And myself.	21	March M	
18	Q That's a yes?	22	you recall	
19	A I need to remember what what the touchy	23	anticipati	
20	issues were.	23	'07	ng my wo
21	Q For yourself and Mr. Stys?	24	07 Q	Uh-huh,
22	A Yes.	0	ų	on-nun.
23	Q Okay. So this March, 2007 meeting is over, the			
24	next thing you did is that as far as big picture			
25	issues, is that completing your '06 composites?	1		which

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Riordan Steve 20090211 txt

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Riordan\_Steve\_20090211.txt

- 5 Parrish, Mark Stys, you know, that whole dispersion list
- of here is the best numbers, the best of my abilities 6
- 7 based upon all the data that I had to -- to give an
- 8 accurate model performance for 2006.
- Q Okay. One last thing on the March 28th, 2007 9
- 10 meeting, were you there for the entire meeting?
- 11 A Yes.
- Q Okay. 12
- 13 A As far as I know.
- 14 Q To the best of your recollection?
- 15 A Well, unless there was a meeting before or
- 16 after me, I was there for, you know, this entire
- 17 presentation at least. 18
- Q Okay.
- 19 A I can't -- I can't say what people were doing 20 when I wasn't in the room.
- Q Sure. Okay. So just to kind of put in one 21
- 22 place in the transcript when you did what, so you got
- 23 there, you did some of your preliminary work, you're --
- 24 in '07, are you doing the '07 composites on a go-forward
- 25 basis as -- as the quarters end essentially?

1

2

3

A I believe that is how things went down, yes. o okav.

- A In '07, I was actually up to date at least with
- 4 the current quarter composites. It was the
- 5 march backwards in time that was going to take longer.
- 6 Q Okay. So you did 2007 kind of on a going
- 7 forward basis, like, end of first quarter '07 you would

- Riordan\_Steve\_20090211.txt A I'm sorry. One more time. 1 So this meeting is over, the next kind - is that you completing the 2006 '077 we -- we had a steppingstone before that. f you go back to Exhibit 33 the very e presentation is we will consider or all model portfolios. ou know, so before I could even get to uction I was still focused on model ing sure the model for '06 was accurate? , across all strategies. And then once you got that number nailed ved onto the composite? Do you know whether or not they restated ou know, this meeting happened in '07, and from our session this morning George and marketing were anxiously work being done at the end of April of
- A -- which was for all intents and purposes a 1 2 complete restatement of every model for all of '06. 3 That's what I gave -- I spread that out via e-mail end of
- April to compliance, marketing, Jason D'Amto, Zack Page 130 4
- Riordan\_Steve\_20090211.txt 8 take a month or so, or however long it took, do -- and 9 deliver the numbers for the first guarter. And then you 10 did -- you did your review for each guarter of '07, you 11 know, sometime shortly after the end of the quarter? 12 A Yes. I mean, we got better as the year 13 progressed, but '07 was done in a pretty close to how you 14 would in normal production environment. O Okay. And then you also completed '06 around 15 mid '07, somewhere in that ballpark? 16 A Composites? Probably closer to late '07 or 17 18 maybe even early '08. Q Okay. Okay. And then early 2008, is that when 19 you prepared the three-year composites for each of the 20 21 strategies? 22 A Yes. I -- I started working on '06 -- or
- probably '05 we -- they added a few strategies to the 23
- 24 mix. too. that I had to do. so we were up to ten

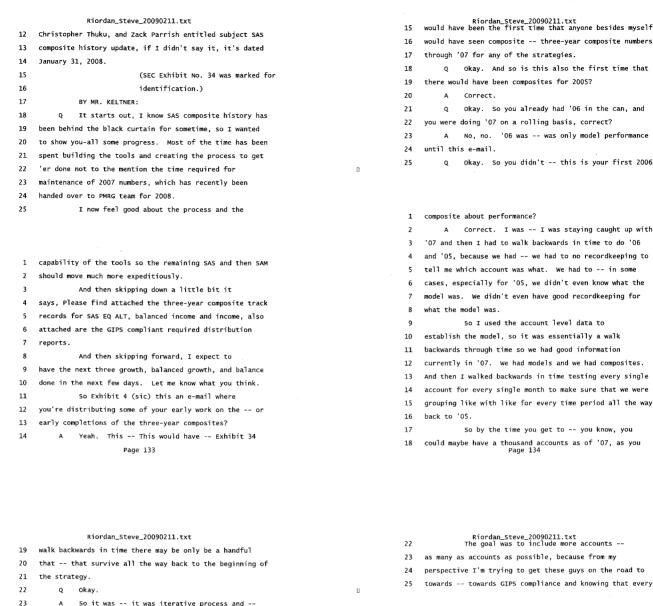
ti.

- 25 strategies. And for four of those strategies I had to do
- 1 all three years at the same time. Although, some of them 2 didn't have a full three years of existence.
- But we added the ETF. I mean, these --
- 4 these -- the original six strategies were mutual fund
- 5 strategies, and then they added four ETF strategies that
- 6 I did as far as back as they would go -- or that they
- 7 existed, so this was all happening in Q1 of '08.
- Q Okay. Just to kind of nail down this timeframe 8
- 9 I'm going to hand you a document that I'm marking as
- 10 Exhibit 34. It appears to be an e-mail from Steve
- 11 Riordan to Mark Stys copying Jason D'Amto, Robert Baker, Page 132

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. 1 account is going to have to be included in a composite,

so the more accounts I was able to include the better.
 So, you know, I errored on the side of --

4 of having a little bit more wiggle room and including
5 versus kicking everything out that didn't match to the
6 letter of the law.

Q Okay. But if an account differed in a
significant manner from, you know, other accounts in the
same strategy, it probably got kicked out?

10 A Yes.

12

11 Q Okay.

A \_\_\_\_ And -- And we have relatively decent

13 spreadsheets that would sort of, you know, illustrate 14 which accounts were included and excluded as of given 15 point in time.

16 Q Yeah. And I think I've seen some of those

17 showing that, you know, for some strategies we have 5

18 percent of accounts were kicked out up to maybe have a

19 high of maybe 10, 11 percent for some of the others, does 20 that sound ballpark?

21 A Yeah. I would -- I would try to quantify it

22 for them and -- and, you know, for me it was useful

 $\ensuremath{\texttt{23}}$   $\ensuremath{\,}$  feedback to IAG to say, you know, a lot of these kick

24 outs, you know, are because the accounts not following

25 the strategy, so this is basically an assessment of how Page 136  $\,$ 

Page 135

24 and it took -- it took a long time because we did test

2 accounts, let's say in growth for example, where IAG

8 discretion, my experience essentially to make some

determinations in certain -- you know, for certain

accounts and for certain months. You know the -- the

general rule of thumb, though, that we had was -- is

percent on either side of weighting, so if the weight

19 If it had some very, very small, like, rights or warrants

20 or legacy type holdings that were insignificant, I would

target was five an account could be as little as 1.5 and

as high as 8.5 from a percentage allocation perspective.

that -- this is a managed account program, these accounts

should hold the exact same securities as each other that

We gave a tolerance of three and a half

Q When you do the testing that way if there were

screwed up, they were growth accounts but they failed to

track the model. Are all those accounts getting kicked

of an art than a science, and I had to use, you know, my

A It -- You know, it's -- it's a little bit more

25 every single account.

are in the same program.

let those pass through.

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5 out?

6

7

q

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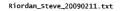
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1 you're doing from a trading perspective. But at the same time they also had 2 3 accounts that were restricted and, you know, had a dollar 4 cost averaging requirements and do not trade requirements 5 that I was not aware. Q Sure. But were there certain accounts that 7 just, you know, clearly IAG had just messed up on the 8 allocation or messed up on the weighting? A I mean -- veah. I would say so. I think I saw a significant improvement, you know, as the years 10 11 progressed even though I sort of did it backwards. But things were much cleaner in '07 than they were in '06 and 12 13 they were cleaner and tighter in '06 than they were in 105 14 15 And so I really chalked up the 16 inconsistencies I found to lack of experience, lack of 17 process. I know SAS grew very, very rapidly, so I pretty 18 much chalked up the inconsistencies to that. 19 0 How did the changes in the model go into effect 20 for a given investor? In other words, if you change the 21 mold, is there automatic flow through to the client where

22 their holdings should change? A Well, automated is -- is subjective, I think. 23

24 They had a process. I don't know how automated it was.

25 but from all the data that I have seen, and I have seen a

Page 137

Riordan\_Steve\_20090211.txt

5	Q Okay. And when you say net of gross in net
6	of fees, which fees are we talking about? Are these the
7	fees from Stanford or are these the fees from underlying
8	mutual funds?
9	A These would be Stanford fees.
10	Q Okay. So the management fee that Stanford
11	charges?
12	A Yeah.
13	Q Okay. To calculate the net of fees number
14	excuse me do you use actual cash flows?
15	A Yes.
16	Q Okay. So you show the fee coming out when?
17	A Exactly as it occurs. It's a cash cash
18	method.
19	Q Okay. So it's not as simple as subtracting
20	1.25 or whatever the fee is?
21	A Right. But it should be a good approximation.
22	If If you, you know, if the Stanford stated fee for
23	growth, for example, was one percent annually, then
24	approximately your difference in return should be in that
25	neighborhood.

Q Okay. So, for example, on the SAS growth model you see the 2005 composite gross in net of fees?

- A Yep.
- Q Gross appears to be 8.8 and net is 7.3?
- A Right.

1

2

3

5

6

7

- Q So roughly is the fee 150 basis points?
  - Α Exactly, ven.
    - Page 139

Riordan\_Steve\_20090211.txt good amount of it, you know, they were roughly in the 1 2 ballpark of 80 to 90 percent, you know, of rebal on the 3 same date.

- 4 And then a lot of times they would catch
- their remaining -- their remaining 10 percent the next 5
- 6 day, or maybe in some cases a couple of weeks later, or
- 7 in some cases, which caused me pain, not until the
- following month or months thereafter. So there was ~~ 8
- 9 there was definitely some inconsistencies in -- in the

10 rebals.

11

17

13

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- (SEC Exhibit No. 35 was marked for
- identification )

BY MR KELTNER

14 O Okay. I'm going to go ahead and hand you a document that I'm marking as Exhibit -- what are we up to 15

now -- 35 T think? 16

A 35 17

- 0 And Exhibit 35 is a collection of documents. 18
- six pages, the, first page is entitled composite 19
- dispersion gross of fees, SAS growth January 1, 2005 20 through December 31, 2007. 21
- 22 Can you tell me generally what the
- documents are in -- that comprise Exhibit 35? 23
- 24 A Yes. These are produced from the Advent and
- AXYS platform. It's -- It's the only composite report 25
- 1 that the Advent AXYS platform has. It's a summery of --
- 2 you know, it's one strategy per page and it looks like

3 we've got gross in net of fees for three of the

- 4 strategies, growth, balance growth, and balanced. Page 138
- Riordan\_Steve\_20090211.txt Q Okay. So generally the documents in Exhibit 35 9 these are the three-year composites you compared --10 prepared? 11 A Right. 12 Q Okay. And are these the, quote, unquote, 13 audited numbers that -- that -- that Stanford was going 14 to use in their -- for their disclosure purposes?

A It -- It would depend. I would have to see the 15

- 16 source, because, you know, these things go through
- 17 iterations and fine tuning, so I can't say for sure that 18 Exhibit 35 is the final, final unless I knew where it

19 came from.

20 O Okav. This is the version that you delivered 21 to Stanford Group -- or Stanford Capital Management, so 22 assuming that fact to be true, do you think it's the

23 final version?

A Yeah. If -- If it was sent to me via e-mail 24 25 that said, you know, final package attached, then yes.

Q Okay. Did you give preliminary drafts to 1 2 Stanford Capital Management or did you just give them 3 final draft?

A I -- I may have -- well, if you recall in 4 Exhibit 34 I had only had three done and I sent those. 5

6 And I don't know if I may have tweaked those after the fact or not. But most likely I tried to keep my e-mail 7 communications to final numbers. 8

9 q okay.

11

- 10 A For the most part.
  - Q So if we -- if we got these from Stanford Page 140

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#### Case 3:09-cv-00298-N Document 12-15 Filed 02/17/2009 Page 6 of 10

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Riordan\_Steve\_20090211.txt

	ktoruun_seeve_zoosvzzzz.exe
12	Capital Management, the odds are that this is your final
13	version?
14	A Yes.
15	Q Okay. So just real quickly let's go through
16	the first page of Exhibit 35 just, you know, so we can
17	kind of talk about, you know, what each column
18	represents.
19	A Okay.
20	Q Obviously you've year in the first column,
21	composite TWR, that's the total weighted return. Is that
22	what that is?
23	A TWR stands for time weighted return.
24	Q Okay.
25	A And this particular one was calculated using a

1	weighted average of all the accounts within the
2	composite.
3	Q Okay. And the next three columns do those
4	represent benchmarks?
5	A Correct.
6	Q And then it looks like there is some
7	combination of, what? The first one is a combination of,
8	what, s70L30?
9	A 70 percent S&P 500, 30 percent LUM aggregate.
10	Q Okay. And the second one is, what, just the
11	S&P or
12	A 100 percent S&P.
13	Q Okay. And what is the LUM aggregate?
14	A Collection of fixed income securities. It's

Page 141

#### Riordan\_Steve\_20090211.txt

- 19 the model, for example?
- 20 A Well, I just think that I couldn't trace any,
- 21 you know, two accounts that looked alike all the way back
- 22 to, you know, January, '05, so, you know, I made some --
- 23 made some educated guesses on what the membership was.
- 24 And as you can see in '05, it's -- it's very weak
- 25 membership compared to '07, right.

#### 1 we're looking at 80 accounts versus 1,300

- accounts, so there was very -- the universe was very, 2
- 3 very small in '05, which is why we -- we only had one
- 4 account in there for the whole year.
- 5 Q Is that a function of the fact that the
- strategy grew quickly? 6

.....

- 7 A I think so, yes.
- 8 Q Okay. And less so that you kicked a bunch of 9 accounts out in '05?
- 10 A I think it's a function of both, more -- more
- than that -- I mean, they're just -- I mean, if you look 11
- 12 at the SAS program, which to the best of my memory is
- 13 that final column end of year total firm assets what that
- 14 number really represented was total SAS assets and
- 15 because that was the only number I could get my -- my
- 16 arms around.

17

- Q Uh-huh.
- 18 A You know, I couldn't get my arms around the
- 19 rest of the firm assets, so I supplanted SAS assets there 20 so program that went from 86 million to 787 million over.
- 21 you know, the course of two years.
  - Page 143

- Riordan\_Steve\_20090211.txt 15 It's probably the most -- It's the S&P 500 for bonds, I 16 guess, would be the best way to put that. It's one of 17 the most widely used bond comparisons. 0 Okay. So it's kind of a good fixed income --18 A Exactly. 19
  - 0 -- benchmark?
- 21 A Exactly.
- 77 Q Okay. So what's these four columns underneath
- 23 portfolio average TWR, median TWR, highest TWR, lowest
- 24 TWR, are these like straight averages so that they
- 25 average TWR?

20

1

2

A Yes.

- Q Okay. And the median is obviously the median and then the high and low are the range?
- 3 Δ
- A Yeah. It's -- It's essentially looking at the 5 universe of accounts that were in for the entire period.
- 6 For line one you would have to be in for the entire
- 7 period to be included in those calculations, which is why
- 8 for 2005 those numbers are same all the way across the
- 9 board. It's kind of little -- it's not really an Advent 10 olitch, but it is what it is.
- They -- The -- The long and the short of 11 12 it is only one account was in this composite for the 13 entirety of '05, and that's why those numbers are all the
- 14 same. 15 0 Okav. So for --
- 16 Α
  - And the standard deviation is zero.
- Q Okay. So for '05 you had accounts rotating in 17 18 and out in a given month because they may not have held Page 142
- Riordan\_Steve\_20090211.txt Q Okay. 22
- 23 А So that's rapid growth from my -- my
- 24 perspective.
- 25 Q Sure. From 86 million to 787 million in three
- vears? 1

5

8

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- 2 А Two years. Because those are end of year. 3 okay. Q
- It's ridiculous growth. 4 А
- And why do you say it's ridiculous growth? Q
- A Well, it's just -- it's impressive. It's very 6 7 impressive growth.
  - Q They have an impressive track record, true?
  - A I didn't spend a lot of time focused on the
- 10 track record prior to '05, but from what I have seen
- 11 since, yes, it looks pretty good.
- Q Okay. So beating the market by 27 percent 12 13 would be an impressive track record?
- A I would say I would like to put my money in 14 15 that.
- 16 Q Okay. So -- So just stepping back, I think
- 17 when we talked in Boston, you know, you said you were
- 18 highly confident in the accuracy of your composite
- numbers? 19
- 20 A Yes.
- 21 Q Okay, You said you sign the reputation -- your 22 reputation and the reputation of your firm, you would put 23 behind these composite numbers?
- A Absolutely. 24
- 25 Q Okay.
  - Page 144

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Document 12-15

Riordan\_Steve\_20090211.txt

- 1 A I spent literally hundreds of hours making these numbers, so for anyone to prove these numbers to be 2 3 inaccurate, they would have to spend hundreds of more 4 hours than I spent to make them wrong. Q And if they spent those hundreds of hours, 5 6 you're confident that they might find a basis point here 7 or there?
- 8 A Exactly. One -- One or two blips.
- q Q Okay. If -- If there were a weakness -- or a
- 10 difference that is someone else might come up, would that 11 likely in the inclusion of accounts analysis?
- 12 A Absolutely. I mean, I think -- I think that if
- 13 two people were to do this, even, you know, at the same
- 14 experience level that I have, they could make different
- 15 determinations of inclusion exclusion for certain
- 16 accounts, certain time periods. But once the composite 17 got big enough a handful, even five, ten, twenty accounts
- 18 here or there in or out is not going to change that
- 19 number.

П

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- 20 0 Okav. So a few outliers shouldn't
- 21 significantly change the average.
- 22 A Exactly. Especially when you're talking about
- 23 1,300 accounts. You could -- You could take 300 at
- 24 random out of here and you would still be in, you know,
- 25 for 2007 for SAS growth 1,300 accounts, take 300 out,

Page 145

	Riordan_Steve_20090211.txt
5	Q Okay. Who did you ask?
6	A I went to probably Mark Stys and Ken Johnson
7	and Jason D'Amto all at one time or another.
8	Q Okay. And what was the reaction when you
9	asked?
10	A Well, Mark was, like, I'll try to get it for
11	you or have the guys deliver it if if they have it,
12	they have it, if they don't, they don't. You know, I
13	think he tried to clear the runway for me, and then I
14	contacted Ken Johnson directly because he was the guy
15	that I had always gone to for this type of information.
16	And he presumably worked on it and pretty
17	much never got back to me, or if he did it was I don't
18	have it, can't help you.
19	Q Okay. But the net effect of it was that
20	A Some of this stuff preceded him, I guess, as
21	well.
22	Q Okay. But the net effect was that you
23	generally had to recreate the wheel for 2005?
24	A Yes. '05 I did completely in the dark.
25	Q Okay. Is it fair to say that Stanford Capital
1	Management was not able to provide you with any
2	information that would have made you comfortable with
3	their 2005 model numbers?
4	A That's fair. I mean, if just out of
5	curiosity, I would I would love to see the
6	composite you know, now that composites exist, you can
7	run a report that shows the composite holdings as of each
	Page 147

1	Riordan_Steve_20090211.txt pick any one you want, like a card trick, and you would
2	still be in the 12.4 neighborhood.
3	Q Okay. But obviously that becomes less the case
4	as you have fewer and fewer accounts?
5	A Exactly.
6	Q 50 2005 might be more sensitive to the issue of
7	which accounts you selected and kicked out?
8	A It would be without a doubt. That said, I
9	spent a ton of time on it trying to make sure that the
10	accounts that were included, anybody could back and audit
11	that and say I can see why he did what he did.
12	Q Okay. So I'm going to a question that I
13	kind of need to ask to test what you did. I mean, was
14	there any bias on your part toward kicking out
15	underperforming accounts?
16	A No, absolutely not.
17	Q Okay. A minute ago you touched on the fact
18	that to do 2005 and, I guess, to a degree '06, you had to
19	reconstruct the model?
20	A Yes.
21	Q And you also had to determine for yourself
22	which accounts fell within which strategy?
23	A Correct.

- 24
- Q Okay. Did you make any attempt before you
- 25 undertook to do those things to ask the company for
- 1 records?

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2	А	I	did

- 3 Q Okay. And what were you told?
  - A They didn't have them. Page 146

	Riordan_Steve_20090211.txt	
8	month. You could also run a composite transaction	
9	summary to see when the composite was rebalanced.	
10	And if you really wanted to know how bad	
11	their '05 was, you could compare that to Ken Johnson's	
12	'05 models so that you you could do a lot of work	
13	on '05. You could You could find out a lot of stuff	
14	if you did an analysis of '05. If you look at what Ken's	
15	models are versus my composites.	
16	Q Okay. Okay. Just real quickly, I'm going to	
17	hand you a copy of a document that's been previously	
18	marked as Exhibit 4. I will represent to you that it is	
19	a Stanford allocation strategies proposal, it says it was	
20	prepared for Jane Foster and presented by Tom Wollsey	
21	W-o-l-l-s-e-y, it was produced to us by Stanford Group	
22	Company or Stanford Capital Management. If you flip to	
23	the growth performance page it's entitled historical	
24	performance at the top?	
25	A Historical performance?	
1	Q Yeah. Do you see that?	
2	A Okay. Yep.	
3	Q Okay. You see the SAS growth table on the	
4	right-hand side?	

5 Yes. А

6

7

8

9

- Q Okay. You see the 2005 number there?
- А Yes.
- Is that -- Is that 8.82? Q
- А Correct.
- 10 Q Okay. And the composite return in Exhibit 35,
- 11 gross of fees is that 8.81? Page 148

Case 3:09-cv-00298-N Document 12-15 Filed 02/17/2009 Page 8 of 10 Riordan Steve 20090211 tyt Riordan\_Steve\_20090211.txt 15 that have been audited and verified Riordan Consulting. 12 Α Yes. 16 L.L.C., from the first quarter of 2006. Do you see that? 13 0 Okay. So does it appear to you that they're A Yes. 17 14 substantially using your 2005 number in the Exhibit 4 18 Q Okay. And -- And you authorized them do to 15 performance for growth? that, to use your audited work in their marketing 19 16 A Yeah. I would just wonder why there was any 20 materials? difference at all unless the number -- I will say this: 17 A I don't recall explicitly saving that, but I 21 Numbers in Advent never get locked down, so... 18 22 don't have a problem with it. 19 Q Might move by a basis point? 23 Q Okay. It was your understanding that that's A It -- It -- They do. They do. 20 24 how they were going to use it? 21 Q Okay. But if you look at '06, are the A It doesn't surprise me, but I don't remember 25 22 numbers -- numbers are identical between your work in n 23 Exhibit 35 and Exhibit 4? 24 A Right. Q 14.68? 25 1 explicitly giving permission. Q Okay. You didn't sign a consent letter, like a 2 3 typical U.S. accounting firm does? A No. I didn't. 4 1 A Right. Q Okay. But -- But you understood that they 5 2 Q Okay. And 2007 it's a little off. 12.43 for wanted an audited track record? 6 your product and 12.4 from the growth -з 7 A Yes. 4 A Right. 8 Q And you knew the reason they wanted it was to 5 Q Okay. But it generally appears that in 2007 present it to clients? 9 6 and '06 and '05 Exhibit 4 is using your audited numbers? 10 A Absolutely. 7 A Agreed. 11 Q Okay. The next sentence says previous 8 Q Okay. I think if you flip to the -- let's find performance figures have not been audited and SCM does 12 it. Okay. If you flip to the disclosure page at the 9 13 not represent that the -- this information is accurate. back of the document? 10 14 current, or complete and it should not be relied upon as 11 A Yes. 15 such. Do you see that sentence? Q There is a reference to the performance results 12 16 A Yes. 13 for SAS income, SAS balanced, goes through the list of 17 Q Okay. So it appears to be relating to any 14 strategies. Said it includes accounts managed by SCM 18 periods pre-2006? Page 150 Page 149 Riordan\_Steve 20090211.txt Riordan\_Steve\_20090211.txt 22 been checked by someone. This just say previously 19 A Okay. 23 nothing has been checked. 20 Q Okay. Did you advise Stanford on that 24 Q Okay. 21 disclosure? 25 A That's what I mean by it appears to be weak. 22 A NO. n 23 Q Did you advise them at all that they could 24 disclaim away their pre-2005 track record? 25 A NO. o okay. Can you tell from this disclosure 1 2 whether or not it's model performance? 3 A NO. Q Can you tell whether or not it's model 4 1 Q Okay. Just being an expert in this field, you 5 performance with the benefit of hindsight? 2 know, are you -- is this industry practice to include a A NO. 6 track record pre-'06 and then say, you know, we can't 3 7 Q Can you tell whether or not actual clients may 4 tell you if it's accurate, current, or complete or -- and 8 have experienced performance that vastly differed from 5 we tell you that it shouldn't be relied upon? the performance presented? 9 A Well, to be honest most of my experience is 6 10 A It would not surprise me. 7 with firms that are GIPS complaint or on the path to 11 0 Okay. But you can't tell that from the 8 being GIPS compliant. I'm not as familiar with the rules 12 disclosure? of engagement for noncompliant firms such as Stanford. I 9 13 A NO. 10 mean, just from a personal opinion perspective, I think 14 I'm also curious as to why they didn't 11 it's a pretty weak disclosure. 15 include '05, which was checked by me. 12 Q In terms of disclaiming what -- at the back of Q Good point. 16 13 a document any reliance on the historical track record at 17 So you're noting that in the disclosure the front of the document? 14 they say that Riordan -- that you audited '06 forward, 18 15 A Well, I just think that, you know -- okay. but there is no mention of 2005? 19 16 Previous performance figures have not been audited but

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17 that -- that's really all it says is that they just

18 haven't been checked by anybody independently. It

19 doesn't say any -- give any other details as to how they

20 were calculated, whereas the sentence before it says that

21 performance results are from actual accounts and that's

Page 151

20 A I did '05.

Q Okay. And when you look in that table, I think 21

22 there is a date. I will just tell you where it was. It

23 says as of June, 2008, and so you would have completed

24 your audit for 2005 prior to June of 2008?

A Absolutely. At that point I was done with Page 152

APP 0145

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Riordan\_Steve\_20090211.txt 1 indicated? Riordan Steve 20090211 txt 2 A No. you can't. 3 Q Okay. And what would you -- what would you have needed in order for Exhibit 36 to be useful? 4 1 anything other than current quarterly work for Stanford. 5 0 Okav 2 6 з A I wrapped up everything for them pretty much by 7 April of '08, and at that point I was just doing current 8 5 quarter work. 9 rebalance date and the percentage of the rebalance and MR. KELTNER: Let's go off the record. 6 which model it was -- impacted. 10 7 (A brief recess was taken.) 11 8 (SEC Exhibit No. 36 was marked for 9 identification.) 13 10 BY MR. KELTNER: 14 11 Q Okay. While we are on the break you identified 15 12 a couple of documents that may be relevant to prior 16 I had seen a previous version that was very similar 13 discussions we've had. I'm going to go ahead and mark as 17 14 Exhibit 36 a document that is entitled SAS replacement 18 only dated through '06 on it. 15 journal. Can you tell me what Exhibit 36 is? 19 Q Okay. 16 A Yep. Exhibit 36 is the rebalancing activity 20 17 that I received from Ken Johnson, which was supposed to 21 18 tell me what -- which models were rebalanced and when, 22 19 but it ended up really being was it just told you the 23 20 month and the year that the rebalancing occurred and the 24 timeframe? 21 name of the security and -- and lacked really the A Yes 25 22 necessary information to calculate true model п 23 performance. 74 Q Okay. So from Exhibit 36 can you tell which 25 strategies are impacted by any of the rebalances 1 2 3 4 Page 153 Riordan\_Steve\_20090211.txt 8 get regularly. Riordan\_Steve\_20090211.txt 5 document off the record I think you said it was 9 laughable? 6 7 A It is not something that you could really use 11 in a bona fide investment management shop as, you know, 8 12 model? 9 recordkeeping. 13 Q Okay. Because clearly there was -- there was 10 11 significantly more activity than is represented in 15 Exhibit 36? 12 even the first quarter of '07 with what a real 16 13 A Exactly. transaction journal should look like, and I handed that 17 14 Q Okay. So using Exhibit 36 there would have

15 been no way to re-correct the model? 16 A Correct. 17 Q Okay. 18 This ended up being a useless piece of paper to Α 19 me. Q Okay. Who gave you Exhibit 36? 20

21 A Ken Johnson.

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n

- 22 Q Did he explain in any way you to the problems 23 with Exhibit 36?
- 24 A You know, the gist I got from Ken, who is a
- 25 really nice guy, is that we just -- I just don't have the
- 1 details, and he apologized.
- Q Did he blame anybody for that, or did he say, 2 3 you know, the guys -- it was done before I got here,
- 4 anything like that?
- s A No. He just -- He just said this is all I
- 6 have, and that was typical Ken. This is best I can do.
  - This is all I have. That was the same old story I would

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A Basically, the journal that I created from scratch on my own with the actual activity that I

observed when I drilled into the detailed analysis of

these models. I was able to determine the actual

Q Okay. Can you put his document in a timeframe 12 for me? I mean, when did you get this document?

A I would say -- well, based upon the date of the last rebal here is April, '07, so I most likely got it

sometime after April, '07, or maybe even in April of '07.

- that's in my records somewhere that had pre -- you know.

A So this is a -- this journal goes from

December of '03 through April of '07.

- 0 Okay. So that single piece of paper was
- reported to you to be all rebalances during that

o okay, And --

- A The only record that I could get of five years worth of rebalances for six strategies.
- Q Okay. And I think when you described this Page 154

Q Okay. So he represented -- Ken Johnson 10 represented that you Exhibit 36 was the only record he had of the rebalancing the transactions within the SAS

A Yeah. That's correct. Up -- Up though point

14 of April of '07. I do recall that we did have a

subsequent meeting once I had 2006 buttoned up and maybe

- 18 over to them and I said, okay. You know, try to maintain

this on a go forward and it would be useful for the 19

20 performance group if you do. And so my understanding is 21 that they do that now.

27 Q Okay. And would you need to do that -- a

23 separate one for each strategy?

A Yes. 24

Q Okay. So you certainly wouldn't have rolled 25

1 them all into one piece of paper?

- 2 A Right.
- Q Okay. Aside from your work to construct a 3

journal, are you aware was there any of attempt by 4 Stanford Capital Management or its employees to do that 5 6 work before you became involved?

A No. I think -- I think I was the one that 8 called attention to it.

9 Q Okay. So we have heard rumors of a project to

10 reconstruct the transactions, reconstruct the

11 rebalancing. As far as you know, that didn't happen Page 156

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			-
	Riordan_Steve_20090211.txt	15	Riordan_Steve_20090211.txt accounts. So I probably did '06 off of a subset too.
12	until you got involved in mid sometime in 2007?	15	Aqain, backed my way into rebals.
13	A Well, as soon as I started trying to calculate	10	(SEC Exhibit No. 37 was marked for
14	model performance I knew that I needed the actual dates		
15	and amounts of the rebalances or else I was going to	18	identification.)
16	produce equally inaccurate numbers. So I started asking	19	BY MR. KELTNER:
17	for this type of information very early on in the game.	20	Q One other document you identified when we were
18	Q Okay.	21	off the record, I'm handing you a document marked as
19	A I was not actually able to reconstruct my	22	Exhibit 37 it says Zephyr Style Adviser top periodic
20	version of the rebalancing record until I had composites	23	returns. It has a list of growth strategies down the
21	built, then I used the composites so the account level	24	left-hand side and then dates across the top. And it
22	actual real world transactions to back my way into a	25 U	appears to layout performance numbers for 2002 through
23	model, quote, unquote, model trade journal.		
24	q okay.		
25	A So I used a real world activity to create model		
		1	
		2	Can you identify Exhibit 37?
		3	A Sure. Exhibit 37 is the traditional six SAS
1	rebalances.	4	strategies, the mutual fund strategies and their returns
2	Q Okay. Is that somewhat backwards?	5	monthly and quarterly and annually for the periods of
3	A well, it's all that's all I could do, and is	6	2002 through 2006. And it appears that the report was
4	probably more accurate than any records they didn't keep.	7	concrete by Zephyr Style Adviser.
5	Q Right. So until you had prepared your	8	Q Okay. And when say returns, you mean model
6	composites, there was no way for you to prepare an	9	returns?
7	accurate model?	10	A Yes. Although, at some point there is no
8	A Well, to the utmost of accuracy, yes. I	11	
9	would I probably did some especially in '06, which is	12	
10	all we had. I probably used another method to figure out	13	
11	rebals, which would would be very similar to what I	14	What Zephyr does is it takes return data and then
12	did after composites were constructed. And that is just	15	
13	run transaction journals for accounts that I knew were in	16	
14	a strategy, and then I picked up the rebals off of those	5.º 17	return stream you want.
	Page 157	18	Q Right. But when did you get Exhibit 37? Page 158

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Riordan\_Steve\_20090211.txt

19 A Well, I thought I got it -- I thought I got it 20 almost immediately when I arrived on the scene at the end

- 21 of '06, and this is only through '06, so that's probably
- 22 accurate. Probably early '07 I would guess.
- 23 Q Okay. And what was Exhibit 37 represented to
- 24 you -- what were you told it represented?
- 25 A I would imagine, and I'm -- I'm -- it's I'm a

1 little fuzzy on the details, but I'm guessing it was

2 given to me as -- you know, again from Ken Johnson saying

3 that we don't have a lot of details as to how we

4 calculated the returns or -- or the basis for these

- 5 historical returns. But this document, Exhibit 37, at
- 6 least tells you what we know them to be. 7
  - Q Okay.

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А So here is something for you to start with.

q Q Okay. Is it fair to say that exhibit --- you 10 were given Exhibit 37 and essentially told it represented 11 the track record for the SAS program?

- A Yes.
- 13 Q Okay. And -- And specifically the model

14 numbers prepared by the investment advisory group?

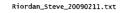
15 A Most likely, yes. Well, I mean, there were --16 they were the only people responsible at the time for --

- 17 for producing these numbers is the IAG group. 18 Q Okay. And just to put it in context in this
- 19 early January -- early 2007 timeframe, who would that be?
- A Ken Johnson. 20
  - Q And he reported to?
    - Page 159

Riordan\_Steve\_20090211.txt A Jason and -- Ken and Jason D'Amto. 22 23 0 I understand that you also received attribution

- 24 reports from Ken Johnson?
- 25 A Yes.

Q Okay. Briefly tell me what those attribution 1 2 reports are. A They were called -- I believe, I'm not a 3 4 hundred percent sure, but I believe that the monthly 5 attribution reports were created by Ken Johnson. He --6 They're misnamed because they're really contribution 7 reports and what it is a month end snapshot of the 8 strategy level holdings, the weights of each holding within the strategy, the return of each name within the 9 strategy for that month, and then a weighted average 10 11 return of the strategy giving a total of return for the 12 strategy. 13 So each -- it's called a contribution to 14 return because each member of the strategy contributes to 15 total return based upon its weight and its return. If 16 that is all that was being done to calculate the strategy 17 return, it's inherently flawed because it's a month-end 18 snapshot and it wouldn't necessarily hold true for the 19 entire month, only in the months where they had no 20 rebalance activity, which did -- I did see that to happen 21 from time to time where the model stayed true for the 22 whole month. 23 But if there was one rebal in the period 24 then, you know -- the return is going to be flawed. Q Okay. I'm just trying to put some of your Page 160 25



1 prior testimony in context. For example, could you skew 2 those monthly attribution reports by putting a well -- a fund that preformed very well into the account at the end 3 4 of the month? 5

A Absolutely.

Q Okay. And it would be an easy way to skew the results to the high side?

A Easy. 8

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a Q Did you see any evidence of that actually bannening? 10

A I didn't. I didn't, but then again, you know, 11 12 in my defense, it was a jigsaw puzzle trying to put all the pieces together as to -- and -- and things became 13 14 more clear to me as I -- as I went over time. And, you 15 know, like T said earlier, my -- in my testimony is T got 16 to the point where I wasn't getting good, reliable 17 information out of that group, so I stopped going to them 18 for information and I started creating it or going to 19 other sources to get information. 20 So, you know, maybe T took the easy way 21 out and -- and didn't analyze their -- or scrutinize what 22 they were giving me more, you know, with the thinking

23 maybe there was some intent there. But what I did was if

24 I got had information. I just went in another direction

Q Okay. Okay. I just want to talk to you a 25

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Riordan\_Steve\_20090211.txt

- would blame it on the president, and --
- Q President of the bank? 6
- 7 А President of the bank. Juan I think is his
- 8 name.

5

- 9 0 Juan Rodriguez Tilentino, does that ring a 10 hell?
- 11 Yes, that's the gentleman's name. He would Α 12 blame it on him and -- and Mark's typical protocol to me was he would try to get Zack Parrish to knock that wall 13 14
- down and -- and, you know, work on something else. Q Okay. And then nothing ever came of those 15 16 efforts?

17 A Well. I think Rob Baker eventually got some 18 success with integrating the bank into the Odessy

19 platform, you know, towards the end of my reign there.

- 20 And he would be able to, I think, give a better
- 21 description of where things went when sort of we gave up

22 on Advent integration, and he started to get some

23 transaction with Odessy integration.

24 Which was, you know, marching orders from

25 Mr. Stanford to, you know, have this Odessy platform be,

1 you know, state of the art, best platform in the world, you know, and -- and be able to report on all assets any 2 3 time, any where.

- 4 So, you know, I think -- I think Rob and
- 5 the people that worked on Odessy had a lot of more, you
- know, clout and also success in getting data out of the 6
- 7 bank

Riordan\_Steve\_20090211.txt 1 little bit about the bank on few issues. We talked

- earlier today about your attempts to get information 2
- 3 related to the CD program from the bank.
  - A Right.

O Okay. And it's fair to say you were

6 stonewalled?

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- A It's fair to say that I was not granted access. 7
- T did ask for a user T.D. and nassword so T could did in. 8
- and I never got that. So did -- So did my associate, Rob 9
- Baker. I never, you know, saw any data from the bank. 10
- I'm trying to think if Rob Baker did though or not. 11
- It was -- It was a black box. I would --12

T would describe my experience with the bank as a black 13 14 box to me.

15 Q Okay. I think from, you know, recent media portrayals I know what you mean. But what do you mean by 16 17 a "black box"?

A Meaning that, you know. I wasn't going to get 18

- any visibility to it and that -- it was -- it was 19
- described to me the -- the bank CD, I had discussions 20
- with some people at the bank, but I still never really 21
- 22 understood any more probably than you do about it.

23 It was -- It was like I might as well have

24 never even tried to learn anything, because I still know 25 nothing.

Q Okay. When you ran into the brick wall and 1 2 couldn't get information, did you go to Stys and talk to 3 him about it?

A I did. I did. We would talk about it, and he Page 162 4

Riordan\_Steve\_20090211.txt Q Okay. When you say data from the bank, were 8 9 asking for anything, you know, secret, anything regarding 10 the investments of the bank, anything like that? A Oh. I will give you an example of what I was 11 looking for. I'm trying integrate data valuations 12 13 transaction, such -- most importantly cash flow, deposits 14 and withdrawals, trying to integrate that into an Advent 15 system. Advent has a certain way they need the data to be to successfully upload or integrate. 16 17 so all I wanted to see was what a file looked like, a transaction file, and a -- you know, a 18 19 month end valuation file, holdings appraisal, whatever you want to call it. So that my guys at Advent could 20 look at that and -- and give me an estimate of what it 21 22 would take to translate the data from one system to the next and make it compatible with Advent. 23 24 So you could take the account number off,

you could take the account name off. I was just looking 25

1 for data. I wasn't trying to get any client's sensitive information. 2

0 Yeah.

3

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- But I think that was always the wall. That was
- part of the wall was this is very sensitive. We have 5
- contracts with our clients. We can't disclose any of 6
- this information or -- or we jeopardize the 7
- 8 confidentiality of our customers. That was pretty much 9 the protocol wall that I got.
- Q I know we had some conversations in Boston just 10
- briefly as we were wrapping up about suspicions that you Page 164 11

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	Riordan_Steve_20090211.txt		15
12	and Mr. Stys may have talked about regarding the bank.		15
13	A Well, I mean, we joked about it. I mean,		10
14	post-Madoff we joked that maybe the CD was was a Ponzi		17
15	scheme because, you know, the solid returns, the fact		
16	some other factors where I think Stanford has control		19
17	over a lot of the different elements around the reporting		20
18	of it, and so on, you know, in a similar fashion.		21
19	So, you know, I would call it playful		22
20	bantering between himself and I. Not really a We		23
21	never really sat down and sharpened our pencils and tried	-	24
22	to do a Mark Perry/Marcopolos type of investigation.	0	25
23	Q Right.		
24	A We We joked about it, but and and we		
25	joked about it because it was like, you know, he's no		
			1
			2 3
			-
1	longer there any more, I'm sort of barely there I guess,		4 5
2	and, you know, it's amazing it was just kind of		5 6
3	amazing to us to work some place so long and and not		

4 know. 5 0 And not know what? A Not know anything. Just not even know what 6 7 this thing was and how it worked and, you know, how to 8 report on it and how to calculate returns and just do 9 what I do. Q Okay. So for all your time and all Mr. Stys' 10 11 time, the bank essentially remained a black box? 12 A Mystery.

- 13 Q Okay. So -- And the things that you joked
- 14 about, were they the guaranteed high returns?

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- Riordan\_Steve\_20090211.txt 19 Q Okay. 20 A Give or take. 21 0 If you were saying Madoff-like returns but you 22 weren't allowed to see any of the underlying data, would 23 you have advised the client to invest? A No, I would not. 24 Q Okay, Why not? 25 A Well, before I personally put my money into 1 2 anything, and as a CFA, you know. I'm all about ethics and fair representation and full disclosure. I mean, the 3 4 spirit of everything I stand for with my professional credentials as CFA and CIPM I sign an oath every year, 5 6 and so if you can't do that or are unwilling, then that's 7 a red flag and go somewhere else. 8 Q Okay. 9 A That said, I'm also not well versed in the --10 in the rules of engagement of these, you know, Cayman 11 type banks and Swiss banks because I unfortunately don't 12 have enough money to hide any over there. But, you know, that was part of the mystic for me is that I just don't 13 14 know what the rules and regs are with those types of 15 banks, so, you know, with a general working assumption 16 that people aren't breaking laws and that people are 17 doing the right thing, I assume that most of the 18 stonewalling was in part due to those types of, you know, 19 rules and regs of -- of a Cayman type bank. 20 Q But again, would you put your money with a
- 21 Cavman type bank like that where there is no transparency

Riordan\_Steve\_20090211.txt Veah Δ

Q Okay.	
---------	--

A	Yeal	h.

Was it the consistency of the high returns? Q

You know, I've never seen a single return. Α Everything I know from bank CD returns has been through

hearsay

O Okay. Speaking of joking, you and I joked

about a little bit over the break earlier today about how if the SEC had more, you know, people like yourself, more analytical, numbers based folks things like Madoff may

not have gone undetected?

A Right.

O So in that context, you know, what types of things would you have been looking for as red flags for Madoff?

A Well, I would be looking for, you know, custody

7 statements with actual value valuations and actual

8 transactions. A good performance person can, you know,

look at a return and, you know, start a process of q

10 analysis, that's why you call it a performance analyst.

11 Those are the people that are in my business, that's --

- 12 that's what they're good at, so you can dissect a
- 13 portfolio, and as long as you can cross-reference

14 evaluations, you know, it is impossible to come up with

15 a -- with a return that isn't justifiable.

16 So if I was seeing Madoff-type returns and

17 was given access to the underlying data, I would be able

- 18 to disprove that return and, you know, within an hour. Page 166
- Riordan\_Steve\_20090211.txt 22 and, you know, 15 years of market beating returns? 23 A Well, I mean, no. Personally, no. Q Okay. And you wouldn't be comfortable because

24

25 of lack of transparency?

A Exactly.

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Q Okay. Just real briefly since you said you

3 hadn't seen bank return, I thought I would show you some. 4 If you look at Exhibit 8, I will represent to you that we 5 have been told that that is the track record of the bank. 6 their investment portfolio?

A This is the investment portfolio not the -- not the actual investor guarantee, right? 8

Q Right. That's not the CD return rate, that is 9 10 the returns of the bank. Those are the returns of the 11 banks.

12 A Okay.

13 Q And I will represent to you that the numbers

14 stay fairly consistent from '05 forward. The returns on the portfolio are in the 12, 13, 14 percent range. 15

16 A Okay.

17 Q Okay. So you've got a track record there from, 18 what, '94, is that the first year on the page?

A Yes. 1994. 19

- Q Okay. All the way through the present day in 20
- 21 no year did they fail to hit their target rate around 12

22 percent. So would you characterize those returns as

23 consistent?

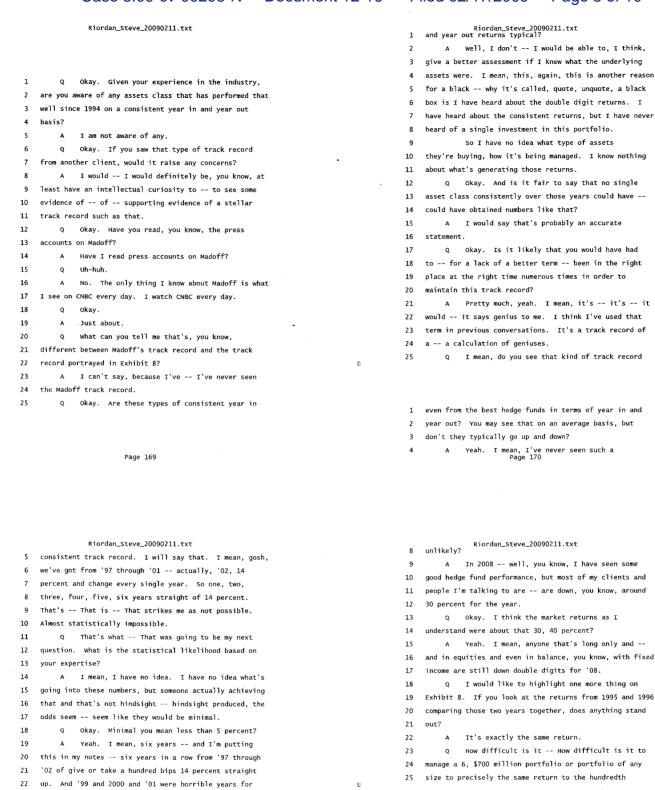
A They're definitely consistent, consistent 24

25 double digit return. Page 168

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#### 1 decibel point?

2 A Well, it doesn't matter the size of the

portfolio. I could give you a thousand bucks, and you 3 couldn't do it. 4

0 In back to back years?

Yeah. I mean, it's just statistic -- the odds 6 Δ

7 of -- I mean, I have seen it happen. I've -- I've look

8 at numbers every working day of my life for the last 16

9 years, so I have seen it happen. It happens. It's a

10 coincidence more than a management still.

11 Q Okay.

Page 172

23 most of the world. 24

1

2

Q Yeah. I mean, that's -- a large piece of that 25 is the tech bubble, right?

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A Yeah. Exactly. I know I lost about 90 percent of my portfolio in -- in 2000.

- 3 Q Okay. And more recently they have claimed
- precisely the same types of returns through '07. I guess 4
- 5 another question. 2008 they claimed to have lost roughly
- one percent. Based on what you have seen from other 7
- clients and the market generally, is that also highly

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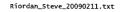
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Riordan\_Steve\_20090211.txt Riordan\_Steve\_20090211.txt well, absolute return was the word I was 15 Q 12 A That's just odd. I mean, it almost looks like 16 looking for. 13 a typo 17 A Okay. 14 0 More like perhaps they --18 0 But, you know, a philosophy of target returns 15 Α I mean. this -- this is -- I mean. this is a essentially. 19 16 PowerPoint so these numbers are typed in. So someone 20 A Yep. 17 could have typed it in wrong. I've -- It's just a Q We have been given the explanation that perhaps 21 18 reality of what happens. 77 the target each year was 15.71 percent, or whatever the 0 Right. 19 number there is, and at some point in the middle of the 23 А 20 You have these numbers presumably generated on 24 year they hit that target so they just shut off their 21 a bona fide system somewhere with all the relevant 25 investments. How difficult would it be to shut off a 22 details that back up the return, and then you put it into п 23 a PowerPoint and some, you know, marketing little hottie, 24 you know, types it in for you. 25 q Okay. 1 portfolio, you know, in the third quarter and then 2 maintain a precise return number through year end? A well, I mean, if you knew -- if you were going 3 to put it in a money market until, you know, all the 4 A So that's possible 1 5 recent troubles with money markets and the markets in Q If they were -- If those same identical returns 2 general, you could target a return pretty -- pretty 6 3 showed up in 20 different documents and various different 7 solidly, I think. 4 formats, would you still think that's a likely 8 Q But you would have to factor in whatever your explanation? 5 ۵ return would be for the remainder of the year, so --6 A Well. someone should have caught it. Yeah. I A well I'm seeing you would have to -- put it 10 7 mean, someone should have picked on it T think. 11 this way, my understanding of this whole goal based Q Okay. If, for example, we were told that the 12 return was, you know, holding fixed income securities to q justification for that is that the firm has a practice of maturity under the assumption that no one would ever 13 10 targeted returns or -- I forget what the correct --14 default. That was my understanding of this goals based A Goal --11 15 strategy, so if everything gets held to maturity and 12 Q Yeah. Goal based. 16 nobody defaults, you can project your -- you return, 13 A Goals based. Yeah. Ben Finklestein's theory. 17 because it's the coupon on the bond. 14 Yeah, he and I went around and around on that. Q Right. Assuming you're in a hundred percent Page 174 18 Page 173 Riordan Steve 20090211.txt Riordan\_Steve\_20090211.txt Q What were you going to say? 22 19 bonds? 23 A I was going to ask you if my answers were 20 A Exactly. 24 syncing up with our last meeting for the most part. 21 Q Okay. But if you have a diversified portfolio Q we did talk several times todav about -- or at 25 22 of equity, commodities -п 23 A well, throw one equity and throw one commodity 24 in there and that's all bets are off. Have one bond default, and everything changes. 25 1 least on the context of the March, 2007 meeting about 2 being careful about things getting to the SEC or careful about putting things in e-mail? 3 A Yes. Q Okay. So diversified portfolio across multiple 1 5 Q I think when we talked last time may be not in 2 asset classes it would be very difficult to target a 6 that context, but you told me that at some point you were 3 return to the hundredth decimal point? 7 told to be cautious about what you put in e-mail. A Yeah. I mean. I can't believe that someone is 4 A Yes. 8 5 telling you that that's what they were trying to do. 9 0 Okay. And who told you that? 6 Q Okay. So what I'm get at is that -- is that a A That came from at least Mark Stys and possibly 10 7 that total implausible explanation? 11 Zack as well. A Yes. 8 0 Okay. What -- what -- What did you take that 12 9 o okav. mean? What types of things should you be careful about? 13 10 A I mean, I did get my CFA back in 2000, and I 14 A Well, if -- if I was -- you know, if I was 11 did study hundreds of hours on investments and I missed 15 calling anyone out on -- on not doing a good job, for 12 that part of the test. 16 example, or speculating that there was funny busy 13 Q Okay. Just a few other things. When I was business going on with the numbers, you know, the gist I 17 14 going back through my notes about your discussions with got from Mark is that people at Stanford, you know, 18 15 Rob Baker, you told me that generally you had similar 19 are -- are reading e-mails, or the powers that be at discussions with Rob Baker joking about it being a Ponzi 16 20 Stanford are reading e-mails. 17 scheme, the bank? 21 So my take on not putting anything in A Yes. 18 22 e-mail wasn't for, you know, the SEC, that was never 19 Q Was it you or Mr. Baker who said Madoff made me 23 named specifically or any other external organization. 20 think of the bank CD? 24 But it was more to keep things close to the vest A I think it was me. I said that. Forget it. 21 25 internal. Page 175 Page 176

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1 Q No general statements about we need to be careful from a litigation perspective, you know, we don't 2 want evidence of our track record being inflated, 3 4 floating around, anything like that? 5 A No, that was never said. My -- My -- The best 6 of my recollection is, you know, some words of wisdom 7 and/or advice from Mark, which was be careful what you

put in e-mail, people read your e-mails here. 8

q o okav. 10

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A Because I was on the Stanford e-mail

11 Q Okay. Was any of that in the context of 12 performance reporting issues?

13 A No. Well, I mean, other than if I was calling 14 somebody out for being a dimwit or, you know, not knowing 15 anything about performance or -- T mean, that was the 16 gist of it. I mean, to be perfectly honest maybe naively 17 so in hindsight, but, you know, I'm a new -- this is a 18 new business for me, I'm thrilled that I get to do 19 something I'm good at and make a lot more money than I

20 was making before. 21 And, you know, I naively just assumed

22 that -- that these guys were boneheads and that these

23 were honest mistakes, and it was because of the lack of

24 knowledge and experience. And, you know, I guess I was

25 stereotyping Texans, you know, being a Boston guy.

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Riordan\_Steve\_20090211.txt

- 5 really like to -- I would love the chance to do it.
- 6 Q What? A chance to look at pre-'06?

7 A Yeah. Yeah. And do a -- I never did a compare

8 of '05 composite versus model, because I didn't bother

calculating models in '05, because I didn't have any of

10 the data. It didn't make any sense to me, so I just

11 didn't composites for '05. But if I could try to

reconstruct what Ken did from models in '05, that would 12 be very interesting. 13

14 Q To try to figure out how he got to his numbers? 15 A Exactly.

16 Q Did you at some point compare just at a high

17 level, you know, your growth number was 881, his growth 18 number was 1.081 or 1.083?

19 A No. You know, interestingly enough when I 20 delivered the three-year track record at the same time I

21 got a heads up from Stanford that, you know, they were 22 going to really be cutting me back, and they sort of 23 asked me nicely. I was under contract through June 30th

24 of '08. 25 o okav.

1 A And they sort of just said, you know, take it 2 down a notch, you know, go from 40 hours to significantly 3 less, or -- so I looked at as really an opportunity to 4 just take some time off, and I did. And, you know -- so 5 by the time I had '05 numbers I was on the way out the, 6 and I certainly wasn't curious enough to do it for free. 7 0 Riaht.

Riordan\_Steve\_20090211.txt Being simpleminded? 1 0 A Chalked it up to -- to the part of country that 2 3 we were in. So, you know, and like I said, maybe naively 4 so, but that's -- I didn't really ever think of any --5 any maliciousness. It wasn't until the day my phone rang 6 from the SEC, I had never thought of any malicious 7 activity O Except that earlier today you testified that 8 9 you told Mr. Stys that you thought the numbers were 10 fishv.

11 A Well, I did. I did. But I didn't think it was 12 blatantly intentional, I quess.

Q Okay, You thought it was fishy that the 13

numbers were on the high side, but you saw it -- you 14 15 didn't have clear evidence that it was intentionally fraudulent? 16

17 A Exactly, That's -- That's better said than I said it 18

Q Okay. So suspicious, but you didn't know that 19 20 it was intentionally fraudulent?

A Right. And if you meet the guys and my -- my 21

22 personal impression of the guys, and I feel like I'm

contradicting myself now, but they seem pretty simple --23

24 simple guys, so I thought they were being straight. I

25 thought they were playing it straight with me.

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1 And -- And to be honest, I'm really

2 curious to see how this all works out. And, you know, if

3 I was given the chance to go back in and -- and do some

4 analysis on these -- these historical numbers, I would Page 178

Riordan\_Steve\_20090211.txt A Although, now I'm getting there. 8 Q Your curiosity has been raised? 9 10 A It's -- It's getting there -- to the point 11 where I would do it for free. Q For example, would you be curious to see how 12 13 they generated 16 percent in '04, you know, when they 14 were showing an index of one percent or '05 1,083 an index of three? That kind of thing? 15 A well, I think the bottom line is -- is any 16 17 significant out-performance of -- of the markets when you're buying mutual funds that are tracking the markets 18 19 would be a red flag, and I would want to dig in. 20 0 Okav. And so I think we talked about this when we were in Boston. You know, and in the early years '99, 21 22 2000, 2001 they were showing numbers that outperformed the market, you know they would quote 18 and the market 23 24 would be down 9, or they would quote they lost 3 when the market lost, you know, 20 or 30. Those types of numbers 25

1 would be significant red flags?

A Yeah. I mean, you know, and -- if you're in 2

3 mutual funds it's really hard to outperform, I think,

by -- by that much unless you're always in the best 4

funds. 5

6 O Just because mutual fund are so broadly

7 diversified? 8

A Well, depends up on the fund ---

9 Q Sure.

A -- but, I mean, they are by definition help you 10

to diversify with one -- one asset. Right? Page 180 11

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Riordan Steve 20090211.txt Riordan\_Steve\_20090211.txt A I'd say it's -- it is unlikely, yes. But I'm 15 12 Q Right. 16 13 A You can buy one mutual fund and hold 500 14 companies. I mean, have -- have you interviewed the guy 18 15 that was responsible for these returns, and has he been 19 be rare. 16 able to justify the -- how it was done? I don't know who 20 17 was managing these portfolios in, you know, the early 21 18 '99, 2000, '01, 02, 22 Q Right. Yeah. I can't really comment on that. 19 23 A That would be an interesting conversation. 20 21 Q Just, for example, I think we talked earlier today '99, 2000, 2001 were really bad years for the 22 market, correct? 23 24 A Right. 25 Q Okay. So, for example, 2000 the growth stated 2 4 1 return is 18 percent and the S&P was down 9.11. 2001 the 5 2 growth stated return was 4.32 and the market was done 6 3 roughly 12 percent. 2002 the stated return was a loss of 7 4 3.33 and the market down 22 percent. 8

So again, for a mutual fund product, those 5

- 6 types of returns would be a huge red flag?
- 7 A Yes. Twould say so.
- Q Is it fair to say those numbers would be hard 8
- 9 to generate without the benefit of hindsight?
- 10 A You know, I try not to play in the land of make
- 11 believe, so I wouldn't even know
- 12 Q Okay. But is it unlikely to generate those
- 13 types of numbers in a single year let alone three
- 14 consecutive years?

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#### Riordan Steve 20090211.txt

- 19 A I really felt like I every hour, every minute
- 20 that I was on the clock and I was charging by the hour
- 21 that I should be doing exactly what they wanted me to do.
- 22 I think if I was, you know, a full-time employee. I think 23 I would have had a different pair of glasses on,
- 24 Q So generally speaking you didn't look at
- 25 pre-2005 because they didn't ask you to?

#### 1 A Yes.

2 Q Okay. With the benefit of hindsight, you know, 3 did you wish you had, you know, looked at the materials 4 and seen what they were presenting pre-'05? A Absolutely. You know, I mean, especially just, 5 6 you know, for the benefit of -- of friends and colleagues 7 that -- that, you know, I worked with that, you know, I 8 could have helped with ~~ with my expertise. And 9 that's -- that's the way I always looked at myself to

- 10 these guys as an -- as an assistant, a helper, an asset
- 11 that could help them get to a better place, because my 12
- working assumption was, hey, they have got something
- 13 pretty good going on here, let's get the story out. And 14
- let's just make sure that it's an accurate story. 15 So, yeah, in hindsight I wish that I had
- 16 spent time on the historical numbers and done whatever I
- 17 could to help them, you know, get to an accurate number.
- Q Okay. Real quickly. I have been reading from 18
- 19 Exhibit 4, if you can pull it out again, and just flip to
- 20 that page entitled Historical Performance.
- A Okay. 21

- sure if you did your homework you could find evidence of 17 it somebody is probably legitimately done it. or maybe multiple people. I don't know, but I would say it would Q Okay. But certainly that type of out-performance is the type of thing that anybody in the industry would recognize as being a red flag? A well, it depends upon how you're looking at it. 24 If you're -- If you're looking at it as, you know, do you 25 want to put your money in here and should I do a little 1 more due diligence red flag, Absolutely. Q Okay. If you're coming in day one as the 3 compliance -- as the disclosure -- or the performance expert, and that's the track record that they present to you, is your radar going to be up a little bit? A Well, you know, no. Now I feel like I didn't do my job. It's hard to believe how focused I was on the task at hand. Not to, you know, have taken a step back
- and questioned those numbers. With the benefit of 9
- 10 hindsight yeah T should have taken a better, harder.
- 11 closer look at -- at those numbers. You know, it just
- 12 wasn't in my -- it wasn't one of my duties that I was
- charged with. 13
- 14 o okav
- A And to be honest with you. Tom. I really felt. 15 16 you know, this was a new -- being a consultant was new to
- 17 18

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- Q Sure. Page 182
- Riordan\_Steve\_20090211.txt Q Okay. You see the title at the time top, 22 23 Historical Performance? 24 A Yes. 25 Q And on the right-hand side you've got the
- 1 charts with SAS growth. Looking at this chart, does this
- appear to be the historical track record of the SAS 2
- growth program, is that what it's -з
- A The table or the chart? 4
- 5 Q I think they're both the same thing just in 6 different formats, but --
- 7 A Okay. Looking at the table -- well, again, you know. I don't -- I don't memorize the numbers. 8
- O Yes. But is this -- does it -- does it appear 9 to you that that's what they're representing this to be 10 11 the historical track record of the SAS growth program?
- 12 A Yeah. Yeah. because there is nothing on here 13 that says otherwise.
- 14 Q Okay. And if an investor were to look at this, it would be reasonable for that investor to assume this 15 was the actual track record of the SAS growth program? 16
- A I think this would be a reasonable assumption. 17 18 yes.
- 19 Q Okay. And if, in fact, the '04 numbers back in time were generated with the benefit of hindsight, would 20 21 it be misleading to call that performance historical? In
- 22 other words, if it's a model calculated January 1, '05,
- and then prior year returns are -- are calculated with 23
  - 24 the benefit of hindsight?
  - A Yeah. I mean, in -- from my experience if Page 184 25



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				1	think I think what what they cal
				2	whatever you want to call it.
				3	Q Okay. If they so in your
				4	audited track record side by side with
	1	you're mixing model with actual or composite, you		5	with the benefit of hindsight, that in
	2	you it should be you should say so on this page,		6	actual client performance, that's misl
	3	but that's I don't know that's my opinion.		7	A Exactly.
	4	Q Right.		8	Q Okay.
	5	A And my experience. You know, with that said,		9	A Yeah. I mean, call the page
	6	who I don't know many people that even read the fine		10	to call the page. I mean, it's histor
	7	print. You know, I get credit card we have changed		11	something. The question is what.
	8	your credit card agreement, and I don't even read it.		12	Q If
	9	But that to me you really it's it's not a		13	A That's what is not clear. I
	10	it's not in the spirit of the business that we're in.		14	performance, because it's performance
	11	Q Okay. So you would want to accurately disclose		15	But is it a model? A model of hindsig
	12	to the investor that if a portion of this is model		16	Q If it's a model with hindsig
	13	performance with hindsight, you would want to make that		17	historical?
	14	clear?		18	A Well, it's just, you know, w
	15	A Absolutely.		19	have done at that particular point in
	16	Q Okay. And so you wouldn't call it historical		20	Q Right.
	17	performance?		21	A I think it's just semantics
	18	A Well, I mean, I think that's semantics.		22	opinion.
	19	Q How would you		23	Q Okay. Okay.
	20	A How they How they How they chose to title		24	MR. KELTNER: Let's take two
	21	the page I don't think is as misleading as just seeing a		25	we will go off the record.
	22	stream of numbers side by side by side that are apples	D	2.5	
	23	and oranges.			
	24	Q Okay.			
	25	A That part I think is misleading. I don't		1	(A brief recess was taken.)
				2	MR. KELTNER: Go ahead and g
				3	record for a few more minutes. It's 4
				4	BY MR. KELTNER:
		Page 185		4	BY MR. KELINEK: Page 186
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5 O You know, one of the typical questions I would 6 ask you as we're wrapping is, is there anything else that you would like to tell us or anything that we failed to 7 8 ask. One thing you mentioned that you had -- had -- had 9 remembered during the break was something about a conversation that you and Mr. Stys had regarding the 10 pre-2005 performance numbers? 11

A Correct 12

13 Q Okay. Just generally what were the nature of 14 your conversations and what happened?

15 A well, the nature of it was this is, is -- is 16 Mark would ask me, you know, Steve, I want a longer track 17 record, you know, You know, may have even mentioned 18 something along the lines of, you know, these guys have been shooting the lights out, you know, how can I get you 19 20 to validate, verify, you know, previous years, you know. 21 And at this point I think we had only maybe had '06 under 22 our belts.

And I said, well, I need -- you know, I 23

24 need the data. And so we tried the -- the route of the 25 investment advisory group to at least get model level,

because that's the easiest. I mean, rather than try to 1 2 dig through hundreds or maybe even thousands of account

- level data, the easiest way to reconstruct performance 3
- 4 sort of validate it would be the least to get a look at
- 5 the model, and -- and do it -- if they were able to
- 6 provide me with model records, I could at least be able
- to say, yeah, based upon these holdings and these weights

Riordan\_Steve\_20090211.txt +hink \_\_ T +hink what -- what they call the page is ur mind, setting your th numbers generated in no way represent leading? ge whatever you want orical performance of Tt's historical and it's history ight or a composite. iaht. how is it what the model would n time s thing. That's my wo minutes And

go back on the 4:01.

Riordan\_Steve\_20090211.txt 8 and these time periods, these returns are, you know --9 are good, bad, incorrect, or otherwise. Just like I did for '06. But the -- the 10 11 message I got from IAG is we have -- we have nothing. I 12 mean, if -- if that transaction journal of Exhibit 36 is 13 any indication of their recordkeeping. I believed them. 14 And so then the other path, which would have been more arduous and more --- more consulting 15 16 dollars and hours, would have been the account level data 17 and from what I was told is that, you know, the 18 account -- there was account data on this system or that 19 system or a hodgepodge of different systems and/or it's 20 on Bear Stearns and, you know, we just converted off Bear 21 Stearns and it wasn't, you know, a happy parting. 22 And, you know, it's going to be -- you 23 know -- excuse me -- an extraordinary challenge to get account level data, you know, for those pre-Advent years 24 25 or, you know, pre-'05.

So, you know, I'm glad that I remembered 1 2 that. It was -- It was one or two at most very quick 3 conversations. Mark wanted a longer track record that was stamped by Riordan Consulting. No one could produce 4 any data, any supporting data of any kind, any way, 5 shape, or form. 6

7 Q Okay. And when you say no one, the people who you talked to from IAG to request this information were? 8 A Were Ken Johnson and Jason D'Amto. The same 9 10 two guys I went to for everything.

11 Q Okay. Page 188

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12	Riordan_Steve_20090211.txt A I never went to anyone else other than Ken and		15 16	Riordan_Steve_20090211.txt legal counsel or otherwise to protect them from putting bad numbers in their marketing materials. I pretty much
13 14	Jason for for data. Q Okay. Can you ballpark for me when those		17	had a nice distance between myself and anything in the
15	conversations took place?		18 19	marketing materials. And if if I can't perform any analysis
16	A You know, I would say, you know, I think		20	on the numbers, they were just a number to me.
17 18	after after Mark was sort of starting to gain confidence in me and, you know, confidence in in my		21	Q Okay. Okay. Anything else along those lines?
19	ability to to calculate the stuff the, quote, unquote,		22	Anything else you would like to say today before we go
20	right way, you know, however it was done in the past. I		23 24	off the record? A No. I mean, if if there's any work that
21	think the thought started to, you know, occur to him,		24	A No. I mean, if if there's any work that needs to be done historical from the SEC's perspective or
22	so I have no idea.	D		
23 24	I mean, I would say some point excuse me mid '07, you know, and that makes sense, too,			
25	because I think at that point I talked him into settling			
			1	Stanford's perspective, I would be happy to do it. Q Okay. You mean in terms of analyzing pre-2005
			2	type data?
			4	A Exactly, yeah. Yeah. I mean, that where I
1 2	for the three-year track record '07, '06, and '05, because we had the data.		5	think I could add some value having done it. I think,
3	And he said, well, I can't give you a ten		6	you know, no matter what the outcome of this
4	year or a five year, but I can give you a three year.		7	investigation, I think if anyone kicks the tires on my
5	Aod I have all the data, so that's the path we went down.		8	work, I still, you know, hold 100 percent confidence in the numbers I put out.
6	Q Okay. So there was Stys wanted a longer		10	Q Okay. Well, we appreciate your time today. We
7 8	track record, you went and spoke with the IAG team, D'Amto and Johnson, and essentially were told the data is		11	appreciate you flying in from Boston. If anything else
9	not there for you to create the track record pre-2005?		12	comes to mind, let us know.
10	A Exactly.		13 14	I guess, a final question I usually ask, you know, is there anything you want to correct or
11	Q Okay.		14	clarify from earlier today?
12	A So again, in my defense, I feel like I need to		16	A You know, I think I got a little wishy-washy on
13 14	say this. It didn't really do me any good to analyze those numbers. I mean, I wasn't hired as a, you know,		17	my thoughts of the the numbers in '06 and Q4 '05 when
14	Page 189		18	I first came on the scene as as being fishy. You Page 190
19	Riordan_steve_20090211.txt know, just to clarify, a performance person's sort of		22	Riordan_Steve_20090211.txt this time, we might down the road even informally just
20	a good and career minded type performance person, like		23	about documents you've produced. You know, we might talk
21	myself, you instinctually think that an investor manager		24 25	to you about analysis of particular issues if if we need to do that, we'll we'll reach out to you. We
22	is overstating.	F.	23	
23 24	That's just You come into the game where that if they're they give themselves the benefit			
25	of the doubt wherever there is a doubt. I think that is			
			1	obviously have your contact information. Likewise if, you know, there is anything
			2	that comes to mind that you want to talk to us about,
	a first human and all the second at		4	feel free to give me a call.
1 2	a just human nature, and the human nature of the performance guy, a good one anyway, is is all about		5	Again, the final opportunity anything else
3	accuracy and no subjectivity at all. It's just		6	you want to discuss?
4	objectively, you know, the number is what it should be		7	THE WITNESS: I can't think of anything else. MR. KELTNER: Okay. Again, thank you for comin
5	based upon these facts.		9	and taking the time to fly in Boston and we thank you.
6 7	And so you try make it into a science. So		10	And we are now off the record.
7 8	any ways, I just to clarify, you know, I never really thought anyone was maliciously misstating numbers. My		11	(whereupon, at 4:10 p.m., the examination was
9	My thoughts and my words to Mark were, you know, it is a		12	adjourned.)
10	bit odd that it's always in their favor, and I think that		13 14	
11	was the extent that I you know, pointed my finger at		15	
12 13	anyone. Q Okay. And I assume part of that was the		16	
14	function of the fact this was your first major client,		17	
15	your only source of income, you didn't want to raise a		18	
16	stink?		19 20	
17	A Exactly.		20	
18 19	Q Okay. That's fair enough. Anything else? A That's it.		22	
20	A mat s it. MR. KELTNER: Okay. Again, we appreciate it.		23	
	We don't have any further questions at		24	
21			25	

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	Riordan	_Steve_20090211.txt	1	Riordan_Steve_20090211.txt U.S. SECURITIES AND EXCHANGE COMMISSION
			2	REPORTER'S CERTIFICATE
			3	I, Carolyn H. Gayaldo, reporter, hereby certify that the
1	-		4	foregoing transcript consisting of 216 pages is a
1	F	ROOFREADER'S CERTIFICATE	5	complete, true, and accurate transcript of the testimony
2			6	indicated, held on February 11, 2008, at the SEC Office,
3	In the Matter of:	STANFORD GROUP COMPANY	7	801 Cherry Street, Fort Worth, Texas, in the matter of
4	Witness:	Steve Riordan	8	Stanford Group Company.
5	File Number:	FW-02973-A	9	I further certify that this proceeding was recorded
6	Date:	Wednesday, February 11, 2009	10	by me, and that the foregoing transcript has been
7	Location:	Fort Worth, Texas	11	prepared under my direction.
8			12	Date:
9			13	
10		tify that I, Donna Raya, (the	14	Official Reporter
11	• • •	reby swear and affirm that the attached	15	Diversified Reporting Services
12	-	the U.S. Securities and Exchange	16	
13		d according to the record and that this is	17	
14	the original, compl	ete, true and accurate transcript that has	. 18	
15		e reporting or recording accomplished at	19	
16	the hearing.		20	
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STANFORD GROUP COMPANY

INVESTMENT PROPOSAL

(Client Name)

(Date)

prepared by (Advisor Name)

(Office Address1) (Office Address2) (Office Address3)

phone (555.555.5555) facsimile (666.666.666) email (advisor@stanfordgroup.com)

(Web address)

APP 0157

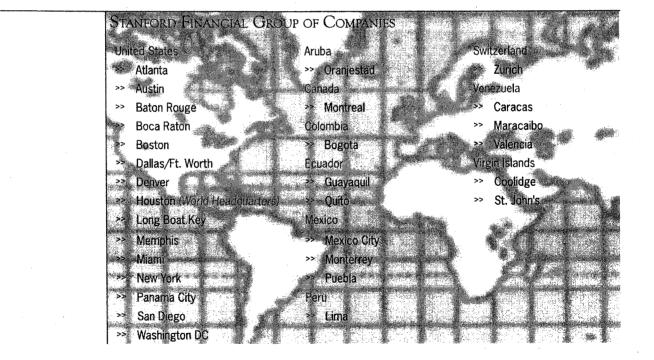
INTRODUCTION

A personal investment proposal for (Client Name) (Date) prepared by (Advisor Name) phone (555.555.555) email (advisor@stanfordeagle.com)

THE STANFORD FAMILY HERITAGE

Lodis B. Stanford founded the Stanford Insurance Company in Mexia, Texas in 1932 during the Great Depression, the most difficult U.S. economic era. Later joined by his son, James A. Stanford, together they added real estate to the family business ventures. Today, Lodis'grandson, R. Allen Stanford, oversees the Stanford Financial Group of companies, a global network of financial affiliates.

Lodis Stanford established his business with a philosophy of providing the highest level of service possible to his clients. Though times and tools have changed, the fundamentals that built our strength are practiced every day. The Stanford heritage of hard work, clear vision and valuable service to clients continues to be the guiding force behind today's Stanford companies.



INVESTMENT PROCESS OVERVIEW	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordeagle.com)
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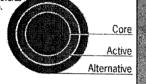
#### INVESTMENT PHILOSOPHY

Assets should be invested in a well-balanced global portfolio of marketable financial instruments, namely U.S. and international securities and fiduciary placements. The investment strategy is set by the consultations that takes place between the Financial Planner/Consultant/Money management team and the Client, and structured to be in concert with the Strategic Investment Allocations that are prepared for both the accredited and non-accredited investor within the following three major targeted returns:(1) Income, (2) Balanced, (3) Growth.

#### About Investment Categories

A portfolio's composition usually includes a blend of Core, Active and Alternative investment categories. Active and Alternative investments will comprise more of a portfolio's percentage as goals become more agressive; conversely, as goals become less aggressive, Active and Alternative investments decrease in percentage to the overall portfolio.

Cash &



INVESTMENT CATEGORIES Core Active Alternative Larger-Cap Stocks Smaller-Cap Stocks **Special Opportunities** Mid-Cap Stocks **High-Yield Bonds** Alternatives >> Investment-Grade Bonds Global High-Yield Commodities / Metals **Emerging Market Stocks** Natural Resources **Developed International** Stocks TIPS **Real Estate** 

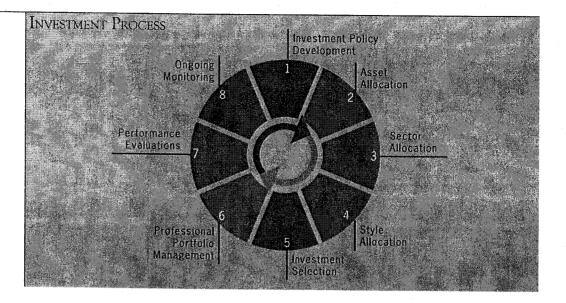
	INVESTMENT PORTFOLIC	ds, Goals & Tolerances	
	Income	Balanced	Growth
Portfolio Strategy Target:	agnual yield of CPI to CPI plus. 300-3500 bps	annual return of 6 - 10%	annual return in excess of 10%
ash & Fiduciary Deposits:	20,80%	10 - 30%	10 - 30%
Government Bonds:	20.50%	10 - 30%	5 - 20%
Corporate Bonds:	10 - 20%	10 - 20%	10 - 20%
Equity:	0.20%	10 - 40%	20 - 60%
Alternative Investments:	0-20%	0 - 20%	10 - 30%
Coins & Bullion:	0 10%	0 - 10%	0 - 10%
Real Estate:	0-10%	0.10%	0 - 10%
Private Equity:	0.10%	0 - 10%	0 - 10%: 550 0



**INVESTMENT PROCESS** Overview

A personal investment proposal for (Client Name) (Date)

prepared by (Advisor Name) phone (555.555.555) email (advisor@stanfordeagle.com)



# OVERVIEW OF MUTUAL FUND PARTNERS PLUS

Features of our Mutual Fund Partners Plus program include the following:

>> Strategically managed mutual fund allocation >> Active account management Limited-discretion, advisory, and fee-based accounts

Asset allocation recommendation reflecting client's rate of return expectation and volatility tolerance

Mutual fund selections based on qualitative and quantitative screening and ongoing due diligence

Quarterly performance reviews Trade Confirmations

Monthly account statements Continous research and oversight of the

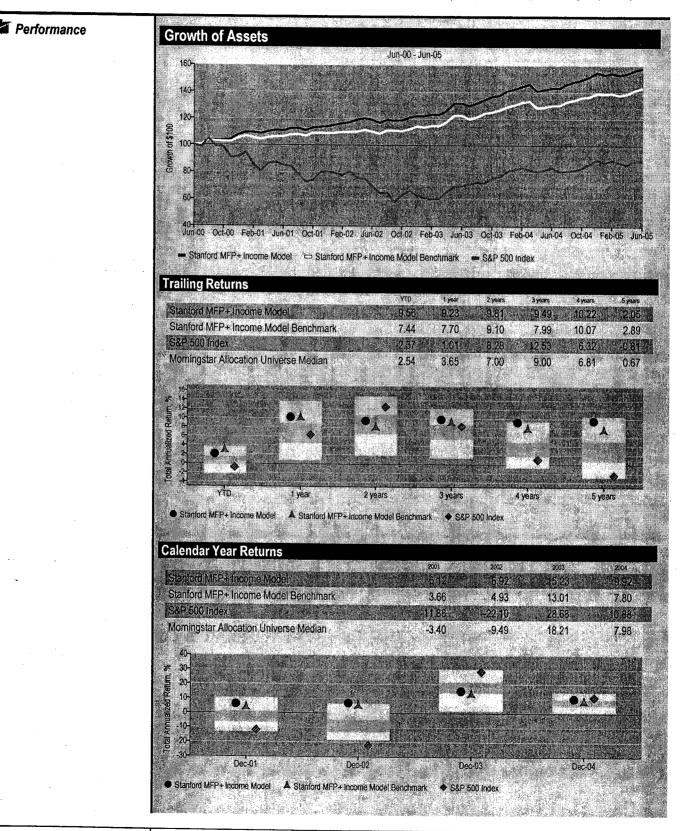
managed account

Automatic rebalancing >> All trades done by IAG

Asset Allocation	A personal investment proposal for (Client Name) (Date)		prepared by (Advisor Name) phone (555.555.555) email (advisor@stanfordeagle.com)
Proposed Macro Allocation	allocation policy. Asset allocation is based on the proven	lacro. Asset Allocation, which detern es have shown that greater than 90 beaut that the type or classof securi	mines how your portfolio will be divided among key asset classes 3% of the variation in portfolio returns can be attributed to the as ity you own is much more important than the particular security its such as security selection, market timing and other factors have to Percent Dollar Allocation 30.0% \$14,700.00 55.0% \$26,950.00 15.0% \$7,350.00
Proposed Micro Allocation	MICRO ASSET ALLOCATION To enhance relates and reduce tisk. Stational formation	smmends further diversitying your b	100.0% \$49,000.00
TIPS 40% Cash X Equiv 17%	This concept earned Markowiz the 1990 Nobel Peace for <b>Fixed Allocation</b> Assets allocated to the fixed income portion of the port Historically bond prices have maintained an inverse rel portfolio diversification due to the fact that their prices of	teriers of Modern Porticilio Theory, a "rize in Economic Science." Collo atternat to reduce nortfolio vol- ationship with equites. This non-c- to not move in tandem. If fixed income asset additional type esoonds in a different way to any glu	which was developed in the 1950's by Professor Harry Markowit atility, maintain capital preservation, and provide for income need correlated relationship with equities allows for adoitional addition es of fixed income asset classes (i.e. high-yield, munis, corporative ren market condition, yie Kork S
International source of the second state of t	Varguard Hill Pro Total Equity Allocation Slocks are aften grouped by the size of the companies to of shares it has outstanding multiplied by the share price businesses, but smaller companies can often ofter more		bit defined as a company's value on the stock market, the number ation, or cap size. Big companies tend to be less risky than sma
Gap Value 14.55 Mid Cap Growth 13.2% Mid Cap Value 13.2%	Manager Hancock Classic Value Marsido Growth Artisan Mid Cap Calamos Growth	S Large Value Large Growth Mid Value Mid Growth	Allocation Allocation \$ 18.2% \$4,900.00 18.2% \$4,900.00 18.2% \$4,900.00 18.2% \$4,900.00
	Keely Small Value Jouchstone Growth EuroPacific Total	Small Value Small Growth International	14.5%         \$3,920.00           9.1%         \$2,450,00           3.6%         \$980.00           100.0%         \$26,950.00
Satisfy 1997 1997 1997 1997 1997 1997 1997 199		pacing id inerficient markets. Their I are an uncorrelated set of returns i liques).	otential through absolute returns. Skill-based managers and value skill and flexibility is what differentiaties these strategies from the which, when combined in a fund of funds approach, reduce overal which when combined in a fund of funds approach, reduce overal Allocation
Red Estate	Permanent Portfolio Alpine Realty My Energy Total	Conservative / REITS Energy	Xilocation         33.3%         \$2,450.00           33.3%         \$2,450.00           33.3%         \$2,450.00           100.0%         \$14,700.00

Mutual Fund Partners Plus Hypothetical Performance (Client Name) (Date)

prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

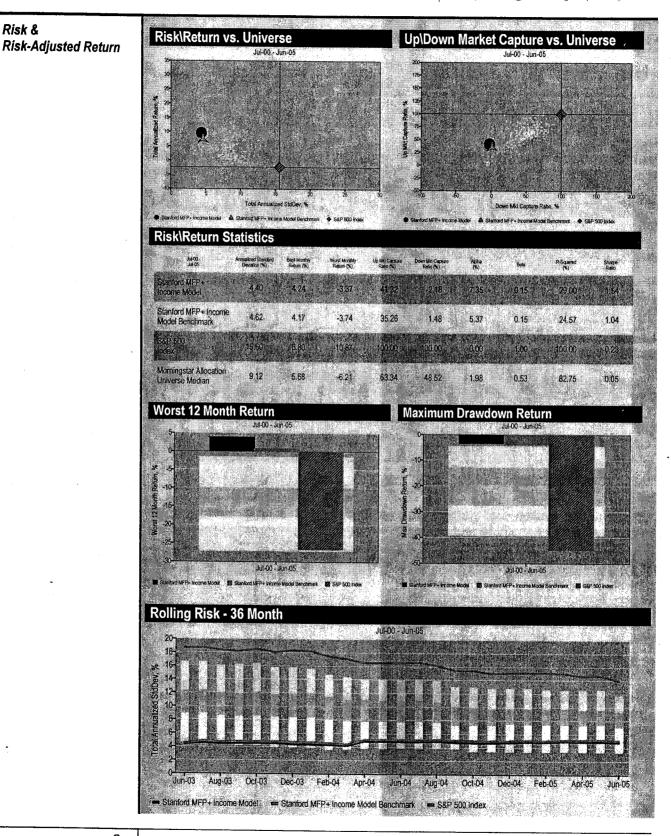


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A personal investment proposal for Mutual Fund Partners Plus (Client Name) Hypothetical Performance (Date)

🖬 Risk &

prepared by (Advisor Name) phone (555.555.555) email (advisor@stanfordgroup.com)



Managers Fremont Bond MBDFX	(Client Name) (Date)
Fund Information	Objectives a
Prospectus Corporate Bond Objective General	Philosophy: The investment-grade
Morningstar Intermediate-term Category Bond	asset-backed security capital by employing
Net Assets 943.20	portfolio_strategy investment perfor value through stat
% Assets in Top 10 Holdings 19.08	Fund Objective:
Total Number 457.00	investing in debt s least 80% of its to
Avg Eff 6.64	Fund Strategy: 1 such factors as d interest rates. Thu
Avg Credit AA Quality AA	portfolio in relation fixed-income mark
Manager 11.00 Tenure 11.00	Asset Alloca

04/30/1993

0.60

Manager Profiles

Managers Investment Group LLC ("Managers") is an investment advisory firm offering a wide range of investment disciplines and solutions, including mutual funds, separate account strategies, multiple attribute portfolios, and sub-advisory services. The investment disciplines available through Managers span most asset classes and capitalization ranges. Virtually all of the assets are managed by outside investment management firms that are notable for their long-term track record. consistent adherence to investment process, and strength of the management team.

Inception

Expense

Date

Ratio

# **Objectives and Strategies**

A personal investment proposal for

Philosophy: The Managers Fremont Bond Fund is an actively managed, diversified bond fund that focuses on intermediate-term, nvestment-grade bonds. The universe for the Fund includes all sectors of the bond market: governments, corporate bonds, mortgages, isset-backed securities, money market instruments and international bonds. The Fund seeks total return consistent with preservation of apital by employing PIMCO's "Total Return" fixed investment philosophy. This philosophy follows three key principles: 1. Major shifts in portfolio strategy are driven by longer-term, or secular, trends as opposed to short-term interest rate fluctuations. 2. Consistent investment performance is achieved by avoiding extreme swings in maturity/duration of a portfolio. 3. Emphasis is placed on adding ratue through state-of-the-art tools such as futures, options and volatility analysis.

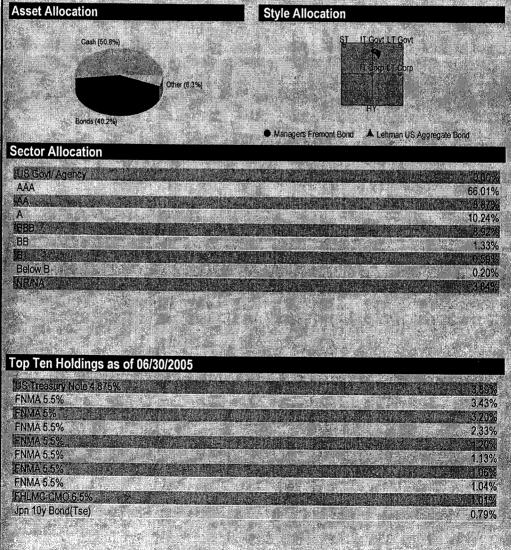
prepared by (Advisor Name)

email (advisor@stanfordgroup.com)

phone (555.555.555)

Fund Objective: The Managers Fremont Bond Fund seeks to maximize total return consistent with the preservation of capital by investing in debt securities such as corporate, mortgage backed, international and government bonds. Normally, the Fund will invest at least 80% of its total assets in these types of bonds.

Fund Strategy: The Managers Fremont Bond Fund management's focus on longer-term (three- to five-year) trends recognizes that such factors as demographics, political conditions and structural changes in the economy exert powerful, sustained influences on interest rates. Thus, a secular outlook updated annually determines a general maturity/duration (interest rate sensitivity) range for the portfolio in relation to the market. Management normally keeps duration within a moderate range and utilizes all major sectors of the two-income market. The Fund's benchmark is the Lehman Brothers Aggregate Municipal Bond Index.

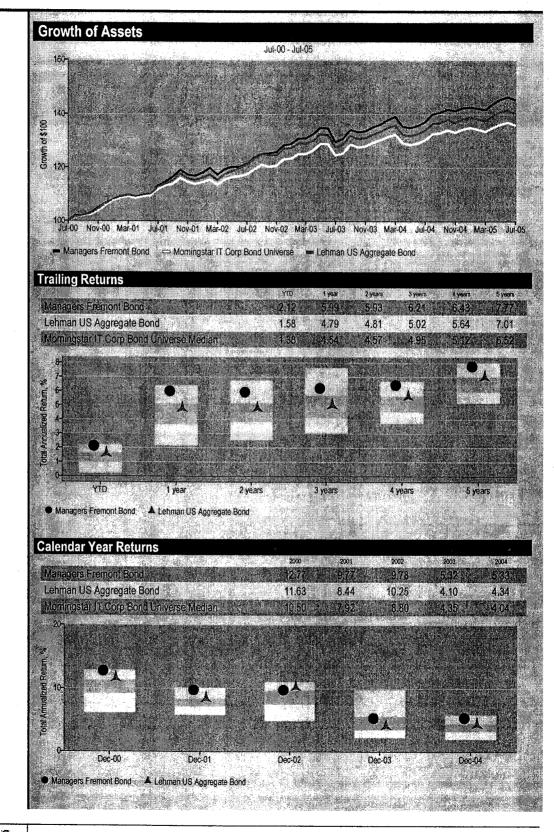


Manager Profiles Managers Fremont Bond MBDFX

Performance

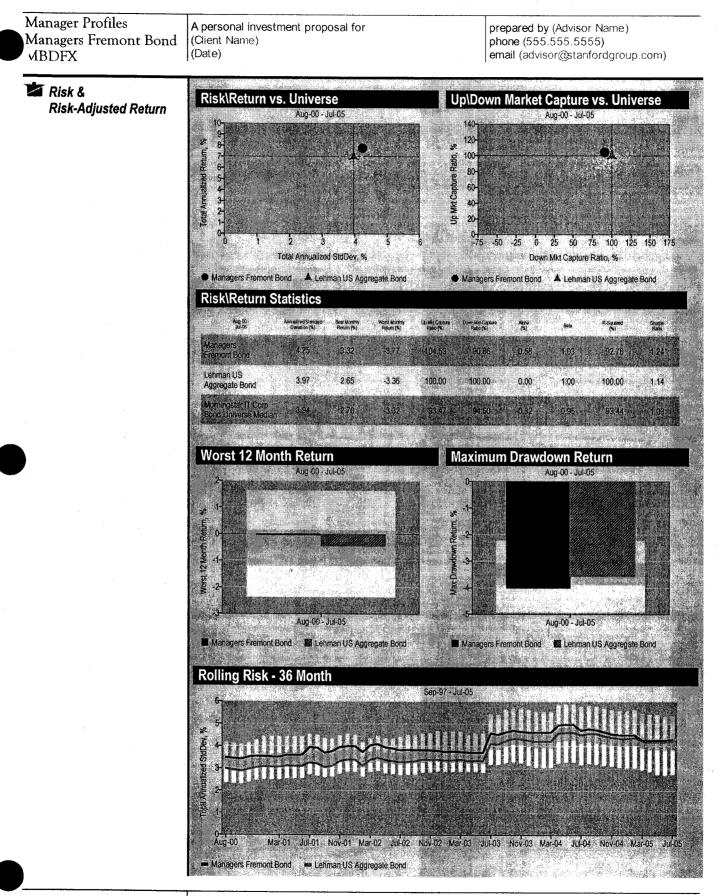
A personal investment proposal for (Client Name) (Date)

prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)



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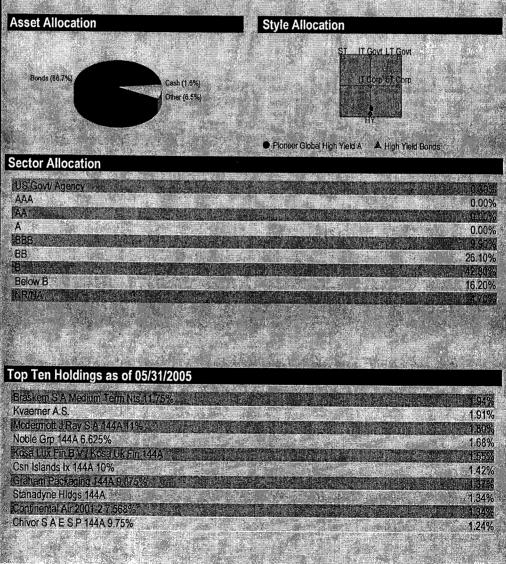
Manager Profiles Pioneer Global High Yield A PGHYX		A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)
Fund Inform	ation	Objectives and Strategies	
Prospectus Objective	Income	The Fund seeks to maximize total return through	a combination of income and capital appreciation by actively managing a portfol
Morningstar Category	High Yield Bond	Below-investment-grade bonds are rated BBB- or Global High Yield Fund? Actively adjusts a ble	ies and preferred stocks of U.S. and non-U.S. issuers, including emerging man r lower by Standard & Poor's Corp., or a similar national rating agency. Why Pio and of fixed-income securities to manage risk and enhance yield white offering ca
Net Assets \$MM	306.38	Most of the offerings in its category have turned	of Ploneer global bond management learn. This fund sports an outstanding re- in very strong results over the past five years, but even compared with its peers. We focus on five-year returns because longer records have greater predictive pr
% Assets in Top 10 Holdings	15.58	by looking at the risk component of the star ratio	sh risk the fund took on to produce these results, however. You can get an idea o a and fundamental risk factors such as the P/E ratio, the size of individual stock I
Total Number of Holdings	184.00	to interest rates, currency exchange rates, econo	reighted. Investing in foreign and/or emerging markets securities involves risks rela- omic, and political conditions. Investments in high yield or lower-rated securities e portfolio invests in a limited number of companies a change in one security's v
Avg Eff Duration	4.82	may have a more significant effect on the portfo failure of underlying securities and their inability to	ito's value. Investments in the fund are subject to possible loss due to the final
Avg Credit Quality	В		
Manager Tenure	4.00	Asset Allocation	Style Allocation
Inception	00/03/0004		

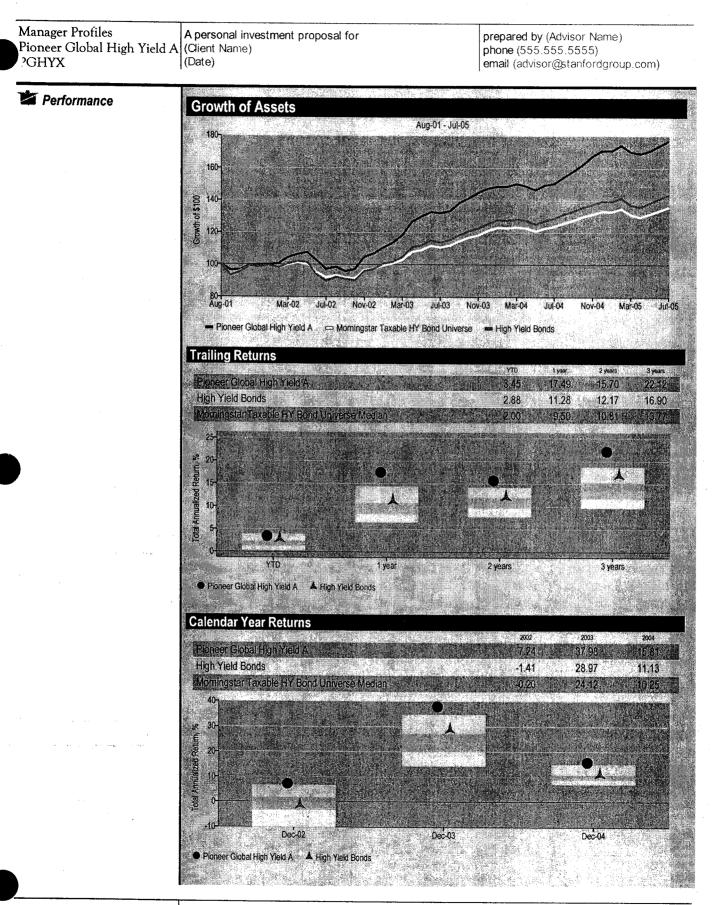
Andrew Feltus, portfolio manager, is responsible for the day-to-day management of the Fund. Mr. Feltus joined Pioneer in 1994. A team of experienced fixedincome portfolio managers and analysts, reporting to Kenneth J. Taubes, director of fixed income, supports Mr. Feltus. The team may draw upon the research and investment management expertise of Pioneer's affiliate, Pioneer Investment Management Limited, based in Dublin, Ireland.

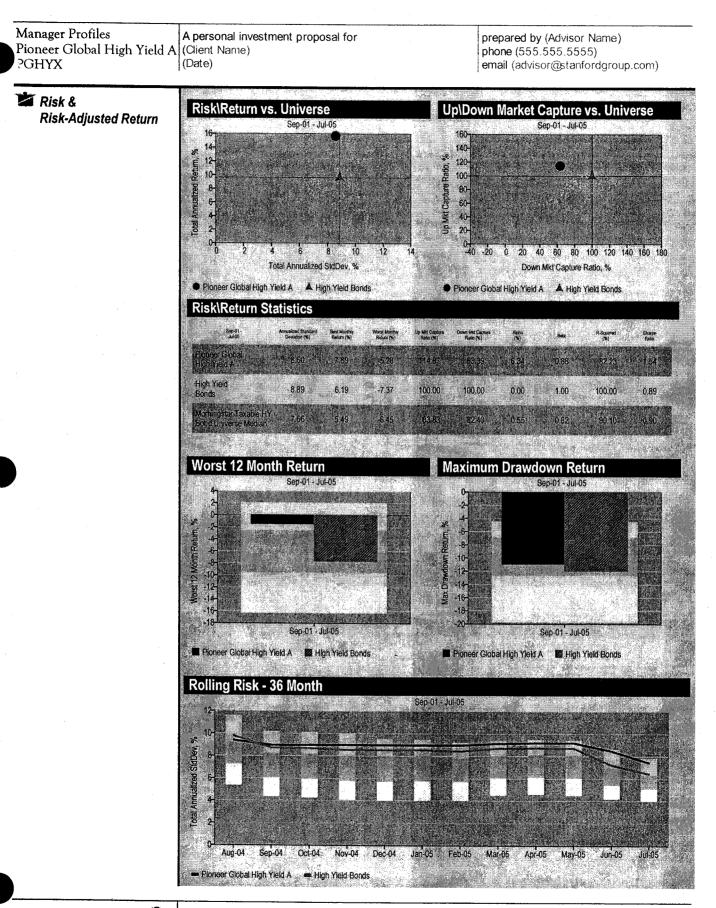
0.75

Date Expense

Ratio









Manager Profiles Vanguard Inflation-Protected Secs VIPSX	(Client Name)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

**Objectives and Strategies** 

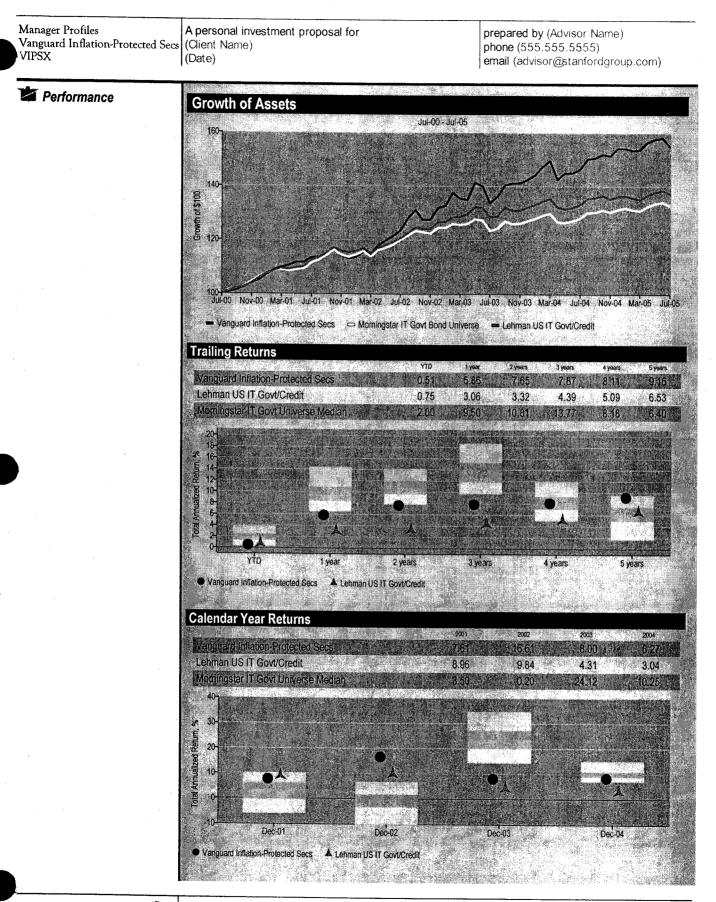
### 📕 Fund Information

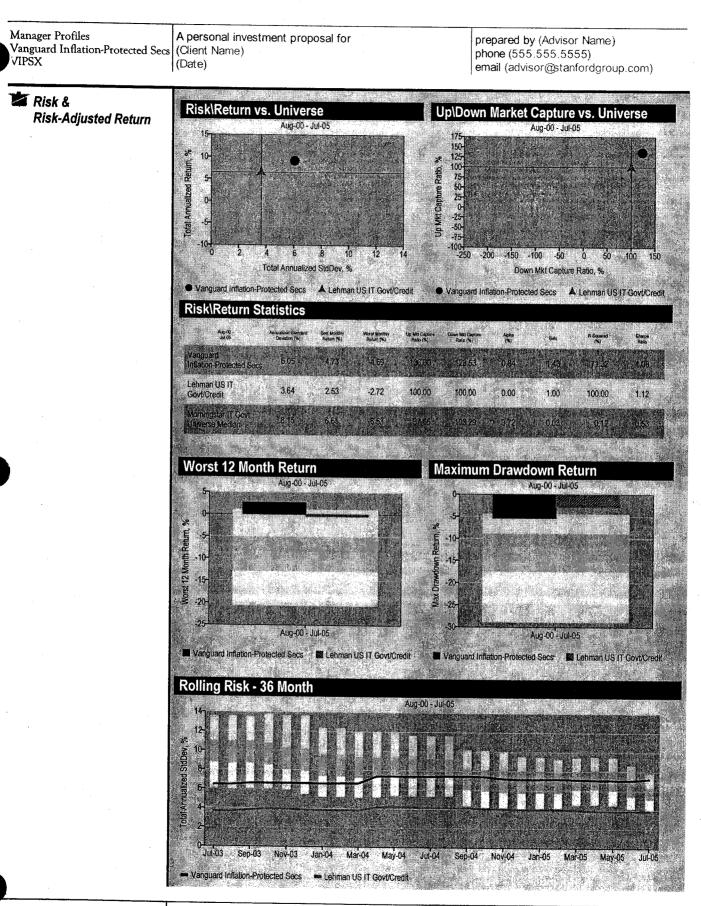
Prospectus C Objective	iovernment Bond - Treasury
Morningstar Category	Intermediate Government
Net Assets \$MM	7154.04
% Assets in Top 10 Holdings	85.91
Total Number of Holdings	17.00
Avg Eff Duration	6.76
Avg Credit Quality	AAA
Manager Tenure	5.00
Inception Date	06/29/2000
Expense Ratio	0.17

Seeks long-term returns that exceed inflation by investing in high-quality inflation-indexed bonds with an average maturity of 7 to 20 years. These securities, issued by the U.S. Treasury and government agencies as well as domestic corporations, automatically adjust their principal and interest payments over time in response to changes in inflation.

	s. The fund ma onds purchase Lwill make suc Comorate deb
er Higuid examines here and in each in each of the land win of investments for magnify the gains of kesse of a Morriage of infraution the truth is convert to cash. I needed. The land win of investment the first of the sade in investment is one alseer and its investment of genes by purchase similar securities. A Morriage of investments the truth is convert to cash. I needed. The land win of investment the first of the sade in investment is one alseer and its investment of genes by purchase similar securities in a first exact of the second of the land	est up to 20% o ed to keep cast purposes, or to rely small price
is administrative burdens: compared with advance informage exactly sectrities decurring and the the potential is entrance of und a porticle longage deliar rule with burded only increases a fund's porticle advance in the used only increases of und's porticle advance in the used only in the used only increases of und's porticle advance in the used on under advance in the used only increases of und's po	t. 5. Restricted hence, could be dollar rolls are
books (69.9%)  books (69.9%)  Cash (0.1%)	
Dennis (49 Strage       If Carl 11 Output         HV       If Carl 11 Output	
Denne (88.9%) Wanguard Inflation-Protected Secs A Lehman US IT C AAA AA ABB BB BB BB BB BB BB	
AAA AA BBB BB BB BB BB BB BB BB BB BB BB	
US Gov/Lagency JAAA AA AB BB BB BB Below B NRNA Define Holdings as of 03/31/2005 Streasury Note 2% JS Treasury Note 2% JS Treasury Note 2% JS Treasury Note 3/5% JS Treasury Note 3/5%	Sovt/Gredit
AA BBB BB Below B NR/NA Do Ten Holdings as of 03/31/2005 IS Treasury Note 1 875% IS Treasury Note 1 875% IS Treasury Note 3 % IS Treasury Note 3 %	i a anaz
BBB Below B NRNA Op Ten Holdings as of 03/31/2005 JS Treasury Note 2% JS Treasury Note 2% JS Treasury Note 3% JS Treasury Note 3%	100.00%
Below B NR/NA Dp Ten Holdings as of 03/31/2005 IS Treasury Note 2% IS Treasury Note 1.875% IS Treasury Note 3% IS Treasury Note 3% IS Treasury Note 3.875% IS Treasury Note 3.875%	0.00%
Dep Ten Holdings as of 03/31/2005 US Treasury Note 2% US Treasury Note 1 875% US Treasury Note 3% US Treasury Note 3% US Treasury Note 3% US Treasury Bond 3 625% US Treasury Note 3.375% US Treasury Note 3.375% US Treasury Note 3.375%	0.00%
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JS Treasury Bond 2375% JS Treasury Note 2% JS Treasury Note 1 875% JS Treasury Note 3% JS Treasury Note 3 875% JS Treasury Bond 3 625% JS Treasury Note 3 375% JS Treasury Note 3 375%	
JS Treasury Note 2% JS Treasury Note 3 % JS Treasury Note 3 % JS Treasury Bond 3 625% S Treasury Note 3 275% S Treasury Note 3 275% S Treasury Note 2% S Treasury Note 3 625%	-
IS freasury Note 3% S Treasury Bond 3.625% IS Treasury Bond 3.625% IS Treasury Note 3.375% IS Treasury Note 2% IS Treasury Note 3.625%	17.39% 11.18% 10.47%
S Treasury Note 3.375% S Treasury Note 2% S Treasury Note 3.625%	10.33%
S Treasury Note 3.625%	6.74% 6.40%
	6.04% 5.20% 4.89%







M

Manager Prop	files
John Hancoc	k Classic Value A
?ZFVX	

A personal investment proposal for (Client Name) (Date) prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

### Fund Information

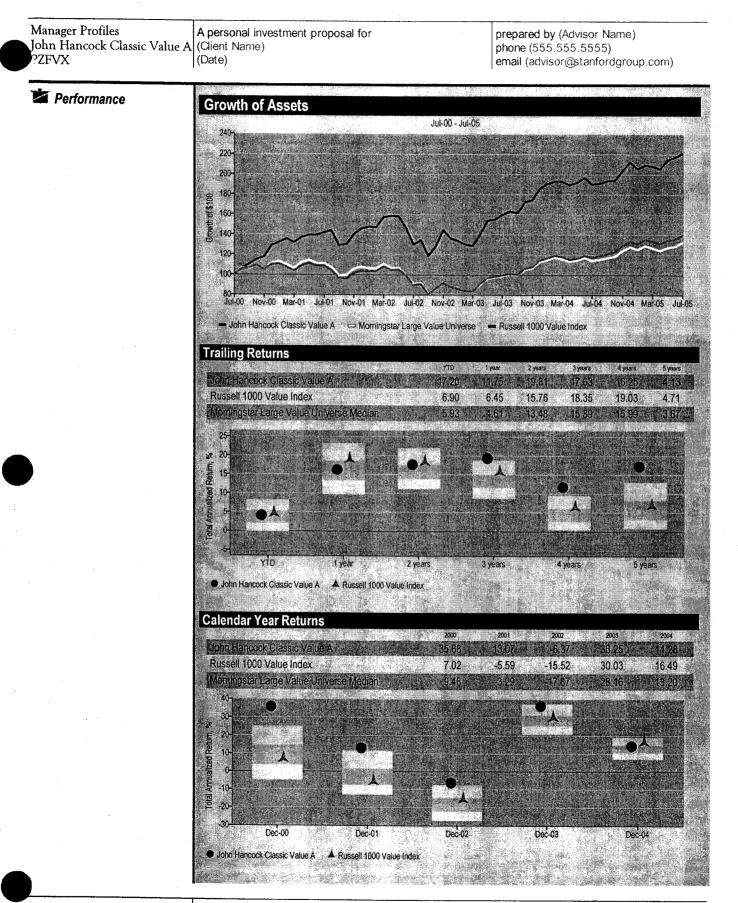
Prospectus	Growth
Objective	Cionai
Morningstar	Large
Category	Value
Net Assets	
SMM	2191.62
% Assets in Top	
10 Holdings	40.24
Total Number	
of Holdings	38.00
Manager Tenure	9.00
renure	
Inception	06/24/1996
Date	
Expense	1.30
Ratio	1.50

Richard Pzena has been the lead manager for nearly a decade after leaving Sanford Bernstein. Twelve investment professionals round out the analyst and management team. **Objectives and Strategies** The Fund seeks long-term growth of capital. To pursue this goal, the Fund invests primarily in domestic equity securities and, normally, will invest at least 80% of net assets in such securities. The Sub-Adviser seeks to buy securities of companies that, in its opinion, are undervalued relative to the market, based on estimated future earnings and cash flow. These companies generally have market values at valuation ratios, such as price to book, below market average, as defined by the S&P 500 Index. The Fund is non-diversified and may invest more than 5% of total assets in securities of individual companies. The Sub-Adviser has a research team consisting of persons with extensive experience managing or advising large public businesses. In choosing individual securities, the Sub-Adviser screens a universe of the 500 largest publicly traded U.S. companies. Using fundamental research and a proprietary computer model, the Sub-Adviser ranks these companies from the cheapest to the most expensive on the basis of current share price to the Sub-Adviser's estimate of normal long-term earnings power. The Sub Adviser's management team intensively evaluates the cheapest companies to construct a portfolio of stocks that the Sub-Adviser believes generally have the following characteristics: cheap or the basis of current price to estimated normal level of earnings; current earnings below normal levels; a sound plan to restore earnings to normal; a sustainable business advantage. This systematic process is intended to ensure that the Fund's portfolio avoids the emotional inputs that can lead to overvalued securities. The Sub-Adviser approaches sell decisions from the same disciplined framework. The Sub-Adviser generally sells a security when it reaches fair value, there are more attractive opportunities, or there is a change in company fundamentals. On average, the Sub-Adviser generally expects to hold positions for three years. The Fund anticipates that its portfolio turnover rate will normally not exceed 80%. The tack of frequent trading has the potential to increase tax efficiency and may lead to lower transaction costs, which could help to improve performance. **Asset Allocation** Style Allocation Top Val Top Growth in C ME owith Cash (4.0%) US Stocks (94.4%) Non-US Stocks (1.6% Sm John Hancock Classic Value A A Russell 1000 Value Index

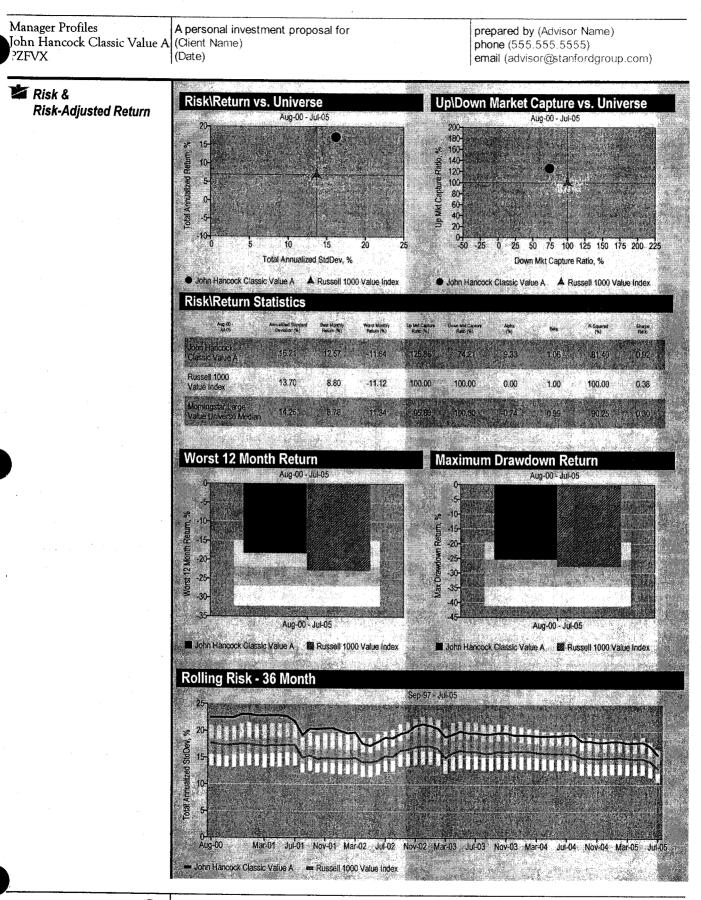
#### Sector Allocation Software Hardware 4.46% Media ... 0.00% Telecommunications 0.00% Healthcare 11.042 Consumer Services 8.56% Financial Services 40.89% Consumer Goods 10.320 Industrial Materials 8.43% Energy Utilities 3.29%

# Top Ten Holdings as of 05/31/2005

Whiripool Johnson Controls 4.46% Metropolitan Life Insurance 4 4 4 9 Hewlett-Packard 4.28% Sara Lee 3.84% XL Capital 3.81% Citigroup 3.75% Morgan Stanley 3.74% Computer Associates International Boeing 3,64%

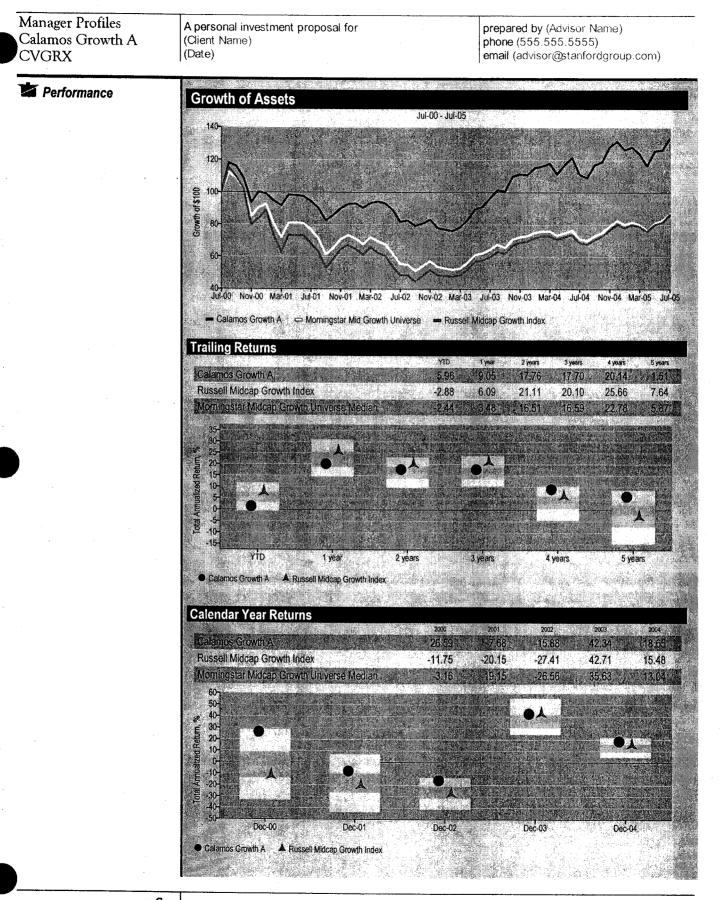


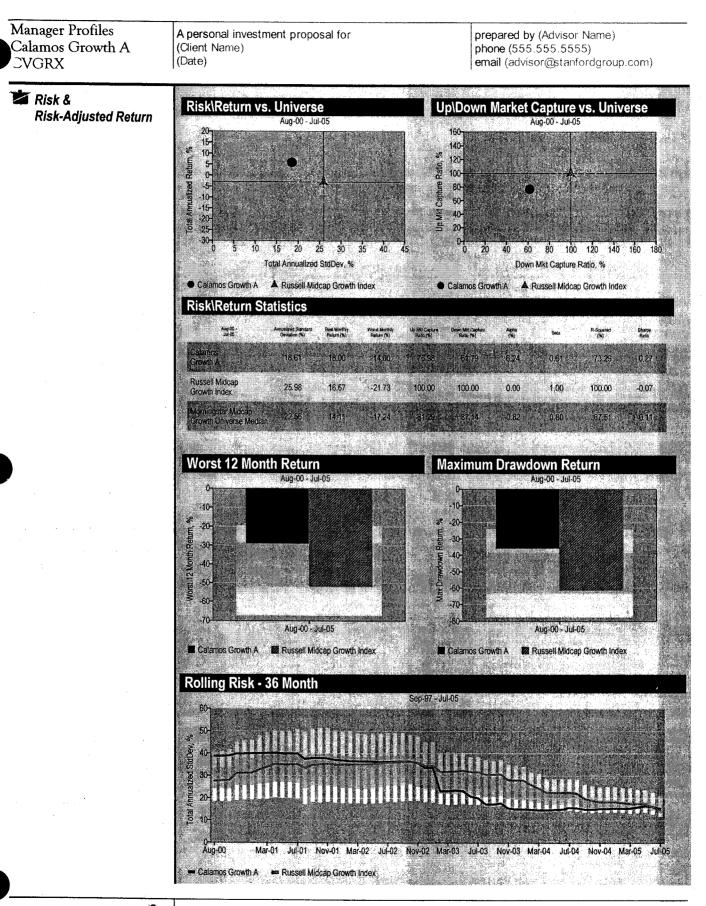
PA



DA

fanager Profiles Salamos Growth A SVGRX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.555) email (advisor@stanfordgroup.com)
Fund Information	Objectives and Strategies	an a
Prospectus Growth	Strategy Characteristics: Active, opportunistic investment manage	
Morningstar Mid-Cap	research-driven investment process based on quantifative and qual sustainability of growth, not "hol" investment trends nor unsupport unside shares of the market thes is the down turns in summing the	ed earnings; As a result, has historically participated more fully in
Category Growth Net Assets 11648.44 \$MM	upside phases of the market than in the down turns. In pursuing its and sectors that, in the investment advisor's opinion, offer the t sustainable over time. To be selected for the portfolio, securities mu screens to find companies with growth rates higher than their inc	best potential for relatively high, long-term growth rates that are ust satisfy specific ordena. The investment advisor uses quantitative
% Assets in Top 25.00 10 Holdings 25.00	fundamental factors, such as return on capital, to determine if their of the investment advisor so assesses the stock's price potential and measures are applied at the security, sector and portfolio level to hel	prowth is sustainable. Using proprietary cash flow valuation models determines expected returns. Throughout the process, risk contro
Total Number of Holdings 175.00 Manager 45.00		
Tenure 15.00 nception nonation		
Date 05/04/1593 Expense 1.23 Ratio 1.23	Asset Allocation	Style Allocation
The CALAMOS Growth Fund targets securities of companies that offer above-average potential for earnings growth. In seeking to meet its objective, the Fund utilizes highly lisciplined institutional management strategies that emphasize in-depth proprietary analysis of the securities and their issuing companies, and diversification across companies of various sizes and sectors of the market.	US Stocks (87.8%) Non-US Stocks (2.4%) Sector Allocation Software Hardware Media Telecommunications Healthcare Consumer Services	Top Value Top Growth Mid Value Mid Growth Sm Value Sm Growth Calarnos Growth A. A Russell Midcap Growth Index 19.189 0.560 3.489 0.260 19.239
	Financial Sérvices Consumer Goods Annual Consumer Goods Industrial Materials Energy Annual Constraints Annual Constraints Annual Constraints Utilities Top Ten Holdings as of 03/31/2005	6.04% 6.387 8.55% 76 0.00%
	Apple Computer, Yahoo Amazon oom Motorola Qualkomm eBay Symantec Symantec	3.10% 2.94% 2.64% 2.66% 2.40% 3.8% 1.75%
· ·	Home Depot Costco Wholesale Electronic Arts	1.737 1.659 1.659





M STANFORD GROUP COMPANY

Manager Profiles Artisan Mid Cap Value ARTQX

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# Fund Information

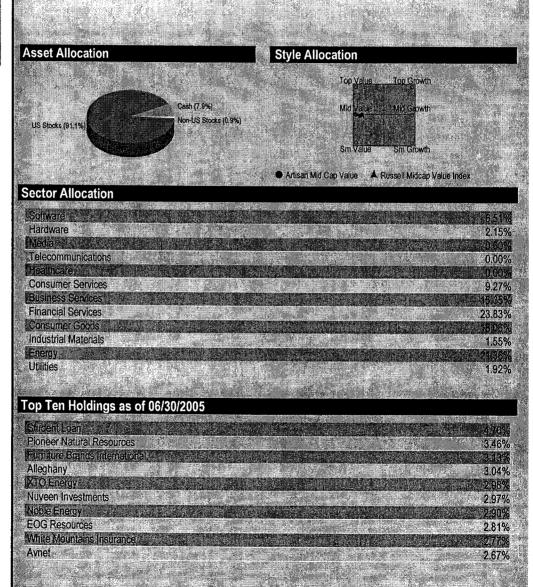
Prospectus Objective	Growth
Momingstar Category	Mid-Cap Value
Net Assets \$MM	1961,89
% Assets in Top 10 Holdings	31.43
Total Number of Holdings	49.00
Manager Tenure	4.00
Inception Date	03/28/2001
Expense Ratio	1.39

Scott C. Satterwhite, CFA, is a Managing Director of Artisan Partners Limited Partnership. He has co-managed Artisan Mid Cap Value Fund since November 2001 and as managed Artisan Small Cap Value Fund and Artisan Partners' small-cap value strategy since Inception. Prior to joining Artisan Partners in 1997, Mr. Satterwhite was Senior Vice President and Portfolio Manager at Wachovia Corporation. From 1993 to 1997, Mr. Satterwhite was Portfolio Manager of the Biltmore Special Values Fund, in addition to being a Personal Trust Portfolio Manager and Manager of the Georgia Personal Trust Portfolio Group. Mr. Satterwhite earned his BA degree from the University of the South and MBA from Tulane University

James C. Kieffer, CFA, is a Managing Director of Artisan Partners Limited Partnership. He has co-managed Artisan Mid Cap Value Fund since November 2001 and has been Portfolio Co-Manager of Artisan Small Cap Value Fund since July 2000. Mr. Kieffer was an analyst working with Mr. Satterwhite on Artisan Partners' small-cap value strategy, including the Small Cap Value Fund, from that Fund's inception through June 2000. Prior to joining Artisan Partners, Mr. Kieffer was a Research Analyst from 1996 to 1997 at the investment firm McColl Partners, Mr. Kieffer began his investment career at Wachovia Corporation, working with Mr. Satterwhite from 1989 to 1996, initially as a Personal Trust Portfolio manager and later as a General Equities and Small-Cap Value Research Analyst in the institutional portfolio group. Mr. Kieffer holds a BA in Economics from Emory dearee University.

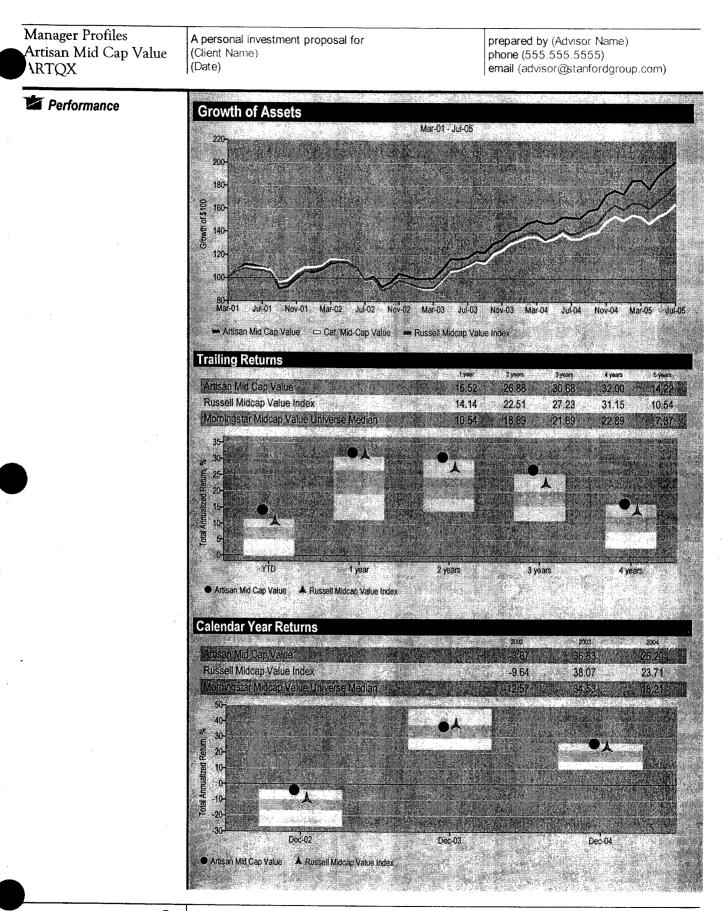
# **Objectives and Strategies**

Artisan Mid Cap Value Fund pursues long-term capital growth through a diversified portfolio of medium-sized company stocks that are undervalued and provide a controlled level of risk. The Fund is typically benchmarked against the Russell Midcap® Value Index over a full market cycle. Strategy & Process: Artisan Mid controlled level of risk. The Fund is typically benchmarked against the Russell Midcap® Value Index over a full market cycle. Strategy & Process: Artisan Mid Cap Value Fund seeks to identify significantly undervalued companies with market capitalizations between \$15 billion and \$10 billion. Through its extensive fundamental analysis, the Fund's investment team often finds investment opportunities in the following situations: Business transitions - companies in the process of change. Turnarounds - both industry and company-specific; Inefficiently valued assets - companies, the investment team looks for those firms that provide a controlled level of risk. Specifically the investment team is seeking: Financial strength - low debt and positive cash flow; Favorable economics - good returns on capital and free cash flow; The Fund typically holds approximately 40 to 60 holdings broadly diversified across sectors and industries. Individual holdings will typically not exceed 5% of the Fund's assets (at market value at the time of purchase).

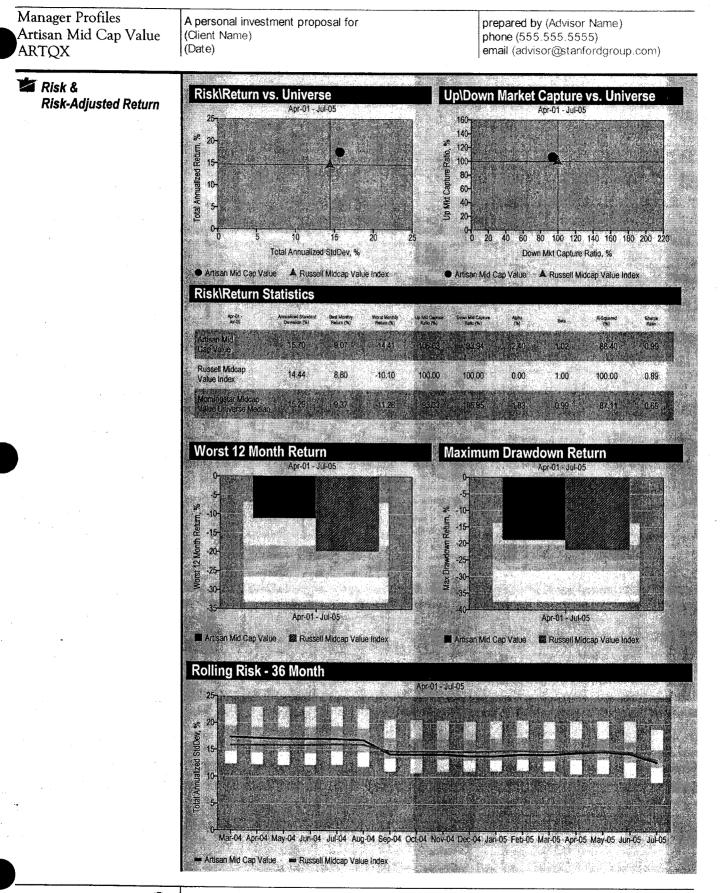




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<u> </u>	tone Emerging Growth A	(Client Name)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

### Fund Information

Prospectus	Growth
Objective	Stottat
Morningstar	Mid-Cap
Category	Growth
Net Assets \$MM	599.86
% Assets in Top 10 Holdings	17.66
Total Number of Holdings	107.00
Manager Tenure	6.00
Inception Date	10/03/1994
Expense Ratio	1.50

Touchstone Emerging Growth Fund is a U. S. mid-cap blend fund. This fund:

•Utilizes a dual-manager approach employing both a growth style and a value style of investing.

 Invests in companies with consistent or accelerating earnings growth.

•Purchases stocks that are inefficiently priced due to transitional issues.

#### **Objectives and Strategies**

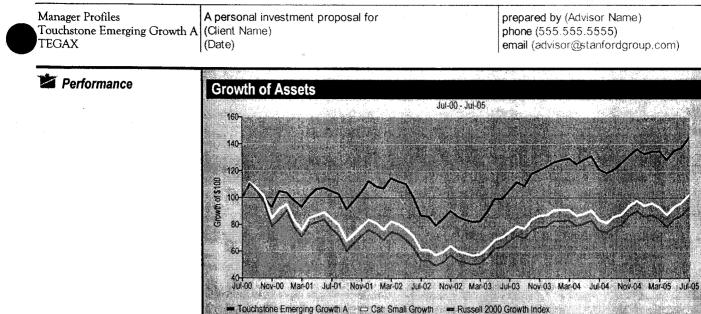
The fund invests primarily (at least 65% of its assets) in emerging growth companies. Emerging growth companies can include companies that have earnings that the portfolio managers believe may grow faster than the U.S. economy in general due to new products, management changes at the company or economic shocks such as high inflation or sudden increases or decreases in interest rates. Emerging growth companies can also include companies that the portfolio managers believe are undervalued, including companies with unrecognized asset values or undervalued growth, and companies undergoing a turnaround. The Fund will invest primarily in common stocks of mid cap emerging growth companies. A mid cap company has a market capitalization between \$1.5 and \$10 billion. The Fund may also invest in companies in the technology sector. The Fund is sub-advised by two separate management teams, a growth style team and a value style team, that use different style methodologies when evaluating which stocks to buy or sell in their portfolio. In selecting securities for the Fund, both portfolio management teams evaluate companies by using fundamental analysis of the company's operations and product development and consideration of the company's industry category. The growth style management team will sell a security if the predetermined sell price is achieved, if it is concluded that the original case for investment is no longer valid or if more attractive alternative investments are available. The value style management team will sell a security if it is portfolio or if the goals for a security cannot be achieved according to its evaluation process.

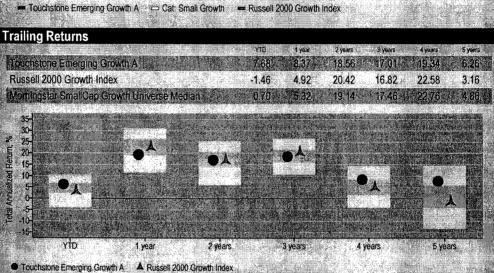
Asset Allocation	Style Allocation
	Top <u>Value</u> Top Crowth
US Stocks (96.6%)	Mid Value Mid Growth
Nor	rUS Stocks (3.4%)
	Sm Value Sin Growth
Contan Allocation	Touchstone Emerging Growth A A Russell 2000 Growth Index
Sector Allocation	- 7.000 - 20.0100 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001 - 2001
Software Hardware	20.38%
Media Telecommunications	0.00%
Healthcare	
Consumer Services Business Services	14.09% 3.379
Financial Services	9.45% 2739
Industrial Materials	9.71%
Energy Utilities	0.97% 0.00%
Top Ten Holdings as of 07/31/20	D05
National Semiconductor Thermo Electron	2.56% 2.11%
Celgene	Sector and the sector and the sector of the
Omnicare Zions Bancorporation	1.83% 1.83%
Amerada Hess	1.58%
Amelek Vishay Intertechnology	153% 149%
May Department Stores	147% 144%

prepared by (Advisor Name)

email (advisor@stanfordgroup.com)

phone (555.555.5555)

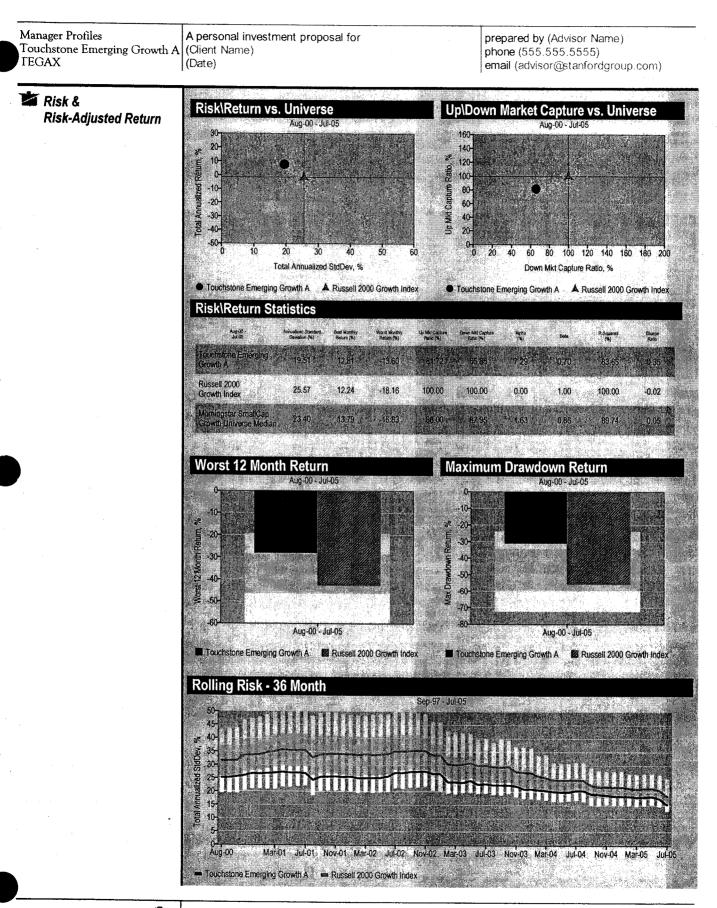




**Calendar Year Returns** 2001 2002 200 Touchstone Emerging Growth A 7:06 25.92 23.48 43.35 Russell 2000 Growth Index -22.43 -9.23 -30.26 48.54 14.31 Apminostar SmallCap Growth Universe Median 5.73 9.75 . . . · 10 0[3] R Dec-00 Dec-01 Dec-02 Dec-03 Dec-04

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Touchstone Emerging Growth A Russell 2000 Growth Index



prepared by (Advisor Name)

email (advisor@stanfordgroup.com)

phone (555.555.5555)

Manager Profiles Marsico Growth MGRIX

Prospectus

Morningstar

Category

Objective

Fund Information

# **Objectives and Strategies**

(Client Name)

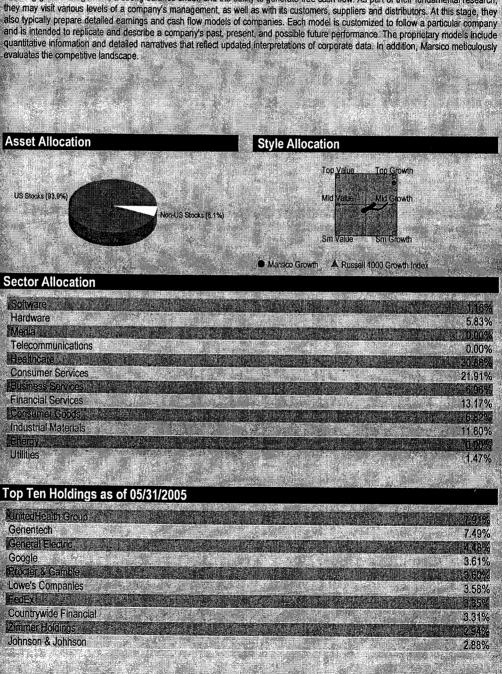
(Date)

A personal investment proposal for

 Growth
 By exploring investment themes from every angle, they gain insights about whether to buy and when to sell. Marsico uses a 360-degree approach to discover investment opportunities for each fund through a strategic process that blends relentiess research with concentrated fundamentals. Understanding many aspects of a company's status gives them a three-dimensional view of its earnings and growth prospects. Their 360-degree approach helps them to identify more attributes that others might not examine. Assessing the macroeconomic environment, for example, allows Marsico to recognize the sustainability of trends and the strength of a company's specific market expertise and/or dominance within an industry as a whole. They also consider a company's solid fundamentals including good management, a strong balance sheet, and the ability to generate free cash flow. As part of their fundamental research, they may visit various levels of a company's management, as well as with its customers, suppliers and distributors. At this stage, they also typically prepare detailed earnings and cash flow models of companies. Each model is customized to follow a particular company

Net Assets \$MM % Assets in Top 10 Holdings **Total Number** 51.00 of Holdings Manager 8.00 Tenure Inception 12/31/1997 Date Expense 1.30 Ratio

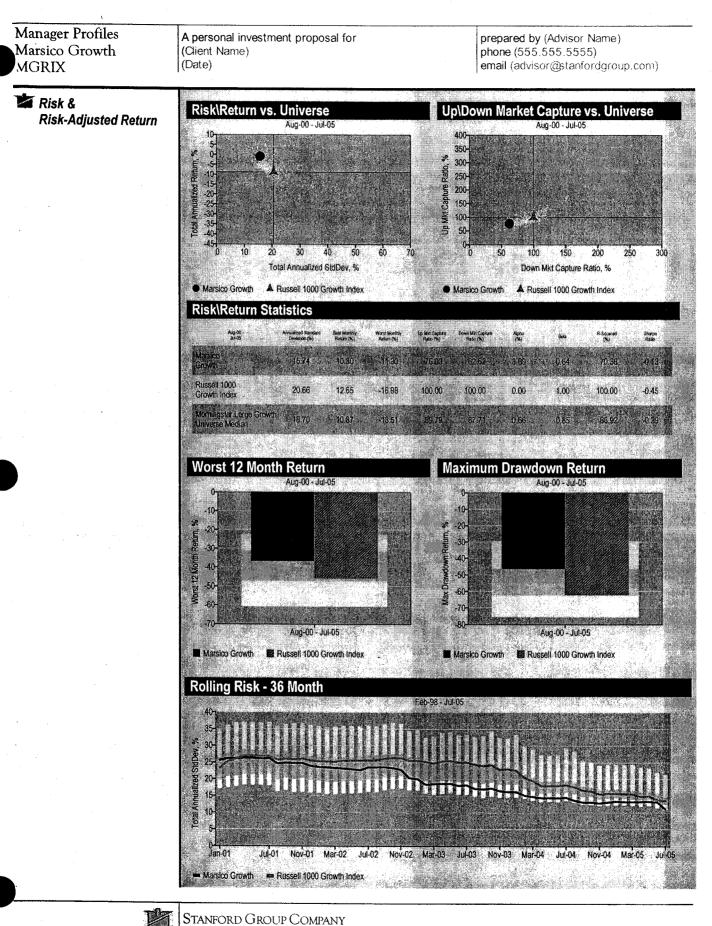
The Marsico Growth Fund is managed by Thomas F. Marsico, Officer of Marsico Capital Management, LLC. Tom Marsico has over 20 years of experience as a securities analyst and portfolio manager. He managed the Janus Twenty Fund for nearly 10 years, and managed the Janus Growth and Income Fund from its inception in 1991 until August 1997.





Manager Profiles A personal investment proposal for prepared by (Advisor Name) Marsico Growth (Client Name) phone (555.555.555) (Date) email (advisor@stanfordgroup.com) MGRIX Performance **Growth of Assets** Jul-00 - Jul-05 120 10 Jul-00 Nov-00 Mar-01 Jul-01 Nov-01 Mar-02 Jul-02 Nov-02 Mar-03 Jul-03 Nov-03 Mar-04 Jul-04 Nov-04 Mar-05 Jul-05 🗕 Marsico Growth 🛛 🗁 Morningstar Large Growth Universe 📁 Russell 1000 Growth Index **Trailing Returns** YTD 1 year 2 years 3 years 4 years 5 years Marsico Growth -0.91 5.09 13.76 14.39 20.76 2.77 Russell 1000 Growth Index -8.72 -0.61 11.05 10.75 13.04 3.08 Morningstar Latge Growth Universe Median 14.35 10,74 10.89 15 10 ŝ¢. -10 -15 .20 YTD 1 year 5 years 2 years 3 years 4 years Marsico Growth A Russell 1000 Growth Index **Calendar Year Returns** 2002 2000 2001 2003 2004 Marsico Growth 15.85 -20.33 -16.79 31.97 14.38 Russell 1000 Growth Index -22.43 -20.42 -27.88 29.75 6.30 Morningstar Large Growth Universe Median 12.53 .19.76 27.68 -27.00 50-40 30 20 Dec-00 Dec-01 Dec-02 Dec-03 Dec-04 A Russell 1000 Growth Index Marsico Growth

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Manager Profiles Keeley Small Cap Value KSCVX

A personal investment proposal for (Client Name) (Date)

**Objectives and Strategies** 

prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

# Fund Information

Prospectus	Small
Objective	Company
Morningstar	Small
Category	Blend
Net Assets	i in the second
\$MM	675.97
% Assets in Top	
10 Holdings	10.46
Total Number	
of Holdings	148.00
the second s	
Manager	12.00
Tenure	
Inception	10/04/4000
Date.	10/01/1993
Expense	4.04
Ratio	1.64

Keeley Asset Management Corp. ("KAMCO") is a registered investment adviser established in 1982 by John L. Keeley, Jr. KAMCO offers investment management services to institutions, high net-worth individuals, hedge funds, and corporate retirement accounts. Its Corporate Restructuring Strategy, first employed in January 1990, is the basis from which the Fund focuses on the purchase of stocks undergoing corporate change.

Under normal market conditions, the Fu	und will invest at least 80% of its net assets plus the amount of any borrowings for investment
purposes in common stocks and other	equity type securities (including preferred stock, convertible debt securities and warrants) of
notice of the change. While many mut	time of each investment. If we change that policy, we will give our shareholders at least 60 days val funds look for undervalued stocks, the Fund takes a unique approach: we emphasize on
companies going through major chang	ges, including: corporate spin-offs (a tax-free distribution of a parent company's division to
shareholders); financial restructuring, in	ncluding acquisitions, recapitalizations and companies emerging from bankruptcy, companies
industry. Current dividend or interest	nook value; savings and loan and insurance conversions. We don't concentrate on any sector or income is not a factor when choosing securities. Each stock is judged on its potential for
above-average capital appreciation, u	using a value approach that emphasizes: equities with positive cash flow; low market
capitalization-to-revenue ratio; desirab	ble EBITDA (earnings before interest, taxes, depreciation and amortization); motivated
management; little attention from Wall a	Street. Research sources include company documents, subscription research services, select itact, it is our initial intention to typically hold securities for more than two years to allow the
corporate restructuring process to vielo	d results. But we may sell securities when a more attractive opportunity emerges, when a
company becomes over-weighted in the	portfolio, or when operating difficulties or other circumstances make selling desirable. In times
of adverse equity markets, we may tak	ke temporary defensive positions in U.S. Treasury bills and commercial paper of major U.S. refit from an upswing in the market.

Asset Allocation		Style Allocation
	C帮助 10 3 Slocks (2.0%)	Top <u>Value Top Gr</u> owth Mid <u>Value Mid St</u> owth
US Slocks (94.2%)		Sm Value Sm Growth
Sector Allocation		Keeley Small Cap Value     A Russell 2000 Value Index
	an a	
Software Hardware Media		0.94% 0.73%
Telecommunications		0.00%
Healthcare Consumer Services		12770
Business Services	R. C. Starter	13.77% 8.6293
Financial Services Consumer Goods		14.34%
Industrial Materials		57099 30.90%
Energy Utilities		10.42%
Utilities	102	4.04%
Top Ten Holdings as of	06/30/2005	
Danlelson Helding	a sea ann an a	A CARLEND AND
Texas Industries Foster Wheeler		1.22%
Orient-Express Hotels A	Constraint and the second s	1.02% 1.02%
Quicksilver Resources		0.99%
Conseco Aztar		0.99% 0.05%
PHH		0.95%
Amerco Gaylord Entertainment		0.94%
Control Cillendininent		0.94%

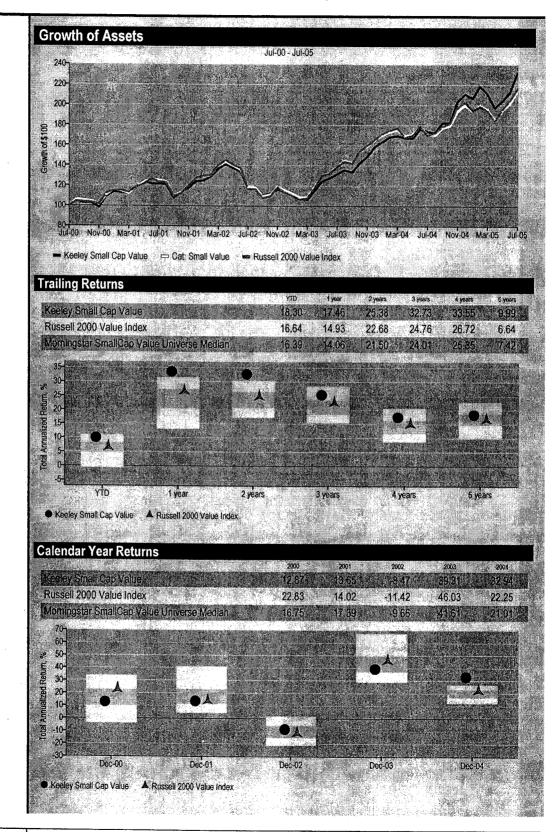
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Manager Profiles Keeley Small Cap Value KSCVX

Performance

A personal investment proposal for (Client Name) (Date)

prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)



Manager Profiles A personal investment proposal for prepared by (Advisor Name) Keeley Small Cap Value (Client Name) phone (555,555,555) (Date) email (advisor@stanfordgroup.com) KSCVX 🖆 Risk & **Risk\Return vs. Universe** Up\Down Market Capture vs. Universe **Risk-Adjusted Return** Aug-00 - Jul-05 Aug-00 - Jul-05 160 140 30-Annualized Return, % 25-20-\* 120-Up Mkt Capture Ratio, 100-15 80 10 60 F 40 Otal 0-20-15 25 60 80 100 120 140 160 180 200 10 20 30 ò 20 Total Annualized StdDev. % Down Mkt Capture Ratio, % Keeley Small Cap Value
 A Russell 2000 Value Index Keeley Small Cap Value
 A Russell 2000 Value Index **Risk\Return Statistics** Aug-00 341-05 Best Monthly Refurn (%) Worst Monthi Return (%) Up Mid Capita Ratio (%) Invalced Stand Deviation (%) R-Squared (%) Down Hild Capita Ratio (%) Alpha (%) Sharpe Ratio aeley Small ao Value 16.40 -12.19 11,60 83.30 Russell 2000 Value Index 17.04 10.74 -14.86 100.00 100.00 100.00 0.00 1.00 0.85 ngstar SmallCap 16 96 11.07 -13.16 22.27 0.93 68,73 0.87 Worst 12 Month Return Maximum Drawdown Return Aug-00 - Jul-05 Aug-00 - Jul-05 Ļ 4 -10-\* -10 Vax Drawdown Return -15-Ret -15 -20--20 -25 -30 -25 -30 -25 Aug-00 - Jul-05 Aug-00 - Jul-05 Keeley Small Cap Value 🛛 🖬 Russell 2000 Value Index 🖬 Keeley Small Cap Value \_ 📓 Russell 2000 Value Index **Rolling Risk - 36 Month** Sep-97 - Jul-05 TIME 10 010 otal Aug-00 Mar-01 Jul-01 Nov-01 Mar-02 Jul-02 Nov-02 Mar-03 Jul-03 Nov-03 Mar-04 Jul-04 Nov-04 Mar-05 Jul-05 Keeley Small Cap Value 🛛 📾 Russell 2000 Value Index 

Manager Profiles
American Funds EuroPacifi
AEGFX

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### Fund Information

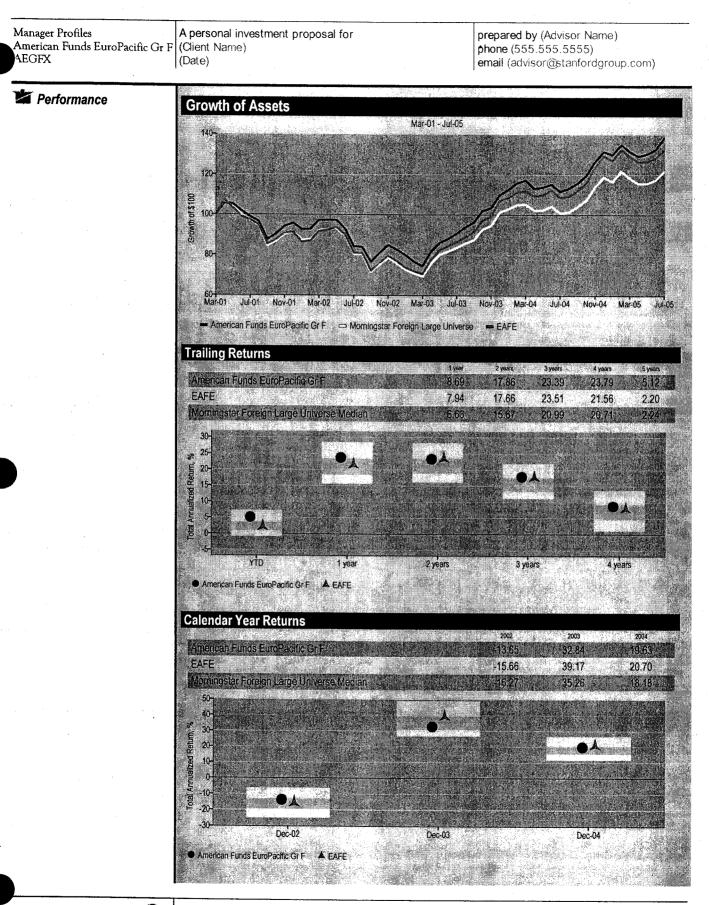
Prospectus	Foreign
Objective	Stock
Morningstar	Foreign
Category	Large Blend
Net Assets	-1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1
\$MM	4187.78
% Assets in Top	
10 Holdings	14.82
Total Number	12 St 16
of Holdings	381.00
Manager	
Tenure	21.00
Inception	
Date	03/15/2001
Expense	0.89
Ratio	0100

This fund keeps things simple. It buys the biggest and best foreign companies and holds on to them. At more than \$45 billion in assets, this offering boasts many experienced managers, most of whom have been with the company for more than a decade. Each manager runs his or her portion of assets independently of the others. A portion of the portfolio (less than 25% of assets) is run by the firm's analyst staff.

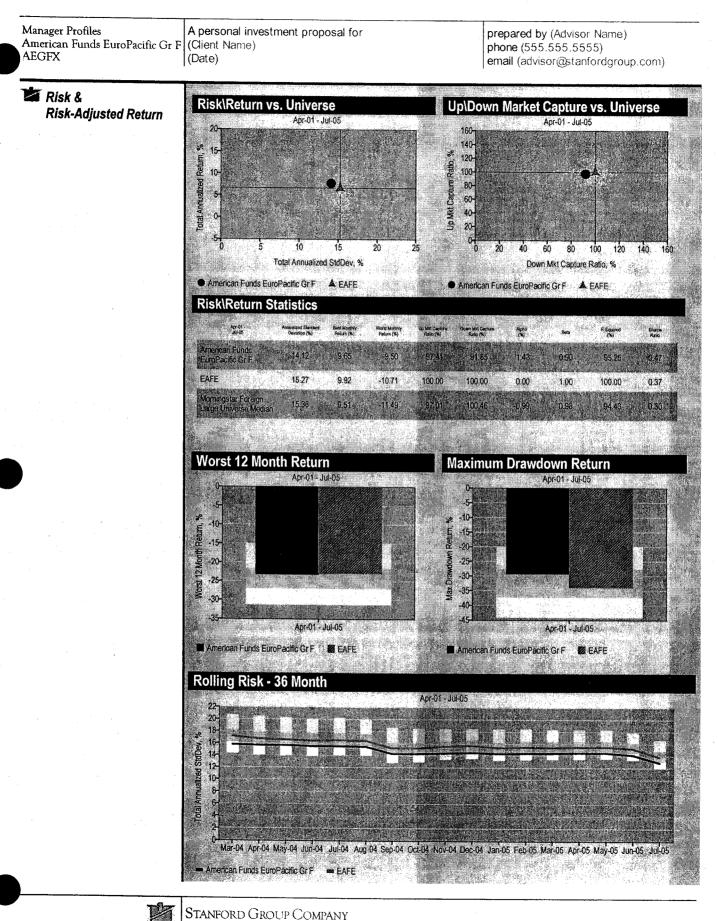
**Objectives and Strategies** 

Asset Allocation	S	Style Allocation		
		Europe Lg	AsiaPac Lg	
	tocks (0.6%) sh (8.2%)	Europe Sa	AsiaPat Sm	
Non-US Stocks (87.2%)	ier (2.4%)			
		Emg Europe		
Sector Allocation		American Funds EuroPacific Gr	F A EAFE	
Software				2. Ref 26%
Hardware Media				6.42% 199%
Telecommunications Healthcare		an den se die den se her die		16.54%
Consumer Services				8.83% 5.48%
Business Services Financial Services				1.93%
Consumer (soods Industrial Materials				9.92%
Energy Utilities	and the second second	A CONTRACTOR OF A		841% 2.77%
				£.7170
Top Ten Holdings as of 03/31/2	005			
Sanofi-Synthelabo			25 <u>2</u> 507	2.34%
Telefonica France Telecom				1.62%
Taiwan Semiconductor Mig.				1.43% 1.34%
ING Groep Koninklijke Ahold				1.25%
Roche Holding Novo-Nordisk A S		Alexandra da anti-		1.21% 1.18%
AstraZeneca				1.12%





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Manager Profiles Permanent Portfolio PRPFX

A personal investment proposal for (Client Name) (Date) prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

## Fund Information

#### Prospectus Multi-Asset Objective Global Morningstar Conservative Category Allocation Net Assets 268.96 \$MM % Assets in Top 45.12 10 Holdings Total Number 99.00 of Holdings Manager 15.00 Tenure Inception 12/01/1982 Date Expense 1.38 Ratio

The Fund was incorporated under the laws of Maryland on December 14, 1981, under the name "Permanent Portfolio Fund, Inc." and changed its name to "Permanent Portfolio Family of Funds, Inc." on August 10, 1988. The Fund was originally organized with a single Portfolio which commenced operations as an investment company on October 15, 1982. That Portfolio continues, with the same investment policy, and is now called the Fund's "Permanent Portfolio." The Fund's Treasury Bill Portfolio commenced operations on May 26, 1987, the Fund's Aggressive Growth Portfolio commenced operations on January 2, 1990 and the Fund's Versatile Bond Portfolio commenced operations on September 27, 1991. The Fund may offer additional Portfolios from time to time

## **Objectives and Strategies**

The objective of the Permanent Portfolio is to preserve and increase the "purchasing power" value of its shares over the long term. This goal would require the price of shares in the Permanent Portfolio to rise at a rate equal to or greater than the rate of general price inflation (or, in the event of a deflation in the economy, it would require the price of shares in the Permanent Portfolio to resist the decline in the general level of prices). If the Permanent Portfolio succeeds in meeting its objective, the amount of goods and services that can be purchased with an amount of money equivalent to a share in the Permanent Portfolio will hold steady (over the long term), or rise, and would do so regardless of the course of inflation. Investors should note that even if the Permanent Portfolio does achieve its objective over the long term, it may suffer substantial short-term losses from time to time, since investment policy of the Permanent Portfolio reflects the opinion of its investment adviser that inflation rates and other economic events cannot be forecasts. An investment vehicle such as the Permanent Portfolio, whose goals include the preservation of purchasing power, should not depend on forecasts. Instead, it should acknowledge a broad range of economic possibilities and, in order to preserve purchasing power over the long term, should incorporate investments for each of them. For a further discussion of the investment strategy of the Permanent Portfolio, see "Objectives and Policies – Investment Strategy – Permanent Portfolio" in the Fund's SAI. In pursuit of its objective of preserving and increasing the purchasing power value of its shares over the long term, the Permanent Portfolio, as its fundamental investment policy, invests a fixed "Target Percentage" of its net assets in each of the following categories.

Asset Allocation	Style Allocation
US Stocks (52.5%)	Top Value Top Growth
Bonds (12.4%)	Mid Vaug - Mid Growth
Non-US Slocks (2.3%)	
Other (0.7%) Cash (24.2%)	Sm Value Sm Growth
	Permanent Portfolio 🔺 Stanford Permanent Portfolio Blended Index
Sector Allocation	
Software Hardware	5.88%
Media	2.88%
Telecommunications Healthcare	0.00% 0.00%
Consumer Services Business Services	4.139 5.66
Financial Services	35.239
Consumer Goods Industrial Materials	2057 19.529
Energy Utilities	20.272 0.00%
Top Ten Holdings as of 06/30/2005	
Gold/Us Golden Eagles	10 10 10 10 10 10 10 10 10 10 10 10 10 1
U S Treas Bd Stripped Prin Pmt Gold Comex	9.24% 6.78%
Gold Canadian Maple Leaf Silver Comex	4.35%
Symantec (Wts)	2.97% 2.97%
Switzenand (Government Of) 4.5% Switzenand (Government Of) 4.25%	2.13%
Switzerland (Government Of) 3.5%	1.88%
Switzerland (Government Of) 3.25%	1.70%

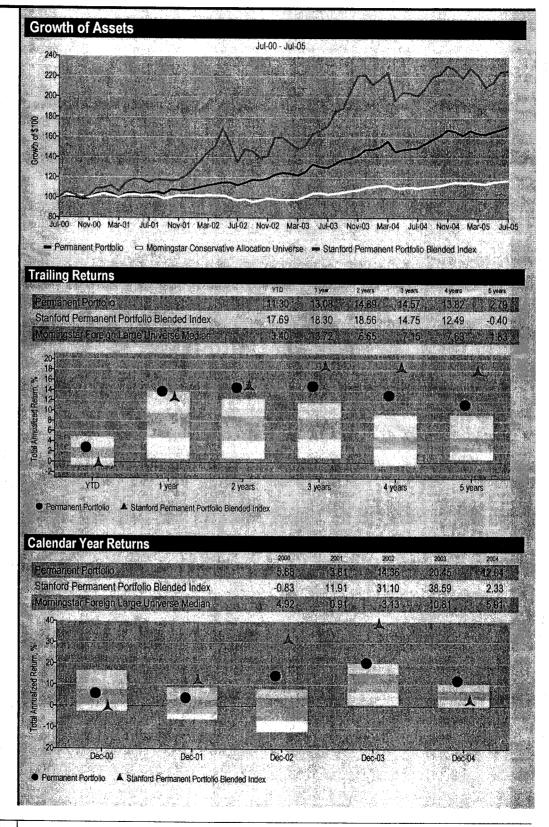
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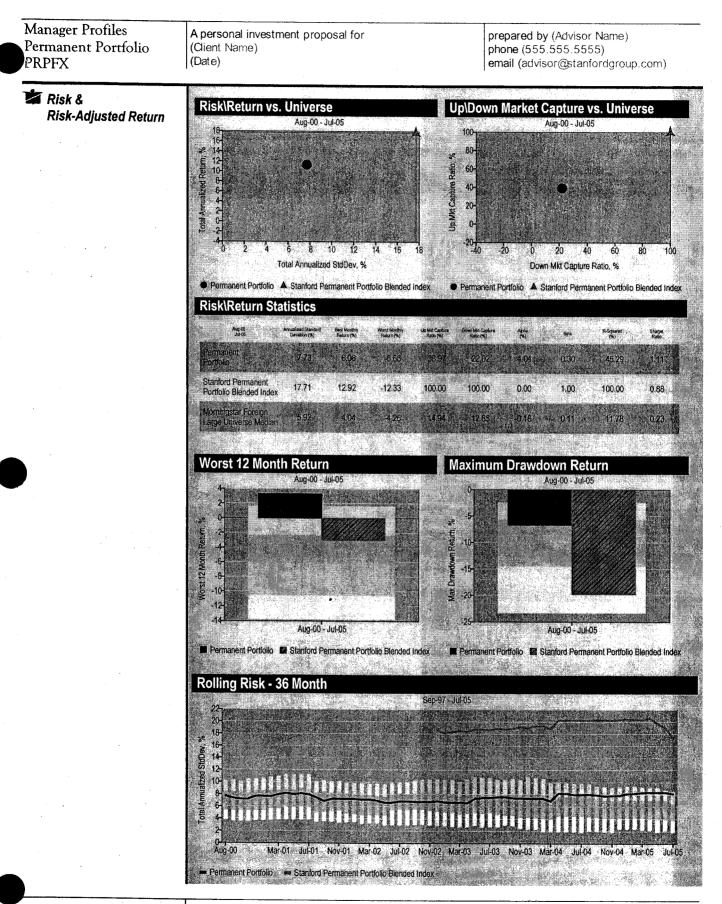
Manager Profiles Permanent Portfolio PRPFX

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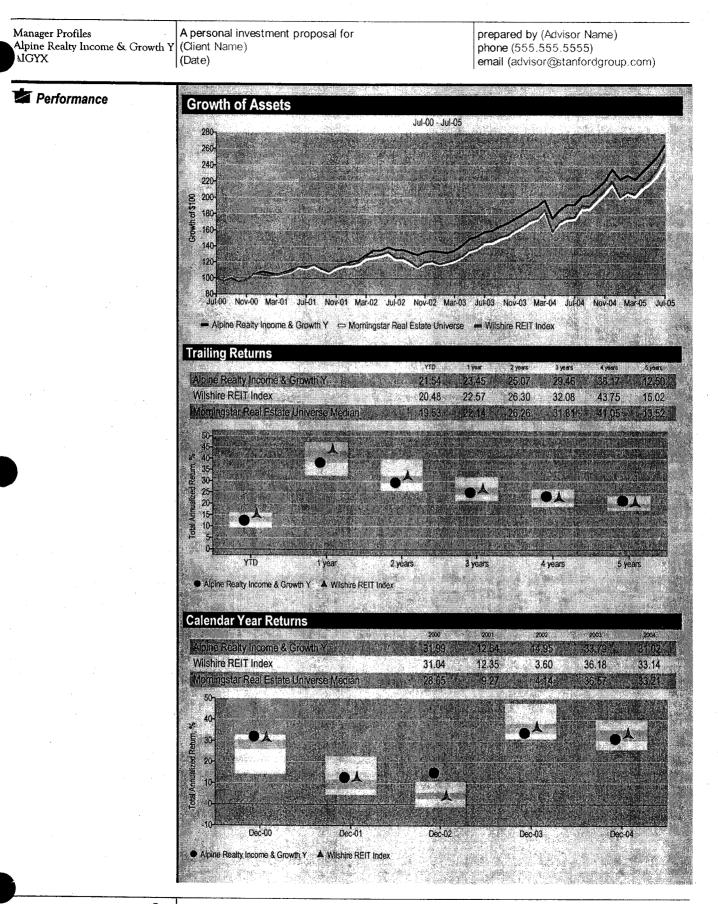


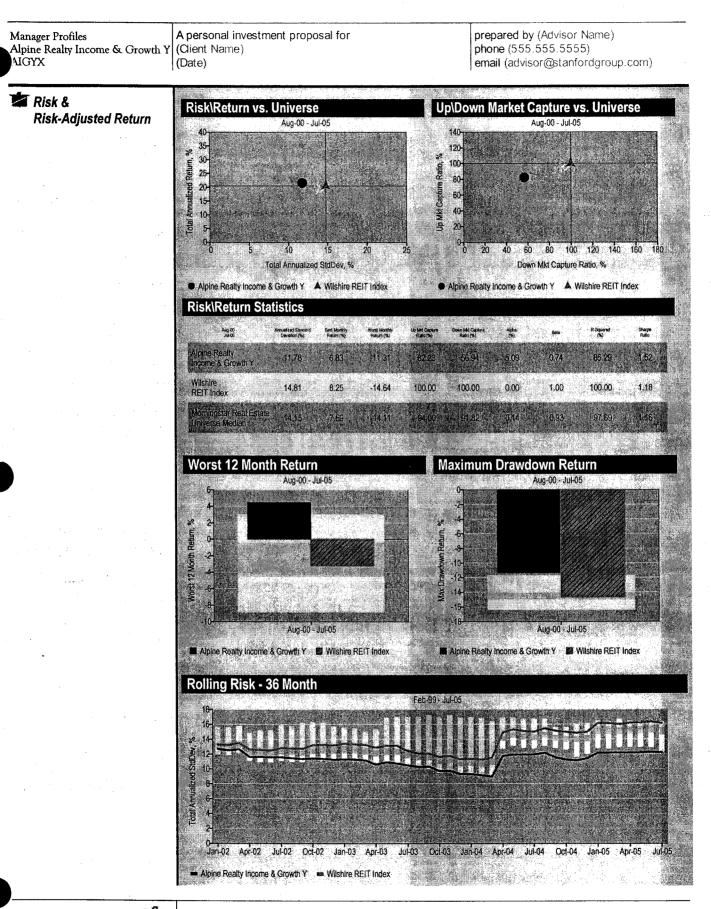
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Aanager Profiles Upine Realty Income & Growth Y UGYX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)
Fund Information	Objectives and Strategies	en e
Prospectus Specialty - Objective Real Estate	The Fund seeks a high level of current income with capital appre	ciation as a secondary objective. The Fund seeks to provide diversified
Morningstar Specialty-Real	principally engaged in the real estate industry. The Fund's focus	dividend paying securities and debt securities of companies which are
Category Estate Net Assets	private market or break-up value. Alpine's evaluation favors of	t emphasis is on acquiring shares of companies at a discount to their companies with high return-on-equity, earnings and dividend growth
\$MM         761.29           % Assets in Top         00.50	real estate operating companies.	st investments will be REITs and high yielding shares or debentures of
10 Holdings 32.59 Total Number		
of Holdings 74.00		and the second
Manager 6.00		
Inception 12/29/1998 Date		
Expense 1.25	Asset Allocation	Style Allocation
Mr. Robert W. Gadsden is the portfolio manager of the Alpine Realty		Top Value Top Growth
ncome & Growth Fund and serves as Senior Real Estate Analyst for	Cash (7.6%)	Mid Veise Mid. Stowth
Npine. Prior to joining Alpine in 1999, Mr. Gadsden was a Vice	US Slocks (85.8%) Non-US Stocks (1.2%)	
President of the Prudential Realty Group. During the final years of his enure at Prudential, he held		Sm Value Sm Grown
esponsibility for negotiating and tructuring approximately \$1 Billion of	Sector Allocation	Alpine Really income & Growth Y     A     Wilshire REIT Index
eal estate securities transactions with public and private real estate	Software	
companies. Prior to that, he served as Head Underwriter of the Real Estate Equity Group and in various	Hardware Media	0.00%
ositions within the real estate debt nd asset management functions.	Telecommunications Healthcare	0.00% 0.00%
Before joining Prudential in 1990, he was an Associate in the real estate	Consumer Services Business Services	10.19% 0.63%
Idvisory group of The Leggat McCall Companies in Boston, Massachusetts.	Financial Services Consumer Goods	88.89% 0.23%
	Industrial Materials Energy	0.06% 0.00%
	Utilities	0.00%
	Top Ten Holdings as of 03/31/2005	
	Starwood Hotels & Resorts Worldwide Simon Property Group	386%
	Vomado Realty Trust	3.94% 1.5.59%
	La Cuina General Growth Properties	3.47% 3.3224
	Felcor Lodging Trust	3.09% 2.04%
	Developers Diversified Realty Boston Properties	2.86% 272%
	Reckson Associates Realty	2.70%







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Manager Profiles vy Global Natural Resources A GNAX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.555)
	(Date)	email (advisor@stanfordgroup.com)
Fund Information	Objectives and Strategies	
Prospectus Objective Growth	Objective: To provide long-term growth. Any income rea	lized will be incidental.
Morningstar Specialty-Natural Category Resources Net Assets 1134.78	The amount of any borrowings for investment purposes convertible into common stock) of companies of any size basic commodities or supply goods and services to su	Id invests, under normal market conditions, at least 80% of its net assets, pl , in equity securities (including common stock, preferred stock and securiti throughout the world that own, explore or develop natural resources and oth ch companies. For these purposes, "natural resources" generally include:
% Assets in Top 26.54	precious metals (such as gold, silver and platinum), 2 strategic metals (such as uranium and titanium), 4, fo	ferrous and nonferrous metals (such as iron, aluminum, copper and steel); ssil fuels and chemicals: 5, forest products and acricititual commodities:
10 Holdings         20.34           Total Number of Holdings         107,00	and value. Companies targeted for investment have stro	kenzle Financial Corporation, uses an equity style that focuses on both grow ong management and financial positions, adding balance with established to on anticipated commodity price trends. The Fund may have some emergi over the long-term.
Manager Tenure9.00Inception Date01/02/1997		
Expense 1.55 Ratio	Asset Allocation	Style Allocation
Fred Sturm, CFA is Senior Vice President at Mackenzie Financial Corporation. Mr. Sturm has over 20 years of industry experience and has managed lvy Global Natural Resources Fund since its inception in January of 1997. Mr. Sturm earned a degree in commerce and finance from the University of Toronto and is	US Slocks (25.3%) Cash (9.5%) Other (0.9%) Non-US Slocks (61.7%)	Top <u>Value</u> Top Growth Mid water Nid Growth Sm Value Sm Growth
a CFA charter holder.	Sector Allocation	Ivy Global Natural Resources A A HERI Sector: Energy Index
	Software Hardware Media	0.00 0.83 0.00 0.00
	Telecommunications Reatingate	0.00 0.00
	Consumer Services Business Services Financial Services	0.00
	Consumer Goods Industrial Materials	0.32
	Energy Utilities	55.53 4013
	- Cellero	0.429

 Ash Ceal

 Compania de Minas Buenaventura ADR B

 Barrok Gold

 Bahia Sul Celuiose

 Paroleo Brasileiro ADR

 Patterson-UTI Energy

 Dow Chemical

 Aracruz Celuiose SA ADR

 Yatzhou Goal Mining

 Impala Platinum Hidgs Ltd

P

2.89%

2.65% 2.59%

2.56% 2.54%

2.53% 2.42%

2.27%

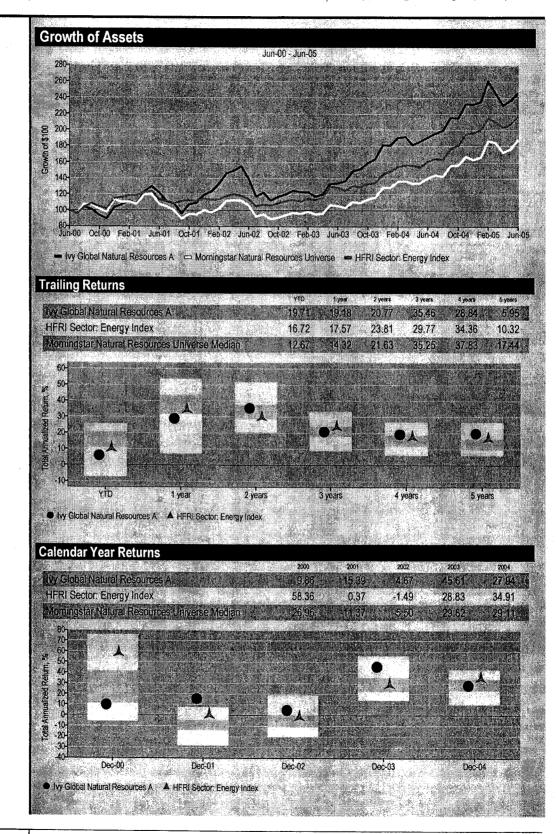
2.14%

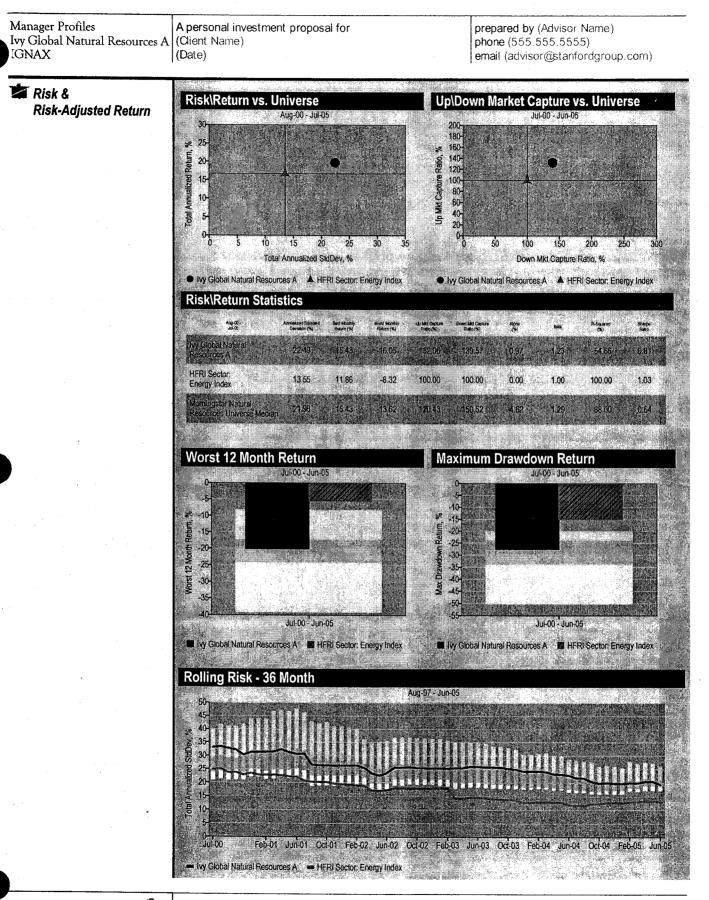
Manager Profiles Ivy Global Natural Resources A IGNAX

Performance

A personal investment proposal for (Client Name) (Date)

prepared by (Advisor Name) phone (555.555.555) email (advisor@stanfordgroup.com)





STANFORD GROUP COMPANY

Glossary	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.555) email (advisor@stanfordeagle.com)
	Alpha Coefficient An estimate of risk adjusted investment performance, whe	re beta coefficient is used as ameasure of risk. It is an indicato
	of the rate of return attributable to the investmentmanage. The expected valuefor the alpha coefficient is 0. That is, th	r after adjusting for the portfolio's level of market related risk e portfolio's risk and return are in line with eachother. A positivi
	alpha coefficient indicates the investment manager has ea	arned a higher rateof return than expected given the portfolio e investment manager has earned a lower rate of return that
	Asset Mix	tent
		lio valueallocated to each of theavailable portfolio segment, go can bebased on the explicit asset mix policy or the implies the report period).
	Asset Mix Policy	
	each portfolio segment (equity, fixed income, cash andeque explicit or implied. Anexplicit policy is one that is specified	rtion in percentage termsof thetotal portfolio value allocated to ivalents, other assets, etc.). The asset mix policy can be eithe with changes permitted as frequently as monthly, although from
	an investment perspective, the changes should be infreque and the system calculates the overall average for the full r	ent. An implicit policy is one where no explicit policy is indicate
	Balanced Index The average of various market indices selected to be repr	esentative of the asset classes of theportfolio being compared
	weighted according to the asset mix policy of the portfolic Lehman Government/Corporate Bond Index, and 10% U. S	(forexample, 70% Standard and Poor's 500 Stock Index, 20%
		to segment as of the beginning of he period indicated. If th
	account data is on an accrual basis, the value includes scheduleswhere accrued income islitemized as a separate	themarket value plus the beg of period accrual except to item.
	Beta Coefficient A relative measure of the sensitivity of a pertfolio's return	to changes in the benchmark. Thebeta coefficient measure
	market related risk. A portfolio with a beta of 1.00 has the 0.50 has half the volatility(risk) of the benchmark; and a provide the benchmark.	samevolatility (risk) as the benchmark, a portfolio with a beta c ortfolio with a beta of 1,50 has one and a half times thevolatility
	Capital Appreciation/Depreciation	
	The sum of both realized and unrealized capital gains and	losseson some or all of theportfolio holdings.
		b reduce the risk unique to theportfolio and thereby reduce the by a statistical measure called R-Squared.
	Dollar-Weighted Rate of Return That rate of return which equates the beginning value and	the cash flows in and out of theportfolio to the ending portfoli
	value. This is the rate of return attributable to the funditself for the fund such as anactuarial rate. A dollar-weighted rel	The dollar weighted return should be used for any comparison urn reflects both the timing and magnitude of cash flows o an
	from the fund or segment. It is sometimes referred to as Down Cycle	ine internal rate of feturn.
	A period of generally declining rates of returns measured	from apeak (highest point) to atrough (lowest point).
	the account data is on an accrual basis, the value include	olio segment as of the ending date of the period indicated. Is themarket value plus the end of period accrual except fo
	scheduleswhere accrued income isitemized as a separate	rtem.
	Expenses Those withdrawals which are an offset to income receive foreign dividend. Both gross and net returns are lowered l	d by the portfolio. The usual example payment of taxes on by the existence of expense items.
	Full Cycle	
	Periods of both rising and falling rates of returns measurer or from a trough (low point) to thenext corresponding trou	I from either a peak (high point) tothe next corresponding peak gh



GLOSSARY (CONTINUED)	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555,555,5555) email (advisor@stanfordeagle.com)
	Gross Return That return which is gross of the effects of the investm effects of expenses but excludes the effects of portfolio	nent management fees charged to theportfolio. It includes the fees and investment management fees.
	Income Return The portion of total rate of return attributable to divider expenses. Incremental Return	ad and interest income after deductions for any income related
	An estimate of risk-adjusted investment performance, w is an indicator of the rate of return attributable to the inv risk. The expected value for theincremental return is 0. T A positive incremental return indicates the investment ma	here relative standard deviation is used as a measure of risk. It estmentmanager after adjusting for the portfolio's level of total hat is, the portfolio's risk and return are in line with each other, nager has earned a higher rate of return than expected given the eturn indicates the investment manager has earned a lower rate risk.
	Independent Variable	sivers. Typically, the independent variable is a market benchmark
	The beginning market value of the portfolio at inception p Invested capital cannot drop below zero. Investment Objective A benchmark for either the total portfolio or segment p	erformance used to evaluate theachievement of stated goals.
	combination of a constant annual rate of return, a single indexreturn times a factor, a balanced index return, a bal times a factor.	monthlyalthough typically it changes infrequently. It can be a index return, a single index return plus a percentage, a single anced indexreturn plus a percentage, or abalanced index return
	Large Capitalization Large Capitalization Large Capitalization or Large-Cap is a stock category Although there is not a current industry standard that pr	termining an individual's or portfolio'sobjectives, particularly as and represents stocks of the largest capitalized companies, ecisely defines the breakdown between Large, Mid, Smid and
	Strall Capitalization; most firms recognize a large-cap sto S5 billion	sck as the stock of a company with a capitalization greater than equities and the S & P 500), or abalanced index representing a
	Market Risk	res in the market benchmark, andtherefore cannot be diversified
		ortfolio funds between various assetclasses, depending on the prospectsfor the various asset classes.
	That amount where there is an equal probability of observ conjunction with Universe Rankings. The median fund is th a time period. 50% of the fundshe above the median fund Mid Capitalization	
	cap and small-cap companies. Although there is not a c	esents stocks of companies with a capitalization between large- urrent industry standard that precisely defines the breakdown firms recognize a mid-cap stock as the stock of a company with
<b>L</b>	Stanford Group Company	

APP 0204

GLOSSARY (CONTINUED)	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.555) email (advisor@stanfordeagle.com)
	Modern Portfolio Theory A statistically based theory of investing and portfolio con- return for a given level of risk andminimum risk for a given l	struction which assumes thatinvestors seek both maximun evelof return.
	Net Return That return which is net of the effects of the investment investment management fees but excludes the effects of po	management fees. It includes the ffects of expenses and profolio fees.
	Percentile A value on a scale of 0 to 100 that indicates the percent of or above the fund's return far the selected period. A portfoli Universe and has outperformed 95% ofportfolios in the corr	funds in the comparative Universe whose returns are equal to o atthe 5th Percentile ranks in the top 5% of the comparative distring the present the the head rank of the comparative distring the set of the head head rank of the set of the comparative distring the set of the head head rank of the set of the comparative distring the set of the head head rank of the set of the set of the set of the head head rank of the head head head head head head head he
	Performance Attribution The identification of sources of returns for a portfolio or sec	
	Portfolio Fees Those tees (withdrawals) which are associated with the oper Accounting fees are typically categorized as portfolio fees.	ationof the portfolio but are notifivestment management tees
	Portfolio Segment An asset class which represents a portion of the total p equivalents.	ortiolio's assets such as equity, fixedincome or cash an
	Principal Return That portion of total return earned through realized and unre Quartile Usually used in conjunction with Universe comparisons, tho	se percentile points which divide aranked list of comparativ
• •	fund returns into 4 groupings. The first quartile represents the 26thto 50th Percentile. The third quartile represents the bottom 25% of the universe. R-Squared	51st to 75th Percentile and the fourth quartile represents th
	That portion of the total variability in portfolio returns that Requared ranges from 0 to 100%, 0% represents no corre- correlation with the market benchmark.	lation with the market benchmark, 100% represents perfection of the second second second second second second s
	The additional return attributable to compounding over more single period is always 0. For multiple time periods, thereinve of return and the sum of the principal and income componen Relative Standard Deviation	estment rate of return is the difference between the total rat
	The standard deviation of the total fund or a segment relativation of the total if variable. For example, if the standard deviation of the total if variable was 15.00, the total fund srelative standard deviation of the standar	und was17.50 and the standard deviation of it's independer
	Risk Free Return That return which can be reasonably known at the beginnin fixed income assets such as 30-day or 90-day Treasury Bills Risk Reserve	g of the reporting period. Typically the return on short-terr
	<b>Risk Premium</b> The portion of return for a portfolio or market benchmark subtracting the risk free return (typically 30 day U. S. Treasur rate of return.	in excess of the risk free rate of return, it is obtained by Bills) for the selected period from the portfolio of benchmar
	Risk-Adjusted Return The return on an asset or portfolio, modified to explicitly act Security Selection	ount for the risk to which theasset or portfolio is exposed.
	That rate of return attributable to the component of the invest in and determining the proportion of funds to invest in each	tment process that involvesidentifying which assets to inves if the assets.

GLOSSARY (CONTINUED)	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordeagle.com)
	Small Capitalization Small Capitalization or Small-Cap is a stock category and r Although there is not a current industry standard that precise Small Capitalization; most firms recognize a Small-Cap stock S1 billion.	elv defines the breakdown between Large Mid. Smid and
	Smid Capitalization Smid Capitalization or Smid-Cap is a stock category and rep as large cap. Although there is not a current industry standard Smid and Small Capitalization, most firms recognize aSmid C less than S5 billion.	that precisely defines the breakdown between Large Mid-
	Standard Deviation A statistical measure of risk reflecting the total variability trisl which the returns for a portfolio or market benchmarkhave var the periodic returns around the average return.	k) of the portfolio orbenchmark. It measures the extent to ied from period to period and represents the dispersion of
	Time-Weighted Rate of Return The rate of return which measures the rate of return attributable of the cash flows (contributions and withdrawals for thetotal fur return is used forcomparisons of the manager against bench those factors which are not under the manager's control such	nd, purchases and sales for a segment). The time weighted intarks and universes. The time-weighted returneliminates
	Total Return The performance of the total portfolio or one of the segments i and interest income. Unit Value	ncluding principle return aswell as reinvestment of dividend
	A unit of measure which reflects the periodic compounding o which appreciates or depreciates based on the monthly time time-weighted return for any sub-period of the full reporting per Universe	weightedreturns. Unit values are useful in calculating the iod.
	A group of comparable portfolios chosen based on character size, level of risk, asset mix, or type of fund. The returns for th order(via percentiles) for varioustime periods. <b>Up Cycle</b> A period of generally rising rates of return measured from trou	egroup of selected portfolios are usually presented in rank



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Disclosures	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.555) email (advisor@stanfordeagle.com)
	The Total Portfolio Index used in this presentation is weighted with the Theindex for each asset class is:	same asset mix as the recommended Total Portfolio.
	Large-Cap Blend S&P 500 Small-Car	Blend Russell 2000
	Latge-Cap Growth Russell 1000 Growth Small-Cap	Growth Russell 2000 Growth
	Large-Cap Value Russell 1000 Value Small-Cap All-Cap Blend Russell 3000 Mid-Cap E	
;	AlFCap Growth Russell 3000 Growth Mid-Cap C AlFCap Value Russell 3000 Value Mid-Cap V	
	Smid Cap Blend Russell 2500 Cash	akie Russell Mid-Cap Value Salomon 3-Month T-Bill
	Small-Cap Growth Russell 2000 Growth Certificati Small-Cap Value Fixed Inco	e of Deposit 1 6-Month Jumbo CD Index 1 Lehman Bros. Govt/Credit
	Fund of Funds HERI Fund of Funds index Common	
	Calculation of historical returns for the Total Portfolio and Total Portfolio I uses the same allocation for each historical period. Historical periods for	ndex are based on the proposed asset allocation and
	months for mutual lunds. In cases where mutual funds and money manage cuarters. These Hypothetical Historical Performance returns are Net of	rs are both utilized, the historical periods are calendar manager fees only and does not account for fees
· · · · · · · ·	wrapped of any associated account. The Hypothetical Historical Performa are not actual current portfolios, but hypothetical historical allocation base Actual performance can and will vary, past performance is not an indicatio	d on the allocation assumptions maria in the orongal
	The annualized Total Returns in this report are gross of fees.	
	SAM Global portfolio performances based on the historic Salomon Brothers	5 Year Treasury Index yield plus 250 lips respectively.
	These results do not reflect a deduction of the wran account fee, which is includinged on transactions, and fees for related services. The composition of a transactions of order to related services are composition of a transaction of a service services.	tross returns vanes by manager, but for most managers
	the retarms do not reflect a deduction of the advisory fee charged and are When comparing the performance of different managers, keep in mind that	
an a	managers even though they may be grouped in the same asset category. T on performance alone. Other factors mustbe taken into consideration inc	he choice of any money manager should not be based
	investment time horizon. Actual results may differ from the performancesh Indices are unmanaged and are not subject to fee or commissions/transac	
	The information contained herein is based on data from multiple source accuracy or completeness nor should it be considered as the sole basis to	
	Past performance and the investment return and principal value of an invest	
	worth more or less than its original cost. The hypothetical calculations are based upon quarterly performance data.	
	is no guarantee of future results. The charts and graphs assume an initial u with dividends and capital gains remested.	rus is in indigrative purposes only past performance rvestment of \$1,000,000 over a 10-year time horizon .
	fixed income rates may be fixed at the time of issuance, and payment,	of principal and interest is guaranteed by the issuer.
н н -	and, in the case of U.S. Treasury obligations, backed by the full faith and obligations will generally fluctuate inversely with interest rates and other value at maturity. The value of Treasury bonds will fluctuate more than Trea-	market conditions prior to maturity and will equal par- sury bills since maturities are longer. The market value
	of stocks will fluctuate with market conditions. All fixed income investment market value fluctuations. If sold onor to maturity, they could be worth mo	s including Treasury bonds are subject to day locate
	Specified municipal issues may be subject to the Attennative Minimum Tax. Standard Deviation (Std. Dev): This indicates the volability of total returns .	Is measured against its mean performance. Standard
	deviation is investment specific, not compared against a market index. In the volability or risk,	general, the higher the standard deviation, the greater
	Any nutual funds listed in this report are sold by prospectus only. This to purchase any of the mutual funds listed, Please contact your Financial	Advisor for a prospectus containing more complete
	information, including charges and expenses. Please read the prospectus	carefully before investing or sending money.
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STANFORD INTERNATIONAL BANK LTD: Client Name) (Date) Ceneral Terms & Conditions

prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordeagle.com)

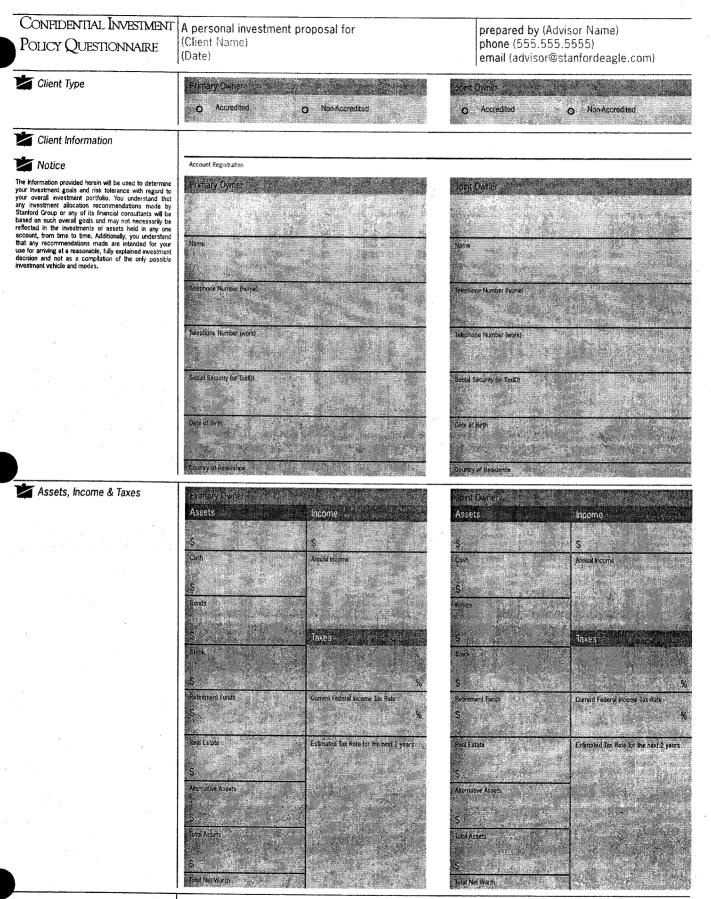
# The Bank's General Terms and Conditions, as set forth herein shall governthe relationship between the Depositor and the Bank. The Bank agrees to open any account, upon its acceptance of the Depositor's Account Application and receipt of the minimum required deposit fogether with such other documentation as may be required. As used in these terms and Conditions, the singular term "Depositor" shall mean the owner of the account and in the case of joint accounts or partnerships, unincorporated associations or unincorporated business accounts, shall refer to eachof the signatories on the account. The Bank reserves the right, at its sole discretion, to accept or reject any new Account Application. Notwithstanding anything else to the contrary contained herein, the Bank reserves the right, in its sole discretion, to close a Depositor's account, at anytime. The Bank shall have full discretion to initiate, modify or increase any amount and assess any fees or other charges, which the Bank may deem appropriate or necessary for any customer transactions or administrative costs. By submitting a completed and signed Account Application the Depositor is requesting and authorizing the Bank to review and verify any and all information submitted or necessary to substantiate the information provided. Any and all deposits enclosed with the Account Application shall only begin to accrue interest upon approval of the account by the Bank in accordance with the Bank's normal practice. Any instructions provided by the Depositor at the time the Account Application is submitted shall only be executed when the Bank has informed the Depositor that the Depositor's Account Application has been approved. The Bark shall take a reasonable period of time to conduct its due diligence in the investigation and documentation of all information required. In the event the Depositor's Account Application is rejected, the Depositor's funds shall be returned along with any items or documents, within a reasonable period of time. All deposits and items are accepted previsionally until the Bark hasaccepted the account and all items have cleared. The Bark may request, at its sole discretion, any documentation that it may deem necessary to substantiate or authenticate any information provided by the Depositor. Such documents, may include but are not limited to, availid and legible photo identification, bank references, financial reports certificate of good standing, corporate resolutions or parmerships agreements. Furthermore, the Bank reserves the right to request such additional information, as it may deem necessary during the term of any account. The Bank shall exercise due care in executing instructions given by the Depositor. In the event that ambiguous or conflicting instructions are given regarding any account, the Bank shall be emitted to act or decline to act as the Bank sees it without incurring any liability to the Depositor. In the performance of its duties a default may occur, for which the Bank might be held responsible the will only reimburse those charges that it may deem reasonable, in any event, the Bank will not accept any liability for loss of income, profit, or missed investments and the like. The Depositor explicitly accepts the Bank's limit of liability and hereby trevocably agrees, upon demand to indemnify the Bank and hold the Bank hamless from and against any and all claims for damage or losses ansing from such default. No signatories to an account may be amended, changed or substituted until such written request has been submitted and acknowledged by the Bank. In any event, the Bank shall not be liable for any damages that may arise from the forgery or misuse of any signature in this orany account, which may be opened subsequently, except for the Bank's gross negligence. In the event there are multiple Depositors on one account, the Bank is expressly authorized to recognize and honor any of the signatures substribed on the Account Application as the Bank's authorization for the payment of funds from the account. Each Depositor hereby agrees with the right of survivorship. The form of ownership of the account shall be subject changed only with instructions signed by all of the Depositors and acknowledged by the Bank. The account shall be subject to payment upon the cheque, draft, item or withdrawal ofany of the Depositors, and the payment thereof upon the order of any one of the Depositors shall discharge the Bank from liability to all of the Depositors and of their beneficiaries, executor is administrator's successors or assigns. Furthermore, each Deposit in the account, in addition, subject to the provisions of these Terms and Conditions, each Depositor may pledge or assign, or dispose of , any funds in the account. The Bank shall have a right of lien on all assets in any accounts held at the Bank or elsewhere for the Depositor and a The bank shall have a right of ten on an assets in any accounts need at the bank or elsewhere for the belositor and a right boffset all monies owing to Depositor against any amounts owed by Depositor to the Bank, irrespective of maturity date or prescription. Such rights shall also apply to all early withdrawal penalities, advances, foans or credit card balances, whether secured or unsecured. The Bank shall be entitled to realize the pledged assets without further formality, court order or government action at its discretion, should the customer be in default of payment. Depositor agrees to release and indemnify theBank from all liability for its actions. The use of postal service, telephone, facsimile, cable telex services, e-mail or any other means of communication or data transport by oron behalf of Depositor, shall be the sole responsibility of the Depositor shall do so at his own risk. While the Bank shall seek to comply with the Depositor's instructions, the Bank shall have no liability or responsibility of the veracity.

or authenticity of such transmissions and for failure to execute these instructionsuless if shall have acted with gross negligence or willful misconduct. Any monetary damages or loss that may arise from such use, by reason of omission, loss, fraud,delay, erastire, misunderstanding, mutilation or duplication shall be the sole responsibility of the Depositor. The Depositor hereby irrevocably agrees, upon demand, to indemnify and hold the Bank harmless from and against any and all monetary damages or losses. This indemnification shall survive the termination of any authorization or any account.

Stanford international Bank Ltd.	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555,555,5555) email (advisor@stanfordeagle.com)
	General Terms & Conditions (continued) 14. The Bank does not accept cash, cash equivalents or third party	
	<ol> <li>Cheques are mailed in accordance with the Depositor's instruct ITEMS TO IT SCORRESPONDENT BANKS FOR COLLECTION, AND OFCORRESPONDENT BAKS OR FOR LOSSES IN TRANSIT.</li> <li>All items are credited to the account conditionally and are sub wire transfers in the account shall begin to earn interest when</li> </ol>	SHALL NOT BE LIABLE FOR DEFAULT OR THENEGLIGENCE ject to collection by the Bank, Deposits of cheques and funds are collected by the Bank, in accordance with the
	<ul> <li>Bank's normal practice. The Depositor shall be responsible for a connection with any item and such fees shall be for account of</li> <li>All interest income shall be paid TAX-FREE at source. The Dep responsibility to comply with any laws or regulations regarding the interest earned thereon in the Depositor's domicile or legal juns</li> </ul>	the Depositor. iositor understands and Agrees that it is the Depositor's ie establishment and/or maimenance of anaccount or any
	<ul> <li>15. The offer and acceptance of the deposits provided for hereir understood that it is the responsibility of the Depositor, or any p inform himself regarding, and to comply with, all the legal provis to the making and delivery of the deposit, exchange controls, to the making and delivery of the deposit, exchange controls, the shall be made in writing and received by the Bank within thirty of the Bank within thirty of the Bank within thirty of the Bank within the the shall be made in writing and received by the Bank within thirty of the Bank within the shall be made in writing and received by the Bank within thirty of the Bank within the shall be made in writing and received by the Bank within the shall be made in writing and received by the Bank within the shall be made in writing and received by the Bank within the shall be made in writing and received by the Bank within the shall be made in writing and received by the Bank within the shall be made in writing and received by the Bank within the shall be shall be made in writing and received by the Bank within the shall be shall be shall be made in writing and received by the Bank within the shall be shal</li></ul>	maybe prohibited or limited in certain jurisdiction. It is erson who is considering making a deposit in the Bank, to ions and regulations in force in his jurisdiction with respect- ixes and similar matters. or any other instructions executed or omitted by the Bank. 30) days of the most recent statement inquestion, or the
	<ul> <li>period in which the Depositor may be reasonably deened to I the Bank as stated, shall constitute an absolute acceptance notwithstanding any other standing arrangements between the I of such dispute, the Bank's Genéral Ledger, general accounting complete evidence of the transaction unless the Depositor is at 17. A statement of Account will be tendered periodically as indicate knownaddress shown by the Bank's records, unless the Depositor.</li> </ul>	and approval of the action or omission by the Depositor, Depositor and the Bank. The Depositor agrees that in case books and Depositor's instructions shall be sufficient and alle to prove otherwise. It by the Depositor and mailed to the Depositor at the last or advises otherwise in writing. In the event the Depositor
	<ul> <li>receives quarterly or half-yearly statements, the Bank's liability concerned.</li> <li>18: No delay or omission on the part of the Bank in the enforcem account shall operate nor be construed as a waiver of such right in its later enforcement or exercise of such rights afforded to</li> </ul>	ent or exercise of any of its rights in connection with an . ts, and no such delay or omission shall prejudice the Bank
	<ul> <li>Depositor and the Bank.</li> <li>19: The Depositor agrees to indemnify and to hold the Bank namle all costs, expenses, losses and damages, including all reason brought, inclured bythe Bank in connection with any controvert relating to all account or to any transaction effected through a</li> </ul>	able attorney's fees and expenses, whether or not suit is by official or governmental investigation, claim or dispute account, by whomsoever brought or made, unless such
	<ul> <li>costs, expenses, losses and damages are neld by a court in Ar of the Bank's gross negligence or willful misconduct.</li> <li>20. The present Terms and Conditions express the definitive legal agreementor representation unless incorporated in these Term Bank shall have the right to amend these Terms and Conditions</li> </ul>	rights and obligations of the Depositor and the Bank. No s and Conditions, shall be binding upon either party. The
	Conditions shall be valid only when agreed upon in writing and to 21. The Bank shall have the right at any time to amend the General to the Depositor in an appropriate manner and in the absence accepted after a period of one month has elapsed.	voperly acknowledged by both parties. Terms and Conditions, Such amendments shall be notified
	<ol> <li>The account(s) are subject to the terms and restrictions cont acknowledges receipt of said Terms of Deposit, which torms and 23. These Terms and Conditions shall be interpreted in accordance or proceeding which the Bank or the Depositor may commenc transaction involving payment to or from the account the Depositor</li> </ol>	i integral part hereof by reference. with the laws of Antigua and Barbuda, W.I. For any action ean connection with the account or with any operation or
· · ·	Antigua and Barbuda, W.I., and to the fullest extent permitted b be an inconvenient forum. Jurisdiction for all legal proceedings right to take legal action against Depositor before the competen competent court. By signing the Account Application Form and other pertinent Bar	y law, as well as waiving any claim that such courts would shall be in Antigua. The Bank furthermore shall have the t court in Depositor's place of domicile or before any other
	of a copy of and expressions) agreement with the General Terms as it relates to the particular accounts requested. The Deposi Conditions areprovided in Spenish solely as an informational connection with an account or Depositor in a competentiurisc version.	and Conditions of the Bank along with specific information tor(s) further acknowledge(s) that the General Terms and service but thatin the event of any legal action arises in

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STANFORD INTERNATIONAL	A personal investment proposal for	prepared by (Advisor Name)
Bank Ltd.	(Client Name) (Date)	phone (555.555.555) email (advisor@stanfordeagle.com)
	Terms of Deposit	
	CERTIFICATE OF DEPOSIT Your account at Stanford International Bank LTD. ("Bank") is governed by the (	Seneral Terms and Conditions of the Bank and the specific
	Terms of Deposit. Your deposit is not negotiableand is not transferable (except applicable laws and regulations of Antigua and Barbuda W.I. "CD"means the cert	on the books and records of the Bank) and is subject to the
	whatsoever issued by the Bank to evidence your time deposit. TYPES OF CERTIFICATE OF I	DEPOSIT
·	FEEX CD Minimum initial deposit of US\$10,000 is required to open this account. Minimu	m additional deposits in increments of USS5,000. Interest
	shall be compounded daily and may be withdrawn at any time. Withdrawals o perialties, provided that the Bank has been properly notified at least five (5) work per year. Any withdrawals over and above 25% of the principal balance as st	ing days in advance. There is a limit of four (4) withdrawals
	Available in most international ourrencies (applicable amounts will bette equip Deviations from any of these terms shall automatically be considered as an ear	valent of the US Dollar amount in the foreign currency).
	FIXED CD Minimum initial deposit of US\$10,000 is required to open this account, Interest	
	5 payable at maturity. No additional deposits riay be made. No withdrawals most international currencies (applicable amounts wilde the equivalent of the L	including accumulated interest) are permitted. Available in
	any of these terms shall automatically be considered as an early withdrawal white ADDITIONAL CONDITIO	ch shall be subject to any penalty.
	WATURITY CONDITIONS. AUTOMATIC RENEWAL OF GDs Unless the Bank has in its possession instructions at least five(5) working days	before the maturity date ("notification period") of your CD.
	your CD will automatically be renewed for a periodequal to the maturing term has lapsed, any withdrawais or changes shall be subject to early withdrawais p	at the current interest rate. Once the oplification period enables. Thenew interest rate will be that which is paid by
	the Bank on deposits of like maturity and amount at the time of such renewal, account you hold may be discontinued upon prior written notice as prescribed any preceding period, but not paid to you, shall become part of principal and	by applicable rules and regulations. Interest earned during
	regewal terms.	sian de Subject to a periory of early windrawar burning the
	INTEREST CALCULATION METHOD The Bank uses the daily compounding method to calculate intereston your depo- of the CD and, if applicable, the CD maturity actice assumes interest will remain	
	interest for all CDs is calculated on a basis of 365 days. Deposits and withd unless specifically permitted except under the terms of your deposit.	rawals of principal are not permitted except at maturity or
	PENALTY FOR EARLY WITHDRAWAL You have agreed to keep dunds on deposit for the stated maturity of the depo	ist. The following condition for each withdrawal applies for
	terms of up to 6 months, the penalty shall be one month's interest, for terms up terms greater then 12 months, the penalty shall be three months interest. The	to 12 months, the penalty shall be two months interest. For Bank will use the compounded daily interest rate in effect
	to calculate the amount of the benafty. Early withd awal penatties may require on the deposit is less than the benafty ASSIGNMENTS No assignment of the dep	areduction in the principal if the amount of accrued interest losit will valid, without the Bank's prior written consent
	PERFORMANCE AND PREMIUM ACCOUNTS A minimum initial deposit of US\$10,000 is required to open thisaccount. A l	ninimum balance of US\$10,000,00 shall be maintainedon
	debosit at all times. Deposit may be made at any time. Withdrawals of all or deposits have been credited to the account with written notice given to the Bank	fifteen (15) days prior to the value date for such withdrawal.
	Available in most internetional currencies (applicable amounts will be equivalent by adjusted without prior notice. Interest shall be compounded daily.	of the US Dollar amount in foreign, currency), interest may
	PREMIUM ACCOUNT A minimum Indual deposit of US\$50,000 is required to open this account. A mini-	mum balance of US\$50,000 shall be maintained on deposit
	at all times. Deposits may be made at any time. Windrawals of all or any pa deposits have been credited the account with written notice given to the Bank Available only in US Dellars. Interest rate shall be adjustable an ecuvalent to the	offeen (15) days prior to the value date for such withdrawal
and a start of the	Gills and notes. Interest shall be compounded daily. ADDITIONAL CONDITIONS	
	The Bank will issue a duly executed New Account Confirmation to the Depositor by the Bank of the Account Application.	within thirty (30) days from the date of receipt and approva
	ASSIGNMENTS	
	No assignment of the deposit will be valid, without the Bank's prior written cons EXPRESS ACCOUNT	
	Only available to Depositor with a currently existing additionalaccount relation open this account. Deposits may be made at any time. Withdrawals from the	Express Account will be affected on the available balance
	onthe next banking day after receipt by the Bank of proper withdrawal instru- currencies (available amounts will be equivalent of the US Dollar amount inthe notice. Interest shall be compounded daily. Interest shall be paid at the curren	foreign currency). Interest may by adjusted without prior
		TALE CALEDIANCE OF UN DAILY OF
	or more. Balances between USS1.000 and USS5.000 shall early interest rate of in theevent the balance on the Express Account fails below USS150, the account fails below USS150.	f 1%; any balances below US\$1,000 shall not earn interest.
	or more. Balances between US\$1,000 and US\$5,000 shall earn interest rate of	f 1%; any balances below US\$1,000 shall not earn interest.





<ul> <li>Portfolio Type</li> <li>Account Type &amp; Assets</li> <li>Account Type &amp; Assets</li> <li>Portfolio Objectives &amp; Risk Tolerance (Risk/Return)</li> </ul>	Please select the Invest O       Mutual Fund Partners (Mutual Funds)         Please select one of the f         Employer Sponsored Retireman         0       401(k)         0       403(b)         0       457         0       Keogh         0       SEP IRA         0       Simple IRA         Are there any tax consider         If yes, please explain brief         What is the beginning asset         This is equal to what percord         How would you best chara         O       Capital Preservation	Port More following acc in Plan India O O O o rations relatin fly: (If applicable et balance to entage of the	tfolio Advisors ney Managers) count description idual Retirement F Traditional IRA Rothover IRA Roth IRA Education IRA Education IRA ing to the manage to this portfolio, you	o ns: tan gement o mey specify s strateg	Stanford As Managemen - Fixed Incor O O O O O O O O O O O O O O O O O O O	sel It (SAM me) Strient Acco Brokerage Mutual Fu Annuities Personal Corporate	O Stanfor Plan (a strate e nds Direct Trust	6an O O O	Money CD Saving Yes	O No	
Account Type & Assets	Mutual Fund Partners (Mutual Funds)  Please select one of the f Employer Sponsored Retiremer 401(k). 403(b) 457 Keogh SEP IRA Simple IRA Are there any tax consider If yes, please explain brief What is the beginning asse This is equal to what percent	Port More following acc in Plan India O O O o rations relatin fly: (If applicable et balance to entage of the	tfolio Advisors ney Managers) count description idual Retirement F Traditional IRA Rothover IRA Roth IRA Education IRA Education IRA ing to the manage to this portfolio, you	o ns: tan gement o mey specify s strateg	Stanford As Managemen - Fixed Incor O O O O O O O O O O O O O O O O O O O	sel It (SAM me) Strient Acco Brokerage Mutual Fu Annuities Personal Corporate	O Stanfor Plan (a strate e nds Direct Trust	AlHinclusive gy) Gan O O O in tax-free manicip	YSavings Money CD Saving Yes	Management Accounts Market s O No	
Portfolio Objectives	(Mutual Funds) Please select one of the f Employer Sponsored Retirems 0 401(k) 0 403(b) 0 457 0 Keogh 0 SEP IRA 0 Simple IRA Are there any tax consider If yes, please explain brief What is the beginning asse This is equal to what percent	(Mor following acc on Plan Indus O O O rations relatin fly: (If applicable et balance to entage of the	ney Managers) count description idual Retirement F Traditional IRA Rothover IRA Roth IRA Education IRA Ing to the manage to this portfolio, you	gement of may specify 5 strateg	Managemen - Fixed Incor 0 0 0 0 0 0 0 0 0 0 0 0 0	It (SAM me) struent Asco Brokerage Mutual Fu Annuities Personal Corporate folio?	Plan (a strate e nds Direct Trust	AlHinclusive gy) Gan O O O in tax-free manicip	YSavings Money CD Saving Yes	Management Accounts Market s O No	
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Portfolio Objectives & Risk Tolerance (Risk/Return)	<ul> <li>457</li> <li>Keogh</li> <li>SEP IRA</li> <li>Simple IRA</li> <li>Are there any tax consider If yes, please explain brief</li> <li>What is the beginning asse This is equal to what percent</li> <li>How would you best characterized</li> </ul>	o rations relatii fly: (If applicable et balance to entage of the	Roth IRA Education IRA ng to the manag to this portfolio, you	may specify s strateg	O O Of this portf	Annuities Personal Corporate	Trust	O In tax-free municip	Saving Yes	O No	
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Portfolio Objectives & Risk Tolerance (Risk/Return)	What is the beginning asso This is equal to what perco How would you best chara	et balance to entage of the	invested in this	strateg							
Portfolio Objectives & Risk Tolerance (Risk/Return)	This is equal to what perco	entage of the		-	IV?			\$			
Portfolio Objectives & Risk Tolerance (Risk/Return)	How would you best chara		e client's total a	ssets?							
Portfolio Objectives & Risk Tolerance (Risk/Return)		acterize your		000101							%
Portfolio Objectives & Risk Tolerance (Risk/Return)		acterize your									
& KISK Tolerance (Risk/Return)	O Capital Preservation		goals for these	investri	nents?						
		- principal p	protection with i	ncome a	is a second	lary consid	leration				
	O Income – income wit	th capital ap	preciation as a	seconda	ry goal						
	O Balanced - capital a	ppreciation a	and income					~			
	O Growth - capital app	preciation wit	h income as a :	seconda	rv goal						
	O Aggressive Growth -										
	How much above inflation		•	to earn?	,						
		O 4% to		<b>5</b> 6%			8% to 109	· ·		ve 10%	
	The following chart shows					O ata vour rir		-			
	willing to risk losing as mu	ich as 25% c	of your portfolio	for an o	opportunity	to gain as	much as 4	5%.	ле. а э і	noicates you	sre
	Avera 80%	ige Return		Best	Possible Re	turn		Worst P	Possible	Return	
	60%										
						_		50%		60%	
	40%		40%		45				15 P -		
	20%										
	0%	10%	10.0%	1	11.5%		13.5%		1	5.5%	
	-20%		20	%		- 25%					
	-40%		12				10.00	1-2041		-35	J
	-60%	1.0			10		1	0000			
· ·	-0076 O	1	02.		C	3		04		<b>O</b> 5	
	What is your typical respo	nse to marke	at fluctuations?							-	
	O I will sell quickly any			ilue							
	O If my investment lose				non filveliste	call					
	O If my investment lose										•
	O I usually watch my in										
•	O Realizing that long-te able losses in a given	erm investing n year	, maximizes pot	ential re	turns, I will	stay inves	ted, even if	poor market	conditic	ons result in si	2e-
T	Stanford Group										

CONFIDENTIAL INVESTMENT POLICY QUESTIONNAIRE	A personal investment proposal for (Client Name) (Date)					prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordeagle.com)				
Portfolio Objectives & Risk Tolerance (Risk/Return) Continued	<ul> <li>I would rather have</li> <li>I would rather have</li> <li>I would rather have</li> <li>I would like to achi</li> </ul>	est describes how you fe e no return as long as pri e minimal returns than ris leve higher returns with s ve higher returns and will	ncipal is k losing ome doi	protected money wnturns in my portfo	lio					
Expected Time Horizon & Cashflow Summary	O Under 2 years	ate investing these funds O 2 to 3 years contributions to your acc O Monthly	0	ur current account o 4 to 5 years Quarterly	O O O O	ves? 6 to 7 years Yes Annually	0	8 or more years No As a lump sum		
	Starting: Withdrawals Do you expect to make Frequency: Amount: Starting:	contributions to your acc O Monthly	ount?	Ending: Quarterly Ending:	0	Yes Annually	 0 0	No As a lump sum		
Additional Constraints & Considerations	<ul> <li>Cash &amp; Fiduciary Deposits</li> <li>Aternative Investment Strategies</li> </ul>	lowing investment instrum Government Bonds Real Estate	0 0	Corporate Bonds Private Equity	0	Equity	rategy?	Coins & Bullion		
	If yes, please explain:	cation constraints or rest			0	Yes	0 	No		
Signatures	THAT MY SIGNATURE OF	VIDED IN THIS DOCUMEN N THIS QUESTIONNAIRE INFORMATION PROVIDED	does n		O ENTI CTEST	ER INTO A RELATIO	ONSHIP 1	WLEDGE. (I UNDERSTAND WITH THE STANFORD		
L'	Stanford Grou	JP COMPANY	· · ·	<del></del>						