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1 Q Okay. And typically how do those folks leave, the
2 big investors? How do they get there?
3 A On one of the private jets, Stanford's.
4 Q And who were they accompanied by?
5 A Almost always the financial advisor, and there are
6 typically groups, husband and wife, maybe some friends of
7 theirs.
8 Q I think I noted something in the guidelines about
9 not scheduling overlapping trips? Or maybe it was back in
10 the Q and A. I can't remember. "Because the experience has
11 to be unique, we will generally not allow more than one set
12 of visitors at the bank at one given time."
13 A Yes.
14 Q So was that part of the procedure? For what
15 purpose, and why did you want just one group there at any
16 given time?
17 A It was a production beyond the bank and the trips
18 were handled and coordinated by Sasha Mercer and Natasha
19 Gonzalez. Freedom at the hangar, get them to their hotel,
20 dinner, other activities, tour the island. See some of the
21 other Stanford companies there. Visit the restaurant. Go to
22 the bank.
23 Q Was the restaurant the one that Stanford owns?
24 A A couple.
25 Q Yes, what's it called, the "Sticky Wicket?"

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5 Wednesday -- in on a Monday afternoon, out on a Wednesday.
6 Q Okay, and again the primary hosts were you and the
7 bank president?
8 A At the dinner at the Pavilion after that night of
9 the presentation.
10 Q Okay, and I assume there was staff to do the tours
11 and all those types of things?
12 A Yes, Sasha and Natasha.
13 BY MR. KING:
14 Q Do you know Jane Vance?
15 A Yes.
16 Q Who is she?
17 A She was chief compliance officer over the
18 registered investment advisor at the Group, the R.A.
19 BY MR. EDMUNDSON:
20 Q Did you meet with her in Antigua?
21 A Yes.
22 Q Approximately how many times?
23 A Actually, my first trip there was with Jane. Jane
24 used to go down with, I guess, new FAs for educational part
25 of their education at the bank.

1 Q While you were employed at the bank in Antigua,
2 approximately how many times did you observe Jane going down?
3 A A couple.
4 Q Did she make due diligence trips?
5 A Yes.
6 Q Do you have an understanding of what the nature of
7 the due diligence trip was?

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1 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
5 their hotels and do the other restaurant, the five star
6 restaurant. The Pavilion would be kind of the final night
7 and Juan and I would be at that dinner, kind of under any
8 other questions. And it was almost always social at that
9 point.
10 MR. KING: Was that a common practice or commercial
11 practice as you know in terms of selling CDs in the United
12 States?
13 THE WITNESS: I don't think so. But I don't know
14 for sure.
15 BY MR. KELTNER:
16 Q So typically with these folks flying in on a
17 weekend, or would they fly in during the week?
18 A Week day.
19 Q How long were they usually there?
20 A I think two nights.
21 Q Okay, so they would get their tour, and wining and
22 dining, and maybe the following day would they have their
23 meetings at the bank?
24 A Get in usually in the afternoon, kind of go down,
25 get checked in. I think they're kind of on their own that

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
4 Pavilion and then out. So it's two nights; out like on a
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8 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 culprip
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?
5 A That wouldn't surprise me, but I don't know if she
6 asked or was denied.
7 Q And do you know whether not she was denied access
8 to the auditor or to the regulators in connection with her
9 due diligence at the bank?
10 A I don't know.
11 Q And I take it from your answers throughout the day
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12 that you certainly did not walk her through the bank assets
13 while she was now on-site?

14 A Only the presentation you've heard today is what
15 she would have received from me.

16 Q And that presentation would not include a detailed
17 breakout of the bank's assets?

18 A Yes. or correct.

19 Q And you never facilitated the meeting with the
20 regulators or the auditors?

21 A Correct.

22 Q And beyond Jane Bates, did you ever have an
23 occasion to meet with the other compliance officers for
24 Stanford Group Company while you were in Antigua?

25 A Yes. Rhonda Leer. That might have been the same

1 trip. Rhonda Leer, who is now the compliance officer over
2 Stanford Capital Management. She is down there at the bank.

3 Q Anybody else?

4 A I don't remember anyone else. Oh, no. It's
5 Bernie. I think he's the head of compliance guy now, and he
6 came down with one other guy. I want to say Madoff --
7 Bernie -- you guys know his name.

8 MR. KELTNER: The guy from the NASD?

9 MR. EDMUNDSON: Bernie Young.

10 MR. KELTNER: Bernie Young? Young? Is that it?

11 THE WITNESS: Yes.

12 BY MR. EDMUNDSON:

13 Q I need to ask the same questions. With respect to
14 Mr. Young and Rhonda Leer, did you ever have a discussion

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19 A There may still be. There was. Oreste Tonarelli
20 did a training program. He's in Miami. It's possible it's
21 that. He's more ABC's kind of nuts and bolts product.

22 Q Yeah, but it looks fairly official.

23 A It's probably the training manual.

24 Q Okay. And that manual is used to train financial
25 advisors?

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-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 A Yes, leading, he's selling a lot of it and it's

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15 with them about the overall assets at the bank?

16 A Not at a specific level, just again a broad
17 presentation.

18 Q And to your knowledge, were they provided access to
19 regulators or to the auditors in connection with any due
20 diligence they may have been doing on the bank in Antigua?

21 A Not to my knowledge; they were not.

22 Q Do you have an understanding as to why Mr. Young
23 would visit the bank?

24 A I just think to get educated, to see it, to meet
25 the president.

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?

4 A I would think, from a compliance officer's
5 standpoint, to get a feel from an affiliated company that was
6 selling products in the U.S.

7 BY MR. KELTNER:

8 Q One document that I didn't necessarily want to make
9 a copy of, but I wanted to see if you could tell me what it
10 was, and then I could pull a copy of it if it's not clear to
11 you. There's a document in the materials that you produced
12 called a "Training and Marketing Manual."

13 It's about a half inch thick, had a bunch of
14 procedures in there and things about the CD program, and some
15 of the substantive material that we've talked about from the
16 PowerPoint slides, you know, how do you earn these returns
17 and answers to questions like that. Does that ring a bell?
18 Do you know how that was used or what came from it?

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22 just been around one of the first sales guys.

23 Q And so he would take that training manual and he
24 would sit down with you at FA's new financial advisors?

25 A Yes.

1 Q 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
3 company.

4 A Yes.

5 Q Okay. Did you sit in on any of those presentation
6 materials?

7 A I did not.

8 Q How is it that you know about this?

9 A It was just the program in place. I don't know if
10 it still is. This was before I was SIO, just knew about it.
11 I mean I know the guy and talked to him.

12 Q Okay. So you talked to him and you knew that's
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?

18 A Yes.

19 MR. KELTNER: I'm going to hand you a document that
20 I'm marking as Exhibit 16, so again I'll represent to you
21 that this is a document I printed out for the production that
22 you gave us.

(SEC Exhibit No. 16 was marked for
identification.)

MR. KELTNER: The entire document is about 514
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1 pages, so what I did was I took basically the first three
 2 pages from each tab. So the first page appears to be a
 3 summary page entitled, "Stanford International Bank Weekly
 4 Statement for March 15, 2004."
 5 There's some more detail in that summary, and then
 6 it looks like there are also summaries for subsequent
 7 periods, March 8, 2004. Then there's what appear to be pie
 8 charts, and then eventually you're searching tabs for each
 9 investment advisor or at least what I believe to be each
 10 investment advisor. So I'm going to hand you Exhibit 16 and
 11 if you can confirm for me what that is.
 12 THE WITNESS: This is of course before I was SIO,
 13 but this is similar to what I would have received as my
 14 weekly report you spoke of on tier II assets.
 15 BY MR. KELTNER:
 16 Q Okay. So this first page that's entitled "Weekly
 17 Statement for March 15, '04," this appears to be a roll-up of
 18 all the assets that are on the tabs that follow. Is that
 19 generally what this is?
 20 A Yes.
 21 Q Okay. And just so I'm on the same page in
 22 understanding this, if you go to the right-hand side of the
 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

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5 Antigua as well, and I don't recollect -- Abbot, maybe --
 6 Mark Abbot?
 7 Q In speaking with Ziad, was he actually managing the
 8 money or was he a relationship guy? But you don't know how
 9 he spoke. Could you tell?
 10 A Yeah, this team, just to say him, he would allocate
 11 the money out to undermine managers.
 12 Q Okay. And so looking at the following page,
 13 there's a CSFB Credit suisse, First Boston, Brandeis; and,
 14 the prior page is Credit Suisse, First Boston Equity. What's
 15 the distinction there?
 16 A Brandeis is a money manager. Equity, I would think
 17 might be individual positions.
 18 Q And again, I just printed the first page for me. I
 19 mean, is it your recollection you could look at some of the
 20 detail and see kind of categories of investment and things
 21 like that?
 22 A Yes, just kind of from a broad equity fixed-income.
 23 Q What is Brandeis, did you say? They're a money
 24 manager?
 25 A An international money manager, I think they're in

1 Chicago, but it's also sold in Europe too.
 2 Q Okay. So this is an example of the bank, Credit
 3 suisse, taking whatever from Stanford, and here's some to
 4 Brandeis. Here's some to you. So CSFB is kind of allocating
 5 the fund out to subdivisors?
 6 A Yes, and Ziad would go, I really like these
 7 Brandeis guys. You should put money with them. So he had

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1 15, 2004.
 2 Q That's my understanding as well, and that's
 3 consistent with what your understanding was when you were at
 4 Stanford in terms of the size of the portfolio. And before
 5 did you tell me it ranged from what, 200 to 500 of the tier
 6 II assets?
 7 A You asked about tier I. Tier II, you know, we've
 8 got 2, 300 when I was there.
 9 Q Okay. Certainly not in the billions?
 10 A Certainly not.
 11 Q So again, this first page appears to be a roll-up
 12 of the subsequent pages. If you look through, I want to go
 13 through some of the sub advisors with you real quickly, so go
 14 to the first page that says "Credit suisse."
 15 A Yes.
 16 Q Okay. So Credit Suisse, First Boston CSFB, so is
 17 this an advisor that you are familiar with?
 18 A Yes.
 19 Q Okay. Is this one of the ones you met with?
 20 A Yes.
 21 Q Okay. And where did you meet with them?
 22 A London.
 23 Q Okay. And so do you know who the London contact
 24 was?
 25 A I do. Ziad, Z-i-a-d; Jiryas, J-i-r-y-e-s; Ziad

1 Jiryas.
 2 Q And was the actual, I guess, senior advisor on the
 3 account?
 4 A There was a team. There were others. He came to
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8 some discretion. Brandeis is a money manager that's actually
 9 investing in securities if that makes sense.
 10 Q Sure. So CSFB, they're getting a cut for advising
 11 the bank on which funds they should be in, with which asset?
 12 A Okay.
 13 Q So is that similar to a fund-to-funds where, you
 14 know, CSFB is getting their whatever, their management fee,
 15 Do they also get a percentage of the Ops?
 16 A Oh, I don't think so, but I don't know. Their
 17 performance fee, yes, it's almost a fund to funds.
 18 Q It's a fund to fund to fund? Is that what you're
 19 saying?
 20 A Yes.
 21 Q Okay. I guess quickly looking at the CSFB equity
 22 page, do you see the pie chart on the right-hand side?
 23 A Yes.
 24 Q So is this representing that this money is in 40
 25 percent equities and 60 percent cash? Am I reading it right?

1 A Yes.
 2 Q And then on the following pages, Brandeis, it looks
 3 like it's three percent cash and 97 percent diversified
 4 investments. What is that?
 5 A Brandeis would typically have/hold 50 stocks,
 6 international companies.
 7 Q Okay. Why wouldn't that be in the equities bucket?
 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.

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12 Q Okay, so the diversified funds, for lack of a
 13 better assertion?
 14 A It's a fund, mutual fund.
 15 Q Okay. Like Magellan, or whatever?
 16 A Yeah, and that's how they're sold in Europe. They
 17 don't really do separate accounts like we do here in the
 18 states.
 19 Q Okay, and then I guess the following page, that's
 20 CSFB bonds?
 21 A Yes.
 22 Q So are these bonds? It doesn't look like there's a
 23 sub advisor here.
 24 A These are individual bonds.
 25 Q That CSFB has selected?

1 A 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 diversified?
 5 A It's probably a fund.
 6 Q A fund of bonds, essentially?
 7 A Yeah, yep.
 8 Q Okay, and then going to the next page, Lehman 143.
 9 Are you familiar with that advisor?
 10 A 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 A This could be a trading account. No. I did not.
 14 Q Okay. Do you know where they were located?

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19 team from Soc Gen?
 20 A I did.
 21 Q Okay. And who's that?
 22 A Blaise Friedli: B-l-a-i-s-e F-r-i-e-d-l-i.
 23 Q And where did you meet with Mr. Friedli?
 24 A Geneva.
 25 Q And did he travel to Antigua?

1 A He did not while I was senior manager.
 2 Q We'll just do the same thing on the next page,
 3 Medieval Int., S.A.
 4 A Yes, met with them, Geneva. I think Rene
 5 Baumgardner.
 6 Q Did you say guess?
 7 A Yea, Baumgardner, B-a-u-m-g-a-r-d-n-e-r.
 8 Q So the next page is Stanford Group, Casa de
 9 Valores.
 10 A That is a Stanford affiliate in Quito, Ecuador.
 11 Q Okay.
 12 A I think they were just doing bonds. Yes, 74.
 13 Q 74 percent fixed income, so is that going to be in
 14 Latin American bonds, probably?
 15 A Yes.
 16 Q Who ran that group or who are you associated with
 17 that group?
 18 A Ulysses, U-l-y-s-s-e-s; Alvear, A-l-v-e-a-r.
 19 Q Okay. Again, that's a Stanford affiliate?
 20 A Yes.
 21 Q What do they do aside from manage the spa fund?

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15 A I don't. Let's just go ahead and do this, kind of
 16 going through quickly.
 17 Q T.D. Private asset management. Did you meet with
 18 that group?
 19 A Yes. Toronto Dominion in Toronto?
 20 Q Okay. And do you know who the advisor was for that
 21 account?
 22 A I don't remember.
 23 Q What city was the office in?
 24 A Toronto; they managed individual equities.
 25 Q The following page, Coutts Bank, Switzerland -- and

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
 4 team?
 5 A Geneva.
 6 Q And who were the advisors on that account?
 7 A Peter Brooks. This is the July report.
 8 Q And he was in Switzerland?
 9 A Yes.
 10 Q Okay, and did he travel Antigua?
 11 A He did. He did.
 12 Q Did anybody else from that team you can recall?
 13 A I don't. He had a partner, but I don't recollect.
 14 Q Okay. The following page, "SG (CBG Compagnie) in
 15 care of Geneve," I'm guessing. We'll get you that spelling
 16 afterwards.
 17 A It's a Soc Gen -- Societe Generale.
 18 Q Okay, that's helpful. So did you meet with the
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22 A I think they're registered as a broker-dealer, and
 23 then also kind of an investment banking; and then their
 24 broker-dealer sells the CD. And, you know, all the
 25 registrations are different down there, but they're

1 essentially a brokerage.
 2 Q Okay. Just continue down the path. Axia, on the
 3 next page?
 4 A Yes, Geneva, Switzerland.
 5 Q Can you give me a name?
 6 A I believe it's Steven Richards; and, again, part of
 7 the team.
 8 Q He's the primary?
 9 A I think he would be.
 10 Q And did you live in Geneva?
 11 A Yes, not Antigua.
 12 Q Can we talk a little bit earlier about SSM Venture.
 13 Seeing this here, it looks like the position is around half a
 14 million; and, I think it's listed as 100 percent diversified
 15 investment.
 16 A That's a fund. I mean, that tells me it's a fund.
 17 I think this is probably why it asks the question, who's SSM
 18 in my role plan. But I do not know who they are. They
 19 weren't in Europe; or at least I don't remember.
 20 Q Okay. How about Meridian on the following page?
 21 A I think Meridian is just an actual hedge fund.
 22 Q Okay.
 23 A Not a bank but just a hedge fund.
 24 Q And do you know the manager for Meridian?
 25 A No. But I want to differentiate not a bank, but an
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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.

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5 information as it deposit times, country of origin, types of
6 CDs that are invested in. This report is what would be
7 submitted quarterly to the regulatory body.
8 BY MR. KELTNER:
9 Q Okay. How does this report makes it way to the
10 regulatory body?
11 A It's my impression that Juan Rodriguez kind of
12 coordinates a quarterback's process, various departments,
13 such as the investment team, which supply information on
14 assets. I'm sure his operation team supplies information on
15 the clients. Maybe there's a tier I cash. And then I
16 believe he memorializes it and sends it to the FSRC, and then
17 I receive a copy when it's all done from Moira.
18 Q Okay. why do you get it?
19 A You know, again, for me I like to look at how we're
20 allocated so I can speak intelligently on how much we have in
21 equity, how much we have here and here.
22 Q Okay.
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. The data on investments that ends up in the
2 FSRC report, did you play any role in pulling that together?
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
7 Davis to put tier III together, and that entire piece then

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BY MR. KING:

1
2 Q Mr. Zarich, when did you take over as senior
3 investment officer?
4 A Officially it was January 1st of 2006.
5 Q How did Exhibit 16 come into your possession?
6 A Oh, what we're looking at, I'm thinking from the
7 training. I mean, it's clearly dated.
8 BY MR. KELTNER:
9 Q So, I'm curious. Do you have any idea why they
10 would have given you your own data?
11 A I don't know.
12 Q Okay.
13 A Unless -- I really don't know.
14 Q I mean, it doesn't seem inconsistent with them
15 asking you to leave the room when they talk about live
16 account data.
17 A But I think there's documents to show I did receive
18 these legally, and I'll just get re-e-mails.
19 Q Okay.
20 A You know, it may coincide with the trip to Europe.
21 (SEC Exhibit No. 17 was marked for
22 identification.)
23 MR. KELTNER: Let's think for a minute about some
24 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

1 level?

2 THE WITNESS: It's the FSRC quarterly report,
3 Financial Services Regulatory Commission. It consists of
4 asset information from the bank. I believe it has client
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8 goes into this report.
9 Q Okay. So what do you get from Jim that shows you
10 tier III?
11 A I get nothing, but what I think the analysts get,
12 for Fred or Laura, is probably just the asset allocation,
13 probably just equity funds, cash, whatever they ask for.
14 Q Okay. But you never see an e-mail or a document that
15 comes from Jim Davis. You just know that you're waiting for
16 Jim Davis to provide the information so you can finalize the
17 report?
18 A Yes.
19 Q Okay. And why is it you assigned Jim to that as
20 opposed to Laura? Had you heard that and you heard we're
21 waiting for Jim to give us the--
22 A Oh, I've heard it, yes.
23 Q Okay. So that typically one of the last steps was
24 getting the number from Jim Davis?
25 A Yes.

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.
4 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
7 numbers?
8 A Yes.
9 Q And those would have come from Jim Davis?
10 A Yes. Sorry, yes.
11 Q And these quarterly reports, they were submitted as
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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

1 audit, they examine?
2 A Yes.
3 Q Okay. What's that?
4 A I think that's just banking terminology. It's not
5 an audit. It's an examination.
6 Q Okay. Why was that distinction important? Why did
7 it find its way into the Q and A?
8 A Maybe just the vernacular of audits, kind of more
9 negative, maybe. Or maybe it's because it is an examination,
10 what they call it.
11 BY MR. EDMUNDSON:
12 Q What was the bank's relationship with FSRC?
13 A I think it's friendly, cordial. A lot of those
14 guys have been there for a while.

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19 Q Currency, country, as far as actual securities
20 positions, did FSRC ever ask for or receive those?
21 A I don't know.
22 Q To your knowledge did they?
23 A To my knowledge I don't know.
24 Q But what?
25 MR. CRAINE: That was no.

1 (SEC Exhibit No. 18 was marked for
2 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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15 Q On the FSRC side?
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.
19 Q Were these quarterly reports at the FSRC viewed by
20 bank employees as a formality?
21 A Yes.
22 Q 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.
4 Q Do you recall whether or not the FSRC ever had any
5 follow-up questions to a quarterly report?
6 A I don't know of any.
7 BY MR. KELTNER:
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.
14 Q Okay. And as you told us, the tier III data that
15 you provided was the high level allocations from your datas.
16 Correct?
17 A No, he would have to submit something in this
18 format, because that's what they requested.

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22 A Yes.
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.
2 (SEC Exhibit No. 19 was marked for
3 identification.)
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.
9 BY MR. KELTNER:
10 Q Okay. The handwriting on the second page, the list
11 of requested documentation and information. Is that your
12 notation, or whose is that?
13 A That is not. I don't know if that's a priority,
14 or, well I guess they're just numbered. That is not mine.
15 Q 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
18 requests onto the team in Memphis?
19 A Yes, Laura, I would assume, this is Laura and Jim.
20 BY MR. EDMUNDSON:
21 Q I don't know that we've covered this, but was Laura
22 a bank employee?
23 A No.
24 Q Was Jim Davis a bank employee?
25 A I mean, board of director, but I guess not.

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1 Q How about Allen Stanford?
 2 A Chairman, chairman of the board.
 3 Q You're sending the FSRCs, requests for information
 4 about the bank, to Laura, who is not a bank employee. Why?
 5 A Because she was on the investment committee.
 6 Q Okay.
 7 A Yes, so I'm sending asset-related information from
 8 the examination requests to her because she's a member of the
 9 investment committee.
 10 BY MR. KING:
 11 Q While he's looking for the next document, does each
 12 time an investor purchase a CD, does that money travel
 13 through tier I?
 14 A Yes.
 15 Q No exceptions?
 16 A I don't think so. I'm almost certain, because the
 17 wire would go to one of those banks.
 18 Q Okay, and that's known as the treasury of tier I,
 19 right?
 20 A Yes.
 21 Q So it wouldn't matter how large the investment was?
 22 A Correct.
 23 Q The protocol was it would all flow through tier I.
 24 A Correct.
 25 Q So for example, if earlier this year a large amount

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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.

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
 3 public company?
 4 A Yes. Yes.
 5 Q Okay. 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?

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1 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
 5 document that I'm marking as Exhibit 20.
 6 (SEC Exhibit No. 20 was marked for
 7 identification.)
 8 BY MR. KELTNER:
 9 Q Can you tell me what Exhibit 20 is?
 10 A It's the Stanford International Bank Annual Report,
 11 although it's from 2006. By the way, that's Seth Hair. You
 12 haven't met him yet.
 13 Q That's a picture of Seth on the inside cover?
 14 A We talked about him Friday.
 15 Q Okay. I think we saw a picture of you in '05? Is
 16 that correct?
 17 A This one?
 18 Q Yeah.
 19 A Yeah, I was in there.
 20 Q Yeah, I don't think we've got a lot of time to get
 21 through this in detail, but if you go to page 36?
 22 A Yeah.
 23 Q This note 12 on page 36, "Financial Assets at Fair
 24 Value," I take it that represents the investment portfolio
 25 for Stanford International Bank?

1 A Correct.
 2 Q So the break-out here: equity, fixed-income,
 3 fiduciary alternatives, precious metals; so these are the
 4 asset classes that the bank was at at year-end 2006?
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8 A Hm-hmm.
 9 Q In the income chart that's very similar to this, a
 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.
 14 A No. I don't think so.
 15 MR. CRAINE: Hey, Tom, I can't let you go further.
 16 I'm going to have to object. Do you think you can lay a
 17 foundation to this document?
 18 MR. KELTNER: Okay. Obviously, you told us this is
 19 a copy of the Stanford International Bank 2006 annual report.
 20 correct?
 21 THE WITNESS: Yes.
 22 BY MR. KELTNER:
 23 Q 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?

1 A Ah-hah.
 2 Q How would you receive a copy of the annual report?
 3 A Well, bound copy; that would probably be the first
 4 one. And then I think it's on the bank's site.
 5 Q Okay. Who prepares the annual report? Who
 6 internally does?
 7 A Prepares the financials?
 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.
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12 Q Where is Gil Lopez out of?
 13 A He is in Houston.
 14 Q He's in Houston?
 15 A Yes.
 16 Q And is he an employee of Stanford Financial Group?
 17 A Yes.
 18 Q Okay, and as far as you know, is he still at
 19 Stanford?
 20 A 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?
 4 A I vaguely remember. It's a topic, but I don't
 5 remember specifics.
 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 Khurd. I know he worked
 14 in -- K-h-u-r-d-t, I think -- he worked under, or still does
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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.

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

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15 maybe, under Gil Lopez. I don't know why I know that they're
 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 A Yeah.
 20 Q Who did they work for?
 21 A Jim.
 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 Q Yeah.

1 A 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 A I mean I don't know, because I don't know for sure.
 6 Q That's what it means to--
 7 A 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 20?
 11 A 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 trouble reconciling the pie chart to something or
 18 other. The pie charts that were referenced in the Q and A,
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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.
 25 Q So is the personal residence there?

1 A Yes.
 2 Q Does Mr. Davis have a personal residence there?
 3 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 I don't know if he actually owned it. It could be. I mean 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

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1 don't recollect.

2 Q How did that compare to the overall return on

3 investment for the bank's portfolio?

4 A I think stated returns '06 were slightly under 11

5 percent of the annual return, and I don't know about '07.

6 Q So at least your time in Antigua, tier II out

7 performs tier III?

8 A Yes, I believe so; well, only because of the final

9 number. It's only a weighted average of a small sliver of

10 the while thing. And it wasn't an unbelievable return. I

11 guess it was 10-1/2 or something, and a decent market. It

12 wasn't 15.71.

13 MR. CRAINE: You've got about 20 more minutes.

14 Let's stick to the questions.

15 MR. KELTNER: I just want to identify a couple of

16 things that were in your production.

17 (SEC Exhibit No. 21 was marked for

18 identification.)

19 BY MR. KELTNER:

20 Q Can you tell me what Exhibit 21 is?

21 A That's my resume.

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?

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5 else.

6 Q Do you have an understanding as to how Ken joined

7 the company?

8 A I don't understand. I mean--

9 Q Did he have a supplier relationship with Mr. Davis

10 before joining the staff?

11 A Yes, he's Laura's brother-in-law. I mean, I don't

12 know. I think he was an attorney, if I remember correctly.

13 You know, then joined, I don't know, seven, eight years ago,

14 maybe.

15 MR. KELTNER: Let's go off the record. We'll take

16 a break for two minutes. Then we'll come back and get you

17 out of here.

18 (A brief recess was taken.)

19 MR. KELTNER: We'll go back on the record for just

20 a few minutes.

21 BY MR. KELTNER:

22 Q Just a kind of general question we haven't talked

23 about today. What is Laura's history. What's her background

24 pre-Stanford? Do you know what her qualifications are?

25 A Professionally, I think it might be her first job.

1 I know she has a master's in mathematics. I'm not sure about

2 her undergrad. She's known Jim Davis for quite some time.

3 Q Okay.

4 A Through their church.

5 Q So she's a friend of Jim's through his church in

6 Baldwin, Mississippi?

7 A Yes.

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1 A Yes.

2 (SEC Exhibit No. 22 was marked for

3 identification.)

4 BY MR. KELTNER:

5 Q Can you tell me what Exhibit 22 is?

6 A It looks like my bio.

7 Q okay, and what's the purpose of this document?

8 A It might have been for a website maybe, would be my

9 guess.

10 Q It's speaking in the present tense about you being

11 the senior investment level?

12 A Yes, it may be the SIBL website.

13 Q okay, and this is the bio. You would have written

14 this bio?

15 A Yes.

16 BY MR. KING:

17 Q Do you know Ken Weedon?

18 A Yes.

19 Q Who was he?

20 A He's in charge of the analysts in Memphis. He's

21 their direct report.

22 Q Does he participate in the preparation of reports

23 for Laura, do you know?

24 A Yes.

25 Q Did he from time to time send you periodic reports

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 Palmiden was in charge of that. I mean it's possible

4 in Fred's absence. I might have gotten a report from someone

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8 Q I understand that maybe a number of the analysts

9 have that connection. Is that true? Are you familiar with

10 other analysts that have that same relationship through the

11 Baldwin church?

12 A Yes, there's some others. I don't know, maybe

13 Angie, Jimmy Haley. Maybe not so much church, but it's a

14 small town.

15 Q okay. Quite a few folks from Baldwin or Tupelo?

16 A Tupelo, Baldwin, Northern Mississippi.

17 Q where did Laura go to school. Do you know?

18 A Mississippi State.

19 Q okay, and did she get her masters from there as

20 well?

21 A I'm sorry. Her masters from Mississippi State; her

22 undergrad from some private college in Mississippi, a

23 women's-only college, I think.

24 MR. KELTNER: Kevin, what's the name of that?

25 MR. EDMUNDSON: Mississippi Women's College, or

1 something like that.

2 THE WITNESS: Yes, the 'w,' they call it the 'w'.

3 MR. KELTNER: Okay.

4 MR. EDMUNDSON: Did the FAS at Stanford Group

5 Company sell CDs in the United States?

6 THE WITNESS: Yes.

7 BY MR. KELTNER:

8 Q And those are the FAS employed by Stanford Group

9 Company?

10 A Yes.

11 Q okay. And was that the primary or only conduit for

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12 selling CDs in the U.S.?
 13 A Yes, as far as I know.
 14 MR. KELTNER: I think that's all we've got for now,
 15 and hopefully we won't need to talk to you again. You know,
 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 want
 18 to give you the opportunity. If there's anything you want to
 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
 25 concluded.)

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 15 been compared to the reporting or recording accomplished at
 16 the hearing.
 17
 18
 19
 20 _____
 21 (Proofreader's Name) (Date)
 22
 23
 24
 25

PROOFREADER'S CERTIFICATE

1
 2
 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