

Riordan_Steve_20090211.txt

1 UNITED STATES SECURITIES AND EXCHANGE COMMISSION
2
3 In the Matter of:)
4) File No. FW-02973-A
5 STANFORD GROUP COMPANY)
6
7 WITNESS: Steve Riordan
8 PAGES: 1 through 218
9 PLACE: Securities and Exchange Commission
10 801 Cherry Street, 19th Floor
11 Fort Worth, Texas
12 DATE: Wednesday, February 11, 2009
13

14 The above-entitled matter came on for hearing, pursuant
15 to notice, at 10:00 a.m.
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23

24 Diversified Reporting Services, Inc.
25 (202) 467-9200

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Table with 3 columns: EXHIBITS, DESCRIPTION, IDENTIFIED. Rows include Subpoena, E-mail, 3/20/07 e-mail, Spreadsheet, Final spreadsheet, E-mail, Composite Report, SAS Replacement Journal, Zephyr Style Adviser.

1 PROCEEDINGS

2 MR. KELTNER: Let's go ahead and go on the
3 record at approximately 10:00 a.m. My name is Tom
4 Keltner and other members of the staff may join us later,
5 including Michael King a branch chief. We're members of
6 the enforcement staff of the Securities and Exchange
7 Commission. We are both officers of the SEC for the

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1 APPEARANCES:
2
3 on behalf of the Securities and Exchange Commission:
4 D. THOMAS KELTNER, ESQ.
5 Division of Enforcement
6 Securities and Exchange Commission
7 801 Cherry Street, 19th Floor
8 Fort Worth, TX 76102
9
10 On Behalf of the Witness and Stanford Financial Group:
11 STEVE RIORDAN, PRO SE
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1 CONTENTS

Table with 2 columns: WITNESS, EXAMINATION. Row 1: Steve Riordan, Page 2, 10.

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9 purposes of this proceeding.

10 This is an investigation by the United
11 States Securities and Exchange Commission In The Matter
12 of Stanford Group Company to determine whether there have
13 been violations of certain provisions of the Federal
14 Securities Laws; however, the facts developed in the
15 investigation might constitute violations of other
16 federal or state, civil or criminal laws.

17 Before going on the record, I gave you a
18 copy of Commission's Supplemental Information Form 62,
19 which has been previously marked as Exhibit 23.

20 Mr. Riordan, do you have any questions concerning
21 Exhibit 23?

22 THE WITNESS: No.

23 MR. KELTNER: Prior to opening the record,
24 I also gave you copy of the Formal Order of Investigation
25 including a few amendments thereto that the amendments
essentially add additional staff including myself to the

1 investigation. The Formal Order will be available for
2 your examination during the course of this proceeding.

3 Do you have any questions regarding the
4 Formal Order?

5 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

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12 advise you before, during, and after your examination
13 here today. Do you understand this right?
14 THE WITNESS: Yes.
15 MR. KELTNER: Since you're not represented
16 by counsel, again, there are matters discussed in Exhibit
17 23 that I want to highlight for you. Do you understand
18 that upon your request these proceedings will be
19 adjourned so that you may obtain counsel?
20 THE WITNESS: Yes.
21 MR. KELTNER: Do you understand that the
22 statute set forth in Exhibit Number 1 provide criminal
23 penalties for knowingly providing false testimony or
24 knowingly using false documents in connection with an SEC
25 investigation?

1 THE WITNESS: Yes.
2 MR. KELTNER: Do 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
5 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
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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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 I 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?
4 THE WITNESS: Yes.
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
19 disposed of?
20 THE WITNESS: No.
21 MR. KELTNER: And again, just to formalize

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(A brief recess was taken.)

15
16 (SEC Exhibit No. 29 was marked for
17 identification.)
18 MR. KELTNER: Let's go back on the record
19 at 10:03. Sorry for the brief interruption.
20 So I was saying I'm going to mark a copy
21 of the subpoena that we have given as an exhibit. Let me
22 go ahead and mark that as Exhibit 29. Okay. If you
23 could look at Exhibit 29 briefly, and identify for me.
24 And we'll do that several times today. I may hand you a
25 document and ask you what it is.

1 THE WITNESS: Exhibit 29 is my subpoena to
2 appear here today.
3 MR. KELTNER: Okay. And so that's a copy
4 of the subpoena pursuant to which you are here today?
5 THE WITNESS: Yes.
6 MR. KELTNER: Okay. Let's talk a little
7 bit about document production. We met informally for an
8 interview in Boston a few weeks ago. And at that
9 interview I think you voluntarily produced some
10 information. Actually, we ended up giving you a subpoena
11 that day, but then the Exhibit 29 also sets forth
12 specific documents requests.
13 I believe you have tendered all relevant
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
18 that correct?

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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
24 hard drives had crashed?
25 THE WITNESS: Yes.

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.

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1 Do you have any criminal history, any
 2 arrests, convictions, anything like that?
 3 THE WITNESS: No.
 4 whereupon,
 5 STEVE RIORDAN
 6 was called as a witness and was examined and testified as
 7 follows:
 8 EXAMINATION
 9 BY MR. KELTNER:
 10 Q Let's talk a little bit -- I think before we
 11 went on the record you mentioned a friend of yours
 12 Mr. Stys?
 13 A Yes.
 14 Q Okay. I want to kind of go through and talk
 15 about other witnesses you've had contact with recently.
 16 Let's -- Are there others? other potential folks
 17 involved with Stanford Capital Management?
 18 A I don't know who -- who is considered a witness
 19 versus not a witness.
 20 Q Yeah. I maybe misspoke in saying witness.
 21 Let's say just people connected with
 22 Stanford Capital Management.
 23 A Yes.
 24 Q Okay. And are you still doing work on a
 25 contract basis for them?

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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.
 8 Are you -- Are you aware of any
 9 communications you've had recently that would have
 10 involved an attorney?
 11 A Not unless there was attorney on the line
 12 unbeknownst to me.
 13 Q Okay. But no one who represented you?
 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?

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1 A Rhonda Davis and Shenna George.
 2 Q Okay. And I understand -- Are they both in the
 3 compliance group?
 4 A Correct.
 5 Q Okay. Do you know what their titles are?
 6 A I think Rhonda Davis is the -- is the head of
 7 compliance for -- for Stanford Capital Management or

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1 A Yes.
 2 Q And are you still doing, I guess, audit work on
 3 their quarterly performance numbers?
 4 A Yes.
 5 Q Okay. So in that context you obviously have
 6 ongoing communications?
 7 A Yes.
 8 Q Let's start then to narrow it down with former
 9 Stanford employees. Aside from Mr. Stys, who have you
 10 been in contact with?
 11 A No one.
 12 Q Okay. No contact with Mr. Parrish?
 13 A No.
 14 Q Okay. And is Stys s-t-y-s?
 15 A Yes.
 16 Q Okay. Just tell me about a little bit about
 17 your recent discussions with Mr. Stys.
 18 A Well, we -- you know, obviously, are trying to
 19 speculate as to what's going on. You know, just natural
 20 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
 23 types of questions that I'm being asked and, you know, my
 24 answers, and that type of thing.
 25 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
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8 Stanford Group Company. I'm not really sure.
 9 Q Okay. And Shenna George is one of her
 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
 16 in terms of your speculation about what this might be
 17 about?
 18 A Well, I think we speculated about the -- the
 19 bank CD. Neither one of us were ever really permitted
 20 much transparency --
 21 Q 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
 24 us ever made it down to Antigua. I certainly wanted a
 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
 3 prior to both of our arrivals. I came on the scene only
 4 a handful of months, if that, after Mark Stys was hired
 5 by Stanford. He -- He hired me pretty much right away,
 6 and we started work on, you know, fair and accurate
 7 representation of performance.
 8 So, you know, we talk about what happened
 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.
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12 But we never did that.
 13 Q Okay. We'll obviously go through the timeline
 14 in a little bit more detail, but since you talked about
 15 Mr. Stys coming in, was that in, what, mid 2006?
 16 A Correct.
 17 Q Okay. And you were hired fall --
 18 A November of '06.
 19 Q Okay. I think I may have seen some preliminary
 20 conversations in October of '06. You may have started
 21 talking to him?
 22 A Absolutely.
 23 Q Okay.
 24 A 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?
 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.
 9 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,

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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.
 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
 5 performance?
 6 A I can't say. I don't know.
 7 Q Okay.
 8 A I don't know how they did it. And -- And that
 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 Q 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

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15 haven't analyzed. So, yeah, those are the numbers that
 16 we -- we discussed.
 17 Q Okay. Did you and Mr. Stys come to any
 18 conclusions regarding problems with the pre-2005 track
 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

1 basically what he is telling me and, you know, speaking
 2 for myself is that we don't really know how they were
 3 calculated, what they represented and if -- and if a guy
 4 like me were to come in, you know, and recalculate what
 5 I -- you know, would I get the same number.
 6 Q Okay. To lay the groundwork for our later
 7 conversation, this might be a good time to talk about
 8 types of performance. You referenced model performance.
 9 So in your own words, when you say "model performance,"
 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

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22 the market by 27 percent?
 23 A Yes.
 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?
 3 A Yes.
 4 Q Okay. And why is that?
 5 A Well, now that I have had three years to see
 6 how they do perform relative to the market, you know,
 7 that would be significant out performance, so as a
 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.
 12 That said, Stanford pays me at a per
 13 hourly rate, so trying -- in the interest of being
 14 efficient and accomplishing what they hired me to do,
 15 never -- never pulled the covers back on those numbers.
 16 Q Okay. Again, we'll kind of go though the
 17 timeline in a little more detail here in a minute.
 18 But I know when you first got on the scene
 19 you did some kind of preliminary, you know,
 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?

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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 A No.
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?
25 A Yes. You know, not that dissimilar from --

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5 performance measurement.
6 Q Okay. Who -- what body provides those
7 certifications?
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 Okay. What year did you get your bachelor's
15 degree?
16 A '94.
17 Q Do you have any other licenses?
18 A 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
7 performance measurement consulting firm so -- after about

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1 from Mark. You know, in that we -- well -- but I think
2 with Rob the conversation is a little bit more focused
3 on, you know, he and I making sure that we both feel good
4 about what we did when we arrived on the scene. And I
5 know that Rob is very confident in everything from our
6 arrival forward.
7 And we kind of laugh about the past
8 because we really just had nothing to do with it. So
9 those are -- that's -- that's the gist of my
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?
15 A No.
16 Q Okay. I think we'll come back to some of that
17 a little bit later.
18 Any other, you know, senior folks at
19 either of the broker/dealer advisory firms that you have
20 talked to recently?
21 A I haven't spoken to anyone.
22 Q Okay. What about e-mail correspondence?
23 A None.
24 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
3 Mass Amherst, I have the CFA designation and the CIPM
4 designation, which is a certification in investment
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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
11 started the firm.
12 Q Okay. What kind of work did you at IBT more
13 specifically?
14 A Well, I had a team of about 16 people that
15 provided custody bank performance reporting for all types
16 of custody bank clients and all types of assets and full
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.
2 Q Okay. Let's talk about how you -- what
3 prompted you to leave IBT. That was your most recent
4 employer before your consulting?
5 A Correct. I was working, you know, ridiculous
6 amounts of hours, really did not like my boss. And, you
7 know, I just -- I had wanted to start my own businesses
8 for many years.
9 Q Okay. Again, we have to ask these kinds of
10 questions just to, you know, get background. You know,
11 if we were to get your HR file, would there be any
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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,
3 Carolyn Stys exactly three days after I had submitted my
4 resignation, so I was prepared to bartend, wait tables,
5 do whatever it took, you know, until I figured out what
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.
8 It was -- It was floating around in the background, but
9 it wasn't like this is, you know, real or feasible.

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
14 each other. She knew that I knew my stuff when it came

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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
2 were? what you needed to come in help with?

3 A Well, Mark didn't have, you know, the real
4 detailed understanding that I was able to gain after
5 about a month on the ground. His sense was that they
6 were using several different performance reporting
7 platforms both at, you know, headquarters in Houston and
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
16 in the Stanford network were maybe using something that
17 we didn't know about or never really, you know, did due
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

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15 to performance measurement.

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
19 network and see if she knew anyone. So she called me.
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.

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
2 was going to move to Houston. And so we -- I can't
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
11 really needed somebody that knew operations like I did
12 that could get in and make some quick fixes and get the
13 train back on the track.

14 So it worked out great. And, you know --
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
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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
6 system is going to satisfy the largest percentage of, you
7 know, Stanford clients that -- that need performance
8 reporting. And then, you know, get everybody going in
9 the same direction on that system.

10 Q Okay. A couple of things you mentioned, you
11 say they were three platforms to your knowledge. What --
12 Describe each of those.

13 A There was the Advent platform, which was --
14 ended up being my recommendation as the best platform,
15 Advent AXYS. And then they were using two systems
16 provided by their -- their new clearinghouse and custody
17 bank Pershing. And -- And that was part of the problem,
18 too, they were -- they had just converted. Literally
19 when I -- when I landed on the ground, they were wrapping
20 up a conversion from Bear Stearns to Pershing.

21 And so Pershing offered two -- you know,
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
25 got the Lockwood system if you were signed up for

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1 Pershing managed accounts and everybody at the custody
2 bank got the other Pershing, you know, performance
3 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.

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5 Q Okay. We'll talk about the timeline on when
6 you did what later.

7 A Right.

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
16 calculated in the investment advisory group by Ken
17 Johnson. I never saw any pitch books or marketing
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.

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, GIPS
5 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

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1 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 question. 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 Q 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.

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?

4 A Correct.

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8 compliance there is a composite construction element, and
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?

17 A Yes.

18 Q Okay. So for a simple attorney essentially,
19 did you take the calculated returns for each account,
20 multiple those times the balance at, what, end of the
21 period?

22 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.

3 Q Okay. And would an example be, you know, SAS
4 growth or SAS growth income, when you say each strategy?

5 A Yes. Yes. We built six -- initially, there
6 were six main strategies that we built composites for
7 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
11 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
6 account within that firm needs to be in at least one
7 composite.

8 Q Okay. So if Stanford were to move toward GIPS
9 compliance, would all the SAS accounts that are
10 designated as such have fall into composite?

11 A Yes.

12 Q Okay.

13 A Unless they're client imposed restrictions
14 of -- for an example, you know, a client might come to

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19 And the reason is you have transactions
20 potentially posting on different days potentially even
21 in -- in different amounts, you -- you run the risk of
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
5 firsthand in my career, so I was able to on the first,
6 you know, hour of talking to Jose, I mean, here is why
7 your numbers don't match.

8 Q Okay.

9 A They had a very logical explanation.

10 Q Because they're using different platforms that
11 include different assumptions?

12 A Different pricing, you know, so you had
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.

20 Q Okay.

21 A I guess to elaborate the point to the fullest

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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
18 dollars worth of IBM stock, and they, okay, I want to be
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
21 portfolio can go into SAS growth, that by definition
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?

1 A In at least one composite, that's correct.

2 Q Okay. Okay. That's good for now.

3 When you talked -- When you were
4 explaining the three platforms earlier, you said
5 something about Jose being confused about the numbers not
6 matching?

7 A Yes.

8 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
12 fact of -- it's a mathematical fact that a lot of people
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.

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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
3 the model held as of the month end and the return number.
4 So it would show the model, name, the securities within
5 the model, the weights of each security, I think the
6 return of each security, and then a total return at the
7 bottom.

8 And so I think that -- and this is
9 speculation, but it's -- I think it's pretty educated
10 speculation, that if there were marketing materials that
11 were sourcing Ken Johnson's work and those pitch books
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.

16 So that I think is again sort of when Mark
17 Stys says we have got seven different, you know, numbers
18 for the same -- that should be the same number, that's
19 kind of where I think, you know, he was getting his info,
20 one of those -- one of the places.

21 Q Okay.

22 A Is advisors coming to Mark and Jose going, what
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

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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.

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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5 little bit about when you got started at Stanford. Day
6 one what is your understanding of your marching orders?

7 A Day one marching orders were to get performance
8 reporting on track, meaning, you know, producing numbers
9 to the clients that we thought were accurate and
10 meaningful, and to make a recommendation on the best
11 system to do that out of all the competing systems.

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,
22 SIM, you know, coins and bullion, CDS? What was your
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.

7 So at the time, they had built a

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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
4 perspective I have by the verifiers, the GIPS compliance
5 verifiers such as the big four accounting firms, they
6 charge as much as 3,000 per composite to do a composite
7 examination. So I get -- because Stanford is a near and
8 dear client to me, I give them -- bless you -- I give
9 them a substantial discount.

10 The other -- The other point, I guess, I
11 would have to make there in the interest of full
12 disclosures mostly composite examinations are performed
13 on an annual basis at -- at the tune of 3,000, whereas I
14 come in quarterly at 750.

15 Q Which works out to 3,000?

16 A Right.

17 Q Okay.

18 A Tough economy out there.

19 Q Sure. You got to get by.

20 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 Q 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
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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 yield or internal rate of return for their
20 entire portfolio?

21 A Correct.

22 Q Okay. So that was the end goal?

23 A Correct.

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
2 performance on all those other assets classes, you need
3 to bring all the data into one place so that you can do
4 the calculation, and so, you know, to give an analogy it
5 would almost be like, you know, trying to pull together
6 three different firms and calculate an aggregated
7 performance, because the -- the rare coins and precious
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.

11 So I was never able to successfully, you
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12 know, get all the data to come into one place in an
13 automated, reconcilable fashion to calculate an accurate
14 return. My understanding is they're a lot closer to that
15 goal today with that new Odessa platform.

16 There is also reluctance, I think, to do
17 it within Advent, which was my recommendation, because
18 the powers that be, the senior management folks, felt
19 that that would be throwaway development. Because,
20 again, Odessa was the platform of the future, Advent is
21 the legacy platform.

22 Q What type of data would you have needed with
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

1 then any client, you know, contributions or withdrawals
2 out of the CD. If you have those data points, you can
3 calculate a return.

4 Q Okay. So you weren't asking for any underlying
5 bank investment information, simply cash flows?

6 A Cash flow and valuation that's -- that's all a
7 performance guy needs.

8 Q Okay. What steps did you take to try to get
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,
14 you know, precious metals and rare coins. I had meetings

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19 Q Okay. And was the purpose of your
20 conversations to get information regarding the CD cash
21 flows?

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
25 were in the midst of a conversion as well going from, you

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
3 notes. But one was called data something and the other
4 was called -- began with a T.

5 Q Temenos or something?

6 A Temenos. And, you know -- so that was another
7 resistance, I guess, or another challenge, as we like to
8 say with a positive spin in the consulting world, is
9 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 Temenos.

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, I had all of their
15 bigshots around the table, including their IT folks, I
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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15 with the guys at the international bank. You know, I
16 consulted with Advent, you know, to see what they needed
17 in order to make this happen for me.

18 And, you know -- and it wasn't a clear
19 direction even one way or the other. I mean, the senior
20 folks that I was reporting into, Mark and Zack
21 specifically.

22 Q Mark Stys and Zack Parrish?

23 A Exactly. Would not -- would waiver back and
24 forth as to whether they wanted to do the work and do it
25 on Advent and make it happen or wait it out and do it

1 Odessa, 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
4 that road. And, you know, produced some -- some
5 documents that pretty much road mapped what needed to be
6 done.

7 Q Okay. A moment ago you said something about
8 talking to folks from the international bank that's
9 Stanford International Bank?

10 A Correct.

11 Q The issuer of the certificates of deposit?

12 A I don't know what -- what they do exactly. I
13 talked to the president, I believe, of -- of SIB as they
14 call it, S-I-B.

15 Q Uh-huh.

16 A I forget his name Juan or Jose.

17 Q Okay. The president of the Antigua Bank?

18 A Correct.

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22 the time. This is what we do. You know, the president
23 of the bank in Antigua always, always -- could never have
24 a conversation with him that didn't talk about client
25 confidentiality and confidentiality of the data and how

1 it was his number one priority to preserve that
2 confidentiality.

3 So Advent having done a lot of work with
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
7 a level of comfort that said, hey, we can do this.

8 I mean, from Advent's perspective, they're
9 trying to get keep the business, they're aware of this
10 Odessa 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.

15 Q Sure.

16 A Yeah. But he basically made me a look like an
17 idiot because -- he stonewalled the whole thing and
18 practical hung up on us.

19 Q 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
25 retail data, Advent had the data on their servers and